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Clausen's: Argentina

Vol 2



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Argentina - Clausen Country Files - Correspondence - Volume 2

Argentine Delegation

Bernardo Grinspun - Min. of Economy

Lucio Recca - Min. of Agriculture

Enrique Garcia Vazquez - President of
Central Bank

Teodoro Fernandez - Director of Relations
with Int'l. Organizations

Eduardo Zalduendo

From the Bank

Ernie Stern (?)

David Knox

Andre Gue

Peter Scherer



SUPPLEMENTAL ANNUAL MEETING BRIEF

URGENT

ARGENTINA

September 19, 1984

1. A Bank mission has just returned from Argentina. It met with President Alfonsin and senior officials of his government, its findings are summarized below.
2. Political Situation. The Government's efforts to obtain internal political support for a stabilization program continue. The general strike called on September 3 by the C.G.T. has largely failed, particularly in Buenos Aires. This has strengthened the determination of the authorities to proceed with austerity measures designed to curb inflation and set the stage for renewed growth.
3. Agreement with the IMF. The eight month long negotiations between the Fund and the Argentine government appear to be near a satisfactory conclusion; a letter of intent is expected to be submitted shortly. Agreement with the Fund on a stabilization program should lead in turn to an agreement with Argentina's creditors.
4. New Operations: We understand that the Argentine delegation will make specific requests for Bank assistance in the following areas, in addition to the ports and water supply projects:
 - (i) Technical Assistance. The authorities, including President Alfonsin, expressed their interest in seeing the Bank play a major role in the country's efforts to surmount the current crisis. They felt that the short-term program to be agreed with the Fund would not be sufficient to put the economy on a growth path, unless it was complemented by a medium-term recovery program. For the preparation of this program, the authorities asked informally for a Bank technical assistance loan. It is intended to help improve macro- and sectoral planning and policy-making with the objectives of increasing efficiency in public sector management and of developing export-oriented industries. The envisaged program would be in line with the recommendations of our latest economic report. We suggest that you respond positively to the initiative of the Government which, if successful, could go a long way in laying the basis for a constructive dialogue in the areas mentioned above. Further, we suggest that you encourage follow-up discussions between the representatives of the Planning Secretariat, who form part of the delegation, and Bank staff to review possibilities for Bank support.
 - (ii) Agriculture. The Government is embarking on a major reform program for agriculture. The Government has already taken important steps to restore incentives for production and exports which respond to the recommendation of our sector analysis. Further measures are being proposed which the Government hopes would form the basis for a sector loan.

We suggest that you indicate the willingness of the Bank to start working on a policy framework for the sector with the Minister of Agriculture, who will be in Washington during the Meeting for that very purpose.

- (iii) Hydrocarbons. The authorities expressed their disappointment with our decision not to process the proposed project for Y.P.F., the state-owned petroleum company. However, Government officials felt that the Bank could play a role in attracting private foreign investment in the hydrocarbon sector. They also expressed interest in Bank support for the development of gas resources. You should emphasize that the Bank is prepared to help mobilize private sector investment for oil production and to support the development of Argentina's gas resources. (Bank staff is working on a revised project proposal geared essentially to promote private oil production and gas development by the national oil and gas companies. The proposal is expected to be ready for discussion with the delegation during the Annual Meeting.)

5. On-going Operations. (i) The Bank mission explained that lack of progress towards meeting the covenants under the Yacyreta Power loan would not only rule out further lending in the energy sector, but also raise questions regarding continued support for Yacyreta. The Argentine delegation most likely will make a statement on the Government's energy tariff policies and request Bank support for a comprehensive analysis of sector finances as well as the formulation of an action plan for improvement. You should express concern about the serious erosion in power tariffs and the deterioration in the financial performance of the sector entities. The bank is prepared to help in analyzing sector finances. It is very important that the analysis be completed quickly and that a plan of action to ensure compliance with the covenants under the Yacyreta loan be adopted immediately thereafter. You should stress that this matter be discussed in detail during the Annual Meetings and that a timetable specifying the next steps be agreed upon. (ii) Generally, the Government expressed its willingness to make an effort to improve the implementation of on-going operations. To this effect concrete steps are being taken under the coordination of a special unit at the Ministry of Economy. They include assuring timely counterpart funds from the budget and a regular review of problems affecting Bank-financed projects.

9/20

ANNUAL MEETING BRIEF

ARGENTINA

August 29, 1984

Population:	<u>29,070 M</u> (1983)
GNP per capita:	\$ 2,305
Total Bank/IDA Commitments	\$ 1,807 Million
FY 1984: Commitments	\$ None
Disbursements	\$ 73.62 million
Amortization	\$ 57.82 million
Lending Program: FY1985-86	\$ 200.0 million <u>1/</u>

Background

1. The Government of President Alfonsin came to office last December determined to restore Argentina's political stability, following widespread popular discontent with a decade of military rule, economic disarray and the Falklands defeat. President Alfonsin remains personally popular. His Government, however, has been progressively weakened by growing impatience with its failure to control inflation and fulfill its election promise of promoting economic recovery and restoring higher levels of consumer purchasing power. With the euphoria of the post-inauguration period now gone, the Radical Party's hopes of fundamentally restructuring Argentine politics appear to be eroding. The trade unions are actively opposing the Government on the proposed union reform, which is designed to introduce pluralist trade unionism and take away their control of social welfare funds. Their opposition is strengthened by the negative impact of the Government's piecemeal austerity measures, which reduced real wages by 13% between December 1983 and June 1984.

2. The Government's preoccupation with its domestic political difficulties and with improving Argentina's international relations have consumed its energies and created problems on the economic front. The administration inherited an economy with inflation of close to 500% p.a., a recession which had reduced per capita income to 1969 levels, external debt whose interest requirements equalled 70% of export receipts, and interest and commercial arrears almost nine times greater than gross foreign exchange reserves. Unfortunately, the Government's policies and actions to date have not significantly curbed inflation, brought debt relief or improved Argentina's medium-term growth prospects.

1/ New 5-year lending proposals are currently being drafted (see para. 7).

3. Economic management has been marked by "emergency" measures and improvisation; a medium-term economic program is not yet defined. Efforts to fight inflation by cutting public expenditures, increasing taxes, stepping up public tariff adjustments and controlling prices of manufactured goods have been ineffective. Money supply has increased an average 17% monthly; wholesale prices and the cost-of-living index rose over 150% during the first half of 1984; bank deposit rates lagged considerably below inflation levels; and the exchange rate in the parallel market has fluctuated 40-70% above the official rate. However, the closely monitored import regime and improvements in the average exchange rate helped produce an almost 40% higher trade surplus in the first quarter of 1984 than in the same period last year. The Government has reduced wheat export taxes and eliminated duties on fertilizers to exploit Argentina's agricultural potential more fully and is cutting the red tape obstructing exports.

4. Negotiations between the Government and the foreign commercial banks regarding debt rescheduling and new lending are stalled by an impasse in the talks between Argentina and the IMF. Following the failure to agree with the Fund mission on both the nature of the stabilization measures and the components of public expenditure, the Government has submitted its own short-term economic program directly to the Managing Director. The Government is proposing to cut the fiscal deficit (excluding external debt interest) from 12% of GDP in the last quarter of 1983 to 2% in the first quarter of 1985, with real wages recovering 6% and public revenues increasing by 11% of GDP in the same period. The Fund is not fully convinced that the Government's aim to reduce inflation without a more austere program is realistic. The Government, on the other hand, argues that further recession is politically intolerable, and that its external debt service can be met only in the context of a significant recovery of production and employment.

ISSUES LIKELY TO BE RAISED BY DELEGATION:

Bank Assistance

5. The Government is concerned about its lack of success in obtaining substantial and rapidly disbursing Bank assistance, as was expressed by Economy Minister Grinspun and Central Bank President Garcia Vazquez in a meeting with Mr. Clausen early this year. After being advised that SAL-type loans were contingent upon the adoption of sound economic policies, they said the Government was counting, initially, on the Bank's financial and technical support for the proposed Oil and Gas Development and Water Supply projects and that they would come back to the Bank with concrete proposals for further financing once the Government had formulated its development strategy.

6. No new loans were made in FY84. However, over the past one and a half years, we have (a) agreed to allocate US\$86 million from the 1978 Grain Storage loan, which has been amended, for new silo, railway and port

improvements, as an exception to our normal policy of cancelling such inactive projects; (b) reprogrammed US\$15 million of the Fourth Highways project to help meet road reconstruction needs caused by the severe floods of the last two years; and (c) amended the on-going Second Industrial Credit loan to provide US\$50 million for financing urgent working capital requirements of the depressed industrial sector. These measures cumulatively involve US\$150 million. On the other hand, we have suspended work on a US\$200 million loan in support of the state oil company's 1984-86 exploration and development program pending reconsideration of the rationale for lending to a well established oil company involving little technical contributions. In addition, the proposed project would appear to be incompatible with changes in Bank energy lending. The Government, after having complied with successive preconditions to negotiations, is likely to appeal this decision of the Bank.

7. We are working on an alternative project to the aborted YPF loan which the Bank may present to the Argentine delegation during the Meeting. It could consist of a financial support scheme (guarantee against non-convertibility risk), gas development and technical assistance to the Energy Secretariat and YPF. Furthermore, we have identified a package of attractive projects in the investment program of the National Gas Company that could be financed by the Bank in the context of a broad policy reform in the gas subsector^{2/}. Preparatory work for the Water Supply and also for a Port Expansion (Bahia Blanca) project is at an advanced stage. Also, a Power Project could be processed fairly rapidly, provided the Government takes satisfactory tariff action and wants Bank support for strengthening the regional distribution companies. The Government has expressed strong interest in Bank financing for these projects. However, we have not yet been able to establish a satisfactory dialogue with the authorities to place them into a framework of coherent development strategy mainly because of the Government's overriding concern with the stabilization of the economy. Progress in this area would be needed to justify an expansion of the Bank's lending program and to turn around the negative net resource transfer to Argentina - about US\$30 million each in FY83 and FY84.

ISSUES TO BE RAISED BY MANAGEMENT

8. External Debt Management. What is the status of Argentina's discussions with foreign commercial banks regarding debt rescheduling, elimination of arrears, and future borrowing. In this connection, it is noteworthy that our projections forecast a negative net resource transfer of about US\$3.5 billion per year throughout the decade, which many Argentines find unacceptable. Yet the same projections also show that GDP growth of 3-4% annually through FY86 and 4-5% through FY89 would be feasible with plausible trends on the external accounts (rescheduling

^{2/} Specific proposals on both projects will be presented to the Management in time before the Annual Meeting.

short-term debt for 5-7 years; modestly optimistic world economic scenario) and domestic policies that encourage savings, investment and exports.

9. Public Service Tariffs. Argentina's "stop-go" pricing policies over the past several years, combined with recurrent high inflation and austerity programs, have played havoc with the financial positions of virtually all executing agencies in Bank-supported projects. The present authorities have steadily increased public service tariffs and petroleum prices in 1984. We suggest that you congratulate the Delegation on the substantial improvement in the finances of the state oil company, a creditable accomplishment in the face of triple-digit inflation, and encourage the Delegation to continue this performance.

10. Yacyreta. There are continued delays in the initiation of the large hydro project, for which the Bank committed US\$210 million in November 1979. The civil works contract was signed last fall but construction is only proceeding slowly because of insufficient budget funds. It would be helpful if you expressed concern about the non-compliance with the financial covenants under the loan and lack of a convincing financing plan to move ahead with the project.^{3/}

11. Bank Government Dialogue. The Government has yet to define a credible medium term program; also, it has not yet articulated the role it would like the Bank to play in promoting structural change and economic growth. The Government's reaction to the recommendations of our recent CEM has been positive (it agreed to Red Cover publication) but it has not followed up. It would be helpful if you could ask the delegation when the Government intends to do so since it would be difficult for the Bank to formulate an assistance strategy for Argentina without specific government inputs.

^{3/} Details will be provided after the recent supervision mission has completed its analysis.

ARGENTINA

BIOGRAPHICAL SKETCH OF SENIOR DELEGATION OFFICIALS

BERNARDO GRINSPUN. Like his principal associates in the economic team of the Radical Government, Mr. Grinspun is an experienced professional. Mr. Grinspun, 59 years old, successively held the positions of Central Bank Director, Commerce Secretary and National Development Council executive secretary during the 1963-66 Illia administration. In that period, he also served as Argentina's representative to the "Paris Club." Since then, he has been active in private banking and construction, along with consultant assignments for Latin American and multilateral agencies. Involved in Radical Party politics since his youth, Mr. Grinspun is a confidant of President Alfonsin, with whom he has been close since they were university students. He is considered a conservative among the President's advisors. Mr. Grinspun is the principal spokesman of the Government on economic issues. In this capacity, he has frequently exhibited the blunt, outspoken manner for which he is known. At the same time, his broad economic policy statements have been criticized for their imprecision and apparent efforts to serve differing interests simultaneously. Similarly, he has been very assertive in his direct responsibility for the planned renegotiation of Argentina's foreign debt and relationship with the Fund.

ENRIQUE GARCIA VAZQUEZ. Mr. Garcia Vazquez, 67, was Vice-President of the Central Bank under the Radical Party Government of President Illia in the mid-1960's; he has been active in private industry since then. A trained accountant and economist (PhD, University of Buenos Aires) he was economic counselor of the Argentine Embassy in Washington in 1956-57. He is regarded as a conservative, favoring prudent demand management policies and fiscal austerity. He has argued strongly that Argentina must honor its external debt. Mr. Garcia Vazquez is close to President Alfonsin but does not appear to play a very important role in the formulation of economic policies. Reportedly, he has been at odds with some members of the economic cabinet.

ARGENTINA

LENDING PROGRAM FY85-89
(US\$ millions)

	<u>FY85</u> <u>IBRD</u>	<u>FY86</u> <u>IBRD</u>	<u>FY87</u> <u>IBRD</u>	<u>FY88</u> <u>IBRD</u>	<u>FY89</u> <u>IBRD</u>	<u>TOTAL</u> <u>IBRD</u>
<u>Agriculture</u>						
Agricultural Res. & Ext.			75.0(R)			75.0
Sub-Total						<u>75.0</u>
<u>Industry</u>						
Industrial Credit III					150.0(S)	150.0
Export Development I				200.0		200.0
Sub-total						<u>350.0</u>
<u>Infrastructure</u>						
Water Supply & Sewerage			74.0(S)			74.0
Bahia Blanca Port			175.0(S)			175.0
Railways III				125.0(R)		125.0
Sub-Total						<u>374.0</u>
<u>Energy</u>						
Oil and Gas Development II	200.0(R)					200.0
SEGBA Power V		100.0(R)				100.0
Oil & Gas Credit II			150.0(R)			150.0
Oil & Gas Credit III				250.0		250.0
Oil & Gas Development III					100.0	100.0
Sub-Total						<u>800.0</u>
Grand Total	200.0	100.0	474.0	575.0	250.0	<u>1,599.0</u>

OFFICE MEMORANDUM

TO: Memorandum for the Record

January 16, 1984

FROM: Peter R. Schaffer, Division Chief, LC2DD

SUBJECT: Meeting of the Argentine Delegation with Mr. Clausen on
Wednesday, January 11, 1984

1 The Minister of Economy of Argentina, Mr. Bernardo Grinspun, visited Mr. Clausen on January 11, 1984. Mr. Grinspun was accompanied by Mr. Lucio Garcia del Solar, the Argentine Ambassador in Washington; Mr. Eduardo Zalduendo, the Argentine ED; Mr. Alberto Sola, Argentine Financial Representative in North America; and Mr. Ubaldo Aguirre, Argentine Financial Representative in Europe. Also present from the Bank were Messrs. Stern, Lerdau, Levy and myself.

2. The Minister conveyed that President Alfonsin had extended an invitation to Mr. Clausen to visit Argentina; he handed Mr. Clausen a personal letter in this context. After exchanging courtesies, the Minister turned to his discussions with the commercial banks in New York. The Minister was pleased with the preliminary results. He envisioned that the renegotiation of Argentina's external debt would proceed in a "tripod" approach, involving the commercial banks, the Fund and the Paris Club. A meeting of the Paris Club was planned for March this year. The Minister told Mr. Clausen that Argentina had paid the debt service due to the Bank up to January 1. Mr. Clausen appreciated that the Minister had brought up the issue. The Argentine overdues had reached US\$25 million, and had caused some concern. Mr. Clausen emphasized that it was very important that Argentina remain current in its debt service payments to the Bank. The Minister replied that his Government had inherited the overdues and that it would do everything in its power to prevent similar occurrences in the future.

3. Mr. Clausen asked how the Bank could help Argentina in its economic development program. The Minister replied that the hurdles to signing the Grain Storage and Highways Sector Loan had been overcome. The Government was counting on Bank loans in support of the investment program of the state oil company and water supply for provincial cities and export promotion. Ing. Roque Carranza, the Minister of Public Works, was undertaking a comprehensive analysis of the public investment portfolio and requirements to define with precision the Government's position in regard to Bank lending.

4. Mr. Clausen inquired about the status of the economic report. Mr. Lerdau explained that a draft would be sent to the Government in February. Mr. Lerdau would head the Bank mission to discuss the finding of the report with the authorities. It was agreed that the elements of the Bank's lending strategy would be defined in the context of these discussions. The Minister referred to his dealings with the World Bank under the Illia Government (1963-66) and the constructive relationship that existed at that time between the Government and the Bank. He acknowledged

that more recent governments had not always dealt so efficiently with the Bank and pledged that his Government intended to redress that situation. He hoped that the Bank would also be forthcoming and stated that the Argentine Government was counting on both the Bank's financial and technical assistance. Mr. Clausen replied that the Bank was prepared to help in a significant way in the areas in which it had the requisite technical expertise.

5. Responding to a question from Mr. Clausen on recent economic measures and performance, Minister Grinspun explained that control of inflation had top priority for the Government. Price increases had been contained to 2.3% in the first week of January, which was in line with the target of 10% for the month; this would compare with an inflation rate (wholesale) of about 20% in the previous month and about 430% for the whole of 1983, once more the highest in the world. The Government target was to hold price increases in 1984 to below 100%. Because of the importance accorded to bringing the rates of inflation down drastically, the Government intended to cut the fiscal deficit from 14% in December 1983 to 4% of GDP towards the end of 1984. While some expenditures for education and social services had to be increased, the Government was planning on an overall reduction in expenditures of 2% of GDP. The remainder would be covered through revenue increases from petroleum price and public tariff hikes, combined with more effective tax administration and reform of some taxes. Interest rates in the first week of January were set at 12.5% in nominal terms (a positive real rate of 2.5% compared to a negative 3% in December). The Minister, however, indicated that as inflation fell, nominal interest rates could not remain at that level because of pressure from the business community which would be unable to operate at high real interest rates over an extended period.

6. Mr. Clausen inquired about the status of the Government's discussion with the Fund and the external borrowing requirements of Argentina. The Minister was optimistic about an agreement with the Fund on an EFF within the near future because of the toughness and quality of the Government's economic program. Likewise, he was optimistic about Argentina's possibilities to close the foreign exchange gap. Argentina would generate a trade surplus of US\$3.5 million in 1984. It would need US\$2 billion from the multilaterals, of which US\$1.5 billion were expected to come from the Fund (over a 12-month period) and not less than US\$.5 billion from the Bank and IDB (gross disbursement); the net borrowing requirements from the commercial banks were estimated at between US\$2-2.5 billion .

7. Minister Grinspun, in response to a question from Mr. Clausen, felt that the social temperature in Argentina was good. There was a great deal of cooperation from all sides; the situation was calm even though the Government had raised salaries by only half the amount the trade unions had requested. While it intended to raise salaries in real terms, the Government would exercise prudence in so doing. Legislation was under preparation to abrogate contracts, including wage contracts, with index clauses to break the automaticity in price adjustments. In the short-term, salaries were being adjusted monthly. The Government intended that as inflation declined these adjustments would be made only bimonthly and

then on a semi-annual basis. The Minister emphasized that the Government was following the program, which he had outlined during a visit to Mr. Lerdaу before the elections. Mr. Lerdaу asked about the effect the Government's wage policy would have on employment and the budget. The Minister referred to the public investment program which was being scrutinized project by project by the Minister of Public Works and which was expected to contribute to employment.

8. Mr. Clausen commended the Minister on the orientation of the Government's economic policy and the measures already taken. It was of critical importance for Argentina to follow austere demand management policies to shore up the external sector and to reduce inflation. The targets of reducing inflation from over 400% to 100% and the fiscal deficit from 14% to 4% of GDP were indeed formidable ones. The Minister emphasized that the Government had received a broad popular mandate to bring the economy in order and that it would do precisely that.

9. Mr. Clausen asked the Minister to convey his appreciation for the kind invitation to President Alfonsin. He was looking forward to visiting Argentina this year or next.

cc: Mr. Clausen's Office
Messrs. Stern
Ardito Barletta (o/r)
Pfeffermann, LCNVP
Lerdau, LC2
van der Meer, LCP
Assistant Directors, LCP
Levy, LC2
River Plate Division

PRScherrer:gc

RECEIVED

1984 JAN 17 PM 2:30

OFFICE OF THE PRESIDENT

MEMORANDUM FOR

THE PRESIDENT

DATE

TO

FROM

SUBJECT

1. [Illegible]

2. [Illegible]

3. [Illegible]

4. [Illegible]

5. [Illegible]

6. [Illegible]

7. [Illegible]

8. [Illegible]

OFFICE MEMORANDUM

DATE: January 6, 1984

TO: Mr. A. W. Clausen
(through Mr. Ernest Stern)

FROM: Nicolas Ardito Barletta

EXT: 75901

SUBJECT: ARGENTINA - Meeting with Minister of Economy

Tom -
while we want to
be helpful, Argentina
is a relatively
high income country
and - assuming we
still have a
graduation policy -
(per capita income of
\$2600 in 1981) so
our program will be
limited - but
much larger
than the last
couple of
years.
ES
1/10

1. You are scheduled to meet the new Argentine Minister of Economy, Bernardo Grinspun, at 5:00 p.m. on Wednesday, January 11. The purpose of Mr. Grinspun's visit to Washington is to discuss with the Bank, U.S. Government and the Fund the new administration's approach to overcoming Argentina's difficult economic situation, including the possibility of renegotiating the present Fund stand-by.
2. Like his principal associates in the new economic team of the Radical Government, Mr. Grinspun is ~~an experienced professional~~. Mr. Grinspun, 58 years old, successively held the positions of Central Bank Director, Commerce Secretary and National Development Council executive secretary during the 1963-66 Illia administration. Since then, he has been active in private banking and construction, along with consultant assignments for Latin American and multilateral agencies. Involved in Radical Party politics since his youth, Mr. Grinspun is a close confidant of President Alfonsin; he is considered a conservative among the President's advisors. Mr. Grinspun is the principal spokesman of the Government on economic issues; he is also taking direct responsibility for the planned renegotiation of Argentina's foreign debt and relationships with multilateral agencies.
3. The Radical Party won an unexpectedly large mandate which provides them with good political support to address Argentina's thorny political and economic problems. President Alfonsin's first goal is to restore political stability among a frustrated population while obtaining some retribution for the human rights violations during the mid-1970's anti-terrorist period, and subordinating the armed forces to civilian administration.
4. The Radical Government has inherited a fiscal deficit equivalent to 14% of GDP, triple digit inflation, a US\$40 billion external debt with annual interest burden of US\$6 billion and a three-year old recession, the worst in Argentine history. It is addressing these problems in a two-pronged manner. On the one hand, it has introduced a package of emergency measures: a two-months freeze on prices, a credit line for medium-term loans at variable interest rates to small- and medium industrial enterprises, a six-months prohibition of consumer goods imports together with an elimination of controls on intermediate goods imports, a wage increase half as much as the unions had pressed for, and a severe cut in military expenditures together with an increase of 10% in public tariffs and gasoline prices of 30%. The Government intends to bring the fiscal deficit down to 4% of GDP towards the end of 1984. On the other

hand, the Government has submitted for legislative approval forty reform proposals including (i) an export promotion law, (ii) a tax reform which would reinstate the progressivity of income and wealth taxes and improve tax administration; and (iii) a trade union law to curb political manipulation.

5. The swift and generally judicious political and economic actions of the new Government and its firm reaction to challenges by the military and the unions are testimony of its determination to establish a democratic regime and a stable economy. The Presidential address to the Congress, which set out the principles of the Government's medium-term economic objectives, has increased public confidence. The reactivation of industry seems to be gaining strength; major foreign companies are stepping up investments and Argentine firms are planning to increase capacity use and employment. The parallel exchange rate margin has come down to its lowest level since 1981, and the interest rate in the free market has fallen three percentage points. The Government expects a halving of the monthly rate of inflation in January and has set the regulated interest rate and wage increases at 12% to achieve a slightly positive real interest rate and a minor improvement in real wages.

6. Nevertheless, the next years will be difficult with prolonged austerity to Argentina. Mr. Grinspun therefore will probably emphasize to you the need for considerable external financial support. He is likely to express an interest in close, harmonious relations with the Bank, reiterating the sentiments which the Central Bank President, Mr. Garcia Vazquez, expressed to you in your meeting of December 19, 1983. In particular, we expect the Minister to encourage you to have the Bank reverse the presently negative resource flow to Argentina. He is apt to ask, apart from an increase in the volume of Bank lending, for a quick disbursing sector loan.

7. If so, I suggest you respond that the Bank's position will depend on the quality of the Government's economic performance and development orientation as well as its success in mobilizing domestic resource and shoring up the country's external position. As a basis for establishing an effective working relationship, we are now completing an economic report focussed on the major issues of the Argentine economy: the chronic public sector deficit, export prospects and incentives and weaknesses in the financial system. We plan to send the draft report to the Argentine authorities later this month, and Mr. Lerdaun plans to discuss it with the Government in February.

8. If the results of these policy discussions are favorable, we would be well prepared to step up assistance to Argentina expeditiously. We are at an advanced stage in the preparation of an Oil and Gas (US\$150 million) project to help finance a time slice of the exploration and development investments of the state oil company. Negotiations for this potentially rapid disbursing loan could take place in the near future. Second, we have completed preparations for recasting an existing industrial credit loan which would provide some US\$50 million of working capital financing for Argentine manufacturers. We are also considering possibilities for lending operations in the power sector and for water supply in line with the priorities of the Government. We are not yet in a

position to assess the prospects for an industrial sector loan, pending completion of our Economic Report.

9. Finally, please note that the Government's service of Bank loan payments has deteriorated; arrears now approximate US\$24.5 million. The Central Bank has reported to be processing almost US\$9 million against this total and has informed us that, by January 10, it will eliminate the payments overdue more than 60 days. Last Friday, we sent the Government the standard notice that Bank loan disbursements will be suspended on January 17, 1984 unless all outstanding payments are brought current by then. I think that you should impress upon Mr. Grinspun the importance of up to date debt service payment to the Bank.

cc: Messrs. Lerdaу, LC2; Levy, LC2.

HJNissenbaum/KEbiri/PRScherer:vlw

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: January 11, 1984

FROM: Hans A. Wuttke

SUBJECT: ARGENTINA: Meeting with Minister Grinspun

1. IFC's Board approval in December 1983 of US\$25 million loan and equity investment in Petroquimica Cuyo has been very well received in the Argentine business community and constitutes an early demonstration of the goodwill and disposition of the World Bank Group in support of the new administration.
2. In the past IFC has made US\$177 million in equity and loan commitments to fourteen Argentine companies. At December 31, 1983 the portfolio held by IFC in Argentina amounted to about US\$68 million, or 3% of the total.
3. The major economic challenge facing the new government in 1984 is that of adjustment (e.g. reducing inflation and the public deficit, improving the balance of payments). The authorities are hopeful that the private sector will expand and compensate for the reduction in public sector activity. We should mention to the Minister our interest in learning the priorities of his government; and that IFC stands ready to collaborate with private sponsors in the development of suitable projects.
4. Another government task in 1984 will be the renegotiation of Argentina's international debt. As in Mexico and Chile during the last fiscal year, IFC intends to work with the leading international commercial banks to attract, as soon as feasible, syndicated loans to projects financed by IFC.
5. For FY84, aside from Petroquimica Cuyo, we are processing a US\$8 million loan to Alpargatas. There are several smaller transactions, mostly with existing enterprises, which may be accelerated into this fiscal year. For the medium term, we are developing projects in petrochemicals, energy, agroindustry, and capital markets.
6. IFC needs to obtain the support of the Minister in:
 - wiping out some US\$0.5 million arrears in principal and interest, and keeping payments current in the future;
 - activating the court process (so far 3 years long) regarding recovery of our loan to Soyex (Sasetru group) or finding an alternative way of completing this soybean crushing plant and putting it into operation; and
 - the court appeals process to get our Celulosa loan verified (i.e. not discriminated against), along with the other foreign creditors.
7. IFC intends to make a special business promotion effort over the next several months, as private enterprises dust off their projects and the government priorities are elaborated. We shall remain in touch with the Argentine authorities and coordinate our work with IBRD's.

cc: Mr. Ardito-Barletta

OFFICE MEMORANDUM

A

DATE: December 14, 1983

TO: Mr. A. W. Clausen
(Through Mr. S. van der Meer, Acting Regional Vice President)

FROM: Enrique Lerda, Director, LC2

EXTENSION: 72011

SUBJECT: ARGENTINA - Meeting with Central Bank President

1. You are scheduled to meet the new President of Argentina's Central Bank, Enrique Garcia Vasquez, at 4:00 p.m. Monday, December 19. The purpose of Dr. Garcia Vasquez' visit to Washington is to establish official contact with the multilateral agencies. He will also hold discussions with the U.S. Government.

2. Like his principal associates in the new economic team, ~~Mr.~~ Garcia is an experienced professional. He was Vice-President of the Central Bank under the Radical Party Government of President Illia in the mid-1960s; he has been active in private industry since then. A trained accountant and economist (PhD, University of Buenos Aires) Mr. Garcia, 67 years old, was economic counselor of the Argentine Embassy in Washington in 1956-57. He is regarded as a conservative, favoring prudent demand management policies, fiscal austerity, improved tax collection, etc.; he has argued strongly that Argentina must honor its external debt. Dr. Garcia Vasquez is probably closest to President Alfonsin among the members of the economic cabinet. He will play a very important role in the formulation of economic policies. Reportedly, he did not accept a formally more senior position in the administration for reasons of frail health.

3. The Radicals won an unexpectedly clear mandate in open general elections, which provides them with a good starting position to address Argentina's thorny economic and political problems. The new Government has to cut down triple digit inflation (Argentina again has been the highest inflation country in 1983) and get industry out of a prolonged recession, while also seeking to overcome a severe foreign exchange shortage and to recuperate past real wage levels. Difficult to achieve simultaneously under almost any circumstances, these tasks will be particularly hard to accomplish in Argentina now. President Alfonsin's administration has to restore political stability among a bitterly frustrated population while obtaining some retribution for the widespread civil liberties violations during the mid-1970's anti-terrorist period, without unduly challenging the still potent military forces.

4. The next years are going to be extremely difficult for Argentina, with almost certain prolonged austerity. Therefore, Mr. Garcia will indicate to you that the new Government requires considerable external financial support. He is likely to express an interest in close, harmonious relations with the Bank, reiterating these sentiments which President Alfonsin and his cabinet conveyed to Mr. Barletta during his recent visit to Buenos Aires. In particular we expect the Central Bank President to encourage you to have the Bank reverse the presently negative resource flow to Argentina. He is apt to ask, apart from an increase in the volume of Bank lending, for quick disbursing assistance through either a Structural Adjustment Loan or industrial sector operation.

5. If so, I suggest you respond that we await with interest the economic program and policies of the new Government which have not yet been announced. Further, you may want to indicate that the Bank's position will depend on the quality of the new team's initial economic performance, development orientation, and its success in domestic resource mobilization, taking into account that President Alfonsin and his cabinet will have to make difficult compromises. As a basis for establishing an effective working relationship, we are now completing an economic report focussed on major policy problems: the chronic public sector deficit, export potential and incentives and weaknesses in the financial system. We plan to send the draft report to the Argentine authorities next month, and I propose to hold discussions on it with the Government in Buenos Aires in February.

cc: Messrs. Baum, Acting SVPOP; Stern, SVPOP (o/r); Ardito Barletta, LCNVP, (o/r); Scherer, Levy, Ebiri, Johnson, LC2

OFFICE MEMORANDUM

A

DATE: December 19, 1983
TO: Mr. A. W. Clausen
FROM: Hans A. Wuttke
EXTENSION: 60381
SUBJECT: ARGENTINA: Meeting with the President of the Central Bank

1. During your meeting this afternoon, Mr. Garcia Vazquez may refer to the proposed IFC investment (US\$21 million in loan and US\$4 million in equity) in the Petroquimica Cuyo polypropylene project which is scheduled for Board presentation tomorrow.

2. Through this project IFC is taking an early lead in providing support to Argentina's private sector. The new administration, which will have to reduce significantly government expenditures in the coming years, is counting on the private sector for a reactivation of the economy. We are sensing a resurgence of confidence in the business community as reflected in several other projects (textiles, fishing, energy) we are working on.

3. Our early involvement in Petrocuyo should have a good demonstration effect and should help reinforce other initiatives among the local entrepreneurs. It should also be seen as a part of the work which IBRD and IFC are undertaking in support of the new administration.

4. This is also a good opportunity to let Mr. Garcia Vazquez know:

- how important it is for IFC to have the Central Bank continue to keep us current as to debt service;
- that we continue in the Argentine courts to protect our interests in Celulosa and Soyex, and would appreciate his assistance in trying to obtain an early (court or out of court) resolution to those two problem cases.

JMRuisanchez:efg

① Fight Inflation

1/ Reason - fiscal deficit (14000
GNP)
Budget Deficit (14000 to 4700)
2700 more
Reduce expenditures - military
Privatization, some of public, bus, etc
State enterprise more efficient
Increase Revenue
Better tax collection
Position to leave people
tax Gasoline
Salaries
Imports

Debt

IMF - end of January / March
Alfonso, Pres.

Accelerate several projects
in this implementation
stage

Finance reports
need W/B's help

Invitation to visit
July / Aug

OFFICE MEMORANDUM

TO: Memorandum for the Record October 7, 1983

FROM: Peter R. Scherer, Chief, River Plate Division, LC2DD

SUBJECT: ARGENTINA: Visit to Mr. Clausen by Finance Minister Wehbe

1. On September 25, 1983, Finance Minister Jorge Wehbe of Argentina visited Mr. Clausen. He was accompanied by: Mr. Guillermo Blanco (National Director of Foreign Policy) and Mr. Eduardo Zalduendo (Executive Director for Argentina in the Bank). On the Bank side, Messrs. Barletta, Lerdaud, Levy and Scherer participated.
2. Messrs. Clausen and Wehbe exchanged views on the discussions in the Interim Committee which had taken place in the morning. Mr. Clausen expressed his concern about the difficulties in getting a satisfactory replenishment for IDA underway; he stressed that funding for IDA could only be higher but not lower than what the Bank was proposing. Minister Wehbe agreed. In his opinion, lack of external financing in conjunction with the heavy debt servicing requirements of developing countries was affecting adversely the international trade with a negative consequence on the world economy.
3. Responding to a question from Mr. Clausen, Minister Wehbe stated that the recent performance of the Argentine economy was mixed. There was an alarming acceleration in the rate of inflation, caused in part by a drastic increase in salaries, both in the public and the private sector which his Government had been unable to avoid. However, the fiscal and monetary policies agreed with the Fund were still in place and the economy showed strong signs of reactivation. GDP growth during the first half of 1983 had been 1.8% with an increase of 3% in the second quarter. Industrial growth in August was 10.5% above the level last year. On the other hand, the construction industry remained depressed. A positive development was the rapid growth in exports. Grain production had doubled in recent years, mainly as a result of increasing yields and changes in the composition of agricultural production. There was still scope for a further doubling in production, if fertilizer use were to become more widespread. Argentina had the resources to develop its own fertilizer industry, using as feed stock the gas which was flared at present. The Minister felt that Argentina could regain the important position it had held in the international grain trade after the second World War.
4. The Minister thanked Mr. Clausen for sending the economic mission, as he had promised during the Minister's previous visit. The report of the Bank would come at a very opportune time and he hoped that it would play an

October 7, 1983

important role in the formulation of the policies by the new Government. The election would take place on October 30 and the new Government would be installed on January 30, 1984. The Minister hoped that this date could be advanced but was doubtful because of the time-consuming electoral process involved.

5. Mr. Barletta informed Mr. Clausen about the recent agreement between Argentina and Paraguay on the Yacyreta project; the civil works contract would be signed soon. Mr. Clausen asked about the effects of the delay on project costs and was told that the world recession and realignment of Argentina's peso had, in fact, helped lower the price of the civil works contract. Mr. Clausen mentioned the Bank's efforts to readjust the Grain Storage, Industrial Credit and Highway loans under the Bank's Special Action Program to respond more effectively to the pressing needs of Argentina. Minister Wehbe expressed his appreciation for the Bank's efforts. He asked for Bank assistance to finance manufactured exports and was wondering whether the Bank might be in a position to support a shipbuilding program; a stronger domestic merchant fleet was needed to support Argentine external trade.

6. Mr. Clausen asked about Argentina's relationship with the Fund. The Minister replied that things were going well but that two technical problems had arisen. One related to the Government's failure to eliminate arrears completely and the other to the introduction of a tax rebate on automobile exports; the latter was his mistake. Mr. Clausen inquired whether the cooperation with the IMF had become a political issue in Argentina. The Minister responded that the public was showing increasingly a negative reaction but that, privately, the leaders of the two most important parties were supporting the program. He had no doubt that Argentina would honor the agreement with the Fund. However, the elected Government would try to renegotiate the agreement with the Fund and that it was in a much better position to do so than was his.

7. Mr. Clausen referred to the difficult times the Latin American countries were going through and expressed his hope that favorable decisions would be taken on the capital replenishment during the Annual Meetings. He emphasized that the Bank could be more effective if more funds were available. He asked the Minister to stress this point in his discussions with Part One member countries and to support his efforts for a capital increase. The Minister promised his unqualified support.

cc: Mr. Clausen's Office
Messrs. Stern
Ardito Barletta
Pfeffermann, LCNVP
Lerdau, LC2
van der Meer, LCP
Levy, LC2
van Gigch, LCP
Ramasubbu, LCP
River Plate Division

PRScherrer:gc/md

*Press Conference
Thursday afternoon*

April 3, 1986

ARGENTINA - Agricultural Sector Loan

Opening Statement

Mr. A. David Knox, Regional Vice President for Latin America
and the Caribbean

Thank you for joining us this afternoon. As you know, the Bank's Board of Executive Directors this morning approved a \$350 million loan for development of Argentina's agricultural sector.

I would like to explain briefly the objectives of this lending operation and how it fits into our wider program of assistance to the Latin American nations.

For some time we have been discussing with a number of countries ways in which we might assist them to develop and implement programs necessary to sustain growth and deal with the problems of the external debt. This is done in the context of medium term reform packages -- "workout" packages we call them -- that will provide a framework for future Bank lending and policy advice.

This extensive dialogue takes time but has now begun to bear fruit. You are undoubtedly aware of recent loans supporting policy change in Colombia, Costa Rica, Chile and Ecuador. The Argentina loan approved today is another illustration.

It is, in a real sense, a response by the Bank to the courageous decisions taken by the Argentine government to stabilize the economy, increase efficiency and strengthen the country's export potential. [Among other things the Plan Austral resulted in devaluation of the currency by 18 percent to improve relative prices and introduced a number of fiscal measures with the purpose of drastically reducing the overall fiscal deficit.]

Agriculture is a key sector in Argentina. It contributes about 15% of GDP and about 75% of foreign exchange earnings. The Government's aim is to enhance productivity in this important sector by, among other things, improving producer incentives through rational pricing relationships. For example, taxes on agricultural exports are too high and are being reduced and changed. Taxes on many inputs used by farmers are also too high and adjustments are being made here as well.

The loan approved today will help support these changes which, as the news release points out, will help Argentina earn an additional \$1 billion in foreign exchange a year by 1989. This is important for long term growth and also to help the country better handle its external debt servicing obligations. By itself this change in agriculture will not be sufficient to solve Argentina's economic difficulties. For that reason we are also working with the government on other policy changes. We expect indeed

that the agriculture sector loan will be the first in a series of policy oriented Bank loans for Argentina designed to strengthen economic management, phase out trade distortions and restrictions, assist in improving the efficiency of the public and industrial sectors and promote the role of the private sector.

Provided the international financial community supports Argentina with the external finance it will need in the next few years, we believe that these changes will enable the country to grow and to strengthen its capacity to handle its debt. Growth of output at some 4% a year should be possible. As to debt, interest payments alone on the external debt absorb nearly 50% of Argentina's export earnings today. It is expected that the government's medium-term program will result in export performance sufficient to lower that figure to about 30% by the end of the decade.

Thank you.



World Bank

1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 477-1234

BANK NEWS RELEASE NO. 86/68
April 3, 1986

Contact: **Ciro Gamarra**
(202) 477-5320

ARGENTINA EMBARKS ON REFORM OF ITS AGRICULTURAL SECTOR

World Bank Lends Support with Loan of \$350 Million

Argentina is launching the first phase of a comprehensive reform program designed to increase agricultural production and exports with the help of a World Bank loan of \$350 million.

The loan is the first of several Bank lending operations planned in the near future to assist Argentina in tackling economic distortions.

The agricultural sector reforms supported by the Bank loan include a reduction in export taxes on agricultural products and an increase in domestic producer prices. They will also include a structural reform of the taxation system through the introduction of a production-neutral federal land tax; fiscal measures to keep budget deficits at satisfactory levels; and modification of regulations and tariffs pertaining to the import of agricultural inputs.

Estimates are that these reforms will help Argentina earn an additional \$1 billion a year in foreign exchange by 1989.

Argentina's agricultural sector has been growing below potential despite technological advances, the existence of a well developed input distribution system, and a highly competitive marketing environment. This has been largely the result of pricing policies. Domestic prices for agricultural products have been kept low through export taxes while the cost of inputs has been kept high through import tariffs. As a consequence most farmers had little incentive to adapt new technologies to help increase production. Average wheat yields, for instance, were 70 percent of those in the United States during the 1980-82 period.

The government is launching the sectoral reforms to stimulate agricultural production and exports as part of its broader strategy to put the country again on the growth path. Major farm exports such as wheat, maize, sorghum, soybeans and sunflower will be offered.

In addition to the transfer of resources in support of policy reform, the Bank loan will finance technical assistance and studies looking towards institutional improvement. These studies include: development of marketing and production strategy; technical and economic feasibility of tubewell irrigation in the maize production region; structural changes in the livestock industry in The Pampa region; and development and promotion of agricultural and agro-industrial exports.

NOTE: Money figures are expressed in U.S. dollar equivalents.

The loan will be administered by the Central Bank, except for the technical assistance component which will be transferred to the relevant agencies. The loan will be released in two tranches. It is expected to be fully disbursed by January 1987 based on the progress of agreed reforms.

The loan is for 15 years, including three years of grace, with a variable interest rate, currently 8.5 percent, linked to the cost of the Bank's borrowings. It also carries an annual commitment charge of 0.75 percent on undisbursed balances.

OFFICE MEMORANDUM

DATE: February 24, 1986

TO: Files

FROM: Vinod ^{Vandrey} Dubey, Director, CPD

EXT.: 60061

SUBJECT: Argentina Medium-Term Growth Framework Study - Minutes of the OPSC Meeting, January 9, 1986

Present: Members: Messrs. Stern (Chairman), Burki, Dherse, Husain, Jaycox, Karaosmanoglu, Lerdau, Knox, Ohuchi, Thalwitz, Wood

Others: Messrs. Carter, Choksi, Clements, Donovan, Dubey, Gue, Huang, Jansen, Jay, Lysy, Picciotto, Scherer, Sokol, van der Tak

1. The meeting agreed with the thrust and conclusions of the paper. The paper was explicit on the implications of accelerating growth while holding the line on modest per capita consumption growth in an attempt to obtain a turning point on Argentina's debt, where repayment could be possible. The meeting concluded that once such a turning point was reached and all external payments were made without fresh borrowing, the choices available on what to do with the foreign exchange surplus should be discussed in the paper, i.e. either repay principal on pre-1986 commercial bank borrowing, increase imports with a view to accelerating growth, increase imports so as to improve consumption levels, or accumulate foreign exchange reserves and earn interest on them. The meeting agreed that the eventual repayment of the principal of the pre-1986 commercial bank borrowing be included in the projections.

2. The meeting also requested that an explanation on the limits to grow beyond 4.5-5% in real terms on a sustained basis be included in the paper, particularly since in the growth experience of Argentina over the past 50 years, though levels of 4.5-5% had been occasionally achieved, they were rarely exceeded, and have never proven to be sustainable over any length of time. More important, it was recognized that 4.5-5% real growth was fairly respectable since population grew only at about 1.5% per annum and large productivity increases would be required in the economy to make this growth possible. In this connection, one speaker indicated that Argentina is a relatively industrialized country with a mature, albeit distorted industrial structure. Consumption levels are relatively high, income distribution is not highly skewed, and most basic needs are, even in the current slump, being met. Furthermore, Argentina is also an agricultural country, dependent on foreign markets for much of its growth momentum. These same markets show only limited potential for Argentina as the century draws to a close. While it is not unreasonable to assume that for a brief period the country could achieve an

average growth of real gross domestic product in excess of 5%, particularly in response to marked improvements in efficiency, such growth, for the reasons outlined above, would not be sustainable.

3. One speaker stated that the paper provided guidance on what needs to be done, in the Bank's perception, in terms of sectoral policies to promote growth. Several speakers indicated concern for the high level of real interest rates prevailing in Argentina. However, the meeting concluded that while medium-term inflationary expectations continued and distortions in the financial system remained, real interest rates would continue to be high.

4. The meeting agreed that the next step was to discuss the paper in the Management Committee and following that with the Fund. After completing such discussions, the paper should be discussed with the Government and presented as the Bank's view of a reasonable medium-term framework and, if possible reach an agreement on the paper. Out of this would evolve a Government medium-term economic program for growth. The paper would then become the basis for discussions of medium-term financing arrangements with the financial community.

LVL-01

1157

Clausen, A. W.
E 1227

OFFICE MEMORANDUM

DATE: October 21, 1985

TO: Mr. Moeen Qureshi

FROM: Roy Southworth *RS*

SUBJECT: Mr. Clausen's Meeting with the Australian Delegation:
October 6, 1985

Mr. Hurford stressed Australia's strong support for the GCI and IDA. On the GCI he asked if lending demand was sufficient to require additional capital. Mr. Clausen said that a country-by-country assessment of lending opportunities revealed that a GCI would be needed by the beginning of calendar 1987. Existing capital would be sufficient until then as long as there was flexibility to breach the sustainable level of lending in anticipation of a quick decision on a GCI. The objective for the Annual Meetings was to secure a consensus in favor of the Bank's expanded lending program and a commitment that capital and borrowing capacity would not be allowed to constrain the program.

Mr. Clausen assured the delegation that the bulk of the Bank's activity would still be in project financing. However, upwards of 15-20% of total lending could be applied for quick disbursing operations in support of medium-term adjustment programs.

On IDA, the delegation noted with satisfaction the progress made at the Deputies meeting. They were particularly interested in the discussion on regional allocation. Mr. Qureshi assured the delegation that there did not seem to be much sentiment for a major shift in the existing allocation. However, the final outcome would depend on the magnitude of the replenishment. Mr. Clausen noted that Australia's supplementary contribution to IDA-7 put them into a leadership position with respect to the IDA-8 negotiations.

On a final note, Mr. Hurford informed Mr. Clausen that the Australian government had decided to authorize the Bank to borrow Australian dollars for the first time through a euromarket issue. Mr. Clausen welcomed this news and said the Bank hoped to undertake such an operation this year. The entire proceeds would be swapped into another currency with an Australian counterpart, thereby causing minimal disturbances in Australia's balance of payment.

ATTENDING:

For Australia:

The Honorable Christopher Hurford
Minister for Immigration & Ethnic Affairs
and Minister Assisting the Treasurer's
Department of the Treasury

Mr. Ronald H. Dean
Executive Director, World Bank

Mr. R.J. Whitelaw
First Assistant Secretary
Department of the Treasury

For The Bank:

Mr. A.W. Clausen
Mr. Moeen Qureshi
Mr. Roy Southworth

OFFICE MEMORANDUM

DATE : November 19, 1985

TO : Mr. A. W. Clausen

THROUGH: Mr. Ernest Stern

FROM : A. David Knox

EXT. : 75901

SUBJECT: ARGENTINA: Your Meeting with Mr. Yeo

Cadenzza
~~*Muyafit!*~~
 11-19-85
 ★

1. You will meet Mr. Yeo from the Federal Reserve at 9:30 a.m. November 20 to discuss Mr. Volcker's forthcoming visit to Argentina. You are au courant with the situation in Argentina. For your information, attached are outlines of a policy reform program for Argentina and a Bank assistance strategy which we had given to Mr. Mulford.
2. While the Argentine Government feels that Mr. Mulford's visit was useful to enhance the dialogue with the U.S., it is disappointed about the lack of specifics in his presentations. Public statements of Mr. Mulford that the Government had accepted the Baker proposal and that Argentina would be the pilot case prompted the Government to display a rather cautious stance in its statements to the press. Minister Sourrouille declared that the Government had not underwritten the Baker initiative; it could only pass judgment once the proposition was defined clearly. The Government, I am told, is looking forward to the visit of Mr. Volcker with considerable expectation. It is interested to learn what he means by "development with stability" which the Government, prima facie, prefers to Mr. Mulford's "development with adjustment".
3. The Argentine Government has not yet focussed on a program of structural reforms nor has it a team that could put such a program together within a short period. The "Plan" submitted by Secretary Grinspun on the occasion of his recent visit is disturbingly weak. It is essentially a collection of projects whose financing requirements would lead to a considerable increase in the fiscal deficit. While the Plan mentions the right objectives, i.e. increase efficiency of the public sector, it does not contain a single specific policy recommendation. There is no readily discernable framework and figures seemingly have been calculated on the back of an envelope. The Plan, in short, mirrors the tenor of the comments the Argentine delegation made in the meeting with you. ★

4. The Argentine public sector, in particular the Ministry of Economy, is not well staffed. Suffice to recall that it has taken the better part of this year to obtain the Minister's signature on the amendments to the Industrial Credit Loan which we had expected could disburse rapidly. Preparing the grounds for a major reform program in Argentina will not be easy. While the country is the star in terms of short-term performance, it still is a laggard in terms of its technical -- perhaps even political -- ability for structural change. The Bank may be able to play an important role in this context. We hope that the Technical Assistance Project, on which we have been working for nine months now -- it is about ready for delivery -- will be the appropriate instrument to make progress.

W.B.

cc: Mr. Gue

PRScherrer:gc

COUNTRY: ARGENTINA
 FY86-FY90 - LENDING PROGRAM - PROJECT DETAIL
 AS OF END OCTOBER 1985

MANAGING UNIT	PROJECT / STATUS	PLAN/ACT. APPRAISAL DEPARTURE	US \$ MILLION			SECTOR	LENDING INSTRUMENT TYPE
			BANK	IDA	IDAS		
FY86							
LC2PB	PA041-T A I-B	M 07/01/85 A	20.0	.0	.0	ZZ AA WU	TAL SAB SIL
LCPAC	PA036-AGR SECTOR-B	L 05/27/85 A	312.0	.0	.0		
LCPMS	PA025-WATER SUPPLY-A	L 02/25/85 A	60.0	.0	.0		
	FY86 TOTALS: LENDING AMOUNT		392.0	.0	.0		
	NUMBER OF PROJECTS		2	0	0		
FY87							
LC2PB	PA050-TRADE POLICY-B	L 06/00/86	300.0	.0	.0	NY TP PB GY	SAB SIL TAL SIL
LCPTR	PA024-BAHIA BLANCA PORT I-	S 12/02/84 A	40.0	.0	.0		
LCPEN	PA042-POWER ENG-B	M 11/11/85	10.0	.0	.0		
EGYB2	PA047-REFINERY SUPP LOAN -	M 11/04/85	90.0	.0	.0		
	FY87 TOTALS: LENDING AMOUNT		440.0	.0	.0		
	NUMBER OF PROJECTS		2	0	0		
FY88							
LCPTR	PA044-BAHIA BLANCA II-C	L 11/00/86	150.0	.0	.0	TP PD DD	SIL SIL FIL
LCPEN	PA051-POWER DISTRIBUTION	L	150.0	.0	.0		
LCPI2	PA046-SML & MED SCALE IND-	S 06/00/86	100.0	.0	.0		
	FY88 TOTALS: LENDING AMOUNT		400.0	.0	.0		
	NUMBER OF PROJECTS		3	0	0		
FY89							
LCPI2	PA027-INDUSTRIAL CREDIT II	L	150.0	.0	.0	DD DD GI GI	FIL FIL SIL SIL
LCPI2	PA049-FINANCIAL RESTRUCTUR	S	100.0	.0	.0		
EGYB2	PA028-OIL & GAS DEVT - PRI	L	100.0	.0	.0		
EGYB2	PA038-OIL & GAS-PRIVATE-C	L 10/00/87	150.0	.0	.0		
	FY89 TOTALS: LENDING AMOUNT		500.0	.0	.0		
	NUMBER OF PROJECTS		4	0	0		
FY90							
LCPEN	PA048-SEGMA V-C	L	150.0	.0	.0	PD DD IX IX	SIL SAB SIL SIL
LCPI2	PA053-EXPORT PROMOTION	L	100.0	.0	.0		
INBB3	PA054-SORISA RESTR	L	50.0	.0	.0		
INBB4	PA055-ENTEL RESTR	L	150.0	.0	.0		
	FY90 TOTALS: LENDING AMOUNT		450.0	.0	.0		
	NUMBER OF PROJECTS		4	0	0		
	TOTAL LENDING AMOUNT:		2182.0	.0	.0		
	NUMBER OF PROJECTS:		15	0	0		

COUNTRY: ARGENTINA
 FY86-FY90 - LENDING PROGRAM - PROJECT DETAIL
 AS OF END OCTOBER 1985

(RESERVE PROJECTS)

MANAGING UNIT	PROJECT / STATUS	PLAN/ACT. APPRAISAL DEPARTURE	US \$ MILLION			SECTOR	LENDING INSTRUMENT TYPE
			BANK	IDA	IDAS		
<u>FY87</u>							
EBYD2	PA030-GAS DEVT - GDE-C	R	100.0	.0	.0	GS	SIL
	FY87 TOTALS: LENDING AMOUNT		100.0	.0	.0		
	NUMBER OF PROJECTS		1	0	0		
<u>FY89</u>							
LCPI2	PA045-INDSTL RESTRUCTURING	R	150.0	.0	.0	DB UU UU	FIL SIL SIL
LCPIR	PA043-MUNICIPAL DEVT	R 06/00/86	75.0	.0	.0		
LCPIR	PA052-NAT LOW INC HOUSING	R 03/00/87	75.0	.0	.0		
	FY89 TOTALS: LENDING AMOUNT		300.0	.0	.0		
	NUMBER OF PROJECTS		3	0	0		
	TOTAL LENDING AMOUNT:		400.0	.0	.0		
	NUMBER OF PROJECTS:		4	0	0		

OFFICE MEMORANDUM

- For MC Consideration September 9/85 -
Mr. Clausen E-1227OPS/MC85-35

DATE: July 17, 1985

TO: The Managing Committee

FROM: Ernest Stern *ES*

EXT.: 72004

SUBJECT: ARGENTINA Country Program Paper

⑤

1. The OPSC discussed the Argentina CPP on June 27, 1985, and concluded that the program proposed for Argentina was sufficiently important to warrant discussion by the Managing Committee. Attached are the Argentina CPP, the agenda for the OPSC meeting, and the Postscript to the CPP.

2. An important aspect of the program is the fragility of the stabilization process which rests on a number of policy reforms recently undertaken by the Government with obvious courage and determination. It was felt that Bank presence was crucial for the restoration of Argentina's creditworthiness and its development momentum. The lending program would pursue policy reform through sector adjustment loans in agriculture and industry. There are obviously risks involved in the course implied in our approach, and the lending program approved by the OPSC is therefore confined to FY86. A Country Brief will be prepared to re-examine our lending strategy afresh a year from now.

Attachments

cc: Mr. Southworth

ARGENTINACountry Program PaperPostscript

65. The Operations Policy Sub-Committee discussed the Argentina Country Program Paper on June 27, 1985. The main items considered were recent economic developments, country-Fund relations, recent arrangements with creditors, and the impact of these developments on creditworthiness. Also discussed were the policies needed to achieve higher growth, the areas of policy that should be the focus of Bank attention, and the content of the lending program.
66. The OPSC noted that while the results of the stabilization program as revised in June 1985 were not yet secure, important major reforms described as "shock treatment" had been introduced and the vicious circle of inflationary expectations may have been broken, although the prospects for medium-term growth remain uncertain. To promote a more rapid rate of development, four areas would be emphasized in the Bank's program: (a) exchange rate policy and export incentives; (b) policies to encourage foreign investment; (c) rationalization of industrial incentives; and (d) the efficiency of the public sector. A forthcoming technical assistance operation will lay the groundwork for our involvement in reforming public sector management.
67. The meeting recognized the fact that the dialogue with Argentina had been dormant for some time, and that our approach has to be gradual. It also noted that despite the risks involved, it was essential for the other creditors to see the Bank playing a role in the restoration of Argentina's creditworthiness. The Chairman suggested that, when conditions allowed, consideration be given to eliciting fundamental structural reforms to be supported by an appropriately sized trade/industrial policy loan.
68. The proposed Agricultural Sector Loan would be the first of a possible series of policy-based operations. However, should agreement on policy conditionality for the Agricultural Sector operation prove to be impossible, it was neither feasible nor desirable for it to be substituted by other policy-based operations, and the FY86 lending program would accordingly be reduced. It was further agreed that should there be severe difficulties in compliance with the IMF Stand-by Arrangement, the Bank's program would be re-examined.
69. The OPSC endorsed the cost sharing arrangement proposed in the CPP (35% of project cost or the foreign exchange cost whichever is higher up to a maximum of 50% of project cost). It approved the program proposed for lending \$385 million in FY86, and concurred with the Region's plan to prepare a Country Brief for Argentina by the end of FY86 and a new CPP a year after that.
70. The Chairman directed that the CPP be sent to the Managing Committee for discussion.

July 16, 1985

OFFICE MEMORANDUM

DATE: June 25, 1985

TO: Operations Policy Sub-Committee

FROM: Luis de Azcarate, Director, CPD

EXT.: 60063

SUBJECT: ARGENTINA CPP: OPSC Review

1. Attached is an agenda and comments on major policy issues identified by CPD and PBD for consideration by the Sub-Committee. The suggested agenda items are:

- a) Recent Economic Developments;
- b) The Policies Needed to Achieve Higher Economic Growth;
- c) The Rationale for Bank Lending;
- d) The Content of the FY86 Lending Program;
- e) Cost-sharing; and
- f) Staff and Budget Implications.

2. The Review meeting will be held on Thursday, June 27, 1985 at 3:00 p.m. in Room E-1208.

Attachments

cc: Regional Office: Messrs. Gue
van der Meer
Pfeffermann
Jaspersen
Levy
Scherer
Ebiri
Nissenbaum
Gregory

Messrs. Ryrie
Jansen
Huang

ARGENTINA COUNTRY PROGRAM PAPER

Topics for Discussion

Economic Performance and Development Strategy

1. Argentina has been battling with its external debt problems since 1982 and has concluded a number of rescheduling agreements with its creditors. The difficulties have worsened of late, with inflation accelerating and arrears developing on servicing the external debt, which now exceeds \$50 billion or 70% of GDP. Service interest alone amounts to 8% of GDP and consumes half the export proceeds. While the economy's problems are deeply rooted and structural, no medium- or longer-term reform can begin without a successful stabilization program. The civilian government that assumed office 15 months ago has been slow to address the urgent problems inherited from its military predecessor as this involved painful choices that would alienate powerful political groups, and the program worked out with the IMF in late 1984 had to be abandoned early in 1985. A new economic team came in in February, however, and has started some long-delayed reforms. A more realistic agreement, with the Fund has been concluded, and a new currency issued at a realistic exchange rate. There have been significant advances in pricing policy, public sector organization, interest rates and taxation. A \$483 million bridge loan led by the US has been arranged to enable Argentina to reduce its interest arrears to commercial banks (payments were more than 6 months overdue in early June) and already some payments on arrears have begun. Given the rapid shifts in the situation over the past month, it would be useful for the Region to update and elaborate on the recent policy changes and the arrangements reached with the IMF and the creditors?

2. Beyond stabilization, the CPP argues, the key development objectives are clear and there is agreement on them between the Bank and the Government. Exports need to grow to reduce the burden of debt service, thus accelerating GDP growth and allowing consumption to rise somewhat. (Per capita income was 13% lower in 1984 than it had been in 1974.) Private sector morale needs to be boosted, private capital flight arrested and reversed, and the efficiency of the public sector enhanced. While there can be little economic growth in the next two years if stabilization is to succeed, growth could accelerate after 1987. The CPP provides two scenarios for the period 1985-90: one involving an average annual growth of GDP of 2.2% which is regarded as more likely, and another with 3.4% average growth. Both scenarios assume moderate investment and no changes in economic structure, but rely on policy change to encourage domestic resource mobilization, greater utilization of capacity, reducing the anti-export bias in agriculture, and restoring incentives to manufacturing industry. Perhaps the Region could clarify the policies underlying the two scenarios, indicating the specific measures that need to be taken to achieve higher growth?

Level and Composition of Bank Lending

3. The CPP proposes a visible Bank presence that would give support to the authorities and act as a catalyst: a FY86 lending program of \$385 million, leading to a 5-year (FY85-89) aggregate of \$1665 million. This is a little below the norm (\$1800 million). Lending in the outer years is to be taken as indicative only since a review of the strategy is recommended in a year's time. There are obvious risks in lending substantial amounts to a country with such limited creditworthiness in the medium-term. Given the small share of the Bank in gross capital flows, the Region could perhaps discuss the impact that the Bank's involvement might have on other lenders.

4. The FY86 program is dominated by an agricultural sector loan whose main thrust is the removal or reduction of export taxes and replacing them by a land tax. Apart from the appropriateness of reducing tax revenues in the middle of the stabilization process -- the land tax would need some time to be developed -- there has been a recent rise in export taxation, announced at the time of the June 11 devaluation. As the first tranche of the Agricultural Sector Loan would be released in recognition of prior reductions of the export tax, perhaps the Region would explain the consistency of the recent reversal on export taxation with the changes envisaged under the sector loan. In the absence of an Agriculture Sector Loan, the remainder of the FY86 program, (port and water supply projects) would not boost exports in the near term. The Region has sent large missions to Argentina in FY85 to look at public investment and the industrial sector. Could the Region elaborate on the merits of alternative quick-disbursing operations to encourage exports and rationalize public investment?

5. In para. 32, the CPP mentions the possibility of a worst case scenario where the current stabilization efforts might fail. In para. 45 "inadequate macro performance" is again mentioned as a possibility, which would be countered by reduced Bank lending. In case of failure to comply with the IMF Stand-by, para. 54 further states that we would make an independent estimate of progress in the fiscal, balance of payments and domestic resource mobilization areas. The Region may wish to discuss the criteria by which Bank lending would proceed in the absence of an IMF Stand-by.

Other Issues

6. Cost-sharing. The CPP proposes (para. 48) a cost-sharing ratio of 35% of project cost or the foreign exchange cost, whichever is higher, up to a maximum of 50% of project cost. Despite Argentina's high per capita income, the Committee may wish to consider that this ratio is justified in view of the fiscal constraints Argentina will operate under for the next several years.

7. Staff and Budget Implications. The Indicative Statement with its attached table (Attachment 4) shows nearly 200 staffweeks devoted to economic work in FY86 and the FY86-90 program contains 17 lending operations -- double the number in the already approved program (FY85-89) -- which would require substantial increases in staff and other resources for the Argentine program. Could the Region discuss the staff and budget implications of the proposed program?

8. Timing of the Next Review. In keeping with the proposed phasing of the lending program (FY86, and FY87-90) the CPP proposes (para. 44) that a Country Brief be prepared towards the end of FY86 and a new CPP towards the end of FY87. By the latter time, Argentina's compliance with the Fund program would be clarified, as would its receptivity to Bank advice under the proposed FY86 Technical Assistance Loan, and its record of disbursement of existing loans.

Annex I compares the lending program proposed for Argentina in the CPP with those previously approved.

Annex II presents a comparison of various country performance indicators.

ARGENTINA

Annex 1

	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY80-84	FY85-89	FY86-90
<u>Operations Program (No.)</u>															
Approved, January 1979	2	3	4	4	4	3	..	..	..	..	..	..	18	..	..
Proposed, June 1985	1	2	2	3	1	-	1	8	4	5	2	3	8	20	22
<u>Lending Program (No.)</u>															
Approved, January 1979	2	3	3	3	2	2	..	..	..	..	..	..	13	..	..
Std. Table IVa, Nov. 1984	1	2	2	3	1	-	-	2	2	2	2	..	8	8	..
Proposed, June 1985	1	2	2	3	1	-	1	5	4	3	3	2	8	16	17
<u>Lending Program (Cur. \$m)</u>															
Approved, January 1979	306.0	175.0	230.0	320.0	200.0	300.0	..	..	..	..	..	..	1225.0	..	..
Std. Table IVa, Nov. 1984	96.0	237.0	68.0	400.0	100.0	-	-	175.0	325.0	200.0	200.0	..	805.0	900.0	..
Proposed, June 1985	96.0	237.0	68.0	400.0	100.0	-	180.0	385.0	475.0	325.0	300.0	150.0	805.0	1665.0	1635.0
<u>Lending Program (Const. FY85 \$m)</u>															
Approved, January 1979	383.5	219.3	285.0	384.6	228.3	321.9	..	..	..	..	..	..	1439.1	..	..
Std. Table IVa, Nov. 1984	120.3	297.0	84.3	480.8	114.4	-	-	163.2	284.1	164.7	156.0	..	976.5	768.0	..
Proposed, June 1985	120.3	297.0	84.3	480.8	114.4	-	180.0	359.1	415.2	267.7	234.0	111.2	976.5	1456.0	1387.2
Commitment Deflator (FY85=100)	79.8	79.8	80.7	83.2	87.4	93.2	100.0	107.2	114.4	121.4	128.2	134.9			

Note: November 1984 Review Group Decisions: FY85-89 - IBRD \$900 million.

PBDCP
6/18/85

COMPARATIVE COUNTRY ANALYSIS

	<u>ARGENTINA</u>	<u>BRAZIL</u>	<u>KOREA</u>	<u>PORTUGAL</u>				
<u>Economic Structure</u>								
Population 1983 (millions)	28.8	129.7	40.0	10.1				
GNP Per Capita 1983	2030.0	1890.0	2010.0	2230.0				
% Agriculture in GDP 1983	15.3	12.7	14.0	8.0				
% Industry in GDP 1983	35.4	32.7	39.0	40.0				
% Services in GDP 1983	49.2	54.6	47.0	51.0				
Debt Service Ratio 1983	70.6a/	47.4b/	13.6	26.7				
<u>Economic Performance</u>								
Real GDP Growth Rate 1973-83	0.4	4.8	7.5	n.a.				
Gross Domestic Investment/GDP 1983	14.2	18.1	27.0	29.0				
Exports GNFS/GDP 1983	14.7	11.3	37.0	32.0				
Resource Balance/GDP 1983	5.7	1.9	-1.0	-13.0				
Gross National Savings/GDP 1983	10.9	9.6	24.4	11.4				
<u>Recent Social Indicators</u>								
Population Growth Rate	1.4	2.3	1.7	0.9				
% Change in Crude Birth Rate 1965-83	12.0	-22.9	-36.3	-34.8				
% Change in Crude Death Rate 1965-83	1.1	-28.7	-46.1	-10.0				
Infant Mortality Rate (per 1,000) 1983	41.0	69.0	32.0	26.0				
Life Expectancy (years) 1983	70.0	64.0	68.0	71.0				
Adjusted Education Enrollment Ratio								
- Primary	119.0	96.0	100.0	121.0				
- Secondary	59.0	32.0	89.0	50.0				
	<u>FY80-84</u>	<u>FY85-89 c/</u>	<u>FY80-84</u>	<u>FY85-89 d/</u>	<u>FY80-84</u>	<u>FY85-89 d/</u>	<u>FY80-84</u>	<u>FY85-89 d/</u>
<u>Lending Program</u>								
Nominal IBRD US\$M	805.0	1665.0	5323.0	7000.0	2844.5	3200.0	574.3	850.0
p.c.p.a. Lending US\$	5.6	11.6	8.2	10.8	14.2	16.0	11.2	16.5
p.c.p.a. Constant 1985 US\$	6.8	10.1	9.5	9.5	16.6	14.0	14.0	15.0

Sources: Argentina and Brazil CPPs
1985 Draft World Development Indicators
Table IVa

- a/ Attachment 3c figure
b/ Includes payments on short term debt
c/ CPP Proposal
d/ Table IVa

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Country Program Paper

ARGENTINA

June 10, 1985

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Review Draft

June 10, 1985

COUNTRY PROGRAM PAPER

ARGENTINA

		<u>FY80-84</u>	<u>FY85-89</u>	<u>FY86-90</u>
1983 Population: 28.8 mil. /a	IBRD	805.0	1,665.0	1,635.0
1983 Per Capita GNP: \$2,030 /a	IDA	-	-	-
	Total	805.0	1,665.0	1,635.0

Current population growth rate: 1.6% p.a.

No. of loans	8	16	17
No. of loans per million pop.	0.3	0.6	0.6

Current Exchange Rate:

a\$617=US\$1.00

Average Lending Per Capita Per Annum: Current \$ (Constant FY85 Commitment \$)

IBRD	5.5(6.8)	11.6(10.1)	11.4(9.6)
IDA	-	-	-

/a Based on Per Capita Income Guidelines for Operational Purposes, dated November 8, 1984.

/b The FY85-89 lending program proposed in the CPP compares with the program for the same period approved at the last Bankwide lending program review in November 1984, as follows:

	<u>FY85-89 Lending Program</u>		<u>Percentage Change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>Proposed/Approved</u>
No. of loans	8	16	+100%
Current US\$ million	900.0	1,665.0	+85%
Constant FY85 Commitment	682.4	1,456.0	+113%
Per Capita Per Annum (Constant FY85 Commitment \$)	4.7	10.1	+113%

ARGENTINA

COUNTRY PROGRAM PAPER

Background

1. The last CPP Review Meeting for Argentina, held on January 10, 1979, approved a lending program of US\$1,225 for FY80-84. At that time, it was expected that the Government would pursue policies to bring down inflation, sustain vigorous economic growth and strengthen the country's foreign exchange position. Despite some initial success, the subsequent record has not lived up to these hopes. Inappropriate economic policies, exacerbated by political instability, have produced a major economic recession and a balance-of-payments crisis. Actual Bank lending has consequently amounted to only two-thirds of its planned five-year total; during the last two years, we have made only one loan. Frequent changes of Government have made it impossible to sustain a fruitful policy dialogue or to maintain a substantial lending program. The turn to a democratically elected and stable Government has improved the prospects for constructive Bank cooperation. The Government has recently initiated a serious adjustment effort and it has requested Bank support. The key role that the Bank can play in support of good economic management to bring about economic recovery and structural reform calls for a new approach. This is outlined below.

A. ECONOMIC, POLITICAL AND DEMOGRAPHIC DEVELOPMENTS

Economic Mismanagement

2. Argentina's economic performance in the past few decades has led many to believe that its future lies in the past. Unlocking the potential for growth of the country's abundant natural resources and its well educated labor force has remained an elusive goal of Argentina's many (and mostly shortlived) recent governments. Periods of economic stability and growth have been brief; sound economic policies have not been maintained over any length of time. The resulting pattern of frequent policy reversals is symptomatic of the chronic ills that have afflicted political and economic policymaking in Argentina--unrealistic expectations, deeply-rooted socio-political antagonisms, unwillingness to recognize the real problems, and the absence of a consensus on national goals, or even of a sense of shared political responsibility for their success or failure.

3. The return of Peron in 1974 coincided with a period where expectations and ability were badly matched, resulting in an escalation of social conflict and economic deterioration. The record of economic mismanagement over the last decade is unparalleled in Argentina's history. Abrupt changes in policies produced up to 50% appreciation and 20% depreciation in the real exchange rate compared to its 1970 level--a level which was considered adequate to enhance the country's export competitiveness; real monthly interest rates fluctuated between minus 17%

and plus 7%; real salaries fell more than 40% within one year, thereafter fluctuated between plus 16% and minus 10% p.a. and finally recovered to their initial level; the rate of inflation was over 400% in 1976, fell to 100% in 1980 and accelerated again to about 600% in 1984; the trade balance as a share of GDP has fluctuated between a positive 4.8% and a negative 4.3%, while GDP growth has ranged from an annual rate of plus 6.7% to one of minus 6.2%.

The Legacy of Economic Mismanagement

4. Successive mistakes and inconsistencies in the conduct of economic policies have weakened Argentina's productive capacity and exacerbated structural imbalances. In particular, the country moved too rapidly from high protection and government intervention to liberalization and deregulation without any adequate exchange rate policy and then moved back to more interventionist policies. Over the last decade, the country's external debt as a share of GDP has multiplied sevenfold (from 10% to 68%). Today, interest payments on the external debt absorb nearly half of gross domestic savings compared to less than 5% in the early 1970's. Instead of being used to strengthen export capacity, foreign borrowings were largely dissipated on consumption and military purposes, or simply financed capital flight. Argentina's private sector holdings in foreign banks are estimated to amount to nearly one-third of the public and publicly guaranteed debt. While external debt has grown, domestic production has declined. In 1984, real GDP per capita was 13% below its 1974 level. Investment has fallen to 11% of GDP, from an average of 21% during the early seventies. Annual net additions to the stock of buildings and physical infrastructure are only one-third of their levels in the early 1970s and the value of investment in equipment has been below the cost of depreciation since 1981.

5. With the exception of agriculture, which has been raising its output and productivity, the productive sectors are beset by increasingly thorny structural and financial problems resulting from distortions, lack of incentives and excessive government intervention. More than 40% of capacity in the construction industry, rapidly expanded during the construction boom of the late seventies, now stands idle. At the same time, a large unfulfilled demand for housing for the middle and low-income groups exists. Capital equipment is also idle in many manufacturing industries and is becoming increasingly obsolete. Most firms are short of working capital. Firms that did relatively well in the recent past were typically not those with a genuine comparative advantage; rather, they were the ones with the closest links to the public sector, the highest levels of protection against foreign competition, and the easiest access to foreign (initially cheap) credit. "Good management" became synonymous with skill in hedging against inflation and adroit financial maneuvering; modernization and reorganization took a back seat. Intermittent gains in competitiveness (labor productivity increased by 25% between 1974 and 1982) were lost to an increasingly overvalued exchange rate and adverse changes in the incentives system. Over the last ten years, long-term production capacity for petroleum has deteriorated as the ratio of oil reserves to annual output has declined from over 17 years to less than 14. Proven reserves of gas have increased, but the processing and transport infrastructure to exploit them is deficient, resulting in extensive scale flaring.

6. The financial sector was saved from virtual collapse only through massive Central Bank intervention. Most financial institutions are now in a precarious state; bad and substandard loans exceed equity capital by a considerable margin. The proliferation of banks and branch offices, combined with outmoded management and operating practices, has made financial intermediation costly and inefficient; most banks require a spread of at least 8% to break even because of the high inflation. The public sector is simultaneously overstaffed and seriously short of managerial and technical expertise. A weakened tax administration, together with inadequate budgeting and investment planning processes has contributed significantly to the chronic public sector deficit. Nearly every large public enterprise now has a negative net worth; very few of them have current revenues sufficient to cover debt service and to make some contribution to investment; some of them cannot even cover their operating expenditures. Cuts in investment have jeopardized the reliability of future power distribution, raised the operating costs of public enterprises, and constrained the provision of adequate levels of social services, let alone their expansion.

7. The past decade has also witnessed a major redistribution of income and wealth between debtors and creditors, and between producers of tradeables and non-tradeables. Unparalleled distortions in relative prices have enabled speculators, notably those with access to subsidized credit and foreign exchange, to amass fortunes. In the absence of any net increase in the capital stock, however, these gains simply reflect the debts or capital losses of others. As a result of the intermittent decline in real salaries, wage earners have suffered an estimated average aggregate loss of purchasing power over the last decade equivalent to three years of salary. The position of those who were laid off by organized industry and moved into the ranks of the self-employed--a group whose size has grown by one-third over the last decade--is unlikely to have improved. Meanwhile the labor force participation rate has declined by 3 percentage points over the last decade.

Political Developments

8. The disastrous South Atlantic conflict in 1982 accelerated the departure of the military regime and led to a return to a democratic form of Government. The military's economic mismanagement and the excesses of its anti-terrorist campaign had already led to general discontent by the early 1980's. The regime's military defeat provoked open, widespread hostility toward it. In October 1983, a substantial majority of voters elected the present civilian Government of President Alfonsín and his Radical Party for a six-year term.

9. The new Administration set itself some formidable objectives. It pledged to return the armed forces to the barracks and relegate them to a subordinate role in national affairs, as well as putting the leaders of the past military administration on trial for their human rights violations. It also sought to reform the undemocratic trade union movement. It committed itself in campaign promises to effect an economic recovery,

reduce inflation and restore higher real wages. Finally, in external affairs, the Government was determined to settle a prolonged border dispute with Chile, to repair the country's international standing, and to continue to press Argentina's claims to sovereignty over the Falkland Islands.

10. The Alfonsin Administration has had a relatively successful political debut. The Peronist opposition has been weakened and is now split. The influence of the military has been substantially diminished. Constitutional rule has been restored with a freely functioning Parliament, an uncensored press and an independent judiciary. A plebiscite overwhelmingly supported a peace treaty with Chile. It is currently difficult, however, to assess the relative strengths of the politico-economic groupings that make up Argentina's power structure, or to forecast the likely roles of the various interest groups that actively or passively dissent from the present Government's policies. On the debit side, trade union reform remains unfinished business, the trials of former Presidents and military leaders still have to be steered through the courts, and very little has been accomplished on the economic front. Finally, during the first year of his administration, the President concentrated his personal attention on domestic and international political issues, leaving his colleagues to reconcile the desire for speedy economic recovery with the need for stabilization and external adjustment--a task made all the more difficult by the sharp deterioration in real incomes over the past decade.

11. Toward the end of 1984, economic issues moved into the forefront of national concern. During much of the year, the Radical Government had remained trapped between its desire to fulfill popular expectations for a quick recovery and higher real wages on the one hand, and the need to correct severe disequilibria on the other. Its inertia during its first fifteen months of government also reflected technical unpreparedness, a myopic view of the economic issues that needed to be addressed, and an initial belief that economic recovery and a stabilization program could be pursued simultaneously without cost, as well as the (probably well-founded) political judgment that the success of any strategy for economic recovery would have to depend crucially upon reaching a broad national consensus on sharing the burdens of austerity.

12. In response to the rapidly deteriorating economic situation, and the ineffectiveness of the policies then being pursued, President Alfonsin reshuffled his cabinet in February of 1985. He appointed Mr. Sourrouille, formerly the Planning Secretary, as leader of a new economic team with the mandate to do whatever was needed to stabilize the economy. Mr. Sourrouille has adopted a pragmatic and businesslike approach in contrast to the nationalistic and populist one of his predecessor. His short-term program calls for a tight use of demand management policies in the context of a new Fund stand-by. At the same time, the President has changed his political rhetoric. In direct support of Mr. Sourrouille's economic program, he has been preparing the country for the initial sacrifice of a more stringent adjustment which is needed to resume sustained economic growth.

13. The political opposition is also aware of the need for rapid action on the economic front. The change in the President's position has

not provoked as aggressively hostile a reaction as many had feared, reflecting the growing awareness that the economy cannot be turned around without some heavy short-term costs. Nevertheless, the Government has a difficult political time ahead, as the program starts to impinge on the well being of particular interest groups. This is likely to be compounded by the trial of nine ex-Generals, three of whom are ex-Presidents from the previous military regime. We do not, however, expect abrupt changes in Government as a result of the trials, and thus far the reaction to the need to intensify the stabilization effort has been mild.

14. The fact that President Alfonsin is now staking his personal prestige on the success of the Government's economic policy is of great importance. His personal standing remains high, as has been clearly demonstrated by the recent large and enthusiastic mass meetings of his supporters. He can be expected to deploy his formidable political skills to good effect in the coming months, using his position at the epicenter of the political spectrum to build a broadly based consensus in support of the Government's new determination to attack the root causes of Argentina's economic malaise. Holding the country behind him through the difficult time ahead will not be easy, but his unique popularity and political adroitness should stand him in good stead, as the central focus of his Government shifts from the political to the economic rehabilitation of Argentina.

Demographic Development

15. Argentina's demographic characteristics are closer to developed European countries than to most developing Latin American countries. The country's population, of which 83% lives in urban areas, has grown at 1.6% per annum during the post-war period, with little changes from one census period to another. The major waves of immigration that had taken place during the late 1800's and early 1900's have subsided. As a result, the share of population born in Argentina has risen to 93% today compared to 70% in 1914.

16. Compared to other middle-income group countries, Argentina has a low crude birth rate (2.4%), and high life expectancy at birth for both males and females, 66 and 73 years respectively. However, recent studies by both independent and official researchers indicate a rise in infant mortality rates as a result of increasing malnutrition and poverty, and a deterioration of health services provided to lower income groups.

B. GOVERNMENT STRATEGY

Stabilization

17. After some initial hesitation, the current Government initiated a program to stem rising inflation and the worsening external payments situation. It entered into a stand-by agreement with the Fund in September 1984, and rescheduled its external debt with official creditors (covering interest and principal up to 1985) and the commercial banks (covering principal up to 1985). It also obtained US\$4.2 billion in "fresh" money to finance the current account deficit and to eliminate arrears accumulated

through 1983-85. The principal objective of the stabilization program underlying these agreements was to lower the rate of inflation from an average of more than 20% per month in the third quarter of 1984 to around 8% a month by the last quarter of 1985, and to achieve a balance of payments position that would enable Argentina to meet its external obligations while promoting economic recovery.

18. The initial performance targets under the agreement with the Fund were as follows: the cash deficit of the non-financial public sector and the operating losses of the Central Bank were to be reduced to 5% of GDP in 1985 (compared to nearly 18% in 1983); monetary growth was to be held below the targeted rate of inflation; the balance of payments resource surplus would reach US\$4.3 billion in 1985 (compared to a surplus of US\$3.7 billion in 1984); and external arrears would be eliminated by September 1985. The program also stipulated that public sector tariffs would not be reduced in real terms below their level in September 1984; that the exchange and trade system would be liberalized; and that regulated interest rates on deposits would be approximately zero in real terms, while intervention in credit markets would be reduced. The program included a depreciation of the peso in real terms.

19. Initial performance under the stand-by agreement produced some progress by the end of 1984. The fiscal deficit was brought down to 13% of GDP during the last quarter of that year. Over the same period, monetary growth was reduced to 42% compared to 46% during the last quarter of 1983 and the real exchange rate improved by 3.3% on an end year basis. Inflation, however, rose to 19.7% during the month of December 1984 compared to 17.7% during December of 1983. Employment in all productive sectors started to decline towards the end of 1984; domestic demand contracted and interest rates soared. Exports fell by about 1% in real terms. Thus, the 1984 balance of payments resource surplus was below its target level, and tax revenues fell short of projected targets.

20. The Fund suspended the first conditional draw-down under the stand-by until completion of the 1985 first quarter review of the program as several performance criteria had not been observed at the end of 1984 and new inflationary pressures had developed; they were partly the result of the elimination of the freeze on industrial prices and real increases in public tariffs. They also reflected, however, the difficulty of reversing widespread and deeply-rooted inflationary expectations on the basis of short-term monetary contraction. As a result of a further spiral of inflation in early 1985, to a large extent fueled by increased inflationary expectations and by a relaxation of demand management policies, the nominal program targets for the first quarter of 1985 were not met.

21. The new economic team has adopted decidedly more stringent economic policies in seeking a new agreement with the Fund. The Government has increased petroleum prices and transport and power sector tariffs, declared a 12% cut in public expenditure from the 1985 budget, frozen employment in the public sector and has begun a reorganization of major state enterprises to reduce costs and improve operating efficiency. It has also relaxed regulations to reduce capital markets fragmentation, freed some regulated interest rates and moved to increase real interest rates on other credit lines still regulated. A tax reform proposal has also been

presented to Congress. The Government's intention in the fiscal area is to reduce rapidly the public sector deficit to a level adequate enough to bring down inflation. In the trade area, it plans to replace quantitative restrictions with import tariffs, to simplify procedures for importing and exporting, and to continue devaluing the peso in real terms. Following the reported recent IMF agreement on revised targets, the commercial banks would be able to disburse their tranche under the agreement reached on December 3, 1984, once the set of legal conditions prior to disbursement are met. The Government is also negotiating a rescheduling of other debt with the Paris Club. Although reducing inflation may take somewhat longer than the parties concerned would like, the revised targets will enable Argentina to return to formal compliance with the Fund and eliminate external payments irregularities.

Policies for Adjustment and Growth

22. The Government knows that success in stabilizing the economy, servicing its external debt and resuming growth are interdependent. It has formulated an integrated medium-term approach to surmount the legacy of past mismanagement and to lay the groundwork for future balanced growth. The medium-term approach links the stabilization program to key policy issues on which the administration had hitherto been badly divided. The strategy for achieving a GDP growth rate of about 4% p.a. over the next five years is based on gradually raising productive investment and expanding exports. The proposed policy measures are closely in line with the recommendations of our recent CEM, i.e., improvement in public sector finances and efficiency; overhaul of the tax system and tax administration; reduction in the number of public enterprises; reform of government-enterprise relationships and improvements in incentives for the private sector; undertaking structural reforms in the tax system through the replacement of the agricultural export tax by a land tax; streamlining of export promotion regulations; extended coverage of tax incentives and a broader temporary admission scheme; provision of adequate financial resources and institutional assistance for exporters; elimination of most subsidized investment incentives; increasing reliance on private risk capital; and, more recently, promotion of and increased incentives for foreign risk capital, notably, with the personal backing of President Alfonsín, for hydrocarbon exploration and development.

23. The government document is vague, however, probably deliberately so, with respect to wage increases. On the one hand, real salaries are projected to grow in line with productivity increases; on the other, real per capita consumption is projected to rise only marginally (0.6% p.a.), so that domestic savings can rise sufficiently to finance the projected rapid increase in fixed investment (12% p.a.). Reference is made to progressive income taxation and profit-sharing schemes without saying explicitly that these would affect workers' take-home pay. Both in terms of the mobilization of savings and the growth of fixed investments, the Government's strategy document is significantly more optimistic than the Bank's projections which are based on more gradual increases in domestic savings and a slower recovery of fixed investment.

24. The economic team has acknowledged in private that the targets of the document are optimistic; it is revising them in light of the disappointing economic performance of recent months and the new policy package in the context of the new agreement with the Fund. The next step for the Government is to define in precise detail the different actions that are required to achieve the objective of the development program, a task for which it has requested Bank support through a technical assistance loan.

C. DEVELOPMENT PROSPECTS AND POLICY REQUIREMENTS

Development Issues

25. Argentina's growth performance during 1985-90 will depend on the Government's success in reversing inflationary expectations, in sharply cutting the public sector's fiscal deficit and in reducing the size of the public sector (and thus restoring domestic and overseas confidence on its management of the economy). It will also need to take positive steps to promote better utilization of productive capacity in both the public and private sectors, and to mobilize new investments to promote growth. Investment decisions are currently being postponed until the accelerating trend of inflation is reversed. The steady decline of private fixed investment reflects uncertainty about future policies as well as shortages of investment resources. The Government has committed itself to a realistic exchange rate policy, export promotion, wage restraint, phasing out of price controls, public sector price and tariff increases, and public expenditures cuts; however, since the Government's program is still not fully in place, the private sector has not yet responded positively. This lack of response has led to a vicious circle where recession and inflationary expectations have fed on the private sector's skepticism. This in turn has produced a paralysis of the private sector's investment decisions as inflation has accelerated. Since the core of the problem is lack of confidence based on the volatility of past economic policies, stabilization remains a sine qua non for the country's future growth and development.

26. External interest payments absorb almost 50% of Argentina's gross domestic savings. Until this burden is reduced, output growth will have to be supported by investments aimed at improving the efficiency of existing capacity and completing unfinished projects. Most major new projects will have to be postponed. Priority will have to be given to investments that have high rates of return, raise foreign exchange earnings and promote use of idle capacity. The Government will need to screen public sector projects with a view to reallocating resources to those nearly completed and to those that would alleviate immediate bottlenecks. Bank technical support has been requested to assist the Government in this process. The

Government will also have to redesign its credit, tax and wage policies to provide stronger incentives for rehabilitation/project completion efforts in agriculture and private industry.

27. Argentina's key development objectives are: (a) to strengthen and expand the growth of exports so as to reduce gradually the country's external debt relative to GDP and exports; and (b) to resume medium-term growth as the stabilization program takes hold, with the aim of eventually restoring the pre-1974 per capita consumption level. The relative size of Argentina's external debt, which requires some 8% of GDP to be transferred abroad as interest payments, needs to be reduced as a percentage of GDP through more rapid export growth to restore the country's credit-worthiness. At the same time, a recovery of per capita consumption is high on the list of political pressures on the Government. Thus, while tightening demand management, the Government will also have to undertake the structural reforms that are needed to increase the efficiency of resource use.

Projections

28. Tables 1 and 2 below present two alternative scenarios consistent in varying degrees with the above objectives. The first scenario assumes no significant fresh lending from commercial banks, and Government policies that are consistent with the needed external adjustment and reduction in inflation. In this scenario, it is assumed that Government policies would be adequate to keep the stand-by in place, if only by fits and starts, and avoid default to their commercial lenders. Per capita consumption would lag behind pre-crisis (1974) levels, the rapidly decreasing current account deficit would be financed principally through official lending. Given the political constraints and the limited decision-making capacity of the Government, together with the skepticism of external creditors, this appears to be the most likely scenario. The second scenario assumes more aggressive stabilization measures and a stronger export orientation supported by financing from commercial external creditors averaging one billion dollars per year during the 1986-90 period. After an initial transition, this scenario would allow for a faster medium-term growth of real GDP and consumption.

29. While in the first scenario Argentina's external indebtedness would be significantly reduced, continued stagnation of consumption at the presently depressed levels would exacerbate social and political pressures. If, on the other hand, the Government can stabilize swiftly and in addition launch a series of structural reforms to improve the efficiency of the public sector and restore private sector confidence, Argentina's commercial creditors may be more willing to increase their exposure during the adjustment period, thus making the process more bearable. Thus, with a good policy performance and a commensurate external response, Argentina's growth prospects could improve towards 1987, a scenario of higher growth could then become feasible.

30. The first scenario implies a modest increase in manufacturing capacity utilization, a slow reactivation of the construction industry, growth of agricultural output resulting from increases in yields (in turn arising from a more intensive use of fertilizer), and moderate fixed investment growth of 4.4% per annum over a low base resulting from public sector investment and a gradual and moderate private sector response. The scenario projects a 2.2% annual average real GDP growth for the 1985-90 period, compared to a 0.1% average during 1981-84. The second scenario, on the other hand, implies a faster growth of imports and exports, more rapid recovery of construction activity, and an increase in fixed investment. It could result in a 3.4% annual rate of real growth for the same period, with a faster recovery of fixed investment (growing at 8.4% per annum). Per capita consumption could grow by 0.8% p.a. based on a more rapid growth of imports and increased availability of domestically produced goods; yet the pre-1974 consumption level would be restored only by the late 1990s. Neither scenario foresees major investments that would change the structure of the economy radically; both assume the reduction of the anti-export bias in agriculture and the restoration of investment and export incentives to the manufacturing sector, together with a slight decline in the share of the service sector. The first scenario projects a 4.7% rate of annual real growth of exports compared to 5.1% of the second scenario which is based on a more rapid opening up of the economy. The current account deficit of the balance of payments (US\$2.5 billion in 1984) would be eliminated by 1990 in the first scenario and reduced to about US\$1.1 billion in the second scenario.

31. Both scenarios are based on the assumption that amortization payments falling due during the original 1986-90 period would be rescheduled. The heavy load of 1986-88 maturities (over US\$20 billion) indicates the need of a multi-year rescheduling to improve the debt servicing profile as projected in both scenarios. In addition to rescheduling, however, the second scenario would require official (including the Fund) and private creditors to contribute US\$2.1 billion (10% annual nominal increase in exposure) and US\$5 billion (2% annual nominal increase in exposure) respectively, between 1986-90. For the additional lending from the private creditors to materialize, it would require a convincing performance from the Argentine Government and persuasive effort by the Fund. We would endeavor to have the Bank also play a role in this context.

32. A third scenario, not included in our projections, would consist in a breakdown of the Fund agreement and a default in Argentine payments to the commercial banks. In such a case, there would be no justification for Bank lending except for the proposed Technical Assistance Loan which would prepare the grounds should, subsequently, the Government be in a position

Table 1: KEY ECONOMIC INDICATORS, 1970-1990
(average growth rates and ratios)

	1970/74	1975/80	1981/84	1985/90 (1st sce- nario)	1985/90 (2nd sce- nario)
GDP Growth	3.9	1.9	0.1	2.2	3.4
Per Capita GNP Growth Rate	2.4	0.2	-2.5	1.2	2.1
Consumption Growth Rate	4.5	1.5	-0.5	1.5	2.3
Per Capita Consumption Growth Rate	3.0	-0.1	-2.0	0.0	0.8
Average Savings Rate	22.1	22.6	18.0	15.7	17.0
Fixed Investment Growth Rate	1.3	4.5	-13.6	4.4	8.4
Fixed Investment/GDP	20.7	21.7	15.7	10.4	12.7
Capital/Output Ratio	5.4	11.4	261.0	4.2	3.7
Imports/GDP	8.6	8.8	10.6	8.4	9.3
Import Growth Rate	1.8	13.3	-18.3	2.6	3.8
Exports/GDP	8.4	10.8	14.2	14.8	14.5
Real Export Growth Rate	0.7	14.1	4.9	4.7	5.1
Net Factor Income Payments/GDP	-1.0	-1.0	-6.3	-7.9	-6.2

to initiate structural reforms (see para. 54). However, we do not attach a high probability to this scenario. Argentina has a tradition of honoring its external obligations even under the most difficult circumstances. Furthermore, the present Government is aware of the high costs of severing the country's trade and financial relations with the international community.

D. GOVERNMENT-BANK RELATIONSHIP

Past Record

33. The Bank has not been an important source of financing for Argentina. Over the last decade, Bank loan commitments have averaged US\$140 million p.a. and disbursements US\$60 million per annum. Almost 70% of the lending during this period was concentrated in three years. The Bank's share in Argentina's total outstanding and disbursed debt was only 1.3% at the end of 1984. Except for the initial years of the Videla administration, the Bank has not had a meaningful dialogue with recent Argentine Governments. The lasting positive consequences of past lending have been few and the disappointments many. For example, some early macroeconomic reforms (trade and financial liberalization) and improvements at the sector level (public sector prices/tariffs) were wiped out as the economy deteriorated. Intermittent efforts to recoup these losses could not be sustained. No Argentine Government has yet succeeded in maintaining sound public sector pricing policies in the context of a declining economy and rising inflation. Generally, politically sensitive loan covenants have not been complied with.

Table 2: EXTERNAL FINANCING REQUIREMENTS, 1983-1990
(Billions of US dollars and percentages)

	Actual 1983	Prelim. 1984	Projected				
			1985 (1st scena- rio)	1990 (1st scena- rio)	1986-90/1 (1st scena- rio)	1990 (2nd scena- rio)	1986-90/1 (2nd scena- rio)
Resource Balance	2.9	2.6	3.7	6.7	5.5	6.1	4.7
Interest Payments (net) /2	5.4	5.1	5.5	6.8	6.2	7.2	6.5
Current Account	-2.4	-2.5	-1.7	0.0	-0.8	-1.1	-1.8
Reserve Changes (income)	-0.2	-0.4	-0.1	-0.1	0.1	0.2	-0.0
<u>Capital Required</u>	<u>2.6</u>	<u>2.9</u>	<u>1.8</u>	<u>0.1</u>	<u>0.7</u>	<u>0.9</u>	<u>1.8</u>
<u>Financing</u>	<u>2.6</u>	<u>2.9</u>	<u>1.8</u>	<u>0.1</u>	<u>0.7</u>	<u>0.9</u>	<u>1.8</u>
Net Capital Flows	2.4	2.4	1.1	0.1	0.6	0.9	1.8
Official	0.3	0.2	0.3	0.4	0.6	0.4	0.6
Private	2.1	2.2	0.8	-0.3	0.0	0.5	1.0
Direct Investment	0.2	0.2	0.2	0.4	0.3	0.4	0.3
IMF (net)	0.0	0.3	0.6	-0.4	-0.1	-0.4	-0.1
<u>Memorandum Items</u>							
DOD /3	46	50	51	54	53	59	59
Debt/GDP Ratio	65	67	70	45	54	46	46
Debt/Exports Ratio	482	500	487	304	366	326	350
Debt Service Ratio /4	79	90	77	64	74	68	82
Interest/Exports Ratio	57	51	56	38	44	40	48

/1 Average balance and ratios.

/2 Includes net transfer of dividends and royalties.

/3 Debt outstanding and disbursed, including IMF Position.

/4 Includes all accrued interest payments and non-rescheduled maturities.

Note: Totals may not add due to rounding.

Source: Central Bank and Bank estimates and projections.

34. On the other hand, some institutional improvements associated with World Bank lending are still in place. Servicios Electricos del Gran Buenos Aires (SEGBA), Banco Nacional de Desarrollo (BANADE), Yacimientos Petroliferos Fiscales (YPF) and even the Railways have had some improvements in their management and organization, notwithstanding their financial malaise. Changes in the organization of the power sector, the formulation of a least-cost power investment program and the institutionalization of a national transport development plan are also

results of Bank operations. Finally, projects that have done well typically have had high rates of return/short payback periods and have been executed by public agencies with relatively secure financing involving earmarked funds and/or large budgets. Projects that have depended on a positive and stable incentive system (IDF) or on politically weak executing agencies (Education, Grain Storage) have suffered problems.

New Role for the Bank

35. The dramatic deterioration in Argentina's economic situation, coinciding with the installation of a new Government, has provided grounds for a new perspective on the Bank's role. First, the previous Radical government (1963-67) had good relationships with the Bank, and many of its former officials are once more in leading positions. Its request for technical assistance is genuine and is based on real need and confidence in the Bank. Argentina's economic team is now comprised of a more homogeneous group of technicians and politicians whose members are equipped with good technical knowledge, comprehension of issues and a genuine intention to follow through their policies. Second, in our dialogue with them, we have generally noted an honest recognition of past mistakes and willingness to overcome them, together with an encouraging receptivity to advice and broad agreement on the nature and direction of needed reforms. Concrete steps have already been taken in response to a number of recommendations of our CEM, particularly in the fiscal, financial and trade areas, in addition to their general reflection in the Government's development strategy document. Third, the fact that Argentina's access to private international lenders will be severely constrained over the next few years puts the Bank in a special position. We will be expected not only to provide initially significantly higher net disbursements, but also to act subsequently as a catalyst for mobilizing higher levels of lending from the country's traditional creditors.

Recent Developments

36. We have enhanced our credibility with the Government's economic team by: (a) demonstrating flexibility in restructuring ongoing operations, while showing firmness in cancelling loan balances where compliance with covenants was not satisfactory; (b) responding expeditiously to requests for preparatory work on lending operations for agricultural adjustment, port improvements and technical assistance; and (c) speedily organizing two major economic missions to analyze areas of key concern to the Government. We have also been able to defuse a potentially damaging disagreement over the proposed Petroleum Development Loan to YPF. Further evidence of the Government's confidence in the Bank is demonstrated by its request for our assistance in resolving the dispute between Gas del Estado and the Dutch authorities over the operation of the Center-West gas pipeline.

37. We have particularly good relationships with staff at all levels in the Ministries of Economy and of Public Works, Secretariats of Planning and Agriculture. Our relations with the Ministry of Economy have been strengthened by the appointment of Minister Sourrouille. The Minister is interested in cooperating with the Bank and has been the main promoter of our proposed Technical Assistance Loan; he has brought together a strong team of officials, and has played the leadership and policy coordinating role that had previously been missing from economic affairs.

E. BANK GROUP STRATEGY

Premises

38. The proposed Bank Group strategy is based on the following premises: (a) the development potential of the economy is blocked by deeply rooted structural problems. It will take time and effort to succeed, where successive previous governments have failed, in matching expectations with reality, in making private industry competitive and the bloated public sector efficient, and in instilling an entrepreneurial spirit and forward-looking orientation; (b) Argentina is entering a new policy period against the backdrop of many aborted reforms, facing a wide array of pressing requirements for changes; (c) the stabilization process will not be smooth. Nevertheless, even if it does not comply to the letter with the IMF agreement, the analysis assumes that the Government will, in the end, maintain policies that will keep the stand-by program more or less in place and with it the external financing package. This premise is based on the fact that the need for reform has become clearer and a change in this direction has been taking place in Argentina. The country now wants to progress and is painfully becoming aware that higher consumption levels can only be possible following further sacrifices; (d) there is a viable scenario for debt service-cum-growth that does not require unrealistic constraints on consumption and fresh external financing nor overly optimistic assumptions on the quality of economic policies; (e) while the general direction of the required reform policies is known, more analytical work needs to be done to formulate detailed action programs in a number of key areas; and (f) the Government has made the right overtures to the Bank and seems determined to work closely with us. Nevertheless, the effectiveness of our dialogue in translating analytical conclusions into policy actions has not yet been tested. We intend to make full use of our policy instruments and to test the Government's ability to address complex issues as we move on with our ESW and lending operations.

39. Our bottom line assessment is that Argentina will struggle through to recovery, if only by fits and starts and in the face of extraordinarily difficult circumstances. This judgment is predicated partly on our conviction that the President realizes that something has to be done and that he is well aware of the disastrous consequences a slippage of the stabilization program would have for the viability of the external financing package, for domestic confidence, and in the final analysis for the survival of his Government. President Alfonsin is still popular, and he is politically astute: he may be able to obtain acceptance where his predecessors failed.

Objectives

40. The Banks' strategic objectives at this time should be to use our analytical work and lending operations in support of Government efforts to reactivate the economy through export-led growth, increase the availability of foreign exchange and stabilize the economy. We would simultaneously perform the ground work for a subsequent phase of Bank activity, directed to supporting the country's efforts to enhance its international competitiveness, increasing domestic resource mobilization, improving public sector management, and strengthening the external finances. Key

short-term targets for fiscal, monetary and balance-of-payments have been set under the stand-by with the Fund; the Bank's role in these areas will consequently be supportive but largely passive while the agreement is in force. This also applies to exchange rate policy, although we may play an active supporting role related to our proposed policy based lending. The potential framework for our cooperation with the Government would include such areas as reforming the trade regime, public investment, the financial sector and public enterprise management; improving resource mobilization and public sector pricing; strengthening the social infrastructure; and rationalizing the regulatory environment.

41. We expect to address all of these areas in our dialogue with the Government. Because of the formidable list of tasks, however, we have identified priorities. Also, all economic and sector work would necessarily be preceded by demonstrated Government interest and concrete evidence that our analyses can form the basis for future lending. We intend to concentrate our first lending operations on strengthening the export capacity and competitiveness of agriculture, rationalizing the development and use of hydrocarbon resources, and preparing a reform program for public sector management, a task which will require an extended period of effort. In our analytical work, we shall initially focus on public investment planning and decision-making processes, and on assessing the policy framework for industrial development, with emphasis on exports. This work would in turn be expected to lead to new lending to raise industrial productivity and export capacity. We would aim at encouraging the Government to extend the drawback system, improve export credit and insurance systems, facilitate industrial restructuring and transfers of technology, and liberalize imports through more uniform tariffs and elimination of import restrictions.

42. Subsequently, our economic and sector work would be influenced by the technical assistance loan and follow up on our analysis of public investment by concentrating more specifically on the social sectors, on macro-modelling to assist the economic management efforts, and on developing a more comprehensive long-term examination of energy alternatives, including tradeoffs between hydro and gas expansion. We would then draw on this work to direct our lending towards public sector management. We would seek to help to improve the budgetary and administrative processes; to promote multi-year investment planning, project evaluation and program monitoring; and to encourage the rationalization of tax and transfer procedures and the establishment of more decentralized and flexible systems for coordination between different public agencies.

43. Economic growth will require a sound financial sector. We expect to support the reform of the banking system, to promote greater availability of longer-term lending or equity financing for investment, and to help the Government to improve the internal efficiency of the financial market by reducing the share of regulated deposits, lowering reserve requirements, and linking deposit insurance to risk. We propose to undertake sector work to assess the situation thoroughly with the assistance of IFC and the IMF. In addition, we will look for ways to facilitate foreign investment in petroleum and natural gas. Throughout the program period, we would support a series of infrastructure projects and pursue possibilities for human resource development.

General Approach

44. In framing our assistance program in Argentina, we have taken into account the following considerations. First, phasing: the Government has yet to show that it can stabilize the economy and undertake major structural reforms. Because there are still too many uncertainties, we propose to proceed in two phases. We have prepared a detailed first phase program of action. Proposals for the second phase (FY87-90) are mainly indicative of the direction in which we want to move; the specific level and composition of Bank lending during that phase would be determined (in the context of a Country Brief to be prepared towards the end of FY86 and a new CPP towards the end of FY87) on the basis of compliance with the targets of the stabilization program, success in expediting disbursement of existing loans, initial performance under new operations, and the Government's receptivity to Bank advice under the Technical Assistance Loan.

45. Second, conditionality: we would continue with strict project or sector specific conditionality to support our macroeconomic and sectoral objectives. In terms of macroeconomic and sectoral conditionality, lending operations would focus on sustainable achievements over the Government's five-year tenure as a whole. The Government would need to be clearly aware that inadequate macro performance would bring a negative Bank reaction in terms of the order of magnitude of our proposed lending. In this context, we suggest that we (a) discuss with the Government which objectives it wants to achieve during the remaining four-and-a-half years of its mandate; and (b) use our analytical work and technical assistance operations to help it to chart the course that will need to be followed. We would define the composition and conditions of Bank lending with increasing precision as we draw on the results of our ESW program and technical assistance loan.

46. Third, lending instruments: we would initially concentrate on specific investment operations to establish a robust basis for lending that would not be subject to uncertainties of broad ranging reforms. We would, through sector and project specific conditionality, support macroeconomic objectives. Thus, conditionality would be limited to: (a) that which we deem necessary for enhancing creditworthiness such as improving resource mobilization and strengthening the balance of payments, and the financial and institutional viability of specific investments; and (b) those aspects of sectoral policies that bear directly upon the productivity of these investments.

Lending Volume

47. We recommend planning for a lending total of US\$500-600 million in the first phase (FY1985/86), compared to US\$900 million approved by the Review Group for FY85-89. The recommendation for this increase is based on the following considerations: (a) the Government is undertaking a major stabilization program; (b) economic recovery and adjustment are severely constrained by the scarcity of foreign exchange; (c) we want to respond credibly to the requests for close technical cooperation and substantial

financial support; and (d) a substantial share of lending would be associated with major policy reform. Meeting the lending target depends critically on the Government's taking significant policy actions within the constraints imposed by its stabilization program, the first test of which centers on the Agriculture Sector Adjustment Loan. We would monitor very closely the efforts undertaken to reduce the overall public sector deficit and determine the optimal timing for a further export tax decrease given government action to institute compensating sources of revenue. The Government has already publicly committed itself to the policies that would be supported by the loans. We also expect that the Government will move forcefully enough to justify a large loan.

48. The total of operations in the 5-year program period would amount to US\$1.6 billion with the inclusion of loans totalling US\$1,250 million for the second phase (FY1987-90). However, it should be noted that the latter sum is merely indicative at this juncture, rather than a firm lending target. Nor does the US\$1.6 billion total represent the upper limit of possible lending to Argentina. If there is significant progress in structural reform, and depending on progress related to the criteria listed at the end of para. 40, we might subsequently propose supplementary operations to help put the economy on a higher growth path. We have already identified the aims and composition of a number of additional loans, some of which have been categorized as reserves. Much of the spade work for this possibly increased program will be carried out through public investment and industrial sector analyses and technical assistance loan. The present program calls for FY86-90 lending on the order of US\$11.4 per capita in nominal terms (compared to US\$5.5 during FY80-84) which is higher than the planned levels for Brazil (US\$9.47) or Mexico (US\$10.54), but less than those for Chile (US\$14.64), Portugal (US\$15.96) or Colombia (US\$22.67). The program initially also calls for concentration on relatively few sectors to enhance the effectiveness of our assistance while seeking a low-cost approach in our operations. Finally, we also recommend that the Bank finance 35% of project cost or the foreign exchange cost, whichever is higher, up to a maximum of 50% of project cost.

Portfolio Considerations

49. The proposed lending program would lead to an increase in net transfers from a negative US\$36 million in 1984 to a peak of US\$124 million in 1987, and net disbursements from US\$19 million in 1984 to US\$216 million in 1987. Except for 1981, there have been negative net Bank transfers to Argentina at least since 1979. Because of low previous Bank lending, Argentina's share in the Bank's portfolio would remain below 3% during the planning period. Although the proposed lending would raise the Bank's share of total gross disbursement from external financial sources only from 0.6% in 1984 to 5.1% at the end of the program period, the Bank would become an important source of fresh financing for Argentina after 1985: our share in net disbursements on average would exceed 12% p.a. during 1986-89. The Bank's share of Argentina's external debt service payments is projected to rise from 1.4% to 2.0% over the same period.

Composition

50. The proposed program implies a significant change and more balance in the sectoral composition of Bank lending. The program is primarily oriented towards investment projects and not policy-based lending; however, if the Government were to be responsive to our policy initiatives, we would increase policy-based lending. Energy lending would be sharply reduced as a proportion of total lending and agriculture would assume a much more important role than hitherto, as would sector lending in industry. Infrastructure loans would shift their emphasis; the Bank would phase out of lending for highways and probably also railways, but would focus new lending on ports. Depending on the interest and receptivity of the Government, we would expand our involvement in education and enter new areas such as water supply and urban development (see Attachment 5). Our ideas for Financial Sector and Export Promotion Loans are still only tentative at this stage; such lending would respond to important needs, but we have too little hard information and too few indications of the Government's views to be able to outline specifics at this stage.

Table 3: DISTRIBUTION OF LENDING, FY80-85 AND FY86-90
(in percentages)

	FY80-85	FY86-90
<u>Sector</u>		
Industry	10	18
Energy	71	33
Agriculture	0	15
Infrastructure	13	27
Human Resources	6	6
Institutional	0	1

Matrix of Objectives/Instruments

51. The proposed lending operations and analytical work during the first phase would make the following contributions to the Bank's strategic objectives:

(a) International Competitiveness

- increase productivity and production for exports in agriculture (Agriculture Sector Loan);
- reduce shipping costs for exports (Bahia Blanca Port Loan);
- develop an effective promotion strategy to overcome constraints on industrial exports (Industrial Sector Mission);
- identify possibilities for industrial restructuring and formulate an action program (Industrial Sector Mission, T.A. Loan);

- increase production of gas and byproducts; substitute lower cost gas for higher cost liquid fuels in domestic consumption; expand export capacity for liquids (YPF, and GdE Loans);

(b) Domestic Resources Mobilization

- rationalize the structure of petroleum prices and raise them in the aggregate (YPF and GdE loans) and assess the possibility of levying taxes on natural gas;
- raise power and port tariffs (Bahia Blanca, Power Engineering, Yacyreta Loans);
- raise user charges for water supply and sanitation (Water Supply Loan);
- improve tax administration (TA Loan).
- rationalize tax structure (Agricultural Sector Loan).

(c) Public Sector Management

- improve public investment planning (Public Investment Mission; YPF, GdE and Water Supply Loans);
- improve public enterprise management, operations and finances (YPF, GdE and Water Supply Loans, T.A. Loan);
- promote efficient operation and end-use of infrastructure (Water Supply and Bahia Blanca Loans).

(d) External Finances

- accelerate disbursement of ongoing operations;
- increase exports (Agricultural Sector, YPF and GdE Loans; Industrial Export Mission);
- help Government make effective use of lines of credit from official credit and export sources (Public Sector Investment Mission);
- strengthen Argentina's external credibility through support of reform policies (T.A., YPF and GdE Loans; Public Sector Investment and Industrial Export Mission);
- help with debt restructuring, cofinancing with export credit agencies and establish a dialogue through a more formal consultative mechanism with commercial banks to promote voluntary lending.

Improving Project Implementation

52. The execution of Bank-assisted projects in Argentina has suffered greatly in recent years from both policy reversals and cumbersome bureaucratic procedures. Project implementation has been unsatisfactory because of a lack of follow-through by the authorities, problems related to international competitive bidding, specific project-related difficulties, and lack of counterpart funds. The authorities are concerned about the much slower than forecast disbursements, a situation which has in turn produced negative resource transfers and over US\$800 million of undisbursed commitments (see Attachment 1c). The Government has recently expressed to the Bank its willingness to take decisive steps to improve the implementation of ongoing operations. Disbursements were particularly low

in 1983-84, at about a third of the Bank wide average expenditure rate; this reflected the paralysis in Government activity during and after the South Atlantic crisis, and the decline in normal project implementation activity because of lack of counterpart funds as the military regime came to an end. The severe economic recession has also led to frequent delays in procurement because of protectionist pressures to minimize purchases from foreign sources. We have begun efforts to correct these shortcomings as a result of which FY85 disbursements will show considerable improvements. Greater use of "project special accounts" should bring about still further progress. A number of other measures were agreed upon during the first Country Implementing Review held in May 1985, particularly the elimination of procurement obstacles and streamlining of Government administrative regulations obstructing loan execution. We propose to continue holding these reviews semi-annually.

Risk

53. The paper proposes a major expansion of our assistance to Argentina. The record of our relationship with past Governments has been disappointing. The economic and political problems of the country are complex and difficult to resolve. This economic team's ability to survive will be tested in the coming months on the basis of being able to break inflationary expectations and restore confidence domestically and abroad. Although Mr. Sourrouille's policies are moving in the right direction, he still has to demonstrate that he can deliver on the economic front in time to maintain President Alfonsin's support. If Mr. Sourrouille moves ahead with a coherent economic program, he is likely to be under constant attack because of the severity of the program. Unless he can muster strong external support to show that the sacrifice is worth it, the pressures for not continuing with these policies will mount. Therefore, sustained good economic management should justify significant Bank lending support; without it, the possibilities of the administration to overcome the country's present difficulties would be reduced.

54. The principal area of risk would be the failure of the Government to continue the economic program and maintain the IMF stand-by. Although temporary derailments and renegotiations of the program should not be ruled out, the likelihood of an outright collapse of the program is small. The Government is on a short leash. It is aware that its political fortunes depend on success in stabilizing the economy and maintaining access to the international financial community. While there are proponents of expansionary economic policies combined with a repudiation of the external debt, they do not, so far, carry political clout nor do they have popular support. Should the stand-by with the Fund lapse over an extended period, Argentina would not be in a position to clear up its arrears with the commercial banks as scheduled. If the Government maintains its current policy of improving the real exchange rate, however, it should be able to make most of the interest payments due, provided the terms of trade do not seriously deteriorate. We believe that the administration will continue honoring its obligations to the Bank, even in the face of temporary arrearages with other creditors. Should the Government not comply with the targets of the Fund stand-by, we would decide on revisions in our program on the basis of Government efforts to: (a) reduce the fiscal deficit; (b)

improve domestic resource mobilization; and (c) strengthen the balance of payments. We would, of course, review the nature of non-compliance with the Fund to ascertain whether major differences existed with the Argentine Government.

55. Finally, are our loan objectives vulnerable to a breakdown of the stabilization program? Although the positive impact of our operations would be reduced under such circumstances, we believe that their policy-cum-institutional benefits would still be achieved. Specifically: (a) the replacement of the export tax would take place in a legislative framework which we expect to be fairly sturdy; (b) adjustments in the relative prices of hydrocarbon products should remain in place, even if aggregate price levels are lowered in real terms; (c) the reorganization of port management, likewise, would be instituted through changes in legislation; and (d) the decentralization of water supply and sanitation services, combined with the goal of obtaining more adequate user charges, would probably be sustained even under adverse economic circumstances.

IFC Operations

56. IFC has made a total of 25 investments in Argentina with gross commitments of US\$236 million. As of January 31, 1985, IFC held US\$117.3 million in loan and equity investments in 9 companies. In FY85, as of March 1, four investments had been approved: a US\$300,000 equity investment in IPAKO, S.A., to complement the conversion into equity of an existing subordinated convertible loan; a US\$12 million investment in Soyex S.A. to help complete Soyex's soybean processing plant; a US\$24 million loan for the account of participants in Petrocuyo S.A., to complete funding for this polypropylene project; and a US\$25 million investment in Isaura S.A., for the completion of its refinery expansion project. Two additional projects are being considered for FY85: Hidra, an oil development project, and a financial restructuring proposal for Minetti S.A., a cement company. This relatively high level of activity is expected to be maintained in FY86. Promotional efforts are geared to export or import substitution-oriented projects with emphasis on oil, petrochemicals, and related sectors. IFC will also continue to seek investments in projects where its presence would facilitate the formation of joint ventures with foreign participation, and act as a catalyst to attract higher levels of commercial financing. We would also seek IFC's participation in financial sector work and on proposed lending to strengthen the financial sector.

G. EXTERNAL ASSISTANCE

57. The envisaged expansion of Bank lending will require close coordination with other creditors. We expect increased Argentine interest in development assistance also to focus on the IDB and UNDP. The IDB, which has expressed explicit support for the Alfonsin Government, substantially exceeded its previous pace of operations in calendar 1984 with commitments of US\$386 million, and is moving toward US\$500 million this year. It projects a continued high volume in the future. While IDB's new lending program is large, much of it is in institutions where we are not directly involved. It will be important to maintain close contacts

regarding our respective areas of activity, and to seek IDB's support in pressing for sector policy reforms--although IDB has consistently shied away from this in the past and presumably will not now begin to insist very vigorously on project conditionality. Careful orchestration of IBRD and IDB activities will be particularly needed to achieve our policy objectives in the areas of domestic resource mobilization and public sector management. We would also hope for (and have already had some success in) linking our operations more closely than hitherto with those of the UNDP. We are participating jointly in the proposed Technical Assistance loan, and in the studies to improve data collection and analysis of industrial sector trends. We would expect to work closely with the Fund on technical assistance in the fiscal area.

58. Assuming the completion of Argentina's rescheduling of its 1982-85 external debt obligations with commercial banks and of its Paris Club debt renegotiations, the prospects for some resumption of official financial flows (up to US\$1 billion) may improve along with the country's creditworthiness. This positive judgment needs to be tempered, however, in the light of the commercial banks' hesitancy about providing more than limited new funds to Argentina, and is subject to the Government's ability to maintain the economic program under the Fund standby. In the first phase of our upcoming operations in Argentina, we would seek to maximize export credit agency participation in Bank-supported projects, such as the proposed gas loan, and possibly Bahia Blanca plus other activities which might emerge from the public sector investment review. In the later stages, we would actively promote collaboration with the commercial banks in order to pave the way for the B-loan pipeline.

59. Finally, an increase in both Bank lending and economic work in Argentina on the scale discussed in this paper is bound to have substantial budgetary implications. It is too early to gauge how much of the envisaged increase will in fact be realized and how much of it can be accomplished within present resources allocated for Argentina. On balance, however, we believe that some additional budget provisions will need to be made for Argentina as the program develops.

Economic and Sector Work

60. Beginning in FY86, the ESW focus will shift to macro management and external debt issues. In this context, the most important factors behind the chronic economic instability are to be identified, with specific attention to the causes of public sector deficits. The impact of external debt service on public sector activity, employment and wage structure in the public sector, and efficiency of publicly provided social services will be analyzed.

61. During the first phase of the CPP period, the ESW on Argentina will also focus on the institutional issues of public economic management, aiming to assist the Government in its efforts to strengthen the coordination and supervisory functions of the central authority. Building upon the findings of the public sector investment review and utilizing the proposed technical assistance loan as an instrument for concrete action, the ESW will identify the bottlenecks and procedures preventing rational resource allocation and will propose measures to improve the public sector decision-making mechanism.

62. During the second phase of the CPP period, an economic assessment of the impact of the long-lasting recession and the stabilization efforts on poverty and income distribution will be undertaken. A study of the financial sector will also be undertaken to assess the impact of a series of financial reforms that began in 1977, and to identify the financial constraints which are likely to impede the recovery of the industrial sector. This study would be linked to proposed new lending.

63. Argentina will remain on our priority list for the short-term monitoring of developments on economic policy and external debt issues. For the last three years, such monitoring has significantly increased as a result of the daily gyrations of policy and the precariousness of Argentina's debt problem. As regards longer-term research studies, Argentina is included as one of the 20 countries in a comparative CPD study, initiated in FY85, of the problems of transition in trade liberalization. Another research proposal, pending the outcome of the studies financed through our technical assistance loan, is the analysis of the efficiency of economic information flow, decision-making and monitoring systems in the public sector, with specific reference to the inter-agency relationship.

Table 4: STATUS OF IBRD CAPITAL SUBSCRIPTIONS
(as of April 4, 1985)

<u>Resolution</u> No. Adopted	<u>Subscribed</u>		<u>Unsubscribed</u>		<u>Amounts to be</u> <u>Paid-In for Un-</u> <u>subscribed Shares</u> (000s)		<u>Local currency</u> <u>Unreleased for</u> <u>Shares Subs-</u> <u>cribed</u> <u>\$ mil.</u>
	No.	\$ mil.	No.	\$ mil.	<u>US\$</u>	<u>Loc.Curr</u> <u>US\$</u>	
346	1/4/80	880	106.159	3,520	424.635	3.185	28.663
347	1/4/80	250	30.159	0	0	0	0
380	4/13/82	0	0	77	9.289	0.070	0.627
395	8/30/84	<u>0</u>	<u>0</u>	<u>624</u>	<u>75.276</u>	<u>0.659</u>	<u>5.928</u>
Total		<u>1,130</u>	<u>136.318</u>	<u>4,221</u>	<u>509.200</u>	<u>3.914</u>	<u>35.218</u>

Remarks: Argentina's subscriptions to authorized shares represent 58% of allocations, compared to the Bank-wide average of 62.6% for all "Part II" countries excluding Saudi Arabia.

Summary and Recommendations

64. The principal recommendations of this paper are as follows:

- (a) The Bank should plan for a lending program of between US\$500 and US\$600 million in the first phase (FY85-86). The level of lending in the second phase (FY87-90) would be determined on the basis of performance; the proposal of US\$1.25 billion is a general indicator rather than a firm lending target. The bank should finance 35% of project cost or the foreign exchange cost, whichever is higher, up to a maximum of 50% of project cost.
- (b) The first lending operations would concentrate on strengthening the export capacity and competitiveness of agriculture, rationalizing the development and use of hydrocarbon resources, strengthening the transport of infrastructure necessary for exports, and preparing a reform program for public sector management. The analytical work would initially focus on public investment and decision making processes, and on the policy framework for industrial development with emphasis on exports.
- (c) The sectoral composition of lending would be more balanced than in the past. Except for a policy based agriculture loan, operations initially would be oriented towards specific investment operations in a limited number of sectors to establish a robust basis for lending that would not be subject to uncertainties of broad ranging reforms. Associated macroeconomic and sectoral conditionality would focus on sustainable achievements over the Government's five year tenure as a whole. Inadequate macro performance, however, would severely constrain aggregate lending.
- (d) In the case of a breakdown of the Fund agreement and a declaration of default by the commercial banks, Argentina would not be creditworthy. Therefore, there would be no justification for Bank lending except for the proposed Technical Assistance Loan.

Population: 28.8 million
 GNP Per Capita: US\$2,030
 Area: 2779.7 sq. km.
 Adult Literacy: 94%

ARGENTINA: ACTUAL AND PROPOSED PROGRAM OF LENDING THROUGH FY90
 (all ISBD US\$ million)

Attachment 1a

	Through FY79	FY80	FY81	FY82	FY83	FY84	(Current) FY85	FY86	FY87	FY88	FY89	FY90	Total FY80-84	Total FY85-89	Total FY86-90	Reserve Projects
Livestock I	15.3 /1															
Agricultural Credit	60.0 /2															
Grain Storage	105.0 /3							250.0								200.0 (FY88)
Sector Adjustment I																
Sector Adjustment II																
Industrial Credit I	100.0															
Industrial Credit II				100.0												
Small Scale Industry									50.0							
Industrial Credit III										100.0						200.0 (FY88)
Export Promotion												100.0				
Fertilizer												50.0				200.0 (FY89)
Technology																
Trade Reform																
SEGBA I	95.0 /4															
SEGBA II	55.0 /5															
HIDRONOR I	82.0															
SEGBA III	60.0															
SEGBA IV	115.0															
Yacayreta I		210.0														
Oil & Gas Engineering		27.0														
Coal Exploration			10.0													
Oil & Gas Credit				100.0												
Refinery Conversion					200.0											
Gas Utilization I (YPF)							180.0									
Power Engineering								10.0								
Gas Infrastructure (GdB) I									125.0*							
SEGBA V									150.0							
Private Sector Oil & Gas										150.0*						
Gas Infrastructure II											100.0*					100.0 (FY89)
Yacayreta II																100.0 (FY87)
Power Distribution																
Road I	48.5 /6															
Roads II	25.0															
Railways I	84.0 /7															
Roads III	67.5															
Roads IV	105.0 /8															
Railways II	96.0					100.0										
Highway Sector																
Bahia Blanca Port I								50.0								
Water Supply I								60.0								
Bahia Blanca II									150.0*							
Urban Development										75.0*						
Water Supply II											100.0*					
Technical Education			58.0													
Education I											100.0					
Technical Assistance								15.0								
Financial Sector																150.0 (FY90)
LENDING PROGRAM	Total:	1,113.3	237.0	68.0	400.0	100.0	--	180.0	385.0	475.0	325.0	300.0	150.0	805.0	1,665.0	1,635.0
	Number:	15	2	2	3	1	--	1	5	4	3	3	2	8	16	17
Lending Program in constant FY85 Commit.		309.5	71.8	480.7	114.4	--	180.0	359.1	415.2	267.7	234.0	111.1	976.4	1,456.0	1,387.1	
Commitment Deflator (FY85=100)		79.8	80.7	83.2	87.4	93.2	100.0	107.2	114.4	121.4	128.2	134.9	-	-	-	
* Stand-by Projects: Total								275.0	225.0	200.0						
Number								2	2	2						

- /1 0.4 cancelled.
- /2 60.0 cancelled.
- /3 18.0 cancelled.
- /4 1.7 cancelled.
- /5 4.0 cancelled.
- /6 17.6 cancelled.
- /7 27.7 cancelled.
- /8 0.3 cancelled.

ARGENTINA--SUMMARY OF BANK GROUP AND OTHER OFFICIAL LENDING
(ALL IBRD)

Attachment 1b

	Thru FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	Total FY80-84	Total FY85-89	Total FY86-90
Sectoral Distribution Bank Commitments (US\$ mil.)															
Agriculture	180.3							250.0						250.0	250.0
Industry	100.0			100.0					50.0	100.0		150.0	100.0	150.0	300.0
Education			58.0								100.0		58.0	100.0	100.0
Power	402.0	210.0						10.0	150.0				210.0	160.0	160.0
Oil & Gas		37.0			300.0		180.0		125.0	150.0	100.0		337.0	555.0	375.0
Transportation	426.0							50.0	150.0				100.0	200.0	200.0
Urban Development										75.0				75.0	75.0
Technical Assistance								15.0						15.0	15.0
Water Supply								60.0			100.0			160.0	160.0
Total	1,108.3	247.0	58.0	400.0	100.0	-	180.0	385.0	475.0	325.0	300.0	150.0	805.0	1,665.0	1,635.0
		CY80	CY81	CY82	CY83	CY84	CY85	CY86	CY87	CY88	CY89	CY90			
Bank Disbursements (US\$ mil.)															
Including Undisbursed		1045.7	1366.4	1409.6	1468.3	1391.9	1494.3	1798.3	1979.3	2164.3	2379.3	2361.3			
Excluding Undisbursed		403.7	478.5	504.9	533.1	552.6	730.0	884.0	1020.0	1189.0	1291.0	1404.0			
IBRD															
Gross Disbursements		71.1	119.7	83.1	69.5	95.9	250.0	260.0	280.0	309.0	237.0	256.0			
Repayments		40.6	44.9	56.7	41.3	76.4	72.6	106.0	144.0	140.0	135.0	143.0			
Net Disbursements		30.5	74.8	26.4	28.2	19.5	177.4	154.0	136.0	169.0	102.0	113.0			
Interest and Charges		36.8	39.3	42.9	35.7	55.6	61.8	76.5	89.8	103.4	115.6	129.6			
Net Transfer		-6.3	35.5	-16.5	-7.5	-36.1	115.6	77.5	46.2	65.6	-13.6	-16.6			
		Actual					Projected								
IBRD Exposure (%) /2															
IBRD Disb./Total Pub. Gross Disb.		2.5	6.3	3.4	2.9	0.6	6.1	5.0	4.9	6.6	5.0	5.1			
IBRD Disb./Total Pub. DOD		4.0	4.5	3.2	2.3	1.5	1.6	1.9	2.1	2.5	2.7	2.9			
IBRD Debt Service/Total Pub. Debt Serv.		3.6	3.9	4.3	2.2	3.0	1.9	2.1	2.5	2.6	2.6	2.7			
Commitment from Official Sources (US\$ mil.)															
Total Bilateral /2		331	1648	225	200	300	1150	950	1200	750	1100	800			
United States		12	75	57	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
United Kingdom		16	11	29	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Japan		72	360	11	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Other		231	1200	128	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
Total Multilateral		350	412	418	300	400	725	1160	825	775	1000	625			
IBRD		27	369	100	100	-	175	410	325	325	350	125			
IDB /4		223	243	310	200	400	550	750	500	450	650	500			
Total Commitments		681	2258	643	500	700	1875	2110	2025	1525	2100	1425			

/1 End of period.
/2 Ratios reflect the debt rescheduling and nationalization agreements.
/3 Includes suppliers credit.
/4 Includes other multilateral organizations.

ARGENTINA: IBRD/IDA DISBURSEMENTS
(Expressed in million of U.S. dollars)

	1980	1981	1982	1983	1984
Undisbursed balance at July 1 / <u>1</u>	458.83	439.20	386.96	840.33	872.68
Commitments during F/Y	237.00	68.00	400.00	100.00	--
Total disbursed during F/Y / <u>2</u>	55.63	88.35	114.67	67.66	73.62
Disbursement Rate (3 + 1 = 100)	12.13	20.12	29.62	8.05	8.44
Comparators (%)					
(a) Disbursement rate for total of other loans in the Region	23.04	25.20	22.08	22.35	28.92
(b) Bank-wide IBRD/IDA average disbursement rate / <u>2</u> / <u>3</u>	21.31	21.47	23.93	23.44	24.95
(c) Selected comparators: / <u>2</u>					
Peru	44.69	24.06	32.32	18.83	12.98
Chile	14.61	50.52	23.28	27.31	58.89
Portugal	15.18	13.38	13.20	21.60	15.43

/1 Undisbursed balance includes approved but unsigned and signed but not effective loans and credits for all computations.

/2 Excludes jointly guaranteed loans.

/3 Excludes IFC loans.

TABLE 3A

PAGE 1

ARGENTINA ARGENTINA	- SOCIAL INDICATORS DATA SHEET				
			REFERENCE GROUPS (WEIGHTED AVERAGES) /a		
	1960/b	1970/b	MOST RECENT ESTIMATE/b	MIDDLE INCOME LAT. AMERICA & CAR	MIDDLE INCOME EUROPE
AREA (THOUSAND SQ. KM)					
TOTAL	2766.9	2766.9	2766.9	.	.
AGRICULTURAL	1740.2	1777.0	1783.0	.	.
GMP PER CAPITA (US\$)	700.0	1230.0	2520.0	2108.6	2345.3
ENERGY CONSUMPTION PER CAPITA					
(KILOGRAMS OF OIL EQUIVALENT)	808.0	1211.0	1445.0	995.5	1122.8
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	20616.0	23962.0	28432.0	.	.
URBAN POPULATION (% OF TOTAL)	73.6	78.4	83.3	66.5	46.8
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			36.1	.	.
STATIONARY POPULATION (MILL)			53.7	.	.
POPULATION MOMENTUM			1.5	.	.
POPULATION DENSITY					
PER SQ. KM.	7.5	8.7	10.2	35.7	82.9
PER SQ. KM. AGRIC. LAND	11.8	13.5	15.8	92.4	158.9
POPULATION AGE STRUCTURE (%)					
0-14 YRS	30.8	29.1	27.9	39.9	31.6
15-64 YRS	63.7	63.7	63.7	56.0	61.1
65 AND ABOVE	5.5	7.2	8.9	4.1	7.1
POPULATION GROWTH RATE (%)					
TOTAL	1.8	1.5	1.4	2.4	1.6
URBAN	3.0	2.1	1.9	3.6	3.7
CRUDE BIRTH RATE (PER THOUS)					
CRUDE BIRTH RATE (PER THOUS)	23.0	22.9	25.0	31.3	23.4
CRUDE DEATH RATE (PER THOUS)	8.7	9.4	9.0	8.1	8.8
GROSS REPRODUCTION RATE	1.5	1.5	1.3	2.0	1.6
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	..	..	.	.
USERS (% OF MARRIED WOMEN)	..	..	..	40.3	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	96.0	101.0	122.0	114.3	114.5
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	126.0	129.0	125.0	110.6	128.6
PROTEINS (GRAMS PER DAY)	107.0	108.0	107.0	67.3	89.7
OF WHICH ANIMAL AND PULSE	66.0	68.0	69.0 /c	34.1	34.5
CHILD (AGES 1-4) DEATH RATE	5.0	4.0	2.2	5.7	5.2
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	65.1	66.6	69.6	64.7	67.4
INFANT MORT. RATE (PER THOUS)	60.6	53.9	43.6	60.6	54.2
ACCESS TO SAFE WATER (XPOP)					
TOTAL	47.3	56.0	73.0	65.4	..
URBAN	58.9	69.0	..	78.1	..
RURAL	9.6	12.0	..	46.2	..
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	62.0	85.0	77.0	52.9	..
URBAN	..	87.0	..	67.0	..
RURAL	..	79.0	..	24.5	..
POPULATION PER PHYSICIAN					
POP. PER NURSING PERSON	740.0	520.0	430.0 /c	1917.7	1065.8
POP. PER HOSPITAL BED	760.0 /d	590.0	..	815.8	764.4
TOTAL					
TOTAL	160.0	180.0	..	367.2	326.3
URBAN	190.0 /d	200.0	..	411.5	201.5
RURAL	4490.0 /d	1010.0	..	2636.3	..
ADMISSIONS PER HOSPITAL BED	..	..	..	27.3	20.0
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	3.7	3.8	..	..	..
URBAN	3.5	..	..	..	..
RURAL	4.3	..	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	1.4	1.4	..	..	..
URBAN	1.3	..	..	..	..
RURAL	1.7	..	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	69.2	76.0	87.0	..	..
URBAN	84.7	..	..	..	..
RURAL	18.6	..	..	..	..

TABLE 3A

PAGE 2

ARGENTINA	- SOCIAL INDICATORS DATA SHEET				
	ARGENTINA		REFERENCE GROUPS (WEIGHTED AVERAGES) /a		
	1960/b	1970/b	MOST RECENT ESTIMATE/b	MIDDLE INCOME LAT. AMERICA & CAR	MIDDLE INCOME EUROPE
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	98.0	106.0	119.0	105.4	101.1
MALE	98.0	106.0	120.0	106.3	105.5
FEMALE	99.0	107.0	119.0	104.5	96.7
SECONDARY: TOTAL	23.0	45.0	59.0	43.2	59.1
MALE	23.0	42.0	54.0	42.3	68.9
FEMALE	24.0	48.0	63.0	44.5	50.6
VOCATIONAL (% OF SECONDARY)	50.3	58.4	61.3	33.6	21.6
PUPIL-TEACHER RATIO					
PRIMARY	22.0	19.0	20.0	30.1	25.1
SECONDARY	7.0	7.0	7.0 /e	16.8	20.5
ADULT LITERACY RATE (%)	91.4	92.6	93.0 /f	79.5	75.6
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	23.0	60.1	..	46.0	54.7
RADIO RECEIVERS/THOUSAND POP	169.8	375.6	375.7 /f	225.6	164.9
TV RECEIVERS/THOUSAND POP	21.8	146.1	184.2	107.2	123.8
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	154.5	177.2	94.2 /f	63.5	96.3
CINEMA ANNUAL ATTENDANCE/CAPITA	7.0	2.2	2.4 /e	2.8	2.9
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	8136.0	9299.0	11017.0	.	.
FEMALE (PERCENT)	21.4	24.7	26.7	23.2	34.5
AGRICULTURE (PERCENT)	20.0	16.4	13.1	31.5	40.7
INDUSTRY (PERCENT)	35.9	32.1	28.0	23.9	23.3
PARTICIPATION RATE (PERCENT)					
TOTAL	39.5	38.8	38.7	32.2	42.9
MALE	61.0	58.1	57.1	49.3	54.7
FEMALE	17.2	19.3	20.6	15.2	31.0
ECONOMIC DEPENDENCY RATIO	0.9	0.9	0.9	1.4	0.9
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	27.5	..	..	..	..
HIGHEST 20% OF HOUSEHOLDS	50.9	50.3	..	..	..
LOWEST 20% OF HOUSEHOLDS	6.9	4.4	..	..	..
LOWEST 40% OF HOUSEHOLDS	16.6	14.1	..	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	..	..	288.2	..
RURAL	..	..	..	184.0	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	..	653.0 /g	522.8	..
RURAL	..	..	577.0 /g	372.4	..
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

.. NOT AVAILABLE
 . NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1980 and 1982.

/c 1977; /d 1962; /e 1979; /f 1978; /g 1975.

JUNE, 1984

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and

AREA (thousand sq.km.)

Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1981 data.

Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to till fallow; 1960, 1970 and 1981 data.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1980-82 basis); 1960, 1970, and 1982 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1981 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1982 data.

Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1982 data.

Population Projections

Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these three combinations of mortality and fertility trends for projection purposes. Stationary population - is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate) 1. In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Population Momentum - is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year t is measured as a ratio of the ultimate stationary population to the population in the year t, given the assumption that fertility remains at replacement level from year t onward, 1980 data.

Population Density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1981 data. Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1981 data.

Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1982 data.

Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-82. Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-82.

Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1982 data.

Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1982 data.

Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1982.

Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception to all married women. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION

Index of Food Production per Capita (1969=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per Capita Supply of Calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed needs. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970 and 1981 data.

Per Capita Supply of Protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961-65, 1970 and 1980 data.

Per Capita Protein Supply from Animal and Pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

Child (ages 1-6) Death Rate (per thousand) - Annual deaths per thousand in age group 1-6 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH

Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1982 data.

Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.

Access to Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer inpatient accommodation and provide a limited range of medical facilities.

Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average number of persons per room - total, urban, and rural - average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Rates

Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 5-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 13 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio (primary and secondary) - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses, and military vehicles.

Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receiver sets and in years when registration of TV sets was in effect.

TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population) - Shows the average circulation of daily general interest newspaper, defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1982 data.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.

Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1981 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the working age population (those aged 15-64).

INCOME DISTRIBUTION

Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Estimated Absolute Poverty Income Level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US\$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor".

Population: 28.8(Mill. 1983)
GNP Per Capita: US\$ 2030 (1983)

ARGENTINA - ECONOMIC INDICATORS

Indicator	Amount (Million US at Current Prices) 1983	Annual Growth Rates (%)							Projections						
		1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1995
NATIONAL ACCOUNTS															
Gross Domestic Product	70749	-3.4	6.7	0.7	-6.2	-5.1	3.1	2.0	-1.0	1.0	2.0	2.5	2.5	3.0	4.0
Agriculture 1/	10825	2.8	3.5	-7.0	2.7	7.3	0.9	2.6	0.0	1.7	2.5	3.0	3.1	4.0	4.5
Industry 1/	25405	-7.7	8.0	-1.7	-12.8	-6.2	7.1	1.5	-1.5	2.1	3.4	3.8	3.8	4.2	4.8
Services 1/	34520	-1.4	6.6	4.9	-3.5	-7.7	0.9	2.2	-0.9	0.0	0.8	1.3	1.3	1.7	3.2
Consumption	57696	-2.1	12.1	5.6	-2.0	-9.8	4.3	6.2	-1.1	0.2	1.1	1.8	1.8	2.4	3.8
Gross Investments	10106	-15.2	7.8	7.2	-23.1	-15.3	-12.5	-18.4	-15.2	2.7	5.5	5.5	5.6	5.8	6.8
Imports of Goods and NFS	6591	-4.9	45.4	45.4	0.4	-41.2	-2.1	2.9	-11.8	1.4	2.3	2.8	3.0	3.7	6.0
Exports of Goods and NFS	9536	12.2	-3.0	-4.9	5.9	-2.4	11.7	-1.1	4.6	4.9	4.8	4.7	4.7	4.5	3.9
Gross National Savings	7660	-12.2	-6.4	-12.7	-32.3	-0.2	-18.1	-23.4	-12.6	11.2	13.6	10.7	10.7	10.7	6.8
PRICES															
GDP Deflator	100.00	0.68	1.72	3.46	7.04	20.84	100.00	675.15	4700	16450	32900	57575	120000	180000	806000
Exchange rate (argentine pesos)	10.5	0.08	0.13	0.18	0.44	2.19	10.5	67.6	590	2200	4500	7875	17000	25500	115000

Indicator	Share of GDP at Market Prices (%)								Average Annual Increase (%)				
	Actual				Projected				1970-75		1975-90		
	1970	1975	1980	1983	1984	1985	1990	1995	1970-75	1975-80	1980-85	1985-90	1990-95
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	2.8	1.9	-1.5	2.2	3.9
Agriculture 1/	13.2	13.1	12.6	15.3	13.5	13.7	14.1	14.5	2.7	1.2	2.5	2.9	4.5
Industry 1/	38.1	38.7	37.6	35.4	31.6	31.5	33.5	34.9	3.2	1.3	-2.6	3.5	4.8
Services 1/	48.8	48.2	49.8	49.2	43.4	43.4	41.0	39.2	2.6	2.6	-1.8	1.1	3.0
Consumption	78.6	81.5	79.7	80.1	84.9	84.8	81.7	80.5	3.6	0.2	-0.3	1.5	3.6
Gross Investments	21.2	20.2	22.9	14.2	11.4	9.8	11.2	13.2	1.9	4.4	-18.5	5.2	7.3
Imports of Goods and NFS	9.0	8.1	14.3	9.0	9.4	8.4	8.5	9.4	0.6	13.3	-12.2	2.6	5.9
Exports of Goods and NFS	9.2	6.3	11.7	14.7	13.1	13.8	15.6	15.7	-4.7	14.1	1.8	4.7	4.0
Gross National Savings	20.2	18.0	18.1	10.9	8.1	7.1	10.9	12.6	0.5	6.7	-20.1	11.2	6.8

PUBLIC FINANCE (General Government)	As a % of GDP		
	1975	1980	1983
Current Revenues	18.1	27.0	22.4
Current Expenditures	17.2	24.6	27.0
Surplus (+) or Deficit (-)	0.9	2.4	-4.6
Capital Expenditure	7.6	6.0	5.4

OTHER INDICATORS	1970-75	1975-80	1980-85	1985-90	1990-95
GNP Growth Rate	2.9	1.8	-2.7	2.6	4.3
GNP Per Capita Growth Rate	1.4	0.2	-4.2	1.2	2.8
ICOR	8.8	13.7	-23.0	4.2	3.3
Marginal Savings Rate	-0.1	0.3	0.1	0.4	0.2
Import Elasticity	0.2	7.0	8.0	1.2	1.5

1/ Market Prices

Population: 28.8(mill. 1983)
GDP Per Capita: US\$ 2030 (1983)

ARGENTINA - EXTERNAL TRADE

Attachment 3b

Indicator	Amount (Million US\$ at Current Prices) 1983	Annual Growth Rates (%) (at Constant 1970 Prices)														
		Actual					Projected									
		1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1995	
MERCHANDISE TRADE																
EXPORTS	9537	12.21	-2.96	-4.95	5.87	-2.40	11.76	-1.10	4.60	4.90	4.80	4.70	4.70	4.50	3.90	
Merchandise Exports (FOB)	7836	14.39	-6.96	-14.53	10.82	2.40	16.09	-0.10	4.70	4.90	4.70	4.60	4.60	4.40	3.80	
Primary Products	5785	20.75	-10.26	-21.12	10.68	5.45	39.23	0.20	5.90	4.90	4.60	4.60	4.60	4.40	3.70	
Manufactured Goods	2051	0.91	1.43	0.24	11.07	-2.97	-28.17	-1.10	0.00	5.00	5.00	5.00	5.00	4.50	4.00	
NFS	1701	0.06	22.50	41.49	-9.63	-19.43	-7.78	-5.90	4.00	5.00	5.00	5.00	5.00	4.50	4.50	
IMPORTS (CIF)	6591	-4.90	45.40	45.40	0.40	-41.20	-2.10	2.90	-11.8	1.4	2.3	2.8	3.0	3.7	6.0	
Capital Goods	769	-12.50	17.90	46.40	-3.30	-52.70	-13.50	3.60	-24.70	2.50	2.40	3.70	3.50	4.90	9.00	
Intermediate Goods	3074	-18.40	33.90	58.80	-3.70	-28.10	-1.00	3.90	-2.90	1.80	3.10	3.50	3.80	4.20	6.20	
Petroleum Products	453	-38.90	92.10	-6.10	5.60	-31.90	-28.00	6.90	-17.40	0.70	1.40	1.80	1.50	1.80	2.40	
Consumption Goods	209	38.20	172.40	154.60	-1.20	-75.20	-43.50	8.30	-20.20	0.10	0.90	1.40	1.40	2.20	5.20	
NFS	2086	71.50	47.80	31.90	0.20	-38.70	20.00	-0.20	-18.30	0.60	1.20	1.50	1.80	2.70	4.80	
PRICES (1970=100)																
Export Price Index		208.4	267.3	315.3	319.4	270.0	241.9	245.8	247.5	259.2	277.0	295.7	313.2	331.0	406.4	
Import Price Index		266.1	322.6	336.2	299.3	292.2	273.4	280.8	294.1	316.6	342.2	369.9	397.6	428.2	578.4	
Terms of Trade Index		78.3	82.9	93.8	106.7	92.4	88.5	87.5	84.2	81.9	80.9	79.9	78.8	77.3	70.3	

	Composition of Merchandise Trade (%) (at current prices)							Average Annual Increase (%) (Constant 1970 prices)				
	1970	1975	1980	1983	1985	1990	1995	1970-75	1975-80	1980-85	1985-90	1990-95
	EXPORTS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	-4.70	14.10	5.30	4.70	4.00
Merchandise Exports (FOB)	83.22	79.94	74.51	82.17	83.20	81.60	80.60	-5.90	13.10	8.10	4.70	3.90
Primary Products	60.75	52.21	47.55	60.66	66.10	64.30	62.80	-9.30	13.90	13.40	4.60	3.90
Manufactured Goods	22.47	27.73	26.96	21.51	17.10	17.30	17.90	1.20	11.90	-5.00	4.90	4.00
NFS	16.78	20.06	25.49	17.83	16.80	18.40	19.40	0.50	17.20	-4.30	5.00	4.50
IMPORTS (CIF)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	0.65	13.30	-12.90	2.60	5.90
Capital Goods	17.57	12.44	17.06	11.67	10.30	10.70	12.80	-6.26	19.61	-22.10	3.40	9.40
Intermediate Goods	56.23	60.60	39.34	46.64	53.10	55.00	56.60	2.14	4.66	-7.00	3.30	6.20
Petroleum Products	3.80	11.40	7.67	6.97	6.30	5.80	5.00	22.60	5.38	-16.90	1.40	2.40
Consumption Goods	3.95	2.92	13.24	3.17	2.90	2.40	2.10	-5.37	43.52	-41.90	1.30	4.50
NFS	18.44	12.64	24.84	31.65	27.40	26.10	23.50	-6.91	26.81	0.00	1.60	4.50

DIRECTION OF TRADE	Share of Trade with Industrial Countries (%)			Share of Trade with Developing Countries (%)			Share of Trade with Capital Surplus Oil Exporters			Share of Trade with Eastern Block Countries		
	1975	1980	1983	1975	1980	1983	1975	1980	1983	1975	1980	1983
	Exports	41.4	46.7	44.0	45.4	25.9	26.1	1.7	2.5	5.4	11.5	24.9	24.5
Imports	65.5	68.5	63.5	9.0	25.4	31.6	0.5	4.9	3.1	2.5	1.2	1.8

June 9, 1985

Population: 28.8(mill. 1983)
GDP Per Capita: US\$ 2030 (1983)

ARGENTINA - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT

	Actual							Projected						
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1995
BALANCE OF PAYMENTS														
(Mill US\$ Curr. Prices)														
Resource Balance	2466	348	-3259	-992	2350	2946	2634	3749	4212	4842	5488	6143	6741	7328
Exports of Goods and NFS	7714	9601	10765	11545	9525	9537	9615	10088	11135	12493	13989	15566	17270	25990
Of which: Merchandise FOB	6400	7810	8021	9143	7624	7836	7958	8391	9216	10319	11523	12771	14099	20948
Imports of Goods and NFS	5248	9253	14024	12537	7195	6591	6981	6339	6921	7651	8501	9423	10529	18662
Of which: Merchandise FOB	3489	6026	9394	8391	4858	4040	4231	4035	4420	4908	5478	6093	6824	12529
Net Factor Income (incl. transfers)	-633	-885	-1508	-3722	-4687	-5392	-5125	-5455	-5614	-5889	-6255	-6548	-6761	-7884
Current Account Balance	1833	-537	-4767	-4714	-2357	-2446	-2491	-1706	-1402	-1047	-767	-405	-20	-556
Direct Private Investment	274	265	788	927	257	183	170	190	250	200	340	370	390	470
Multilateral Loans (net)	907	2648	3400	8557	7401	2887	2417	1056	402	1198	876	257	80	1186
Official	-332	823	2511	7088	5182	2204	214	287	423	660	688	610	416	286
Private	1239	1825	889	1469	2219	683	2203	769	-21	538	188	-353	-336	900
Short Term Capital	-1215	1635	-1780	-8093	-5446	-1270	0	0	0	0	0	0	0	0
Net IMF							286.3	600	800	-300	-300	-372	-400	-400
Other Capital	199	431	-437	-484	-506	890	0	-1	9	-1	1	0	0	0
Change in Reserves (= + increase)	-1998	-4442	2796	3807	651	-244	-382	-139	-50	-150	-150	150	-50	-700
International Reserves	5828	10270	7474	3667	3016	3260	3642	3781	3831	3981	4131	3981	4031	5976
of which: gold														
Reserves as Months of Imports	11.5	11.6	5.5	2.7	3.4	3.1	3.5	3.7	3.6	3.4	3.3	2.9	2.7	2.7
Non:Imports(+S)	6106	10655	16440	16256	10803	12445	12431	12147	12898	13906	15132	16358	17666	27017
EXTERNAL CAPITAL AND DEBT														
(Mill US\$ curr. Prices)														
Gross Disbursements	3062	3131	2852	1918	2456	2390	6309	3751	4690	6054	5055	4608	4902	5614
Official Grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Concessional Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-concessional loans	3062	3131	2852	1918	2456	2390	6309	3751	4690	6054	5055	4608	4902	5614
Bilateral	251	213	77	15	111	41	395	354	363	440	490	528	521	450
IBRD	26	39	71	120	83	70	96	250	260	280	309	237	256	200
Other Multilateral	171	112	136	136	150	123	100	110	163	253	216	267	139	100
Private	2614	2767	2568	1647	2112	2156	5718	3037	3904	5081	4040	3576	3986	4864
Debt Outstanding and Disbursed	6748	8605	10196	10594	15878	22812	49708	50764	51166	52363	53241	53497	53577	54361
Official	1653	1871	1911	1929	2008	2014	2227	2514	2936	3596	4285	4895	5311	5655
Private	5095	6734	8285	8665	13870	20798	47481	48250	48230	48767	48956	48602	48266	48706
Undisbursed Debt	2216	2176	2154	3833	2425	1857	1846	2692	3722	3867	3686	3441	3061	2420
Total Debt Service Payments	3433	3269	5021	6034	4851	6729	8942	8024	9765	10612	10289	10665	11249	11682
Interest MLT	720	1174	2175	3441	3581	5329	5850	5329	5477	5725	6081	6315	6427	7055
Amortization	2713	2095	2846	2593	1270	1400	3092	2695	4288	4887	4208	4350	4822	4627
Payments as % of exports	44.5	34.0	46.6	52.3	50.9	70.6	90.0	76.9	84.9	82.5	71.6	66.9	63.8	44.1
Average Interest Rate on New Loans (%)	9.6	11.4	13.7	12.2	11.2	12.5	12.7	12.0	12.0	12.0	11.7	11.5	11.3	10.1
Official	7.8	6.9	5.5	9.2	8.8	8.8	9.5	9.5	9.5	9.5	9.0	9.0	8.9	8.5
Private	10.0	12.2	14.3	13.0	13.1	13.0	13.0	12.5	12.5	12.5	12.4	12.2	12.0	11.0
Average Maturity of New Loans (Years)	9.4	11.2	8.5	13.9	10.9	5.5	5.2	8.5	7.7	7.7	7.7	7.7	7.7	7.7
Official	13.7	17.7	13.8	16.0	15.2	10.3	10.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Private	8.5	10.0	8.2	13.4	7.6	5.4	5.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0

As % of Debt Outstanding
at end of most recent
Year (1983)

TERMS STRUCTURE

Maturity Structure of Debt Outstanding	
Principal due within 5 years	94.5
Principal due within 10 years	98.0
Interest Structure of Debt Outstanding	
Interest due within first year	12.6

/1 Up to 1983, the source is World Bank debt information system. From 1984 onwards, actual figures and projections are based on data provided by the Central Bank of Argentina. The discrepancy between the two series is partly explained by the inclusion of previously unregistered military borrowing, and transformation of short-term and private sector obligations into medium-term public and publicly-guaranteed debt. However, these cannot account for the total difference between the two series.

FY86 Indicative Statement

1. Argentina continues to suffer a world record inflation and an external debt service obligation well in excess of the resource surplus generated by the economy. The civilian Government, which took office at the end of 1983, was caught between popular expectations for a quick recovery and higher real wages on the one hand, and the need for a stabilization and external adjustment program in an economy which had already been depressed for more than three years. Having been preoccupied also by the border and human rights problems it inherited from the military administration, the Government remained undecided on the essential features of its economic strategy and was groping its way during a good part of 1984.

2. As inflation accelerated and improvisation became increasingly difficult, the Government gradually came to the conclusion that it had to launch both a serious stabilization effort and a medium-term program with accompanying economic reforms. It agreed with the IMF on a 15-month stabilization program, aiming to cut the rate of inflation by half, and to generate a substantial trade surplus to normalize the country's external payments. It also expressed strong interest in collaborating with the Bank in the formulation of a politically feasible and economically viable medium-term program to reconstruct the economy and to resume growth. The huge external debt service, currently equivalent to 40% of total domestic savings even without any significant repayment of capital, does not leave much elbow room. Adequate incentives for savings; agricultural, industrial and energy production; and exports must be restored. The labor force has to be restructured and retrained; the public sector, including both the fiscal apparatus and public enterprise management must be reformed, and the banking sector has to be reorganized to mobilize and efficiently allocate the necessary domestic resources.

3. The CEM, which reached gray cover in June 1984, analyzed three policy areas crucial to the economic reconstruction effort; namely, the chronic causes of public sector deficit, with particular attention to tax administration; export promotion, both agricultural and industrial; and weaknesses in the financial system. The analysis and recommendations of the CEM were well received in Argentina and have formed the basis of our incipient policy dialogue on the principal features of the medium-term program. Following up our recommendations, the Government acted to improve the incentives for industrial exports and the price/cost structures in agriculture, and has prepared a financial reform to create a sound system of intermediation. It is also preparing a series of reforms to improve tax administration and public enterprise management. We expect the economic policy dialogue with the Government to be extended further, as we respond to the request for technical assistance in the preparation of a medium-term recovery program which would include a reform of public enterprise management, industrial restructuring program, establishment of an export information network and an overhaul of tax administration. We are also

cooperating with the Government in its efforts to set up a mechanism to review and monitor public investment projects and to install an economy-wide planning model.

4. In May 1985, a public sector investment review will focus on the sectors in which public participation is significant, namely, industry (especially steel and petrochemicals), energy and transport with a view to analyzing intra-sectoral investment priorities, the project screening process and the financing arrangements of public investments. The review mission will draw from an ongoing Central Bank study on flow-of-funds and from the early results of the sectoral modelling and project screening work being carried out in the Planning Office with our assistance. Also in late FY 85, a sector mission will analyze the technological, institutional and financial problems of export-oriented industrial firms, with specific reference to medium- and small-scale enterprises and will make specific recommendations on the institutionalization of export promotion. This mission will consolidate tasks that had been planned earlier to analyze the medium- and small scale industries and the financial problems of industrial sector. The findings of the mission will define the scope of a possible industrial sector loan in FY87.

5. Assuming that the Government will make a serious effort to address structural imbalances in the economy, we are planning an expanded lending program. The program would focus on promoting Argentina's export capacity, improving the efficiency of public sector operations and services, and rational development and use of energy resources. Most lending operations proposed for FY85/86--ports expansion, gas development, agricultural exports--are tied closely to earlier sector work. The findings of the public investment and export industries' missions and the reaction of the Government to their conclusions will determine, in conjunction with progress of the proposed Technical Assistance loan, in large measure the level and composition of Bank lending in the subsequent years. Furthermore, Bank assistance in the formulation of the public investment program may help overcome the initial reluctance of commercial banks to resume voluntary lending.

6. The ESW in FY86 is organized around the completion of the public investment and export-oriented industry studies. Depending on the quality of our policy dialogue, another economic mission towards the end of FY86 will concentrate on issues of domestic resource mobilization, and the functioning of labor markets. (this mission was originally scheduled for FY85 but was supplanted by the PSIR). A thorough analysis of the agricultural sector has been initiated as part of the preparation of an agricultural sector loan. The regionally-managed sector work planned for

FY86 seeks to assess the impact of the overall reduction and intersectoral shifts in public expenditures on social infrastructure. In this context, a water and waste sector review and an urban municipal management study are planned with a view to identifying future Bank operations. The COPD-managed work scheduled for FY86 consists of a review of the Government's hydrocarbon development plan to help establish the criteria for the Bank's energy lending and a fertilizer sector review to prepare the basis for possible project lending. (the energy assessment mission originally programmed for FY85 was cancelled; the Government requested that the Bank instead evaluate the sector development plan it was itself preparing.) Also, a technology review will seek to identify the areas where the concentration of technological development efforts could contribute most to the fuller utilization of Argentina's industrial and service export potential.

7. Depending upon the success of the recovery program in alleviating the country's pressing economic problems, we plan to shift the FY87 ESW towards the analysis of social infrastructure and human resources. Building on the 1986 CEM, which will analyze the structure of labor markets, health, education and housing will be brought into greater focus with a view to forming the basis of Bank lending in the social sectors. Two other tasks programmed for FY87 will be an updating country memorandum and a CPP to review the program of the economic program and the quality of our dialogue as well as to determine whether an expanded lending program would be justified.

8. The ESW on Argentina continues to benefit from the support of a large number of talented local researchers and research institutions. Apart from the full cooperation of the Economic Research Department of the National Development Bank and the staff of the National Institute of Statistics and Census, we have enjoyed the contributions of independent economists from Fundacion Mediterranea, Fundacion de Investigaciones Economicas Latinoamericanas, Gonzalez-Fraga and Associates, and Lavagna and Associates.

9. Argentina is on our priority list for the monitoring of developments regarding economic policy and external debt. For the last three years, such monitoring has significantly increased as a result of the gyrations of policy and the precariousness of Argentina's debt problem. However, depending on future policy performance, staff resources dedicated to short-term monitoring may be reduced. As regards longer-term research studies, Argentina is included as one of the twenty countries in a comparative CPD study, initiated in FY85, of the problems of transition in trade liberalization. Another research proposal, pending the outcome of the studies financed through our technical assistance loan, is the analysis of the efficiency of economic information flow, decision-making and monitoring systems in the public sector, with specific reference to inter-agency relationships.

January 30, 1985

ARGENTINA

Country Summary Table 1

Economic and Sector Work by Task, FY85-87
(in Staffweeks)

<u>Tasks</u>	<u>Loans which ESW Task Supports</u>	<u>Other Aims and Coverage</u>	<u>Audience</u>	<u>Total Staff weeks Required</u>			
				<u>FY85 Planned</u>	<u>Current FY85</u>	<u>FY86</u>	<u>FY87</u>
I. Regionally Managed							
A. Economic Reports (ERA)							
1. Country Economic Memo.		Analysis of ext.debt impact on investment; labor markets; social security.	B/C	30	-	36	35
2. Public Sector Investment Review		Analysis of intra-sectoral investment priorities, project screening process, financing prospects.	B/C	-	91	27	-
3. Social Development and Poverty Alleviation		Analysis of health, education, housing, and regional inequalities.	B/C	-	-	-	60
4. Updating CEM		Macro economic update.	B/C	-	-	-	12
B. Sector Reports (SRA)							
1. Memoranda/Surveys/Reviews	-Export Development						
Medium and Small Industry	-Export Development		B/C	28	-	-	-
Financial Sector Study	-Water Supply		B/C	10	-	-	-
Water & Waste Sector			B/C	-	-	20	-
Urban & Municipal Mgmt.			B/C	-	-	20	-
2. Special Sector Reports	-Export Development	Analysis of technological, institutional, financial problems of export-oriented firms; institutionalization of export-promotion.	B/C	-	37	21	-
Export-oriented Industries							
Power Sector			B/C	2	-	-	-
Transport Sector			B/C	8	-	-	-
C. CPP			B	20	13	-	17
D. Other Economic Work (EWO)			B	19	12	12	12
E. Other Sector Work (SWO)			B	4	6	6	6
Regional				<u>121</u>	<u>159</u>	<u>142</u>	<u>142</u>
II. COPD Managed							
A. Sector Reports (SRA)							
Hydrocarbon Development	-Gas Development		B/C	-	-	20	-
Fertilizer Sector Review	-Agriculture Sector Loan		B/C	-	-	15	-
Technology Assessment	-Technology Development		B/C	-	-	20	-
B. Energy Assessment			B/C	80	-	-	-
COPD Total				<u>80</u>	<u>-</u>	<u>55</u>	<u>-</u>
TOTAL (Overall)				<u>201</u>	<u>159</u>	<u>197</u>	<u>142</u>
				***	****	***	***

ARGENTINA

Country Summary Table 2

Economic and Sector Work by Manpower Source, FY86
(in Staffweeks)

Task	Managing Dept/Div	Programs	Field		OPS	EIS	ERS	Consultants		Cooperative Program	YPs	Total
			Offices	Projects				Programs	Projects			
I. Regionally-Managed												
A. Economic Reports (ERA)												
CEM	LC2PB	12	-	6	-	-	6	6	-	-	6	36
Public Sector Investment Rev.	LC2PB	14	-	2	-	11	-	-	-	-	-	27
B. Sector Reports (SRA)												
Export-Oriented Industries	LC2I2	-	-	9	-	8	-	-	4	-	-	21
Water & Waste Sector	LCP	-	-	14	-	-	-	-	6	-	-	20
Urban & Municipal Mgmt.	LCP	-	-	16	2	-	-	-	2	-	-	20
C. CPP	-	-	-	-	-	-	-	-	-	-	-	-
D. Other Economic Work (EWO)	LC2PB	12	-	-	-	-	-	-	-	-	-	12
E. Other Sector Work (SWO)	-	-	-	6	-	-	-	-	-	-	-	6
<u>Subtotal</u>		<u>38</u>	<u>-</u>	<u>53</u>	<u>2</u>	<u>19</u>	<u>6</u>	<u>6</u>	<u>12</u>	<u>-</u>	<u>6</u>	<u>142</u>
II. COPD Managed												
A. Sector Reports (SRA)												
Hydrocarbon Development	EGY	-	-	-	-	20	-	-	-	-	-	20
Fertilizer Sector Review	INDD3	-	-	-	-	15	-	-	-	-	-	15
Technology Development	INDD4	-	-	-	-	20	-	-	-	-	-	20
B. Energy Assessment												
<u>Subtotal</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
<u>TOTAL</u>		<u>38</u>	<u>-</u>	<u>53</u>	<u>2</u>	<u>74</u>	<u>6</u>	<u>6</u>	<u>10</u>	<u>-</u>	<u>6</u>	<u>197</u>

January 30, 1985

SECTORAL STRATEGY FOR THE PROPOSED PROGRAM FY85-90

INDUSTRY

Premise: (a) sector lacks clear development strategy, institutional support and consistent policy signals; (b) creating viable industrial units may require mechanisms for financial, physical and organizational restructuring of private and public sector entities; (c) good prospects for export-oriented industries, given adequate incentives; and (d) stronger linkages of exporting firms with small and medium scale industries would raise industrial export capacity.

Objective: (a) raise manufactured exports in the near term; (b) improve the efficiency of industrial production; (c) adjust industrial structure to match international comparative advantage.

Strategy: A May 1985 mission to review in detail the elements of an industrial development strategy, including: (a) establishing adequate exchange rate policy, and trade policy regime and export and investment incentives designed to promote exports; (b) strengthening institutional support for financial and non-financial assistance to exporters, improving administrative procedures for exports and imports, and helping firms prepare and implement export development programs consistent with the new strategy (e.g. marketing, quality control, product design, trading companies); (c) restructuring of viable industries producing tradeables in the private and public sectors; and (d) fostering technology development appropriate to the emerging structure, together with small and medium scale industries to act as suppliers to final exporters ("indirect exporters").

Lending Instruments: A two-track approach is proposed: (a) a regular program consisting of: (i) a traditional IDF-type lending operation to finance investment projects and permanent working capital needs of export-oriented or efficient import substitution industries through BANADE and/or the banking system; and (ii) a credit project to provide financial and technical assistance to small and medium scale industries through the Argentine banking system; and (b) subject to agreement with the authorities on a comprehensive industrial policy reform and export development strategy, broader policy-based lending for export promotion, industrial restructuring and technology development (with possibly three loans during FY87-90). In collaboration with IFC, examine scope for privatization of industrial firms currently held by the public sector, and financial support for restructuring and investment by public sector industries covered by the divestiture program.

ENERGY

Premise: (a) falling proven oil reserves and heavy reliance on petroleum jeopardize Argentina's self-sufficiency in liquid fuels. Substantial new drilling is needed to maintain production in order to avoid imports; (b) proven and potential reserves of gas are almost twice as important as those of oil, but increased use of gas (including its possible exports) is constrained by the limited gas transportation infrastructure;

(c) rationalization of oil and gas development requires: (i) more attractive and stable incentives for the private sector; (ii) clarification of the latter's role vis-a-vis Government's; (iii) bringing absolute as well as relative prices of hydrocarbon products more in line with the economic cost of fuels; (iv) strengthening public sector agencies, notably their financial condition and planning framework; and (d) the Bank's guidelines for oil and gas lending rule out financial support for oil development carried out by YPF without private participation.

Objectives: (a) restoration of adequate YPF, GdE finances; (b) more stable, rational allocation of Government and private sector investments in oil and gas exploration and development; and (c) assurance of sufficient liquid fuel supplies and higher export earnings.

Strategy: (a) continuing gas substitution for petroleum products through increased investment in facilities to produce, recover, transport and use gas; (b) set a pricing policy which corrects key distortions, (especially diesel vis-a-vis other intermediates) assures financial viability of YPF and GdE, and retains sufficient flexibility to tax petroleum products for Government resource mobilization; (c) encourage greater private participation in oil and gas exploration and development by improving contract terms, opening up new acreage and possible exploration ventures; (d) improve state of technology, e.g., application of new enhanced recovery techniques, to permit increased production of domestic crude; (e) more comprehensive, longer term examination of energy alternatives, including tradeoffs between power and hydro vs. gas expansion.

Lending Instruments: (a) YPF and Gas del Estado operations to rationalize prices, improve gas production and management; enhance sector planning; (b) additional credit to private sector aligned with Government incentives for local and foreign investments; and (c) if more comprehensive sector reforms are feasible, a broader hydrocarbon loan.

AGRICULTURE

Premise: (a) considerable scope for raising output through wider use of tested and available technology; (b) clear and established link between use of modern technology and input/output price relationships; and (c) international markets can absorb output.

Objectives: (a) increase exports; (b) change production structure (Pampa: grain; outside Pampa: livestock) in line with comparative advantage; (c) expand area under cultivation; (d) build efficient transport and storage system to offset locational disadvantage; and (e) establish domestic research development, adaptation and dissemination capability.

Strategy: (a) improve producer/export prices by setting realistic exchange rates and ending export taxes; (b) lower input prices

by cutting import tariffs and produce competitively priced domestic fertilizer; (c) streamline Government agencies' operations in the sector; (d) cut storage and transport costs; and (e) in the longer term, develop new technologies or adapt effective existing ones to expand the production frontier.

Lending Instruments: (a) Sector loans - establish appropriate price relationships and rationalize Government intervention; (b) Fertilizer loan - develop low cost production capability using domestic feedstocks; (c) Grain Storage Loan - develop and integrate storage facilities and use efficient block trains; (d) Bahia Blanca Ports loan - update/expand grain handling facilities and deepen draught to permit larger ships; and (e) Agricultural Research loan - develop and disseminate new technology.

POWER

Premise: (a) Argentina's power sector is in financial distress because of the failure to raise tariffs in line with inflation and of heavy external debt; (b) overcentralization of the sector has impeded decision-making; (c) inadequate expansion of distribution and transmission system has weakened system reliability; (d) heavy commitments for new generation capacity are not matched by a concomitant expansion in the transmission and distribution system; (e) the orderly completion of Yacyreta is jeopardized by lack of foreign commercial bank financing.

Objectives: (a) adequate and reliable energy supply to meet requirements of economic growth; (b) lessen power utilities' claim on Government fiscal resources; (c) closer alignment of energy and hydrocarbon planning and investments; (d) creation of more effective provincial utilities; and (e) timely completion of Yacyreta works.

Strategy: (a) develop a long-range plan for rehabilitating sector finances through a combination of (i) tariff increases to LRMC levels (at least US\$ mills 80 compared to present US\$ mills 55); (ii) provision for regular adjustments in line with inflation; (iii) Government contributions to relieve utilities of debt service payments that cannot be met from operating income; (b) reassess power investment program in concert with plans for expanded use of gas resources, greater attention to distribution and transmission needs and program for decentralization of power distribution system; (c) link investment financing to actual progress in sector financial recuperation and institutional reform; and (d) mobilize external financial support from commercial lenders.

Lending Instruments: (a) engineering loan to prepare expanded distribution program; (b) subsequent loan for distribution works in Provinces and institutional reform of AyEE; (c) loan for distribution works in Buenos Aires; (d) supplemental Yacyreta loan; and (e) lending for national transmission improvements.

TRANSPORTATION

Premises: (a) increasingly uneven quality of transport modes (highways vis-a-vis railways and ports) over the last decade; (b) rising grain exports will require greater access to northern production areas and expanded bulk transport, transfer and terminal facilities; (c) comparative advantage of rail for bulk long-haul commodities (mainly agricultural export products) not being fully exploited; (d) well-organized and adequately funded National Highway Administration badly run, inadequate Provincial Highway Departments and Port Administration; (e) financial and administrative performance of Argentine Railways under Bank's loan has been disappointing; drastic remedies needed to turn the railways around; (f) limited Government budget resources will require more selective investment choices.

Objectives: (a) raising exports by removing transport bottlenecks, lowering domestic and international shipping costs, and expanding possible trade markets; and (b) promoting cost recovery and operating efficiency for ports and railways.

Strategy: (a) concentrate sector investments on export-oriented activities; (b) improve organization and operation of existing port facilities, followed by further expansion of port capacity; (c) rationalize rail movement of bulk products, provided the Government is prepared to rationalize overall operations.

Lending Instruments: (a) Bahia Blanca Port Loan I - to improve existing grain handling facilities, permit loading ships up to 40 ft. draught, and strengthen institutions in the subsector; (b) Bahia Blanca Port Loan II - to expand grain handling capacity, permit loading ships up to 45 ft. draught and strengthen national ports authority management; (c) Railroad Loan - decentralization of railroad operations to concentrate investments on profitable long distance bulk traffic and rationalize subsidies to uneconomical lines.

URBAN

Premise: (a) basic social and urban transport services have deteriorated seriously over the last decade; (b) too many agencies and lack of coordination among them complicates rational use of scarce funds and limits translation of policy objectives into effective action programs; (c) decentralized responsibility for service delivery has not been matched by higher provincial and local revenue-generating capacity; and (d) provincial and local agencies lack skills and organization to plan and run cost effective services.

Objectives: (a) providing at least present social service levels at reduced cost; (b) better resource mobilization at local level; and (c) rationalize Government-Province transfers.

Strategy: (a) assess subsidies in the housing sector; (b) examine opportunities for improved maintenance and productivity of urban transport (including better maintenance); (c) identify measures to strengthen municipal autonomy regarding urban services; (d) establish clear responsibilities for service provision and of delivery mechanisms with associated funding arrangements or enhanced revenue generation at the local level; and (e) implement selected investments at the local level to introduce reforms and test their effectiveness.

Lending Instruments: sector development loan based on subsidy reductions or rationalization to help finance investments of regional or municipal agencies, combined with technical assistance to strengthen decentralized planning, financial implementation and maintenance capabilities.

WATER SUPPLY AND SANITATION

Premises: water supply and sanitation services (ranked 9th in LAC) are not in line with per-capita income (ranked 3rd in LAC); (b) coverage could be extended at relatively low cost since most of the major infrastructure (production and distribution mains) is already in place; (c) staff is qualified to implement, with further specific training, modern policies and practices in the management of water utilities; and (d) the Government is willing to undertake institutional reforms.

Objectives: (a) efficient use of existing infrastructure and extension of coverage; (b) least cost investment program; (c) financial viability of the sector and thus gradual elimination of government subsidies.

Strategy: (a) to give priority to the extension and improvement of services by: (i) effectively utilizing existing capacity; (ii) rehabilitating and upgrading existing installations; and (iii) promoting water conservation and upgrading water distribution management; (b) introducing advanced techniques for investment analysis; and (c) improving institutions and policies for sector development, including: (i) investment financing and cost recovery; (ii) controlling operations and investment of the provincial water utilities; and (iii) preparing national investment plans and technical assistance and training programs.

Lending Instruments: (a) engineering loan - formulate national sector policies and strengthen institutional framework; carry out pilot operations for investment at provincial level (Cordoba) and for the improvements in systems operations and commercialization of services in the

most important provinces; (b) water supply and sanitation loan - extension of services in metropolitan Buenos Aires; institutional strengthening of Buenos Aires water utility; and follow-up on national programs under engineering loan.

EDUCATION

Premise: (a) considerable potential for production and productivity increases, particularly in export-oriented industries, should enable human resources to be trained to make more intensive use of modern production techniques; (b) an education system with extensive coverage, but lacking relevance and inefficient, particularly at secondary and university levels; (c) a technical education system at secondary levels suffering from uneven quality and shortages of facilities and trained instructors; (d) a vocational training system which provides only a minor portion of the new entrants to the labor force, whereas industry offers no adequate in-service training system.

Objectives: (a) improve the efficiency of the education system and make education more relevant to needs; (b) upgrade the qualifications and skills of the labor force consistent with the need to make Argentina's industry internationally more competitive, including efforts to improve indigenous technological research and development.

Strategy: (a) assess the quality and efficiency of the secondary technical and university systems as part of a detailed review of the needs for and means of upgrading the education system; (b) develop a strategy, and seek to obtain Government agreement on Bank support in the direction of improvements in the education system; (c) examine a possible strategy to make the vocational training system independent of the Ministry of Education, and involve private business participation in its operation.

Lending Instruments: We would move to an education loan in FY89 subject to (a) an analysis of industrial needs for technical and trained manpower; (b) agreement with the authorities on a comprehensive restructuring of the education system or other sector reforms; and (c) well designed plans to effect needed policy changes and establish effective coordination mechanisms.

ARGENTINA: EXTERNAL FINANCING REQUIREMENTS AND CREDITWORTHINESS, 1985-90
FIRST SCENARIO
(billions of U.S. dollars and percentages)

	1985	1986	1987	1988	1989	1990
Resource surplus	3.7	4.2	4.8	5.5	6.1	6.7
Resource surplus/GDP (%)	5.1	5.3	5.5	5.7	5.7	5.7
Amortization payments	2.7	4.3	5.1	4.6	4.7	5.2
IMF & official creditors	0.3	0.4	0.6	0.7	0.8	0.9
Private creditors	2.4	3.9	4.5	3.9	3.9	4.3
Interest payments (net) <u>/1</u>	5.6	5.6	5.9	6.3	6.5	6.8
Gross disbursements	4.6	5.8	6.4	5.3	5.3	5.6
IMF & official sources	1.2	1.6	1.0	1.0	1.0	0.9
Private sources <u>/2</u>	3.4	4.2	5.4	4.3	4.3	4.7
Net disbursements	1.9	1.5	1.3	0.7	0.6	0.4
IMF & official sources	0.9	1.2	0.4	0.3	0.2	0.0
Private sources	1.0	0.3	0.9	0.4	0.4	0.4
Current account deficit/GDP (%)	2.3	1.8	1.2	0.8	0.4	0.0
Debt outstanding and disbursed <u>/3</u>	50.8	51.2	52.4	53.2	53.5	53.6
Increase in debt	1.1	0.4	1.2	0.8	1.3	0.1
Creditworthiness ratios (%)						
Debt service ratio	77	85	83	72	67	64
Debt/exports	487	445	408	370	333	304
Net interest/exports	56	49	46	44	41	38
Interest coverage	66	75	81	87	34	99
Debt/GDP	70	65	60	55	50	45

/1 Includes net direct investment dividend and royalty payments.

/2 Includes net direct foreign investment.

/3 Includes IMF position.

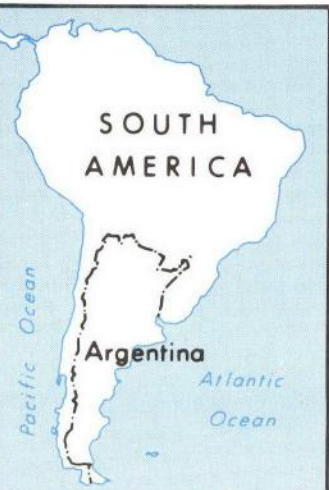
ARGENTINA: EXTERNAL FINANCING REQUIREMENTS AND CREDITWORTHINESS, 1985-90
 SECOND SCENARIO
 (billions of U.S. dollars and percentages)

	1985	1986	1987	1988	1989	1990
Resource surplus	3.0	3.3	4.0	4.6	5.4	6.1
Resource surplus/GDP (%)	4.1	4.1	4.4	4.6	4.7	4.8
Amortization payments	2.7	4.3	5.1	4.7	5.0	5.6
IMF & official creditors	0.3	0.4	0.6	0.7	0.8	0.9
Private creditors	2.4	3.9	4.5	4.0	4.2	4.7
Interest payments (net) /1	5.5	5.5	6.0	6.6	7.0	7.2
Gross disbursements	5.1	6.3	7.0	6.3	6.0	6.2
IMF & official sources	1.2	1.6	1.0	1.0	1.0	0.9
Private sources /2	3.9	4.7	6.0	5.3	5.0	5.3
Net disbursements	2.4	2.0	1.9	1.6	1.0	0.6
IMF & official sources	0.9	1.2	0.4	0.3	0.2	0.0
Private sources	1.5	0.8	1.5	1.3	0.8	0.6
Current account deficit/GDP (%)	3.3	2.8	2.2	1.9	1.4	0.9
Debt outstanding and disbursed /3	51.5	52.7	54.9	56.9	58.3	59.3
Increase in debt	1.8	1.2	2.1	2.0	1.4	1.0
Creditworthiness ratios (%)						
Debt service ratio	74	82	81	73	69	68
Debt/exports	480	450	415	385	355	326
Net interest/exports	51	47	45	45	43	40
Interest coverage	55	60	67	70	77	85
Debt/GDP	70	65	60	56	51	46

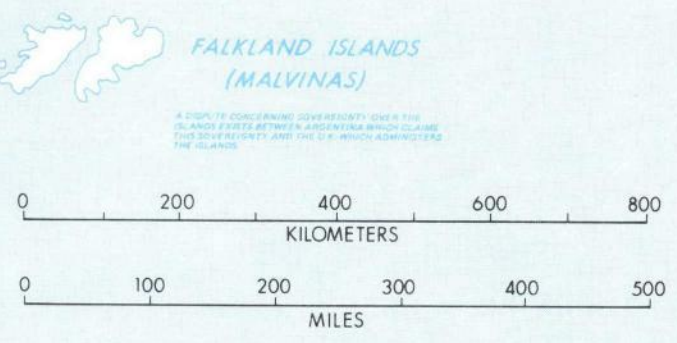
/1 Includes net direct investment dividend and royalty payments.

/2 Includes net direct foreign investment.

/3 Includes IMF position.



- ### ARGENTINA
- MAJOR CORRIDORS
 - PAVED OR GRAVEL ROADS
 - - - EARTH ROADS
 - ↔ INTERNATIONAL ROAD CONNECTIONS
 - RAILROADS
 - ★ PRINCIPAL AIRPORTS
 - ⚓ PORTS
 - RIVERS
 - - - INTERNATIONAL BOUNDARIES



DECEMBER 1984

IBRD 18671



World Bank

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BANK NEWS RELEASE

Contact: **Ciro Gamarra**
(202) 477-5320

THE WORLD BANK HAS LENT \$2.1 BILLION TO ARGENTINA SINCE 1961

The World Bank has been associated with Argentina's development efforts since June 1961. During these 25 years the World Bank has made 24 loans totalling \$2.1 billion to assist development projects, mostly in the transportation, energy and industrial sectors. Argentina is the fourth largest recipient of Bank lending in Latin America.

Argentina, one of the 149 countries that own the World Bank, became a member in September 1956. It holds 5,831 shares or 0.99 percent of the total. The first World Bank loan, of \$48.5 million, was made to assist the Direccion Nacional de Vialidad to carry out a road reconstruction program to improve 2,600 kilometers of roads.

Since 1980, World Bank lending to Argentina has focused on major infrastructure projects and the provision of credit for the development of the industrial and hydrocarbon sectors.

The most recent loan, of \$180 million, was approved last June to help finance a gas utilization and technical assistance project. The project is helping to increase production of natural gas and associated liquids, including provisions for expanding existing facilities at Campo Duran.

There are about 12 World Bank-assisted projects under implementation currently in Argentina. The largest Bank loan, of \$210 million, was made in December 1980 to assist the construction of the Yacyreta hydroelectric plant. A \$200 million loan is helping to improve the efficiency of the two largest refineries of Yacimientos Petroliferos Argentinos, at La Plata and Lujan de Cuyo and two loans, totalling \$200 million, are providing credit lines to the Banco Nacional de Desarrollo (BANADE) to support Argentina's industrial modernization and private investment for oil and gas development in the country.

As of August 31, 1985, \$1.058.81 of the \$2.1 billion in World Bank loans have already been disbursed. Of this amount about \$466 million have already been repaid by Argentina.

At the end of 1983 the World Bank's share of Argentina's total external debt outstanding and disbursed was 1.6 percent and its share of external debt service payments was 1.1 percent.

NOTE: Money figures are expressed in U.S. dollar equivalents.

Rates? Interest
no mortgage?
#

July 1 - 1982

8.8290

8.5390

11.690

1 year

July

High rates + interest

WORLD BANK LENDING TO ARGENTINA
(As of November 30, 1985)

SECTOR	LOANS	Amount*
Agriculture and livestock	3	\$ 180.7
Education	1	58.0
Energy (oil, gas, coal)	5	517.0
Industry	2	200.0
Power	6	617.0
Transportation	7	526.0
TOTAL:	24	\$2,098.3

* Original amount, round numbers, in millions of U.S. dollars.


weight of debt
fresh capital

concern - fresh money
can be channelled
quarter imports & quarter
export.

And. Japanese in

OFFICE MEMORANDUM

DATE: November 27, 1985

TO: Files 

FROM: Spiros T. Voyadzis, Chief, LC2VC

EXT: 72181

SUBJECT: 1985 ANNUAL MEETINGS
 ARGENTINA: Meeting with Mr. A.W. Clausen
 Mr. Juan V. Sourrouille, Minister of Economy
Friday, October 4, 1985

(i) Mr. Juan V. Sourrouille, Minister of Economy, outlined in great detail his Government's economic adjustment program and the challenges Argentina faced. He also indicated that he had discussed recently with Mr. Volcker several options about what the United States Government could do to help Argentina and about what could be the future role of the Bank in that respect. The Minister explained that recourse to external financing was necessary and that such financing should bear long-term maturities.

(ii) The Minister indicated that a special task force was reviewing in detail the reasons why disbursements for projects in execution were seriously lagging behind schedule and thanked us for the support his Government was getting on this by Bank staff. The Minister said that he understood the need to unblock existing World Bank loans and that no effort to that effect will be spared.

(iii) The Minister also said that improving relations with the Bank was among the Government's "political objectives". He went on to say that his Government wished the Bank to increase its exposure in Argentina; quick-disbursing operations were welcome. He also said that his Government had difficulty under the current stabilization program finding counterpart funds for projects in execution and future investments; he asked whether the Bank could help in this area. Finally, he wished the Bank to play a greater role in mobilizing financing from commercial banks under the World Bank's new instruments.

(iv) Mr. Stern indicated that the Bank's reaction on both points was positive, i.e. helping in increasing our cost-sharing of total project cost and therefore reducing Government's local fund contributions as well as playing a role in mobilizing financing from commercial banks. Mr. Clausen suggested that Bank staff and members of the Argentine Delegation get together over the next few days to discuss in detail the above.

cleared in substance with and cc: Mr. A. Gué

cc: Messrs. Stern
 Knox
 van der Meer, LCPDR
 Southworth, EXC
 Pfeffermann, LCNVP
 Scherer, LC2PB
 Quijano, LCNVP
 Carter, LC2DR

STVoyadzis:cjh

OFFICE MEMORANDUM

DATE: November 13, 1985

TO: Mr. A.W. Clausen
(through Mr. E. Stern)

FROM: A. David Knox *AK*

EXTENSION: 75901

11-14-85
A

SUBJECT: ARGENTINA--Your Meeting with Mr. Bernardo Grinspun, Secretary of Planning, November 14, 1985

1. You will meet the Secretary of Planning, Mr. Bernardo Grinspun, on November 14 at 4:00 p.m. He might be accompanied by Mr. Adalberto Rodriguez Giovanini, Undersecretary for Programming and Coordination. We provide herewith some information on the possible nature of Mr. Grinspun's visit, the economic situation, details regarding Mr. Grinspun's background and a copy of our lending program.

Possible Nature of the Visit

2. Mr. Grinspun may use the meeting to present a summary of the medium-term public sector investment program which is part of the Development Plan under preparation. You may wish to congratulate Mr. Grinspun on the Government's efforts to prepare a development plan and a medium-term public sector investment program. At the same time, you may wish to underscore the importance of rationalizing the medium-term investment program consistent with a viable financing plan and sustainable macroeconomic targets. This would require: (a) scaling down ongoing and prospective investments, and strengthening the screening mechanism for investment projects (i.e. selection of projects based on economic and financial criteria); (b) strengthening tax collection and administration; (c) increasing the real prices of public services to ensure more adequate cost recovery; and (d) reducing public investment requirements through increased private sector participation.

Need

3. Mr. Grinspun may also use the meeting to present a tentative list of possible projects for Bank consideration. In this connection, it may be possible that he would inquire about the Baker initiative. You may wish to indicate to Mr. Grinspun that we will analyze the tentative list of possible projects in light of our recent discussions in Seoul with Mr. Sourrouille, the Economy Minister, and in Washington with Mr. Machinea, his Economic Policy Undersecretary, and that we will get back to the Government on this matter. In case Mr. Grinspun were to inquire about the Baker initiative, you may wish to: (a) ask Mr. Grinspun about the recent discussions Mr. Mulford had in Argentina on the subject; and (b) emphasize the intention of the World Bank to expand lending to Argentina in support of structural reform programs that the Government is considering to undertake. Finally, you may wish to indicate that you look forward to discussing with the Government its adjustment program, further measures and Bank lending in support of it. Such lending, presumably, would have priority over projects. Also, you may wish to ask how we can be helpful with the commercial banks. In case the conversation turns to structural adjustment, we have added additional information on this subject in Annex III. It is the information we gave to the U.S. Treasury in preparation for Mr. Mulford's visit to Argentina.

Recent Economic Developments

4. In June of this year the Government announced a very bold adjustment program and initiated its implementation. The program was subsequently supported by a revised and more stringent, stand-by agreement with the IMF. The Government has been able to stabilize the economy in the short-term, and meet the targets and draw down the first tranche under the IMF stand-by agreement. The monthly rate of inflation, as measured by the consumer price index, dropped from 30% in June to slightly below 2% in October. The overall fiscal deficit has been reduced to about 2.5% of GDP from 12.5% during the first half of 1985, as a result of the increased revenue and expenditure control measures and the sharp drop in inflation. So far, no Central Bank credit expansion to the public sector has been permitted. The reserve position of the Central Bank has also shown some improvement, reflecting increased confidence in the Government's policies. The Government has also received the first disbursement of new money under the agreement with its commercial bank creditors. Almost all political and social groups have thus far supported the program despite its austere nature. Since cuts in public spending and high real interest rates will have a dampening effect on domestic demand, the Government has been careful not to raise expectations for a quick economic recovery. In this connection, the industrial and other nonagricultural sectors are experiencing a severe recession which began in late 1984, despite some increase in industrial output in September of 1985. Real GDP is estimated to decline by about 1% in 1985. Export response to the program has not yet been significantly positive although an expected good harvest is likely to facilitate the achievement of the balance-of-payments target of the program.

5. The program's risks relate to the possibility of a renewal of inflationary pressures once the wage and price freeze is relaxed. Thus, the Government has indicated that the freeze will continue into 1986 and then be phased out gradually. The Government's economic program has been far more successful than initially expected and augurs well for improved economic performance. The Government's position has been significantly strengthened following the results of the recent elections. A continued effort to maintain the overall fiscal deficit at current levels will be required to break longer-term inflationary expectations and ensure the program's success. Thus, the Government has indicated that it will continue to move in the fiscal area as needed.

JSokol:mac/mad

BIOGRAPHICAL SKETCH OF BERNARDO GRINSPUN

Mr. Grinspun, 59 years old, successively held the positions of Central Bank Director, Commerce Secretary and National Development Council executive secretary during the 1963-66 Illia administration. In that period, he also served as Argentina's representative to the "Paris Club." Subsequently, he had been active in private banking and construction, along with consultant assignments for Latin American and multilateral agencies. Involved in Radical Party politics since his youth, Mr. Grinspun has been a confidant of President Alfonsin, with whom he has been close since they were university students. He also has the support of part of the Radical Party. Following Mr. Alfonsin's inauguration, Mr. Grinspun was appointed Minister of Economy. Having failed to solve the country's problems, he was replaced by Mr. Sourrouille. Mr. Grinspun was then appointed Secretary of Planning, a position which now plays no major role in the Alfonsin Government. He unsuccessfully opposed Mr. Sourrouille's policies of "shock treatment" in favor of "gradualism". He is now attempting to make a comeback and is using the preparation of the development plan and whatever international support he can muster to restore the Planning Secretariat's role in medium-term policy planning and mobilization of external resources. Mr. Grinspun has frequently exhibited a blunt and outspoken manner. At the same time, his broad economic policy statements have been criticized for their imprecision and apparent efforts to serve differing objectives simultaneously.

PROGRAMS DIV: 164/40

RUN DATE: 11/05/85

COUNTRY: ARGENTINA
 FY86-FY90 - LENDING PROGRAM - PROJECT DETAIL
 AS OF END OCTOBER 1985

MANAGING UNIT	PROJECT / STATUS	PLAN/ACT. APPRAISAL DEPARTURE	US \$ MILLION			SECTOR	LENDING INSTRUMENT TYPE
			BANK	IDA	IDAS		
FY86							
LC2PB	PA041-T A I-B	M 07/01/85 A	20.0	.0	.0	ZZ	TAL
LCPAC	PA036-AGR SECTOR-B	L 05/27/85 A	312.0	.0	.0	AA	SAD
LCPWS	PA025-WATER SUPPLY-A	L 02/25/85 A	60.0	.0	.0	WU	SIL
FY86 TOTALS: LENDING AMOUNT			392.0	.0	.0		
NUMBER OF PROJECTS			2	0	0		
FY87							
LC2PB	PA050-TRADE POLICY-D	L 06/00/86	300.0	.0	.0	NY	SAD
LCPTR	PA024-BAHIA BLANCA PORT I-	S 12/02/84 A	40.0	.0	.0	TP	SIL
LCPEN	PA042-POWER ENG-B	M 11/11/85	10.0	.0	.0	PD	TAL
EGYD2	PA047-REFINERY SUPP LOAN -	M 11/04/85	90.0	.0	.0	GY	SIL
FY87 TOTALS: LENDING AMOUNT			440.0	.0	.0		
NUMBER OF PROJECTS			2	0	0		
FY88							
LCPTR	PA044-BAHIA BLANCA II-C	L 11/00/86	150.0	.0	.0	TP	SIL
LCPEN	PA051-POWER DISTRIBUTION	L	150.0	.0	.0	PD	SIL
LCPI2	PA046-SML & MED SCALE IND-	S 06/00/86	100.0	.0	.0	DD	FIL
FY88 TOTALS: LENDING AMOUNT			400.0	.0	.0		
NUMBER OF PROJECTS			3	0	0		
FY89							
LCPI2	PA027-INDUSTRIAL CREDIT II	L	150.0	.0	.0	DD	FIL
LCPI2	PA049-FINANCIAL RESTRUCTUR	S	100.0	.0	.0	DD	FIL
EGYD2	PA028-OIL & GAS DEVT - PRI	L	100.0	.0	.0	GI	SIL
EGYD2	RA038-OIL & GAS-PRIVATE-C	L 10/00/87	150.0	.0	.0	GI	SIL
FY89 TOTALS: LENDING AMOUNT			500.0	.0	.0		
NUMBER OF PROJECTS			4	0	0		
FY90							
LCPEN	PA048-SEGBA V-C	L	150.0	.0	.0	PD	SIL
LCPI2	PA053-EXPORT PROMOTION	L	100.0	.0	.0	DD	SAD
INDD3	PA054-SOHISA RESTR	L	50.0	.0	.0	IX	SIL
INDD4	PA055-ENTEL RESTR	L	150.0	.0	.0	IX	SIL
FY90 TOTALS: LENDING AMOUNT			450.0	.0	.0		
NUMBER OF PROJECTS			4	0	0		
TOTAL LENDING AMOUNT:			2182.0	.0	.0		
NUMBER OF PROJECTS:			15	0	0		

COUNTRY: ARGENTINA
 FY86-FY90 - LENDING PROGRAM - PROJECT DETAIL
 AS OF END OCTOBER 1985

(RESERVE PROJECTS)

MANAGING UNIT	PROJECT / STATUS	PLAN/ACT. APPRAISAL DEPARTURE	US \$ MILLION			SECTOR	LENDING INSTRUMENT TYPE
			BANK	IDA	IDAS		
<u>FY87</u>							
EGYD2	PA030-GAS DEVT - GDE-C	R	100.0	.0	.0	GS	SIL
	FY87 TOTALS: LENDING AMOUNT		100.0	.0	.0		
	NUMBER OF PROJECTS		1	0	0		
<u>FY89</u>							
LCPI2	PA045-INDSTL RESTRUCTURING	R	150.0	.0	.0	DD	FIL
LCPIUR	PA043-MUNICIPAL DEVT	R 06/00/86	75.0	.0	.0	UU	SIL
LCPIUR	PA052-NAT LOW INC HOUSING	R 03/00/87	75.0	.0	.0	UU	SIL
	FY89 TOTALS: LENDING AMOUNT		300.0	.0	.0		
	NUMBER OF PROJECTS		3	0	0		
	TOTAL LENDING AMOUNT:		400.0	.0	.0		
	NUMBER OF PROJECTS:		4	0	0		

ARGENTINA--ELEMENTS OF A POLICY REFORM PROGRAM

1. The new economic program has created confidence in the Government's management of the economy by reducing dramatically the inflation rate, cutting the overall fiscal deficit sharply, and eliminating recourse to monetary emission. Its objectives are to strengthen incentives to the private sector and streamline the public sector. It is now essential to tackle the underlying distortions and constraints in the economy in order to resume sustained rates of satisfactory real economic growth. A reform package, therefore, ought to address the following issues in order of priority, taking into account the Government's technical and political constraints in implementing it successfully.
2. Trade Regime: (a) phase out import licensing and replace it by tariffs; (b) rationalize the import tariff structure by reducing tariff dispersion; (c) simplify import and export procedures; (d) introduce automaticity in the temporary import drawback system and in foreign exchange availability for importing inputs for exports; and (e) phase out of export taxes and replace them by alternative sources of revenue such as a land tax.
3. Financial System: (a) streamline the financial system (i.e. reduce the number of banks and staff) to improve its operational efficiency; (b) strengthen the supervisory/regulatory capability of the Banking Superintendency and reporting requirements of portfolio quality of financial institutions; (c) reduce Government intervention and eliminate segmentation of credit markets; and (d) provide for the recapitalization of viable financial institutions.
4. Public Sector Finances and Investment Program: (a) rationalize the medium-term investment program consistent with a viable financing plan and sustainable macroeconomic targets. This would require scaling ongoing and prospective investments, and strengthening the screening mechanism for investment projects (i.e. selection of projects based on economic and financial criteria); strengthen tax collection and administration; and (d) reduce public investment requirements through increased private sector participation.
5. Public Enterprises Management: (a) increase real prices of public services to ensure cost recovery; (b) improve mechanisms to analyze, decide, and follow up the enterprises' investment programs; and (c) allow public enterprises to operate like commercial entities.
6. Price Distortions: (a) adequate pricing of gas; and (b) improved pricing and cost recovery in such areas as road user costs, port tariffs, dredging costs, and railroad and airline tariffs; and (c) develop a suitable phase out of the price freeze.
7. Role of Public vs. Private Sector: (a) deregulation and privatization of the transport sector activities; (b) containment and increase in efficiency of military industries; (c) continue policy of awarding exploratory rights in promising oil and gas areas; and (d) where possible privatize industries under the aegis of the Ministries of Defense and of BANADE.

BANK ASSISTANCE STRATEGY IN ARGENTINA

The Bank's assistance strategy is geared towards establishing a rational incentive framework for the private sector, improving the efficiency of the public sector and reactivating the economy. Towards this end, the Bank is preparing, inter alia,

- (i) Technical Assistance Loan which would include a package of studies and consultant services to improve public sector management and strengthen the competitiveness of the economy. We expect that the findings of the technical assistance will lay the ground work for Bank lending in the medium term.
- (ii) Agricultural Sector Loan which would support a reduction in tariffs on agricultural exports while maintaining fiscal viability through adjustments in taxes/revenues and introduction of an agricultural land tax.
- (iii) Trade Reform Loan to support adoption of policies mentioned in para. 2.
- (iv) Financial System Adjustment Loan aimed at improving the financial system's efficiency and its effectiveness in serving the productive sectors mentioned in para. 3.
- (v) Public Sector Restructuring Loans to support the reorganization of major public enterprises and to streamline public investment planning and budgeting processes.
- (vi) Policy based lending operations in energy, industry and transport are being considered to promote rationalization in the policy framework of the respective sectors including privatization.

The above sequential approach to the policy issues is predicated on our assessment of the willingness and ability of the Government, as well as the state of preparation, to tackle a comprehensive program of reform. We would much prefer a comprehensive approach which would enable us to do a SAL. In either case, we should be in a position to indicate the extent of our participation in the financial package for Argentina for 1986/87 by the time discussions are started. This will require the Government to sit down to discuss this policy framework with us as soon as possible.

Biographical Information

JOHN WINSTON HOWARD
Federal Treasurer

Experience

- Since 1977 - Federal Treasurer
- Since 1974 - Member of the House of Representatives (Liberal Party)
- 1977-79 - Minister for Special Trade Negotiations
- 1975-77 - Minister for Business and Consumer Affairs
- 1963-74 - Member of the State Executive of the Liberal Party
- 1962 - Appointed a solicitor of the Supreme Court of New South Wales State.

Education

LLB from Sydney University.

Personal

Born in 1939. Married. Has one son and one daughter. Hobbies are cricket, films and reading.

September 1982