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THE WORLD BANK

Washington, D.C.

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Clauson's: Argentina

Vol 1

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Argentina - Clausen Country Files - Correspondence - Volume 1

December 30, 1985

Ing. Rodolfo Otero
President
Yacimientos Petroliferos Fiscales
Avenida Roque Saenz Pena 777
Oficina 508 - Piso 5
1364 Buenos Aires
Argentina

Dear Ing. Otero:

Thank you for your stimulating company during the flight to Mendoza and your interesting explanations during our well-planned visit to the refinery in Lujan de Cuyo and the oil fields. We were favorably impressed by the progress in the refinery conversion project; while I cannot claim to be an expert on the technology involved, I certainly now know a lot more about secondary recovery than I did previously.

We are very pleased to hear that you may come to Washington in January to review with us YPF's investment program and financing plan for 1986. I certainly hope that we will reach an agreement on that occasion that would allow signing the Gas Utilization and Technical Assistance Loan. As you are aware, we cannot proceed with the negotiations of the proposed supplemental loan for the Refinery Conversion project unless this loan is signed.

We in the Bank are encouraged by the recent initiatives for focusing YPF's investment priorities more sharply and for improving its efficiency. As I mentioned to you, the Bank is ready to provide strong support for the development of Argentina's hydrocarbon resources if the Government continues with programs and policies that offer adequate incentives for private sector participation.

Again my thanks for the many courtesies extended to me and my colleagues and for your "spirituous" farewell gift. It was most thoughtful of you.

Best wishes for a Happy New Year.

Sincerely, 

(Signed) A. W. Clausen 

cc: Mr. Camarasa, EDS
cc: Messrs. Stern, SVPOP; Southworth, EXC; Knox, LCNVP; Gue, Scherer, LC2
cc: Mr. Clausen's Office (2)

FRIDAY, DECEMBER 6

10:00 a.m. Statement by AWC followed by news conference in meeting hall of Central Bank

11:30 a.m. Light lunch in hotel

12:15 p.m. lv for Airport

1:30 p.m. lv for Buenos Aires PLUNA #155

2:05 p.m. ar Buenos Aires

DON'T USE "LIBERALIZATION"

IMPERATIVE TO WORK ON
EXPORTS -!

AGRICULTURE
INCREASING PRICES TO
PRODUCER
REDUCING PRICES OF INPUTS
OPENING UP THE
MARKETS.
FERTILIZER

WORK ON MFG SECTOR EXPORTS

ARK. HAS BIL MFG CAPACITY
3500 OF GDP.
1000 OF EXPORTS.

MUST THINK OF POLICIES
THAT WILL SUPPORT THESE
REDUCE QUANTITATIVE RESTRICTIONS
- GRADUALLY - REDUCE TARIFFS

W/B WILLING HELP. INCREASE
LENDING

DONE REMARKABLE JOB ON
FISCAL SIDE.
BUDGET

MUST GET A DEFICIT UNDER
CONTROL.
+ THAT MEANS. PUBLIC ENTERPRISES!

YPF'S DEFICIT IS 3000 OF
PUBLIC DEFICIT \$1.2 bil
23% / \$bil.

CAN YOU PUSH - FOR REFORM
OF YPF?

YPF HAS A LIFE OF ITS OWN!
YPF MUST BE CONTROLLED.
RAILWAYS -
SOMISA - STEEL
INTEC - TELECOMMUNICATION.

COMMITTEES
FUNDS

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Page 1 of 2

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ACCESSION NO.:

1790003

DATE RECEIVED:

05/03/90

1. FROM: (Department and Division) Office Of The President		
2. NAME OF STAFF MEMBER HOLDING RECORDS: Mrs. Linda McLaughlin	3. ROOM NO.: E-1229	4. EXTENSION: 72103
5. RECORDS STORAGE REQUESTED BY: (Signature) Chandra Kumar <i>Chandra Kumar</i>	6. TITLE: Doc. Assistant	7. DATE: 4/26/90

11. LOCATION NUMBERS	8. BOX NUMBERS	9. DESCRIPTION OF RECORDS WITH INCLUSIVE DATES	10. DISPOSAL INFORMATION			12. ACTION
			Schedule Number	Item Number	Disposal Date	
	005 001	Mr. Clausen's Country Files Argentina, Algeria, Bahamas, Bangladesh, Brazil, Bolivia, Burundi, Cameroon, Chile, China, Cote D'ivoire, Egypt, Mexico, Nepal, Oman, Niger, Morocco, Gautamala, Indonesia, Italy, Malagasy, India Country Programs Miscellaneous Algeria, Argentina, Australia, Barbados, Bangladesh, Belgium, Benin and Botswana.	103	5		To be Evaluated by the Archivist
	006 002	Mr. Clausen's Country Files Brazil, Cameroon, Chile, China, Colombia, Congo, Denmark, Egypt, Ethiopia, Finland, Ecuador, France Germany, Ghana, Guinea, Guinea- Bissau, Honduras and Hungary.	103	5		To be Evaluated by the Archivist
	007 003	India, Indonesia, Italy, Ivory- Coast, Jamaica, Japan, Jordan, Kenya, Korea, Kuwait, Lebanon, Lesotho, Madagascar, Malaysia, Mali, Mauritius, Mexico, Morocco, Mozambique, Netherlands, New - Zealand, Nicaragua, Niger, Nigeria, Norway, Panama, Pakistan and Papua New Guinea.	103	5		To be Evaluated by the Archivist

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Chandra Kumar

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Doc. Assistant

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4/26/90

11. LOCATION NUMBERS	8. BOX NUMBERS	9. DESCRIPTION OF RECORDS WITH INCLUSIVE DATES	10. DISPOSAL INFORMATION			12. ACTION
			Schedule Number	Item Number	Disposal Date	
	008 <i>004</i>	Mr. Clausen's Country Files Paraguay, Phillipines, Poland, Portugal, Rwanda, Saudi Arabia, Senegal, Soloman Islands, Somalia, South Africa, Srilanka, Sudan, Sweden, Switzerland, Thailand, Tunisia, Turkey, Uganda, United Arab Emirates, United Kingdom, Vietnam, Uruguay, Venezuela, Yemen Arab Republic, People's Democratic Republic of Yemen, Yugoslavia, Zaire, Zambia and Zimbabwe.	103	5		To be Analysed by the Archivist

5-24-85

Bank relations with Argentina (note dictated by Peter Scherer)

Bank relations with the Argentine Government are excellent. There are currently no contentious issues. Negotiations have just been completed on a \$180 million loan for gas utilization and technical assistance and the hope is to have it ready for Board presentation before the end of FY85. You should ask for Mr. Camarasa's help in this respect.

Missions are currently in the field analyzing public sector investments and the industrial sector. The results of these missions will form the basis for subsequent investments. Work is also underway on a water and sewage project that will emphasize improved management.

The Bank is also using its good offices in mediating the dispute between Holland and Argentina concerning the Center West natural gas pipeline (Emile van Lennep came in to see you about this). The two parties have still not reached agreement but have expressed their appreciation for the Bank's role. Peter Scherer is still hopeful that the problem will be resolved and when it is resolved, there will be scope for future Bank investments in this project.

Peter also suggests that you ask Mr. Camarasa's help to expedite disbursements on existing Bank loans. Disbursements are at double the rate they were last year but we hope that they will do even better than that.

Peter anticipates that Mr. Camarasa will inform you that Argentina is near agreement with the Fund. Such an agreement will require the Government to put in place further difficult economic measures. With an agreement, there is a reasonable chance that Argentina could get firmly on the road to recovery. However, they still have a long way to go.

3/19/85

For your meeting with the Argentines this evening, in addition to the President, the Min. of Economy and the Sec. of Agriculture, it is anticipated that the Minister of Foreign Affairs, Mr. Caputo (not sure about spelling), the Ambassador, Mr. Garcia del Solar, and Mr. Camarasa, the ED, will be there as well.

Mr. Gue and Mr. Scherer will meet you at the car in the basement of the garage at 5:30.

MH

OFFICE MEMORANDUM

DATE: March 14, 1985

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

FROM: A. David Knox *AK*

EXT.: 75901

SUBJECT: Meeting with Argentine President

1. You are scheduled to meet with Mr. Raul Alfonsin, Argentina's President, at 5:50 p.m. on March 19 in the Madison Hotel. President Alfonsin is making an official visit to the United States (the first by an Argentine chief of state in 26 years), during which he plans to promote increased ties between the American and Argentine business communities. He is also scheduled to meet with Mr. de Larosiere to review the possibilities of renegotiating the Fund agreement. Mr. Gue will accompany you in my absence together with Mr. Scherer. The new Minister of Economy, Mr. Juan Sourrouille, and Agriculture Secretary, Mr. Lucio Reca, will also be present in your meeting.

Political and Economic Background

2. Mr. Alfonsin's October 1983 electoral victory restored a Radical Party administration after prolonged Peronist and military rule. Despite the Government's numerous failures, particularly in the economic field, President Alfonsin commands widespread personal popular support for his efforts to return Argentina to democratic government, subordinate the armed forces to a secondary role, reform the trade unions, revive the economy, and improve Argentina's foreign relations and international standing. Personally, the charismatic, 58-year-old President has displayed astute political tactics, strong-willed leadership and conviction in pursuing social justice objectives. His performance has been facilitated by deep divisions in the ranks of the Peronist movement, now officially split. Mr. Alfonsin last month dismissed both the Economy Minister and the Central Bank President in his first major cabinet reshuffle. He has now relegated Mr. Grinspun to the relatively secondary post of Secretary of Planning. The former Minister is one of the President's closest personal friends and political confidant, who was his key ally in wresting Radical party leadership from its past conservative wing. With the appointment of a skilled technocrat as the new Minister, the President broke with Radical tradition that only party members control important decision-making posts.

3. The Radical Government inherited a fiscal deficit equivalent to 14% of GDP, triple digit inflation, US\$40 billion of external debt with an annual service obligation of US\$ 6 billion, and a 3-year-old recession.

Moreover, it campaigned on the basis of promises for higher real wages. During most of 1984, the administration found it difficult to reconcile the desire for speedy economic recovery with the need for a program of stabilization and external adjustment. It took until late last year for the Government to obtain a stand-by loan from the Fund and reschedule its debt with commercial banks (covering principal up to 1985) and official creditors (covering interest and principal up to 1985). The Government's present stabilization program aims to lower the rate of inflation from 680% in 1984 to 150% in 1985, and to enable Argentina to meet its external obligations while satisfying the imperative needs of economic recovery. The Government seems to be making a determined effort to comply with the program despite the deepening recession. It has tightened fiscal policies and cut the fiscal deficit, reduced real wages, restrained monetary growth and devalued the exchange rate in real terms. However, it appears that the Government would be unable to meet the nominal targets set for the end of the first quarter of 1985. Nevertheless, there are reasonable prospects that the Fund would agree to a revision of the targets and permit the scheduled May 1985 second tranche drawing.

4. Mr. Alfonsin's economic policies stem from the conviction that his administration's primary task is to stabilize and rejuvenate Argentina through the strengthening of democratic institutions. He and his team have repeatedly emphasized their commitment to reactivate the economy. They initially believed that this was possible without tight demand management; they appear to be convinced now that this is not possible. They also think that, to be successful, any strategy for economic recovery depends crucially on a broad national consensus on sharing the burdens of austerity. In recent public statements, Mr. Alfonsin and his new Minister of Economy have confirmed their determination to reduce inflation and take other adjustment measures.

Topics to be Raised

Economic Program

5. You might congratulate President Alfonsin for the Government's accomplishments in concluding the arrangements with creditor banks on the rescheduling of debts in arrears and with the IMF, as well as his efforts to stabilize the economy. In the latter connection, you might, however, express concern over the recurrence in January-February 1985 of the severe inflationary trends which appeared to be abating at the end of last year (inflation during those two months increased to 23% monthly from 15% in late 1984). These developments have stimulated further popular skepticism about the adequacy of the Government's economic policies. You may also want to commend the Government's new economic strategy document (prepared by Mr. Sourrouille) which outlines a constructive approach to the needed adjustment of Argentina's economy and the resumption of adequate growth. Its proposals conform closely to the recommendations of our recent economic memorandum and provide a conducive framework for Bank-Government cooperation.

Bank Assistance

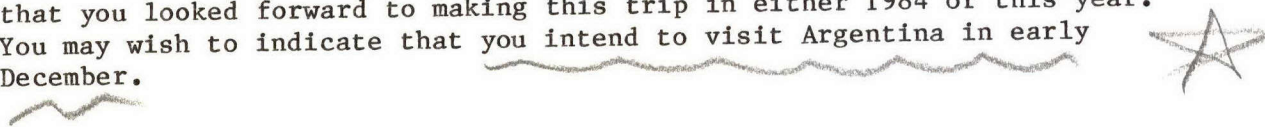
6. You might indicate that the Bank is prepared to work with the Government in identifying concrete action plans and policy reforms in order to help initiate a process of long-term economic and social development. We have already stepped up efforts to assist the Government. Missions are scheduled for April/May 1985 to analyze industrial export possibilities and to review the public sector investment program. Also, we plan to increase our lending to help reactivate the economy, support structural reforms and strengthen Argentina's export capacity. Our FY85/86 program includes six operations for about US\$600 million. A gas development project (US\$155 million) is a good possibility this year, as is the Bahia Blanca port project (US\$25 million) although there was a severe explosion this week at that facility which may delay the project. For FY86, we are preparing an agricultural sector loan linked to a policy package in the sector involving the reduction of export taxes and rationalization of input-output price relationships. Other prospects include a water supply project; technical assistance for strengthening planning capacity and improving operating efficiency of the public sector; and a gas infrastructure project. We were successful in increasing Bank disbursements for Argentina in calendar year 1984 which went up to US\$97 million from US\$70 million in 1983 and hope to increase them still further this year to about US\$180 million.

Support of the Bank

7. You might wish to acknowledge Argentina's new chairmanship of the "Group of 24" and the Government's sustained support of your efforts to obtain an increase in the General Capital Subscription and an adequate IDA replenishment. In addition, it would be helpful if you thanked the President for the Government's good record in meeting its Bank debt service obligations promptly, which reflected the special treatment it has accorded the Bank.

Visit to Argentina

8. Mr. Alfonsin may renew his invitation to you to visit Argentina, repeating the offer first made in January 1984. At that time, you said that you looked forward to making this trip in either 1984 or this year. You may wish to indicate that you intend to visit Argentina in early December.



cc: Messrs. Gue, LC2; Scherer, LC2 (o/r); Levy, LC2.

HJNissenbaum:vlw/md

Argentina Tugged by Inflation, IMF Goals

WSJ
3/4/85

By LYNDA SCHUSTER

Staff Reporter of THE WALL STREET JOURNAL

BUENOS AIRES, Argentina — Argentina's soaring inflation rate makes it almost certain the country will have to renegotiate the austerity pact it reached last September with the International Monetary Fund.

Juan Sourrouille, the 44-year-old planning official who was named economy minister two weeks ago, said in an interview that Argentina's 688% annual inflation rate makes it "almost impossible" for the country to meet the targets in the IMF pact, which among other things calls for a 150% annual inflation rate by the end of 1985.

He said Argentina was finding it "very difficult" to meet its austerity goals for the current quarter.



Juan Sourrouille

Mr. Sourrouille didn't specifically say the pact will have to be renegotiated. However, one of his top aides said Argentina's new economic team plans to ask the IMF for a grace period to develop a new economic strategy, then will try to negotiate a "shadow accord" to readjust the IMF targets. The aide said he thinks the accord can be completed before May.

Plans to Be Tougher

Mr. Sourrouille (pronounced soor-WE), who became economy minister after the surprise ouster of Bernardo Grinspun, said he plans to be tougher than his controversial predecessor in trying to lower inflation. However, he said the distortions of inflation should be considered in measuring Argentina's compliance with IMF guidelines. "It would be unwise to hinge international financial stability on the Argentine inflation rate," he warned.

Argentina is the third-largest debtor in the developing world, after Brazil and Mexico, and has a foreign debt of about \$45 billion. Last September's IMF agreement

Poland Plans Array Of Food Price Increases

WARSAW, Poland (Reuter)—Poland's Communist government set price increases, including a 30% boost in the price of bread, a proposal that has provoked rioting in the past.

The government said the increases will be introduced gradually by June, backing down on immediate across-the-board increases in the face of union opposition.

The price of dairy products and bread will go up today, when flour rationing is lifted, and the cost of other foods, including meat, in June.

was a precondition for the rescheduling of its debt, which was thought necessary to avoid default.

Mr. Sourrouille, a low-key technocrat, faces huge obstacles in confronting Argentina's runaway economy. President Raul Alfonsin, for instance, is under pressure from members of his Radical Party not to apply strict austerity, especially since the party faces a tough fight to keep control of the lower house of the national Congress in November elections. And Mr. Sourrouille, unlike his predecessor, isn't a card-carrying Radical and holds little clout within the party.

"I'm more pessimistic now than ever," said Enrique Szewach, a private economist. "If Alfonsin didn't really accept austerity last year because he thought it would hurt too much when inflation was 15% a month, he's certainly not going to now, with inflation running at 20% a month and elections coming up."

Commitment to Austerity

For his part, Mr. Sourrouille seems committed to austerity—but within what he considers reasonable bounds. "Bringing inflation down means, by necessity, a lower growth rate," he said. "If that growth rate is slightly positive, I'm in favor of austerity. But if unemployment has to run at 10%, I'm not." Argentina's current official unemployment rate is 4% of the labor force.

Mr. Sourrouille said his priority is to bring order and stability to the economy. He said he is determined to rein credit by keeping interest rates higher than inflation. He is considering changing the current policy of granting monthly inflation-adjusted wage increases, and he hopes to lift price controls completely. He said the government will encourage exports, rather than internal consumption, to achieve economic growth.

While Mr. Sourrouille was cautious on many issues, his policies appear to be more in line with those demanded by the IMF and Argentina's creditor banks than were those of his predecessor, Mr. Grinspun. The former economy minister was widely perceived as less-than-committed to austerity, and his failure to implement a coherent economic policy apparently led Mr. Alfonsin finally to seek his resignation.

Imposing austerity in Argentina's volatile political climate will be as much a matter of style as substance. Unlike Mr. Grinspun, Mr. Sourrouille is known for his subtlety. Aides say that his economic team will work behind the scenes with the country's largest companies, trying to reach a "gentleman's agreement" on prices based on their needs.

"We have to talk to businessmen," Mr. Sourrouille said. "We have to create a political climate that will improve our relations and encourage investment from here and abroad."

First, though, he may have to convince the politicians, including Mr. Alfonsin and his Radical Party, that the climate needs changing. Government insiders say Mr. Grinspun had insisted up to his last day in office that Argentina would meet the IMF's first-quarter austerity targets. Members of the new economic team, who say there's no chance Argentina will be in compliance, fear the old analysis is still believed by many high-ranking Radicals.

"It will be difficult" to convince them that things are really bad, one official admitted. "But Sourrouille is a good teacher."

Target Fund was started in January 1981 and required a \$100,000 minimum investment. It was the top fund in 1981, returning 46.7%, according to Lipper, compared with minus 5% for the Standard & Poor's Corp. 500 index. Target repeated as the No. 1 fund in 1982, returning 81.3% vs.

quickly in a rising market. "The fund makes a transition when it goes from \$20 million to \$200 million, and it's kind of difficult," he says. "You're able to maneuver a smaller fund a lot easier through a treacherous period. So much money came in, in early '83, and the market was going

money to the size of the fund makes it more difficult to beat the market; instead of buying 20,000 shares you have to buy 300,000. You push up the price of stock buying it, and when you leave (sell) you push down the price."

If the Moon Is in the Seventh House, Then a Fashion Designer Could Be Ruined

By JOAN KRON

Staff Reporter of THE WALL STREET JOURNAL

It's said in the fashion world that basting with green thread will kill a season. The antidote to spilled pins, which are sure

when people stopped scheduling right over my show," says Mary Jane Marcasiano, a knitwear designer.

The shows take place all over Manhattan, at uptown hotels and downtown clubs, at broadcast studios and showrooms in the garment district. A standard show is 25 minutes long. If one designer's show ends too near the time another show in another part of town begins, says Dede Shipman, executive vice president of Mary McFadden Inc., "you don't have anything when you're finished but angry buyers trying to get to the next show."

"I even worry about elevators," Ms. Finley says. "It takes 15 minutes to get out of Calvin's showroom so the next show has to start later."

'Scheduling exposes the designer's character, deepest insecurities, petty jealousies—and superstitions,' says Ms. Finley, who herself has no truck with superstition.

Actually, not many designers want their shows scheduled right after Calvin Klein's. He is, as they say, a hard act to follow. In fact, scheduling shows for any lesser lights during the second week of the market is especially difficult. During that week, the big-volume stars—Mr. Klein, Mr. Blass, Oscar de la Renta, Perry Ellis and Ralph Lauren—tie up devoted models and audiences and reporters.

Some designers, it's rumored, aren't above deliberately trying to upstage a rival. In Paris, for example, it's said that Gabrielle (Coco) Chanel would wait for lesser-known designer Antonio Castillo's numerologist to schedule Mr. Castillo's shows and then schedule her own at the same time. Mr. Castillo is said to have used a Coco doll and pins for retaliation.

Many time slots are considered undesirable for reasons that are more pragmatic than paranormal. The first and last days of the market are bad because many out-of-town buyers and fashion writers cut costs by spending only one week in the city. Fridays are bad because Women's Wear Daily, the industry's most influential publi-

cation, doesn't appear on Saturday or Sunday. Mondays are bad because they involve Sunday rehearsals and overtime rates.

Some reasons are more paranormal than pragmatic. Elie Tahari, a designer born on the 21st, believes that the most propitious date for any of his openings is the 21st. While most designers spurn the 13th, Lilly Dache, the legendary hat designer, would show on the 13th or not at all. Joan Vass cares only that she be the last to show. She's not completely convinced it does any good, though. "I know it's totally irrational, but I consider my show doomed no matter what I do," she says.

Precision Counts

One year a good time for Mr. Muto was exactly 1:33 p.m. His starcaster—part astrologer, part numerologist, part other—told him so, and that's when his show began. But Ms. Finley listed the time in her Fashion Calendar as 1:30 p.m. "People will think it's a misprint," she told him. This year, Ms. Finley put her foot down with Mr. Scassi, whose numerologist was slow to arrive at a date. "I told him, next season his numerologist will have to work farther in advance," she says. "I offered to talk to her myself."

The first Monday of market week is considered especially bad, but a few years ago Willi Smith of WilliWear Ltd. decided to deal with the first-Monday curse by creating a new kind of show. For three hours his models stand still while the buyers, who show up anytime they want, walk around them. The show has succeeded and now it's "a superstition with us," says a WilliWear official. "We wouldn't dare change it."

Once a show has been scheduled, designers begin trying other charms to ensure success. Mary McFadden has a lucky sweater; Bill Haire wears the pink linen tie he gave to a former colleague, who sends it back on show days; Akira always wears the same red bow tie; for several years Ralph Lauren wouldn't shave until after his show. (He was, however, clean shaven at last year's fall show.)

Hubert de Givenchy, the French designer, always carries a special cross given to him by his mentor in his breast pocket at his shows. And on important days Marc Jacobs, an up-and-coming designer, rubs a stone that exudes positive energy. It was given to him by Lola, his chart reader.

Argentine Leader Will Mute Criticism In Requesting Aid From U.S. This Week

By LYNDA SCHUSTER

Staff Reporter of THE WALL STREET JOURNAL

BUENOS AIRES, Argentina—At times, Argentina's President Raul Alfonsin sounds like anything but a U.S. ally.

He makes strident speeches against "outside intervention" in Central America. He deplores U.S. plans for space-based weapons. He refuses to sign a U.S.-sponsored nuclear nonproliferation treaty.

But when he meets with President Reagan and other top U.S. officials during a weeklong trip to the U.S. that is sched-

uled to begin today (after a one-day postponement forced by mechanical difficulties in his plane carrying him north), Mr. Alfonsin's tune should be somewhat different. Although he will touch on all these subjects, his need for U.S. understanding—and aid—in helping to pay Argentina's \$45 billion foreign debt will prevail.

"Alfonsin knows that he needs an economic messiah," says a Western diplomat with close ties to the U.S. "He also knows that such messiahs don't come from the nonaligned movement, so he'll do everything to placate the U.S. during his trip."

Mr. Alfonsin's visit shows the two political sides of Latin America's perhaps best known democratic president. On the one hand, he has become a leader of the Third World since replacing a military junta 15 months ago, flying all over and talking tough. At home, however, he is trying to hold his own amid a morbid economy, 804% annual inflation and growing resistance to any austerity.

In his role as Third World leader, Mr. Alfonsin was a driving force behind a meeting in New Delhi last January that aimed at pressing the superpowers toward nuclear disarmament. As expected, the U.S. was cool to the declarations—especially since Argentina, a nuclear power in its own right, rejects safeguards and international inspections.

Mr. Alfonsin also feels strongly about pursuing a negotiated, not military, resolution of disputes in Central America. He supports efforts at regional peace talks being directed by Colombia, Panama, Mexico and Venezuela, known as the Contadora group. German Lopez, Mr. Alfonsin's top aide, says that Argentine officials will promote this position during the U.S. visit by meeting with "union leaders, intellectuals and Democratic and Republican party members."

Atilio Boron, a political scientist, says that Mr. Alfonsin is modeling himself after Mexican President Miguel de la Madrid Hurtado. "De la Madrid diverts attention from how bad the situation is in Mexico by flying around, looking like a Latin American statesman," he says. "A lot of it is for internal consumption."

While that may do the trick in Mexico, many people here in Argentina say they wish Mr. Alfonsin devoted a bit more energy to domestic problems. "Alfonsin isn't supposed to be thinking so much about the rest of the world," says Horacio Lewinsky, who owns an import and manufacturing concern. "He's supposed to be thinking about the country."

But consider what Mr. Alfonsin is facing. For starters, there is the opposition within his own Radical Party to the austerity pact Argentina signed with the International Monetary Fund last September. Among other things, the accord requires Argentina to slash its annual inflation rate to 150% by the end of 1985 through severe spending cutbacks.

But government officials say that Bernardo Grinspun, a Radical leader and economy minister until his sacking last month, never really implemented the pact. Instead, he kept Argentina in technical compliance in last year's fourth quarter by not paying wage increases and the government's bills until January, they say.

Mr. Grinspun's successor, Juan Sourrouille, says that Argentina's soaring inflation makes it "almost impossible" to meet IMF targets this year. The pact will have to be renegotiated by the more austerity-minded Mr. Sourrouille. But with Mr. Grinspun now heading the planning secretariat and his like-minded Radical friend, Alfredo Concepcion, in the central bank's top slot, Mr. Sourrouille is surrounded by politicians likely to oppose belt-tightening.

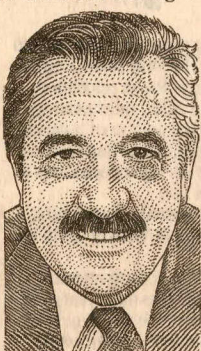
Mr. Alfonsin also has to worry about striking a wage pact with the powerful un-

ions, most of which are dominated by the opposition Peronist Party. An Economy Ministry official says the government wants to try collective bargaining with union leaders. Such bargaining would give labor chiefs the prestige of appearing to call the shots, he says, while the government would be allowed behind-the-scenes influence in setting wage levels.

But given the pressures of an already deepening recession, it is uncertain if even union leaders will be able to control unrest by the rank-and-file. "The workers have suffered enough," warns Eduardo Curia, an economic adviser to the Peronist unions. "If Alfonsin cracks down anymore, he will have to pay."

According to a survey taken last December by Felipe Noguera, an independent pollster, 72% of the population view Mr. Alfonsin favorably, while almost 50% don't like his government. Mr. Noguera believes that Mr. Alfonsin's popularity inevitably will suffer, if it hasn't already started to drop.

"Alfonsin's big problem is that he was in the opposition for so many years," according to Mr. Noguera. "He's very good at being on the outside and shouting at the generals. Once he obtains power, he doesn't know what to do. So he yells at the U.S. about nuclear winter. It's a lot easier that way."



Raul Alfonsin

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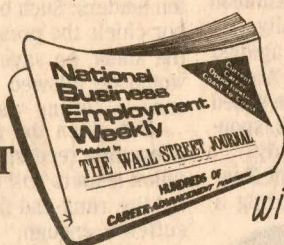
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PRESS RELEASE NO. 84/43

FOR IMMEDIATE RELEASE
December 28, 1984

The International Monetary Fund has approved the use of Fund resources totaling the equivalent of SDR 1,694 million by the Government of Argentina. Of the total, SDR 1,419 million may be drawn over the next 15 months under a stand-by arrangement in support of the Government's economic program, and SDR 275 million is available immediately under the compensatory financing facility. Drawings under the stand-by arrangement, which are equivalent to 127.5 percent of Argentina's quota in the Fund, will be financed in equal parts from the Fund's ordinary resources and from resources borrowed by the Fund. Argentina's quota in the Fund is SDR 1,113 million and its outstanding financial obligations arising from past operations and transactions presently amount to SDR 1,120.6 million.

The drawing under the compensatory financing facility is in respect of a shortfall in Argentina's total export earnings during the 12-month period ended May 1984. The shortfall in total exports reflects mainly depressed earnings from manufactured exports, caused largely by weak foreign demand, particularly in neighboring countries, traditionally the outlet for some 40 percent of Argentina's manufactures.

Argentina has experienced severe internal and external imbalances for several years. During the course of 1984, inflation intensified, reaching an annual rate of about 700 percent and, while there has been some recovery in output, investment has remained depressed. In the external area, there has been a large measure of adjustment in the trade balance in recent years. However, rising interest payments have resulted in a continued current account deficit at the same time that external financing has not been available. Despite resort to exceptional exchange and trade measures in the past two years, Argentina has not been able to meet its external obligations in full and payments arrears have accumulated.

The Government's economic program, supported by the stand-by arrangement, aims at several major goals: a gradual but sustained recovery of economic activity based significantly on growth in exports and investment; a progressive reduction of inflation to an annual rate of approximately 150 percent during the last quarter of 1985; achievement of a sustainable balance of payments over the medium term, and an early normalization of external payments; and the progressive removal of impediments to the working of market mechanisms and the correction of relative price relationships.


- over -

To achieve these objectives, the program entails an intensification of the continuing adjustment effort in the public finances and a substantial shift toward restraint in monetary policy; a wage policy consistent with the objective of slowing inflation; and reduced reliance on measures such as price and import controls. The improvement in the fiscal position is intended to reduce inflationary pressures, to ensure that private investment is not crowded out, and to support the strengthening of the current account of the balance of payments, a necessity to enable Argentina to re-establish a stable external financial position. This objective also will be fostered by a flexible exchange rate policy.

A crucial element of the Argentine economic program is a substantial reduction in the public sector deficit from 12.5 percent of gross domestic product (GDP) in 1983 to 10 percent in 1984 and to 5 percent in 1985. The reduction is to be achieved approximately in equal parts by increasing revenues and restraining expenditures. In the monetary field, a reduction in the rate of growth of credit and money is envisaged, and interest rate policy will be managed flexibly to encourage financial savings and to allocate credit efficiently.

On the external side, the program calls for a widening of the surplus on goods and nonfactor services from US\$3 billion in 1983 to US\$3.7 billion in 1984 and US\$4.3 billion in 1985. However, interest payments are expected to offset a substantial part of this improvement and the deficit on current account of the balance of payments would only come down from US\$2.4 billion in 1983 to US\$2.2 billion in 1984 and 1985. The projected increase in the surplus on goods and nonfactor services during the program period is based for the most part on an improvement in the merchandise trade surplus which, in turn, is based on a better export performance. The authorities are determined to ensure the competitive position of the Argentine economy through an adequate exchange rate as a means of reconciling economic growth with a strong balance of payments needed to meet the country's debt service obligations.

Argentina's balance of payments difficulties in recent years have been considerably exacerbated by a rapid rise in the country's external debt and a bunching of amortization payments. The Government recently reached an agreement, in principle, with commercial banks on the rescheduling of about US\$14 billion of external debt due during the period 1982 through 1985 and on new loans for US\$4.2 billion. The Government has also requested a renegotiation of interest and amortization on medium- and long-term debt owed to official creditors.





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Correspondents / Participants Members of the Managing Committee I.F.I. Shihata, Vice President and General Counsel				
Subject / Title Argentina - 1984-85 External Financing Plan and Debt Reduction				
Exception(s) Attorney-Client Privilege				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date Aug 27, 2013</td></tr></table>	Withdrawn by Chandra Kumar	Date Aug 27, 2013
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action Reading

OFFICE MEMORANDUM

369

DATE: December 4, 1984
TO: Mr. A. W. Clausen
(through S. Shahid Husain, Acting SVPOP)
FROM: Rainer B. Steckhan, Acting Regional Vice President
EXT. 76251
SUBJECT: ARGENTINA - Accord with Major Creditor Banks

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12-6-84
My ARGENTINA File!
A

1. As you know, Argentina has reached tentative agreement on a financial package with the members of the Advisory Committee of major creditor banks. The agreement includes the following:

- (a) a US\$4.2 billion new money facility repayable over 10 years with a 3-year grace period at 1-5/8% over LIBOR;
- (b) US\$13.4 billion in principal payments due 1982-85 will be restructured into new loans repayable over 10 years or 12 years with a 3-year grace period at 1-3/8% over LIBOR;
- (c) payment of US\$350 million in overdue interest to the banks before year-end (US\$500 million would come from the U.S. Treasury in the form of short-term bridge loans);
- (d) progressive elimination of arrears owed to banks (including commercial bridge loans and swaps) throughout 1985;
- (e) creditor banks will maintain interbank deposits and trade lines at September 1984 levels (the money market maintenance facility would be US\$1.4 billion and the trade finance maintenance facility US\$2 billion);
- (f) US\$2.650 billion of the new loan will be allocated to the Argentine clients of the creditor banks as follows:
 - US\$1.200 billion for public sector entities;
 - US\$0.800 billion for private companies provided that they mobilize a matching amount in foreign exchange;
 - US\$0.200 straight onlending; and
 - US\$0.450 for import and pre-export financing (additional trade facility).

2. The Fund is going ahead with Board Presentation on December 28. Agreement from a "critical mass" of creditor banks has to be received by December 22. Argentine officials, key bankers and Mr. Erb from the IMF are

planning to visit banks throughout the United States, Europe and Japan in an effort to sell the package. The U.S. Treasury bridge financing will be triggered by the IMF Board's approval of the Fund standby. The Fund is considering delaying the target date for final clearance of all arrears beyond September 30, 1985.

3. The minutes of the meeting with the bankers in New York last week are attached.

Attachment

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DATE: December 4, 1984

TO: Files

FROM: Peter R. Schefer, Division Chief, LC2PB

EXT: 76251

SUBJECT: Meeting with Bankers on Argentina

1. A meeting took place in New York on November 26 to firm up commercial bank financing for the Argentine Stabilization Program. The meeting had been called by the Managing Director of the Fund and was organized by the Federal Reserve Bank of New York. The Fund delegation was headed by Mr. J. de Larosiere and included Messrs. Erb, Wiesner and others. The member banks of the Advisory Committee for Argentina (Citicorp, Manufacturers Hanover, Morgan Guaranty, Royal Bank of Canada, Lloyds, Chase Manhattan, Bank of America, Bank of Tokyo, Credit Lyonnais, Credit Suisse, Dresdner Bank) were represented by their respective chairmen. Mr. Paul Volcker (Federal Reserve) and Mr. Anthony Solomon (Federal Reserve Bank, New York) also participated. Mr. Clausen, whom I accompanied, and Mr. Ortiz Mena (IDB) had also been invited at the request of the bankers.

2. Summary. The bankers seemed to be taken aback by the Managing Director's request for US\$4.4 billion in fresh financing. The meeting lasted for four-and-a-half hours, and was adjourned twice to allow for separate deliberation among the bankers. Mr. William Rhodes, the Chairman of the Advisory Group, apparently had advised Mr. de Larosiere that a package of US\$4.2 billion could be worked out. The general position taken by the bankers, however, was that at best US\$4 billion could be sold. The European banks, notably the British and Swiss, seemed extremely uneasy even with this figure and wanted to pitch the fresh financing at around US\$3 billion. The American banks, by and large, took a more accommodating stance. The Japanese and the Europeans stressed the importance of a common position and stated that defections could not be permitted under any circumstances.

3. The meeting was the first occasion on which multilateral lending institutions had participated in negotiations between the Fund and an Advisory Committee of commercial banks on the financing of a stabilization program for a major debtor country. Throughout the meeting, the commercial bankers argued that the IBRD should play a more active role in the overall financing effort, and criticized the Bank for what one of their number called "niggardly" contribution. In response, Mr. Clausen explained that the Bank was doing all it could to increase its transfers to Argentina, but that this was essentially limited to accelerating disbursements under existing loans. This process might yield up to US\$250 million in 1985. On the question of new lending, he cautioned that it would be unrealistic to

expect disbursements of more than US\$25 million in the coming year. Thus, the aggregate of Bank financing in 1985 might total up to US\$275 million, representing a net transfer of about US\$200 million, figures consistent with those given by the Fund's Managing Director. Specifically, disbursements under the Bank's proposed Agriculture Sector Loan could not be counted upon to contribute to the stabilization program.

4. Both Mr. Volcker and Mr. Solomon played a constructive intermediary role, trying to edge the banks towards the Fund position. From a regulatory point of view, Mr. Volcker would have preferred as little new financing as possible. However, he did not see much possibility of reducing the amount the Managing Director had requested. He suggested a compromise of US\$4.2 billion. He recognized that breaking through US\$4 billion was psychologically difficult for the banks but felt that they should bear in mind that the resulting increase in net exposure was only US\$3 billion, about 11.5% on outstanding balances over two years. Moreover, Mr. Solomon noted, the banks would receive back more money from Argentina during 1984 and 1985 than they would be putting in.

5. Mr. de Larosiere initially rejected Mr. Volcker's proposal but in view of the apparent intransigence of the bankers, who seemed prepared to let the meeting collapse, he very reluctantly compromised at US\$4.25 billion. He did this in the expectation that he would be able to obtain a compensatory financing facility of about US\$270 million, which would keep the total financing package for the program intact. Mr. de Larosiere clearly was anxious to reach an agreement. He expressed that it was important to present the standby to the Board on December 28, which would require distribution of the documents by December 3. A slippage to 1985 would necessitate a reduction in the amount of the standby by about US\$100 million since the maximum access limit to which Fund members were entitled would be reduced from 102% of the quota (the ratio used for the Argentine program) to 95%.

6. The bankers remained unconvinced, and seemed to feel that an inconclusive meeting was preferable to a commitment on which they could not deliver, notwithstanding the warnings of Messrs. Volcker and de Larosiere regarding the dangers to the financial system. The size of the new loan was the central theme of the discussion; other important factors in determining the loan amount included the clearance of Argentine arrears in interest payments (through a bridge loan which the Argentine Government would have to organize) and the allocation of the loan. The bankers wanted to ensure that priority would be given to the financing needs of their clients in Argentina. Mr. de Larosiere argued against earmarking of funds because of the difficulties this would create for the conduct of the monetary and credit policies of the Central Bank. The issues of the pricing of the new financing and of rescheduling of principal due up to 1985 were barely touched upon. Among the outstanding issues remaining to be resolved were: settling of expenses, currency switching, agency fees and jurisdictional and tax matters.

7. The bankers wanted to consult again among themselves and to talk to the Argentine Government before reaching a decision. Mr. Rhodes indicated that he would convey the decision of the Advisory Committee to Mr. de Larosiere--a figure probably between US\$4.0 and US\$4.2 billion. Mr. Rhodes was corrected immediately by a British banker that this was not his reading of the sense of the Committee; Mr. Rhodes accepted the correction. Towards the end of the meeting it was also mentioned that the difference between the new proposal of the Managing Director and the amount the Committee might be able to sell was equivalent to the agricultural sector loan the Bank was considering. The bankers did not want to relax pressure on the Argentine Government to come to terms with the Bank; on the other hand, however, they wanted the Bank to go ahead with the proposed operation, since this would signal that the international institutions were doing their utmost to support the stabilization program.

8. The paragraphs that follow provide a more detailed account of the issues discussed at the meeting.

9. Opening Statement of Managing Director. Mr. de Larosiere outlined the main features of the program and the proposed financing package. On the domestic side, the program was geared to lowering the monthly rate of inflation from an average of above 20% in recent months to around 8% by the fourth quarter of 1984; on the external side, it was intended to promote a trade surplus of US\$4 billion in 1984 and US\$4.4 billion in 1985, the elimination of arrears by September 1985 and liberalization of the exchange and trade system. To achieve these objectives, the Government would reduce the cash deficit of the non-financial public sector and operating losses of the Central Bank to 10.2% in 1984 and 5% in 1985, compared to a peak of nearly 18% in the fourth quarter of 1983. This was a major adjustment comparable to the one achieved in the case of Mexico. The rate of growth of money and credit would be slowed; the limits on net domestic assets were based on a rate of monetary growth that was several percentage points below the targeted rate of inflation. Regulated interest rates on deposits would be approximately neutral in real terms and the share of intermediation at indexed rates or in the bankers' acceptance market would be increased. The size of salary adjustments would be reduced over time consistent with the inflation objective of the program. An active exchange rate policy would be pursued to achieve the twin objective of economic growth and a balance of payments position that would allow Argentina to meet its external obligations.

10. The program included the usual performance criteria but had some special features. For example, the limits on public sector borrowing and treasury spending, as well as the limits on the net domestic assets of the Central Bank, had been defined in peso terms and set on the basis of the projected improvement in price performance. These limits became more restrictive in real terms if the rate of price increases initially exceeded those implicit in the program; they would thus act as a powerful break against inflation.

11. The Government had so far complied with the conditions of the program. Its wage, fiscal, monetary and exchange rate policies were essentially on track. Considerable progress has been made on the prices front--the average increase in consumer and wholesale prices had fallen from 25.5% in September to 17.3% in October. Mr. de Larosiere was confident that with suitable policies Argentina could improve its export performance to permit a steady reduction in the current account deficit. According to Fund staff projections, the current account would move into surplus by 1988; provided normal capital flows were resumed, there would be no need for future debt restructuring from 1986 onwards.

12. A table on the financing requirements of the program was distributed to participants in the meeting (copy attached). The aggregate shortfall for 1984/85 was estimated at US\$7.9 billion, based on the following assumptions: a current account deficit of US\$4.4 billion; autonomous flows (direct investment, trade financing) of US\$1.2 billion; repayment (by September 1985) of end-1983 arrears of US\$3.2 billion; replenishment of gross reserves of US\$.5 billion; and repayment of principal to the banks of US\$1 billion. Under the Fund proposal, the gap would be partially financed with a US\$1.2 billion standby from the Fund, US\$0.7 billion relief on officially guaranteed debts from the countries of the Paris Club, US\$1 billion official export financing, and US\$0.6 billion from multilaterals. The estimated remaining shortfall of US\$4.4 billion assumes that loans falling due in 1984 and 1985 will be restructured and that trade related short-term financing and interbank financing will not fall below their current levels. Mr. de Larosiere emphasized that this was a very tight financing package. To be in a position to ask the Board to take a decision before the end of the year, he would need written assurances before Christmas from the banks and from official sources about their participation along the lines outlined above.

13. Amount of New Loans. Mr. de Larosiere explained that the requested US\$4.4 billion would raise the banks' exposure in Argentina by 11.3% from end-1983 to 1985, adjusted for repayment of the US\$750 million bridging loan and US\$250 million in swaps. The IMF, the bilaterals and the multilaterals were willing to accept a much larger increase in their exposure. The banks asserted that their exposure would increase by 17% in respect of outstanding balances which would be more than they had been willing to do in the case of Brazil.

14. The focus of discussion shifted to the absolute size of the new facility, with the exposure increase assuming secondary importance. The bankers seemed startled by the Managing Director's request for US\$4.4 billion. The American bankers thought that about US\$4 billion in new money could be mobilized whereas the European bankers took a more cautious stance. The British and Swiss bankers argued that it would be difficult to sell participations in even a US\$3 billion package. The Japanese, in particular, felt very strongly about a common front of all creditor banks; defections could not be tolerated; the amount would be secondary to this prerequisite. Also, more support from their monetary authorities was

needed to bring the smaller banks into line. In any event, the bankers felt that it would be essential to clear up interest arrears of US\$1.2 billion up front in order to get approval for the package from the 320 banks of the consortium. It was not clear, however, whether the entire US\$1.2 billion had to be cleared, as Mr. Grinspun apparently had promised he could do with a bridge loan, or whether a "substantial amount" would suffice. The bankers generally expressed skepticism about the reliability of the Argentine Government and its ability to stick to the Fund program. Argentina had a special reputation and could not be compared to Mexico or Brazil.

15. Mr. de Larosiere stuck to the US\$4.4 billion for about three-fourths of the meeting, until shortly before the second break. He said that he had put all the chips on the table. He noted that the Fund was proposing the maximum of 102% of the quota, and that he had worked very hard to obtain a US\$1 billion commitment from official sources. The multilaterals were likewise doing their utmost to meet the target amounts he had specified in the financing package; this would mean their more than trebling their disbursements compared to last year. They simply could not press a button that would provide more financing in the short term. The Stabilization Program was extremely tight, and US\$4.4 billion was the minimum needed from the commercial banks. The risk of having the program fail because of insufficient financing could not be accepted; clearance of the arrears by mid-1985 was a performance parameter that could not be waived. In view of the unwillingness of the commercial banks to even consider discussing the US\$4.4 billion, Mr. de Larosiere raised the possibility of a US\$270 million compensatory financing facility so as to permit a lower aggregate level of commitment on the part of the commercial banks. It would not be easy to argue for the facility, however, since Argentina had just had record exports. In essence, therefore, he would have to bend the rules, if not break the spirit of the CFF. He was willing to do this, though, if the banks were willing to do their part and come up with at least US\$4.25 billion. Mr. de Larosiere asked that the matter of the CFF be kept strictly confidential because of the sensitive implications involved.

16. The banks did not respond favorably. They felt that they were being pushed to do more than they could deliver. Mr. de Larosiere replied that the program would allow the most massive case of clearing up of arrears that he had seen. The new lending required from the commercial banks clearly was on the low side. He did not like to see the program fail and therefore was willing, on his part, to risk a very controversial debate on the CFF which might endanger the integrity of the facility. The bankers maintained that the proposal was not a viable one even if the Fund were to provide for a CFF. The figure was simply too high for Argentina and there was no reasonable prospect of assembling the financial "critical mass" that the Fund required before Christmas. This put Mr. de Larosiere in a difficult position since he had to be satisfied by the charter that the program was adequately financed. Very reluctantly, he would be willing to compromise at US\$4.25 billion.

17. The bankers again expressed doubts that the Argentine Government would live up to the requirements of the program, noted that the Government was recalcitrant in its negotiations with the banks, and reiterated the argument that the difference between their proposal and that of the Managing Director came down to the equivalent of the World Bank's Agricultural Sector Adjustment Loan. It was the feeling of the bankers that it would be better to have the program collapse now; to try to raise US\$4.2 billion and to fail would be even more damaging.

18. Participation of Multilaterals. The bankers focused exclusively on the IBRD, leaving the IDB aside. It was apparent from their many comments and requests for clarification that the bankers attached the utmost importance to an expanded IBRD lending program. Mr. Clausen explained that the Bank had not been very active during the last three years in Argentina, committing only one loan of US\$100 million. In the aggregate the Bank held loans of about US\$1.4 billion in Argentina, of which US\$850 million had not yet been disbursed. Any increase in the transfer of monies from the Bank to Argentina essentially depended on an acceleration of disbursement of these existing loans. Bank staff had been working closely with the Argentine authorities to review the possibilities for speeding up disbursements; a number of steps had been taken in this context, including project restructuring and the establishment of revolving funds. A Bank mission was at present in Argentina to review progress in project implementation. Mr. Clausen was confident that US\$250 million could be disbursed in 1985 from ongoing operations. He cautioned, however, against any expectations of significant quick disbursements from new lending operations. While he was encouraged by the progress achieved in the dialogue with the Argentine Government during recent months, he doubted that more than US\$25 million could be drawn down from new commitments during the coming year. Aggregate gross disbursements in 1985, therefore, were estimated at US\$275 million and net disbursements at US\$200 million--the figures the Managing Director had quoted. The Bank was ready to step up sharply its lending to Argentina: three missions were currently in Argentina, and another would be sent shortly to prepare new loans. Much work still needed to be done by the Government, however, and it would not be realistic to expect significant monies from new commitments.

19. Mr. Ortiz Mena stated that the IDB was planning on net disbursements of US\$360 over the next few years. The IDB strongly supported the agreement between Argentina and the Fund. The agreement had broad regional implications; it would also benefit Argentina's neighboring countries, and the IDB would continue to back it.

20. The general tenor of the bankers' position was that the IBRD should do more--make more than a niggardly contribution, as one of them put it. More Bank financing than that currently planned, and particularly the Agricultural Sector Loan, would signal to the members of the banking consortium that the international financial institution was doing their utmost, and would therefore make it easier to obtain their participation in the new money facility. Mr. Rhodes stated that a more active involvement of the Bank would make a psychological difference.

21. Mr. Clausen emphasized that the planned gross disbursement of US\$275 million for 1985 would be a big increase from this year's US\$80 million; to achieve this goal would require the full cooperation of the Argentine Government, particularly in respect of new lending. While it was possible that a first tranche under the proposed Agricultural Sector Loan might be drawn in 1985, it would not be realistic to count on it as a source of financing for the stabilization program. It could not be assumed that the Argentine Government would be able to act much more quickly than usual in putting into place the policies that would justify such a loan. In assessing the Bank's financial contribution during the coming year, one should bear in mind that it was a development institution and that its commitment to Argentina therefore needed to be viewed in a longer term perspective. Efforts were now underway to lay the groundwork for raising gross disbursements to annual levels of about US\$350 million in both 1986 and 1987; this would constitute a major expansion of Bank activities in Argentina.

22. The bankers argued that accepting the amounts of new monies requested of them by the Managing Director would be tantamount to taking pressure off the Argentines to come to an agreement with the IBRD on an Agricultural Sector Loan. In fact, the envisaged size of that loan was precisely equivalent to the difference between what they felt could be sold to the consortium banks and what the Managing Director had indicated would be the absolute minimum (predicated on obtaining a CFF). Mr. de Larosiere concluded that the multilaterals had worked very hard, that they could not just press buttons to increase loans and that no more could be expected from them than what they had indicated.

23. Firmness of Fund Projection. The bankers queried the assumptions underlying the financial requirements projected by the Fund. They felt that the estimated trade surplus was overly conservative and asked for clarification of the interest rate that Fund staff had used in projecting debt service payments. Fund staff agreed that the interest rates used in the projections were about 1-1/2 percentage point above actual market rates. On the other hand, the commodity prices underlying the export forecasts were also higher than actual prices; the difference probably more than compensated for the lower interest payments. The projected surplus in the trade account was the most Argentina could be expected to achieve. Exports had been at record levels last year and imports could not be compressed further. The projections also included a rather optimistic assumption in respect of the repatriation of private Argentine capital, i.e., deposits of dollars held by the private sector in Argentina outside the official banking system. Mr. de Larosiere emphasized once more that the financing package was extremely tight. While he was convinced that US\$1 billion in credit lines from Government agencies was attainable, it would take time to disburse this amount and there might be some shortfalls. Further, the cash situation of the Central Bank would continue to be very difficult; its reserves were projected to be less than two months' worth of imports in September 1985.

24. Use of New Loan. Mr. de Larosiere emphasized that special precaution must be taken to ensure that existing credit lines remained available and that the new credits constituted additional financing. The bankers agreed that provisions should be made to avoid trade-related short-term financing and interbank deposits falling below current levels. They were concerned, however, that a major share of new financing would end up in the public sector; they were skeptical about the Government's ability to pursue prudent financial policies. The bankers therefore also insisted that a sizeable amount (US\$500 million) be used for straight onlending to their private Argentine clients to protect them from the credit crunch that would result from the stabilization program. This was particularly important for the regional banks. It was obvious that the bankers wanted to make sure that their Argentine customers, in both the private and public sectors, would get the dollars to pay interest on their debts to them.

25. Mr. de Larosiere stressed the need for a clean arrangement, consistent with the objective of the program to improve the efficiency of financial intermediation. He pointed out that the limits on public sector borrowing provided assurances that the private sector would not be crowded out. He clearly felt uncomfortable with any pre-allocation of the banks' new money because of the distortion it could entail, but said that he would give this matter some further thought.

26. Bridging Loans. The bankers insisted that Argentina had to clear up the US\$1.2 billion it owed to them in arrears of interest payments before any new money could be drawn down. Minister Grinspun had committed himself in discussions with them to organize a bridge loan in that amount. There was doubt whether he could deliver and also whether the arrears had to be cleared in full and in advance. The U.S. Treasury apparently was prepared to make US\$500 million available from the Exchange Rate Stabilization Fund and Argentina would use US\$200 million from its reserves; the remainder would have to come from the Central Banks of the Latin American countries that had helped Argentina under a previous bridging operation. It was not clear when the bridge loan would have to become effective. It was mentioned that the loan would be triggered by Fund approval of the standby. The U.S. Treasury would be repaid from the proceeds of the CFF and the first tranche of the standby. The banks concluded that this matter needed to be discussed in more detail during the next round of negotiations with the Argentine Government.

27. Intervention of Messrs. Volcker and Solomon. The comments of Mr. Volcker and Mr. Solomon reflected an apparent conviction that it was important to come to an agreement with which the Managing Director would feel comfortable. They supported his judgment that the financing plan was tight and echoed his concern about the dangerous consequences of lack of agreement for the financial system. Mr. Solomon pointed out that the banks were getting more out than they were putting in; he questioned whether their position was not overly tough. Mr. Volcker commented that there was no easy way out of the box. From a regulatory point of view, he would of course prefer to see the banks provide as little new money as possible. On

the other hand, looking at the figures the Managing Director had provided, there was not much room for cuts. Among the various possibilities, he thought that perhaps US\$200 million could be saved. He proposed US\$4.2 billion which neither the bankers nor the Managing Director accepted. Towards the end of the meeting, Mr. Volcker came out in support of the US\$4.25 billion which the Managing Director had given as an absolute minimum.

cc: Messrs. Clausen, Stern (o/r), Knox (o/r), Gue (o/r), van der Meer,
Gonzalez-Cofino, Steckhan, Levy

PScherer:md/gc

Table 2. Argentina: Financing of the Current Account, Reserves, and Arrears, 1984-85

(In millions of U.S. dollars)

	1984-1985
<u>Current account</u>	<u>-4,389</u>
<u>Autonomous flows</u>	<u>1,246</u>
Direct investment and other non-debt creating capital flows <u>1/</u>	874 ✓
Bonds	-69
Trade financing and other flows <u>2/</u>	441
<u>Subtotal</u>	<u>-3,143</u>
<u>Repayment of end-1983 arrears</u>	<u>-3,222</u>
to Paris Club	-600
to multilateral institutions	-52
to banks	-1,525
to other creditors	-1,045
<u>Replenishment of gross reserves (increase -) 3/</u>	<u>-530</u>
<u>Repayment of principal to banks</u>	<u>-1,012</u>
Bridge loan	-750
Other	-262
<u>Financing needs</u>	<u>-7,907</u>
Multilateral institutions	613
Disbursements	(919)
Amortization	(-306)
IMF stand-by	1,175
Paris Club	729
Disbursements	(1,790)
Amortization	(-1,061)
Official export financing	1,000
<u>To be financed</u>	<u>4,390</u>

Sources: Central Bank of Argentina; and Fund staff estimates and projections.

1/ Includes direct investment, repatriation of Argentine capital and the balance of the Central Bank of Argentina account with the Latin American Integration Association (ALADI).

2/ Excludes amortization of medium-term trade loans eligible for Paris Club refinancing.

3/ Includes valuation adjustment in 1984.

4/ Includes repayment of swaps related to commercial operations, amortization of reserve loans, and changes in deposits of banks at the Central Bank under Circular A 404.

OFFICE MEMORANDUM

DATE November 21, 1984
TO Mr. A. W. Clausen
(through Mr. Ernest Stern) *ES*
FROM A. David Knox *AK*
EXTENSION 7-5901
SUBJECT Meeting With the IMF and Bankers on Argentina in New York

I attach a brief on the meeting that you are attending in New York on Monday to discuss Argentina. I have been trying to obtain from the Fund details about the meeting but even Eduardo Wiesner, Director of the Western Hemisphere Department of the Fund, is not sure. He has promised to be in touch with us as soon as he has firm information.

In the meantime the information he has given me is as follows:

The meeting will be at 8:30 a.m. on Monday, November 26, at the offices of the Federal Reserve Bank in New York City. It will be chaired by the Managing Director of the IMF and attended probably by the Chief Executive Officers of the banks making up the Advisory Committee on Argentina, namely, Citicorp, Manufacturers Hanover, Morgan Guaranty, Royal Bank of Canada, Lloyds, Chase Manhattan, Bank of America, Bank of Tokyo, Credit Lyonnais, Credit Suisse, Dresdner Bank. In addition to yourself, Mr. Ortiz Mena of the IDB and Mr. Volcker have been invited.

Wiesner expects that the meeting will be opened by Mr. de Larosiere, who will present an analysis of the Argentine situation and of the additional finance that is required. Wiesner expects that this will then be followed by a long and difficult discussion with the commercial banks to try to fill the financing gap. You will be asked to indicate what the World Bank can do and, in particular, how much we expect to be able to disburse in 1985. The attached brief gives you that information.

Unfortunately, both Andre Gue, the Programs Director responsible for Argentina, and I will be on mission on November 26. I have therefore asked Peter Scherer, Division Chief for Argentina, to accompany you to the meeting.

P.S. Wiesner has called to confirm the above

OFFICE MEMORANDUM

DATE November 21, 1984

TO: Mr. A. W. Clausen
(through Ernest Stern, SVPOP)
FROM: A. David KnoxSUBJECT: Meeting with Bankers at the IMF

1. In our earlier discussions with the IMF we indicated that the Bank may be able to disburse about US\$275 million gross and US\$92 million net to Argentina in CY1985. The Fund passed these figures on to the commercial banks. We have reviewed subsequently the disbursement prospects more thoroughly with the Argentine authorities. We concluded that disbursements from existing loans may be somewhat lower (US\$250 million against US\$275 million) and from new operations higher (US\$40 against zero) than our original estimate. In the aggregate, the Bank may therefore be able to disburse slightly more (US\$290 million compared to US\$275 million) than what the banks have been told by the Fund. However, I suggest you stay with the US\$275 million. It may not be prudent to raise expectations in respect to higher disbursements - especially since it has only recently been possible to reopen a dialogue with the Government on medium-term development prospects and a framework for stepped-up lending.

2. Details on the disbursement prospects of our ongoing operations and our plans for new ones are contained in the attached table. We have reviewed each ongoing operation with the Argentine authorities and have restructured them where possible to respond to changing circumstances in Argentina. Taking into account the availability of counterpart finances, and assuming a determined effort on the Argentine side to speed up administrative procedures and to comply with loan covenants, it should be possible to disburse about US\$250 million. Achieving this target would treble disbursements from their CY1984 level of US\$81 million. Towards this end, and to maintain the momentum of our recent discussions with the Government, Mr. van der Meer is at present in Argentina to arrange for a project implementation review late in the first quarter of 1985.

3. Over the medium-term, we are planning to step up sharply our operations in Argentina in line with improvements in the government's macro-economic and sector policies. Specifically, we have scheduled five appraisals for the first half of 1985 (Technical Assistance, Gas Development for YPF, Agricultural Sector Loan, Bahia Blanca Ports, and Water Supply). Disbursement from these operations in CY1985 will, however, be limited to moneys from associated revolving funds. In theory, the first tranche of the Agricultural Sector Loan could be drawn down before year end but the Government would have to act much quicker to establish an appropriate incentive system than has been customary in the past. A Bank mission is presently in the field to help the Government prepare the loan.

Counterpart funds become available for the public projects and if investment demand materializes for the private lines of credit (industry and oil and gas).

We should mention separately that disbursements out of the new loans depends on expeditious action by GOA to complete the technical preparatory work and settle on any outstanding issues. We will move as fast as they, but we cannot predict Board dates since this depends on Argentina's speed. Finally, you should note that while the technical issues relating to the agricultural sector are important ones, if the government came to grips with them this loan could be made in CY1985, and disburse 50% of it.

No program for 3 yr
100 mil Hiwmc Passed
850 committed
UNDISBURSED
ENCOURAGED
3 APPRAISALS NOW
more before
INCREASE
DISBURSEMENTS
FUTURE
COMMITMENTS
N.B.

TAKES
2

5 APPRAISALS

I think you should distinguish clearly between disbursements from existing commitments and from new loans. There is no need to stick to previous figures. We should indicate gross disbursements of \$250 million less repayments of \$90m. for a net of \$160m. out of existing loans. This will happen only if Argentina takes action on administrative streamlining, if counterpart funds become available for the public projects and if investment demand materializes for the private lines of credit (industry and oil and gas).

4. The Government seems determined to stay within the target of the agreement with the Fund: the exchange rate has been devalued by 11% in real terms in October, interest rates in the controlled credit market have been raised to only slightly negative levels, and price controls for basic consumer goods have been relaxed. Moreover, the recently promulgated budget for 1984 is consistent with the guidelines for wage increases that had been agreed with the Fund. Since the Government has started implementing restrictive monetary and wage policies, the rate of inflation has come down by one-third to 20% per month. On the other hand, the initial adverse consequences of the program are also becoming apparent. Economic growth is flattening. Many firms are facing debt servicing problems and the number of firms filing for chapter 11 is increasing. There have also been scattered strikes. In general, the Government seems encouraged that the public's reaction has not been more adverse. In spite of the social and political costs that the program will entail, the Government appears well positioned to carry it through in the absence of an organized opposition and a plausible alternative policy package.

5. The Government has announced that the talks with the commercial banks on the rescheduling of Argentina's debt will be completed by the end of December. It is asking for US\$5.5 billion in fresh financing, including US\$3.2 billion for payments arrears outstanding at the end of August 1984. The Government's proposal also provides a new timetable for repayments of capital until 1999, with US\$1.9 billion in 1986, US\$6.4 billion in 1987, US\$5 billion in 1988, and roughly equal payments around US\$3 billion thereafter. The bankers will be hard pressed to come up with the requested US\$5.5 billion. They are likely to offer around US\$3 billion. In case the gap cannot be closed, the Fund will probably agree to a slower drawdown of Argentina's arrears to commercial banks to salvage the program.

Attachment

PScherer:gc/md

ARGENTINADISBURSEMENTS ESTIMATES FOR PROJECTS UNDER EXECUTION AND FOR PROPOSED NEW PROJECTS

		CY1983	CY1984	CY1985	CY1986	CY1987
		(in US\$ million)				
<u>ONGOING PROJECTS</u>						
1384-AR	Highway IV	105.0		20.0	-	-
1463-AR	Industrial Credit I	100.0		2.0	-	-
1521-AR	Grain Storage	87.0		15.0	25	12
1677-AR	Railways II	96.0		15.0	12	-
1761-AR	Yacyreta Hydroelectric/a	210.0		10.0	19	20
1880-AR	Oil & Gas Engineering	27.0		1.0	-	-
S-20-AR	Coal Exploration	10.0		2.0	3	5
1905-AR	Voc.Train.& Tech.Educ.	58.0		10.0	10	10
2031-AR	Oil & Gas Credit	100.0		30.0	30	15
2032-AR	Refinery Conversion	200.0		65.0	20	18
2063-AR	Industrial Credit II	100.0		70.0	30	-
2296-AR	Highways V	100.0		10.0	21	30
Subtotal				250.0	170	110
<u>FUTURE PROJECTS</u>						
Water Supply (Board Pres. end 1985)		75.0		8.0	15	20
Bahia Blanca (Board Pres. end 1985)		100.0		8.0	5	30
Energy-Gas Dev. (YPF)(Board Pres. end-1985)		100.0		25.0	50	25
Agric.Sector (Board Pres. early 1986)		200.0		-	100	100
Energy-Gas(GdeE)(Board Pres. mid-1986)		150.0		-	10	65
Subtotal				41.0	180	240
Gross Disbursements		70	81	291.0	350	350
Repayment Principal		41	78	92.0	142	142
Net Disbursements		29	3	199.0	208	208
Repayment Interest /b		36	56	47.0	52	57
Net Transfer		-7	-53	152.0	156	151

/a If tariff and sector finance issues are resolved before end 1984, loan could disburse to the tune of about US\$40 million p.a. starting 1985.

/b Interest and commitment fees.

November 20, 1984

Handwritten calculations:

$$\begin{array}{r}
 275 \\
 92 \\
 \hline
 183 \\
 + 384 \\
 \hline
 1176
 \end{array}$$

Table 1. Argentina: Current Account of the Balance of Payments, 1980-85

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985
<u>Current account</u>	<u>-4,768</u>	<u>-4,714</u>	<u>-2,358</u>	<u>-2,438</u>	<u>-2,154</u>	<u>-2,235</u>
Trade balance	-2,519	-287	2,287	3,320	3,983	4,400
Exports, f.o.b.	8,021	9,143	7,624	7,835	8,701	9,600
Imports, c.i.f.	-10,540	-9,430	-5,337	-4,515	-4,718	-5,200
Services and transfers	-2,249	-4,427	-4,645	-5,758	-6,137	-6,635
Financial services	-1,531	-3,700	-4,718	-5,408	-5,902	-6,515
Other	-718	-727	73	-320	-235	-120
<u>Memorandum items</u>						
Interest payments ^{1/}	2,175	3,850	4,926	5,423	5,764	6,376
Balance on goods and nonfactor services	-3,259	-992	2,329	2,970	3,748	4,280

Sources: Central Bank of Argentina; and Fund staff estimates and projections.

^{1/} Interest payments for the fourth quarter of 1984 and 1985 were calculated assuming that interest rates in international capital markets would average 12 1/4 percent during the year. The average cost of floating rate debt, including spreads, would be 14 percent.

Wage Policies

↑
?

4. d 750 judge for
- 1525 answers
- 8.900 but 84 RS
11.4

Table 2. Argentina: Financing of the Current Account, Reserves, and Arrears, 1984-85

(In millions of U.S. dollars)

	<u>2 years</u> 1984-1985
<u>Current account</u>	-4,389
<u>Autonomous flows</u>	1,246
Direct investment and other non-debt creating capital flows <u>1/</u>	874
Bonds	-69
Trade financing and other flows <u>2/</u>	441
<u>Subtotal</u>	-3,143
<u>Repayment of end-1983 arrears</u>	-3,222
to Paris Club	-600
to multilateral institutions	-52
to banks	-1,525
to other creditors	-1,045
<u>Replenishment of gross reserves (increase -) <u>3/</u></u>	-530
<u>Repayment of principal to banks</u>	-1,012
Bridge loan	-750
Other	-262
<u>Financing needs</u>	-7,907
Multilateral institutions	613
Disbursements	(919)
Amortization	(-306)
IMF stand-by	1,175
Paris Club	729
Disbursements	(1,790)
Amortization	(-1,061)
Official export financing	1,000
<u>To be financed</u>	4,390

Sources: Central Bank of Argentina; and Fund staff estimates and projections.

1/ Includes direct investment, repatriation of Argentine capital and the balance of the Central Bank of Argentina account with the Latin American Integration Association (ALADI).

2/ Excludes amortization of medium-term trade loans eligible for Paris Club refinancing.

3/ Includes valuation adjustment in 1984.

4/ Includes repayment of swaps related to commercial operations, amortization of reserve loans, and changes in deposits of banks at the Central Bank under Circular A 404.

For 2 years 84-85

-4389
1246
3143

By Sept 85

- 800 ARS of 85
2 mos imports

275 Gross
-139 Repayment
136 Net

Now committed

Goes from
10200
to 9500
on 1-1-85

This was
really tough

MEDIUM TERM OUTLINE

Table 3. Argentina: Balance of Payments Projections, 1985-89

	1985	1986	1987	1988	1989
(In millions of U.S. dollars)					
Current account	-2,235	-698	-181	383	787
Trade balance	4,400	4,758	5,139	5,545	5,975
Exports	9,600	10,634	11,779	13,048	14,453
Imports	-5,200	-5,876	-6,640	-7,503	-8,478
Nonfinancial services	-120	-199	-272	-359	-464
Financial services	-6,515	-5,257	-5,048	-4,803	-4,724
Capital account and reserve movements	2,235	698	181	-383	-787
Nondebt-creating capital flows	680	1,200	1,200	1,200	1,200
Other capital	3,355	-24	-162	-826	-1,058
Change in arrears	-2,600	—	—	—	—
Change in gross reserve assets (inc. -)	-140	-360	-360	-360	-360
IMF	940	-118	-497	-397	-569
(Ratios)					
Debt service as a percent of exports of goods and non-factor services	91.6	85.9	81.7	90.9	79.2
Interest	55.4	39.7	34.1	28.9	25.3
Amortization	36.2	46.2	47.6	62.0	53.9
Interest payments/GDP	7.8	5.7	5.0	4.3	3.9
External debt/GDP	62.0	56.9	51.7	46.4	41.3
Reserves in months of merchandise imports					
Gross reserves	7.2	7.1	7.0	6.7	6.5
Disposable reserves	2.1	2.6	2.9	3.2	3.3
(In billions of U.S. dollars)					
Memorandum items					
Debt service payments	10.5	11.0	11.5	14.2	13.7
Interest	6.4	5.1	4.8	4.5	4.4
Amortization	4.2	5.9	6.7	9.7	9.3
Exports of goods and nonfactor services	11.5	12.8	14.1	15.6	17.3
External debt	50.4	50.3	49.6	48.4	46.8
Gross domestic product	81.3	88.4	96.0	104.4	113.4

Source: Fund staff.

Office of the President

11-26-84

Argentina:

The Financing
Gap

Argentina needs 5.3 billion

The Banks willing
to supply3.5
1.8 billionThe M.D. is putting
together:1.0 billion
export credit agencies

1.0

0.25 From
Compensatory
Financing
Facility0.25Remaining
Gap approx.

→ \$550 million

Banks (2nd Go around)

(A)

Below \$4 billion.

Bridge is essential once
you're to Board.

#1.2 billion aint

U.S. Treas.

Latin Am countries

incl. Brazil

Venezuela, European
countries.

13 listed Bank issues must be
resolved - this week.

Compensatory facility?

Agricultural loan.

Canada - reasonable chance for
under \$4 bil. Govt + support.
more than \$4 bil.

Leontine Bank showed do more!
highly.

Germany -

John W. Gullity same.

Dresner - under \$4 billion.

Credit Suisse - Ernst. Not over \$3 bil
\$3.5 might squeeze them.

~~Note - 7 lines~~

Credit Lyonnais ^{MICHELE} - Below 4 bil

Bill Butcher - Himself (at even below
\$4 billion), but a lot of small
Books.

Bank of Tokyo

Bill Young - An average up. Small
Books.

John Reed Argentina is "special" -
in Gilleuddy.

option of less than \$4 bil.
is important.

Bridging is important.

what if we can't get a bridge loan
of \$1.2 bil? Gillingham says we
can get \$1.2 bil. Rude says - as
much as possible.

BIS is not a possibility for
Bridging. Matter of collateral.

Jorgens - IMF has grown up to
over 10200 \$1.2 billion.
Increase exposure by 10000

(2)

Jacques says: "Official report
framing of 1 bil is maximum
amount. Likelihood of all of it
being disbursed is not good.
will be spill over into '86.
Can't go more than 10250.

$$\begin{array}{r} 3 \\ \sqrt{810} \\ 25825 \end{array}$$

$$\begin{array}{r} 275 \\ - 81 \\ \hline 194 \end{array} \quad 81$$

Bullock suggests \$4.2 billion as a
compromise.

Jeremy - Europeans can't sell over
\$4 bil.

Jacques - Moore gives over an imposed
Leaves (4.2) on unfunded gap of
\$200 mil.

If you deduct repayments of \$1 bil
then Bullock's increase of expenses
1270 - vs 1770 of Brazil.
CFF is difficult. \$270 mil
is possible.

(D)

Could be \$500 mil for interest
rate assumptions. Could be \$500
mil short of Revenue in the
Total amount.

Tues Eve ~~Monday~~ ^{Wed} A.M.

\$4 to \$4.2 - he leads.
Need to talk to Argentines!

~~Under Bridge~~ ^{\$4.2}
a pre condition. This brings
in the CFF (\$270)!

need to resolve in next 36 hours! (E)

- ① Intrusion of host's
Banks in the debt
- ② Area of Pricing of loan.
- ③ On-Lending issue ★
- ④ ^{matter of} currency switches
- ⑤ "Settling on expenses" issues
- ⑥ Legal issues - jurisdiction
constitutionality!
- ⑦ Tax issue
- ⑧ Private sector lending.

★ inclusion controlled! that is,
be sure it does not conflict
w/ requirements of provision of credit.

Banks - Issues

Trade credit facility of \$500 million
(small banks) ^{#1 bill to promote credit}
^{wants a} multi year monitoring
program. Argentina has
difficulty in accepting ^{#1 bill to promote credit}
^{#1 bill to promote credit}

Close to making a deal on
financial terms.

on-lending is a key issue.

Fees & expenses (18% on part
due)

jurisdictional dispute.

How disburse monies?

Bank here is \$28 billion as of
June 30 '84. — 17709 28 bil.

w/B

w/B \$ 275

~~\$~~

275

10B

350

92

625

183

Net Disburse.

10B 84

85

Gross 250

350

Repayments - 75

- 60

net \$175

net. \$290

disbursements

IDB

1,056,000 undischarged
+ 220,000 legend of Gen
* 1.276

85 program -

* 300 million
program.

in foreign exchange.


Disbursements * 350 in '85

* 350 in '86 ~~for~~

uses local currencies
+ foreign exchange.

Hydroelectric program
is going forward.

What are our
total commitments

(delevered \$ 1.400 ^{own} _{now} 
+ undelevered \$ 851 mil)
2.2



MANAGING DIRECTOR

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

November 21, 1984

Dear Tom,

Following our recent conversation, I enclose a copy of the telex inviting the Bank Chairmen/Chief Executive Officers to the meeting on Argentina to be held in New York next Monday.

Sincerely,

A handwritten signature in cursive script, reading "Jacques", is positioned above the printed name.

Jacques de Larosière

Mr. A.W. Clausen
President
World Bank
Washington, D.C. 20433

RECEIVED

1984 NOV 21 PM 1:40

OFFICE OF THE PRESIDENT



RECEIVED, OFFICE OF THE PRESIDENT
NOVEMBER 21, 1984

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT
WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

START TEXT HERE

IF
REQUIRED
INITIAL
BELOW

23 LIST OF 11
22
21
20
19 PAGE 1

18 AS YOU KNOW, WE HAVE REACHED AGREEMENT AT STAFF AND
17 MANAGEMENT LEVEL WITH THE AUTHORITIES OF ARGENTINA ON AN
16 ECONOMIC PROGRAM IN SUPPORT OF A STAND-BY ARRANGEMENT
15 WITH THE FUND. I CONSIDER IT OF GREAT IMPORTANCE TO BE
14 ABLE TO PRESENT DIRECTLY TO YOU THE SUBSTANCE OF THE PRO-
13 GRAM, TO DESCRIBE THE REQUIREMENTS FOR EXTERNAL FINANCE
12 IN ORDER FOR THIS PROGRAM TO BE IMPLEMENTED SUCCESSFULLY,
11 AND TO SEEK YOUR COOPERATION IN ASSURING THAT THESE
10 RESOURCES ARE MADE AVAILABLE.
9
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EXT. 73057

DEPT.: OMD

DATE 11/21/84

AUTHORIZED BY
NAME (TYPE) J. DE LAROSIERE

AUTHORIZED BY
NAME (TYPE) J. DELAROSIERE

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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16	ACCORDINGLY, I SHOULD LIKE TO INVITE YOU, TOGETHER		
15	WITH THE CHAIRMEN/CHIEF EXECUTIVE OFFICERS OF THE OTHER		
14	WORKING COMMITTEE BANKS, TO A MEETING NEXT MONDAY,		
13	NOVEMBER 26, 1984 AT 8:30 AM AT THE FEDERAL RESERVE		
12	BANK IN NEW YORK. I WILL BE JOINED THERE BY CHAIRMAN		
11	<u>VOLCKER</u> , FRBNY PRESIDENT <u>SOLOMON</u> , WORLD BANK PRESIDENT		
10	<u>CLAUSEN</u> AND IADB PRESIDENT <u>ORTIZ MENA</u> . THE FUND STAFF		
9	WHO HAVE BEEN NEGOTIATING THE PROGRAM WILL BE PRESENT.		
8	IN ORDER TO FACILITATE DISCUSSIONS I BELIEVE IT WILL		
7	BE DESIRABLE TO LIMIT THE SIZE OF THE GATHERING AND		
6	ACCORDINGLY I <u>AM INVITING PARTICIPANTS TO COME WITH</u>		
5	<u>NOT MORE THAN ONE COLLEAGUE TO THE MEETING.</u>		
4	I SHOULD BE VERY GRATEFUL IF YOU WOULD CONFIRM		
3	TO ME BY TELEX YOUR PARTICIPATION IN THE MEETING NEXT		
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IMF OFFICIAL MESSAGE
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Samuel L.H. Armacost
President
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34346 baukamer sfo

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883474 loydl n g

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3766545 morgan
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President
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Tokyo
Japan

78123291 tohgin j

Rowland C. Frazee
Chairman and C.E.O.
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Canada

(389) 5561086 royal bank mtl

OFFICE MEMORANDUM

DATE: October 18, 1984

TO: Mr. A.W. Clausen

THROUGH: Mr. S. van der Meer, Acting Regional Vice President, LCN

FROM: *AS* Andre R. Gue, Director, LC2 *AS*

EXT: 72011

SUBJECT: ARGENTINA - Visit of Mr. Enrique Garcia Vasquez, President of the Central Bank

10-19-84
Suggested the
Bank steering
Committee
David Peter Schuler
To get
assurances
in the next
180 days
might be.

didn't come -
Mr. Zaldueño saw me -

1. I have just learned that Mr. Enrique Garcia Vasquez requested a meeting with you. He will also be meeting with Mr. Ortiz Mena. I understand that his impromptu visit to Washington is the result of pressure from the commercial banks. The commercial banks are reluctant to provide the fresh financing that would be required under the agreement with the Fund (about US\$1 billion). Therefore, they want to make certain that the Argentine Government has done its utmost to increase financing from the Bank.

2. You had talked to Mr. Enrique Garcia Vasquez and the Minister of Economy, Eduardo Grinspun, during the Annual Meeting. I suggest you confirm the Bank position as follows:

- (a) The Bank stands ready to help Argentina in the formulation and implementation of a medium-term economic recovery program. In this context, Vice President Knox will be visiting Argentina next week to ascertain the priorities of the Government and the scope for Bank cooperation in detail;
- (b) an increase in Bank transfers will depend, in the short-term, on an acceleration of disbursement of ongoing operations. The total amount of loans committed and undisbursed is US\$850 million. We estimate that net disbursements could reach close to US\$200 million in CY1984/85, depending on Government cooperation in removing project constraints (Attachment I provides detail; the figures have been discussed with the Fund);
- (c) Unlike Brazil and Mexico where the Bank could step in quickly to support economic stabilization and reform program, the Bank has not had a dialogue with the Government that would allow us to expedite new lending. The timing for processing new projects essentially depends on the speed of preparation and the willingness of the Government to address associated policy issues. Concretely, we are considering operations for water supply, ports, agriculture and energy development which in the aggregate may amount to a lending of about US\$600 million during CY1985/86. However, disbursements from these loans are unlikely to exceed US\$120 million in CY1986 (Attachment I);

- (d) we are hopeful that the Bank can expand its lending program to strengthen Argentine productive capacity along the above lines in the context of the envisaged close cooperation on development policies, i.e., incentives for the productive sector, export promotion, rationalization of public sector prices. Should all the pieces fall into place and Argentina comply with the requirements of the Fund agreement, we might be able to develop a lending program as outlined in Attachment II.

PScherer:md

ARGENTINADISBURSEMENTS ESTIMATES FOR PROJECTS UNDER EXECUTION AND FOR PROPOSED NEW PROJECTS

			CY1983	CY1984	CY1985	CY1986	CY1987
			(in US\$ million)				
<u>ONGOING PROJECTS</u>							
1384-AR	Highway IV	105.0			20	-	-
1463-AR	Industrial Credit I	100.0			2	-	-
1521-AR	Grain Storage	87.0			47	25	12
1677-AR	Railways II	96.0			24	12	-
1761-AR	Yacyreta Hydroelectric/a	210.0			-	19	20
1880-AR	Oil & Gas Engineering	27.0			2	-	-
S-20-AR	Coal Exploration	10.0			2	3	5
1905-AR	Voc.Train.& Tech.Educ.	58.0			5	10	10
2031-AR	Oil & Gas Credit	100.0			20	30	15
2032-AR	Refinery Conversion	200.0			62	20	18
2063-AR	Industrial Credit II	100.0			70	30	-
2296-AR	Highways V	100.0			<u>21</u>	<u>21</u>	<u>30</u>
Subtotal					275	170	110
<u>FUTURE PROJECTS</u>							
	Water Supply (end-1985)	75.0			-	15	15
	Bahia Blanca (end-1985)	100.0			-	5	15
	Agric.Sector (mid-1986)	200.0			-	50	100
	Energy-Gas (YPF)(end-1985)	100.0			-	40	40
	Energy-Gas (GdeE)(mid-1986)	150.0			-	<u>10</u>	<u>65</u>
Subtotal					-	120	235
Gross Disbursements			70	81	275	290	345
Repayment Principal			41	78	92	142	142
Net Disbursements			29	3	183	148	203
Repayment Interest <u>/b</u>			36	56	47	52	57
Net Transfer			-7	-53	136	96	146

/a If tariff and sector finance issues are resolved before end 1984, loan could disburse to the tune of about US\$40 million p.a. starting 1985.

/b Interest and commitment fees.

October 18, 1984

ARGENTINA

PROPOSAL FOR AN EXPANDED LENDING PROGRAM FY85-89 /a

(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(R)
Agricultural Sector Loan		200.0				250.0
Sub-Total						<u>250.0</u>
<u>Industry</u>						
Industrial Credit III				150.0(S)		150.0(S)
Export Development I			200.0(R)			200.0(R)
Sub-total						<u>150.0</u>
<u>Infrastructure</u>						
Water Supply & Sewerage			75.0(S)			75.0(S)
Bahia Blanca Port I			100.0(S)			100.0(S)
Bahia Blanca Port II					100.0	100.0
Sub-Total						275.0
<u>Energy</u>						
<u>Hydrocarbons</u>						
Gas Development (YPF)		100.0				100.0
Gas Development (GdE)			150.0			150.0
Oil and Gas Credit II			150.0			150.0
Oil and Gas Credit III					200.0	200.0
Sub-Total						<u>600.0</u>
<u>Power</u>						
SEGBA Power V		100.0(R)				100.0(R)
A y EE Power				200.0		200.0
Sub-Total						<u>200.0</u>
<u>Technical Assistance</u>	15.0					<u>15.0</u>
Grand Total (Net)	<u>15.0</u>	<u>300.0</u>	<u>475.0</u>	<u>350.0</u>	<u>300.0</u>	<u>1440.0</u>
Grand Total (including R)	<u>15.0</u>	<u>400.0</u>	<u>750.0</u>	<u>350.0</u>	<u>300.0</u>	<u>1815.0</u>

/a To be elaborated further in the CPP.

October 18, 1984

OFFICE MEMORANDUM

DATE: October 2, 1984

TO: Memorandum for the Record

FROM: Peter R. Scherer, Division Chief, LC2PB

EXT: 76251

SUBJECT: Meeting of the Argentine Delegation with Mr. Clausen on
September 22, 1984

1. The Minister of Economy of Argentina, Mr. Bernardo Grinspun, visited Mr. Clausen on September 22, 1984. Mr. Grinspun was accompanied by Messrs. Enrique Garcia Vazquez (President Central Bank), Theodoro Fernandez (National Director of Economic and Financial External Policy), Ubaldo Aguirre (Financial Representative of Argentina in Europe), Gustavo Grinspun (Deputy Financial Representative of Argentina in U.S. and Canada), Santiago Puerto (Financial Representative of Argentina in U.S. and Canada), Eduardo Zalduendo (Executive Director) and Felix Camarasa (Assistant to the Executive Director). Also present from the Bank were Messrs. Stern, Knox, Gue and myself.
2. After exchanging courtesies, Mr. Clausen asked about the status of the stabilization program. The Minister stated that the fiscal deficit was being reduced drastically and money supply growth constrained tightly; decisive action in both areas were the most important elements in the fight against inflation, to which the Government accorded top priority. For the longer term, the Government was preparing measures to increase production from presently low levels. The Government was requesting technical assistance from the Bank in the formulation of a medium-term development program and financial support to put it into place. In particular, the envisaged program would be geared to strengthening Argentina's export capacity and improving the structure of the productive sectors.
3. Mr. Clausen inquired about the external financing requirements of the stabilization program and government plans for covering shortfalls; in particular, he was interested to know about the Government's strategy for accessing the capital markets and the role the Bank could play in this context. The Minister explained that he expected about US\$3.7 billion of fresh financing from the commercial banks in 1984-85 and net disbursements of about US\$350 million from the IDB and the World Bank. About SDR 1.5 billion would become available under the agreement with the IMF. The Minister stated that he had practically reached an agreement with the Fund.
4. Mr. Clausen referred to the difficulty of generating US\$350 million in net disbursements in view of less than US\$80 million of Bank gross disbursement in 1983. Therefore, a major effort would have to be made to draw down existing Bank loan commitments which amounted to close to

US\$1 billion. The President of the Central Bank agreed. He explained that the Government had created a task force to help accelerate disbursements of ongoing loans. The task force had been endowed with considerable political firepower to resolve problems.

5. Examples were mentioned of projects that had been restructured (Grain Storage, BANADE Industrial Credit). Mr. Clausen offered the Bank's assistance in identifying possibilities for amendments that could help accelerate disbursements. Mr. Stern referred to Yacyreta and inquired about the financing plan for the power sector as well as the Government's tariff policies. The Minister admitted that these were major problem areas but felt confident that they could be resolved within a reasonable period. The Minister, in turn, asked about the status of the loan to YPF. Mr. Knox replied that the Bank was planning to finance gas development and technical assistance and to support a mechanism that would help mobilize foreign private capital for petroleum development.

6. Mr. Clausen again asked the Minister to clarify in which way the Bank could help; unless the Government made concrete proposals, the Bank would not be able to respond effectively. The Minister asked for Bank assistance in improving the unsatisfactory efficiency of the state-owned enterprises and in developing the gas and oil sector. Furthermore, the Assistant Secretary of Planning had come to Washington to discuss with Bank staff concrete possibilities for cooperation in the formulation of a medium-term development plan. The Government would like to have the technical assistance of the Bank in sorting out priorities among the many projects in the public investment program and in upgrading the execution capability of public sector entities. Generally, the idea was to draw up a coherent framework that would integrate the diverse economic policies on which the Government was working. Thus, the proposition of the Government would go far beyond the identification of projects. However, the Minister expected that possibilities for Bank financing would be identified in this context. The Minister also mentioned that the Minister of Agriculture had come with him to present an outline for an agricultural sector loan to the Bank; he suggested that the proposal be discussed in detail with Bank staff.

7. The Minister suggested that the scope for cooperation be discussed further during the forthcoming visit of Mr. Clausen to Argentina. Mr. Clausen replied that, while he was planning to travel to Argentina in the course of next year, the formulation of a development strategy and the Bank's support for it should not wait until his visit. However, he certainly was willing to come next week should that be of help to Argentina. The Minister recalled the good relationship with the Bank during the Illia government in 1963-1965; he hoped that the Bank would give equally strong support to his administration. Mr. Clausen emphasized the willingness of the Bank to work together with the Argentine Government. He stressed the key importance of the international banking sector and the Fund to close Argentina's external resource gap. Without the Fund, there was no solution to the balance of payments problem. The Minister and Mr.

Clausen agreed that the task force set up by the Government and a thorough project implementation review would be important elements in accelerating disbursements of Bank loans. Reference was made to Yacyreta and power sector finances as the major outstanding problems which needed to be resolved. Mr. Clausen reiterated that the Bank stood ready to help Argentina in the difficult tasks ahead. The prospects for success were good but joint hard work was needed. Mr. Clausen wished the Minister and his colleagues well.

cc: Mr. Clausen's Office
Messrs. Stern
Knox
Gue, LC2
van der Meer, LCP
Pfeffermann, LCNVP
Quijano, LCNVP
Levy, LC2
River Plate Division

PRScherer:gc

OFFICE MEMORANDUM

DATE September 23, 1983

TO Mr. N. Ardito Barletta
(Through Mr. E. Lerday)
FROM Fred D. Levy *FL* *EP*

EXTENSION 72015

SUBJECT Addendum to Annual Meeting Briefing Paper - Argentina

DECLASSIFIED

CONFIDENTIAL

AUG 27 2013

WBG ARCHIVES

*9.25-83
meeting*

The briefing paper notes the possibility that Argentina may fall out of compliance with their Fund stand-by program by the end of the year. It now appears, on the basis of strictly confidential conversation with Fund staff, that they may never even receive the second tranche release, due in August, despite having met the second quarter macroeconomic targets.

They are, in effect, in a Catch 22 situation. The second tranche release is being held up by two technical violations of the agreement: namely, their failure to have completely eliminated arrears, and the introduction of a tax rebate on automobile exports. Although fiscal, monetary and external accounts targets had been achieved for both the first and second quarters, the trend has been one of significant overachievement in the first quarter and steady deterioration since. Compliance with fiscal and external accounts targets through the third quarter will be a close call. Moreover, by the time the determination is made (late October), the net domestic assets target, which is monitored more frequently and closer to the date of determination, will almost certainly be violated. In the absence of additional measures, non-compliance with year-end targets seems a certainty. Meanwhile the commercial banks have been delaying disbursement of their own funds, although not formally tied to the release of Fund resources, making it virtually impossible to eliminate arrears.

In view of these projections, Fund management is not willing to seek a waiver from its Board of the technical violations to the second tranche release. If they are not removed before the end of September, the second, as well as the third, tranche release becomes contingent on achievement of third quarter targets. The MD has reportedly advised the Argentines that no waiver would be possible without a new package of measures sufficient to put the program back on track and some communication from the next Administration (or, presumably, from the major political parties if done before the elections) indicating adherence to the program.

cc: Mr. P. Scherer, LC2D

FDLevy:paw

~~CONFIDENTIAL~~

AUG 27 2013
ARGENTINA

WBG ARCHIVES
September 13, 1983

1983 ANNUAL MEETINGS BRIEFING PAPER

Population:	28.6 million (1982)
GNP per capita:	US\$2,359 (1982)
Lending Program FY83-FY88:	Unspecified

ISSUES

Economic Management

The Delegation represents a transitional administration that lacks the power to change Argentina's present course of economic events. The current Government cannot generate sufficient confidence to take more drastic stabilization measures and thus risk increasing unemployment. At best it can preside over the process of delivering the country to an elected Government by January 1984 and avoiding further disintegration in the interim. On present trends, even this modest goal may not be achieved.

The economy shows some signs of recovery, based on continued agricultural growth and some reactivation of manufacturing. Exports have performed well, and, combined with a flat import trend, are producing a satisfactory trade surplus. The Government has thus far complied with its Fund program, and, although it still is negotiating agreements with the foreign commercial banks regarding rescheduling and new lending, there is a modus vivendi which permits the deferral of about US\$3 billion in debt arrears.

The short-term situation is heavily clouded, however, by the precipitous growth in the public sector deficit. The Treasury deficit in the first half of 1983 was some 10% of GDP (against 3% in the first half of 1982). Tax collections have fallen in real terms, as evasion has soared in response to (a) the expectation of a general tax forgiveness after the change of government and (b) the rise of domestic interest rates above the penalty on late payments. Expenditures rose by some 70% in real terms, as a result of large increases in public sector salaries, transfers to provinces and municipalities and interest on the public debt. Recent agreements call for a further acceleration of public sector wage increases. The economic team is trying to keep the lid on spending and is reportedly preparing a new large tax package but both are problematic. The Fund ceilings could well be breached by the close of 1983.

Bank Assistance

The Government is concerned about its lack of success in obtaining substantial Bank balance of payments assistance. (Messrs. Clausen and Stern met with Economics Minister Wehbe on February 9, 1983, and explained the Bank's difficulties of providing non-project support, given the limited tenure of this Government and the uncertainty of future economic policy.) The Argentines also regret our inability this year to provide any "Special Action Program" support. However, the Bank has done the following:

In order to help relieve particularly pressing sectoral problems, we have (a) agreed to allocate US\$86 million from the 1978 Grain Storage loan which has been amended for newly designed silo and related railway and port improvements, as an exception to our normal policy of cancelling such moribund projects; (b) reprogrammed US\$15 million of the Fourth Highways project to help meet road reconstruction needs caused by the severe floods; (c) worked with the National Development Bank in defining a proposal, now being reviewed here, to amend the on-going Second Industrial Credit loan to provide US\$50 million for financing urgent working capital requirements of the depressed industrial sector; and (d) approved US\$24 million of the Gas and Oil Credit for a promising oil development project in the Santa Rosa area. These measures cumulatively total US\$175 million.

With regard to new lending, the Board last May approved a US\$100 highway sector loan. Further, we are considering a US\$170 million loan in support of the state oil company's (YPF) 1983-84 exploration and development program. This would only be possible, if agreement is reached on pricing issues and on the role of the private sector; these may be very sensitive matters for the incoming administration. Beyond these two operations, we have plans for future assistance to help Argentina expand its foreign exchange earnings, increase industrial productivity and perhaps contribute to the repair of Argentina's badly eroded social infrastructure. These naturally depend on the next Government's economic management and development orientation, among other factors. (No country lending program is attached because of these uncertainties.)

The Bank staff are now preparing a report on Argentina's economic problems and prospects, which would be ready for discussion with the new Government early in 1984. The report, requested personally from you by the Central Bank President and Economy Minister, will deal with the tax system, foreign trade regime, fiscal and credit policies as well as the agricultural situation. In response also to the Government's request, we are now organizing an energy assessment mission to examine conditions in the hydrocarbon and electricity sectors, whose findings might also be available early next year. The results of this substantial analytic work should help the new officials to orient future development policy and should also serve as a basis for good Government-Bank policy dialogue. We recommend you stress the importance of adhering to the Fund agreement, enquire about the prospects of halting the growth of public expenditures and about the status of debt rescheduling. Should the Delegation ask about Bank lending, you should refer to the work in progress and that we look forward to discussing the economic policy framework with the new government as a basis for delivering the future lending program.

Operational Issues

With the elections now only about one month away, and a transfer of power scheduled for early next year, a "lame duck" sentiment pervades the Government, which particularly hampers decisions requiring firm political backing. Because of the current authorities' limited scope for maneuver, we do not recommend that you raise any issues with the Delegation.

For your information:

- 1) Yacyreta Hydroelectric Project. This US\$210 million loan was signed in November 1979 and became effective in July 1981, but the project has not yet begun. The main civil works contract was in dispute for over 18 months until June 1983, when the Government and the Bank agreed on its award to the joint venture of the two lowest evaluated bidders. The Argentine authorities hoped to award the contract this past July, but they were thwarted by 11th hour disagreements with Paraguay on trade arrangements for the project, the power sales price, land expropriation and other questions. Some of these are now being resolved in the effort to launch full-scale construction operations by the end of next month. If the civil works contract has not been awarded by the time of the Annual Meetings, it will then most likely be left for the new authorities.
- 2) 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 position of virtually all executing agencies in Bank-supported projects. Ironically, the present authorities, despite their limited public backing and their interest in easing the recession, have steadily increased public service tariffs and petroleum prices in real terms. This is serving to progressively improve the finances of the power and oil companies and even the Argentine Railways, a creditable accomplishment in the face of triple-digit inflation.

ARGENTINA

BIOGRAPHICAL SKETCH OF SENIOR DELEGATION OFFICIALS

Dr. Jorge Wehbe. Sixty-two year old Minister of Economy, Treasury and Finance since August 24, 1982, graduated from the Law Faculty of the University of Buenos Aires. He is the first Argentine to have been appointed Minister of Economy three times, having held the post in 1962 and 1972 respectively under short-lived governments. He has served as either the president or a director of four major Argentine banks, has taught financial law in local universities and has been long associated with the Argentine automobile industry.

Dr. Julio Cesar Gonzalez del Solar. Sixty-six year old President of the Central Bank since August 26, 1982, graduated from the Faculty of Economic Sciences of the University of Buenos Aires. He also has a PhD in economics from Harvard University. He first worked in the Central Bank from 1935 to 1946, and served as its vice president in 1959-61. He also has been an advisor to the Finance Ministry (1957-59); a consultant to the Guatemalan Government economic and financial authorities; and an IMF staff member. Dr. Gonzalez del Solar has been active in Argentine private banking and industry over many years.

ATTACHMENT II

ARGENTINA - LENDING PROGRAM FOR FY83-86

Unspecified (See page 2).

ARGENTINA

Briefing Paper for Visit of Messrs. Wehbe and Gonzalez del Solar^{1/} February 1983

Re 412-13. We should
make no promises that
we can, or will, take
action in FY1983 on
quick-disbursing loans.
This govt has no
policy; a short tenure
and there is no
consensus in the
country. *ES*

2/8/83

1. Messrs. Jorge Wehbe, Minister of Finance, and Julio Cesar Gonzalez del Solar, President of the Central Bank, will visit the Bank on February 9, 1983. They are expected to discuss the present Argentine economic crisis and ask for an increase in the volume of World Bank lending, including quick disbursing assistance.^{2/}

Political and Economic Developments

2. Argentina is struggling to complete the transition to a civilian regime and to reactivate the economy. When the Government of President Bignone took office in July 1982, the country was demoralized and in a gloomy political impasse. The armed forces were split over the responsibility of the Falklands defeat, the naming of the new President and the transition to civilian rule. General Bignone's interim regime has managed to take root and should remain in office until elections are held in October. He governs, however, with a fragile mandate and both the civilian camp, where moderates and leftists prevail, and the rightist military groups, regard his actions warily. Lack of a solid political basis notwithstanding, this Government has negotiated a Fund stand-by in a surprisingly smooth fashion and, so far, kept the stabilization program in place. Exchange rate, monetary and fiscal policies are on target; public sector prices and tariff increases have been above the levels agreed with the Fund.

3. The Bignone Government inherited a severe economic situation: industrial output was declining for the tenth consecutive quarter, coming down to a level equivalent to only 2/3 of its level five years ago. Industrial labor force had shrunk by 38%, bringing the overall unemployment rate to 6%. Real wages had declined 31% during the previous six months. The country was already in arrears on its payments to foreign commercial banks and faced massive defaults by the end of 1982.

4. For the last seven months, the Government has been trying to: (i) negotiate an orderly rescheduling of the country's external debt; (ii) contain the renewed inflationary pressure; and (iii) reactivate the economy. To date it has achieved some success, though additional efforts will be needed.

5. The agreements with the IMF, the commercial banks and the Bank for International Settlements have provided short-term debt relief. The IMF agreed to provide US\$2.2 billion for 15 months; a commercial bank

1/ Biographical Data attached as Annex I.

2/ Current approved lending program for FY83-87 attached as Annex II.

bridge loan of US\$1.1 billion is being disbursed and BIS recently announced a US\$0.5 billion loan. Agreement has been reached on a fresh US\$1.5 billion medium term loan; the loan will be signed in March and disbursed throughout 1983. The Central Bank is now beginning to negotiate the rescheduling of the public external debt due in 1983 (US\$ 12.3 billion).

6. The initial inflationary surge, which reached an average 21% per month during the third quarter of 1982, reflected the effects of the financial measures and the large-scale devaluations (60% in three months). To absorb excess liquidity, the Treasury has introduced bonds with higher interest. While attempts at voluntary price controls have not been very productive, restrictive fiscal and monetary policies have finally brought the rate of inflation down to an average level of 10% per month. The IMF ceiling on the expansion of net domestic credit to the public sector should help reduce it further.


7. To reverse the recessionary trend, the Government introduced interest rate ceilings and established large rediscount schemes easing the industrial sector's liquidity problem which was also threatening the solvency of the financial institutions. A substantial part (estimated to be more than 40%) of industrial debt was written off by this subsidized credit. Firms have begun to rehire labor, but industrial investment is still lagging, primarily because of political uncertainty but also because of the shortage of foreign credit which makes importing intermediate inputs increasingly difficult. In its efforts to mobilize more foreign exchange for intermediate input imports, the Bignone Government has promised an incentive scheme (not yet announced) to induce the repatriation of Argentine capital abroad. The Government is also looking to other sources, including quick disbursing assistance from the Bank, to help finance imports of intermediate goods.

8. After two years of falling output and large current account deficits, GDP growth in 1983 is expected to be positive and the current account manageable. Although the officially targeted 5% growth may be optimistic, a 2% to 3% growth should not be difficult to achieve for an economy producing 11% below the GDP of 1979. The prospects for export growth in 1983 are good: the record wheat harvest and the realistic exchange rate policy will contribute to make this year's trade surplus even larger than that of 1982. The question whether growth will be severely constrained by balance-of-payments difficulties depends mainly on the success of the debt rescheduling discussions and on the maintenance of a realistic exchange rate policy. Overall, it appears that the economy is finally leading towards a more stable path with positive growth, reduced unemployment and lower inflation. However, a full-scale economic recovery in 1983 is not expected, as uncertainty about political developments is forestalling investments.

Bank Lending and Economic Program

9. The current FY83-87 Lending Program stands at US\$800 million of which US\$200 million is allocated for two loans in FY83-84. The Highway Sector Loan (US\$100 million, FY84S) has been appraised, but work is still being done to clarify the participation of the Provincial Governments in the loan. We hope to negotiate the loan in April and present it to the Board in June 1983. The Second Oil and Gas Development Loan (US\$100 million, FY84), whose appraisal began January 31, would assist

exploration and development activities of the state oil company, Yacimientos Petroliferos Fiscales (YPF).

10. Quick Disbursing Loan. Neither of the above loans would meet the Government's need for quick disbursing assistance. At most they would probably generate US\$10-20 million in disbursements in 1983. In addition, the ten on-going loans currently being disbursed will probably provide about \$120-150 million in foreign exchange to the Government (the higher figure assumes problems are resolved holding up progress in Yacyreta project, discussed below). The Government desires more Bank assistance than the above sources would provide. The delegation is expected to seek your approval for two quick disbursing loans in 1983 of US\$250 million each. 

11. For the moment, there are strong reasons for skepticism regarding such a request. While the Government is considering a strengthening of the export law and liberalization of the temporary import admission regime, it has yet to put forward a coherent set of policies indicating how they intend to get the productive sectors of the economy moving again. Even assuming such policies could be drawn up rapidly, their implementation by an interim government may prove impossible. And the degree to which this government can give credible commitments binding its successors, seems quite limited.

12. Nonetheless, the Bank can somewhat increase its assistance to Argentina in the short-term by restructuring the Second Industrial Credit Project (US\$100 million loan of November 30, 1982). The loan, made to Banco Nacional de Desarrollo (BANADE) for industrial subprojects, could be modified to permit subloans for working capital, or creation of a revolving fund to allow subborrowers to import raw materials and spare parts. BANADE believes its subborrowers, mostly medium-sized private industrial companies, could utilize US\$50-60 million of our loan for this purpose in 1983. If we pursued this course, our total disbursements in Argentina could amount to about US\$200 million over the next twelve months.

13. The Bank's economic work program includes a mission in April 1983 to review trade policy and industrial sector performance. The mission will examine existing export incentives and possibilities for the rationalization of the trade regime as well as the Government's policy framework for industrial sector promotion, to determine if a case can be made in the Bank for supporting such initiatives with a Program Loan or Industrial Exports Credit. Technically, a loan of this nature could be ready by the end of 1983 and acted upon once the political situation had attained a reasonable amount of stability (that is, after an elected Government comes to office).

Issues

14. Yacyreta Hydroelectric Project (signed in November 1979; US\$210.0 million). The bid evaluation for the main civil works contract, received in November 1981, was found to be incompatible with ICB policies. The Bank suggested that the Government negotiate with the lowest evaluated bidder or rebid. In order to meet the Bank's views, the Government was bringing together the two lowest bidders to form a joint venture when the Falkland crisis and EEC economic sanctions forced a delay. In response to our pressure for a decision on the procurement

problem, the Argentines are ~~again pursuing the joint venture concept along satisfactory lines~~, although they recently informed the bidders that they had to provide for a majority of the civil works to be performed by local contractors. We have advised the Government that such a restriction violates our procurement guidelines. (We now understand that the Paraguayan Government is holding out for a larger Paraguayan share whereas the Argentine members of the consortium would be satisfied with their part). ~~The Government also needs to submit to us a new financial plan~~ demonstrating their ability to meet Yacyreta's sizeable financial costs. Quick action on awarding the main civil works contract and preparing a financial plan is necessary for disbursements of the loan to commence this year.

15. Co-financing. The Argentine Government has told us that ~~it intends to press again for exclusion of co-financed loans from the rescheduling of its commercial debt.~~ It also has offered to discuss this matter with the Brazilian and Mexican Governments in an attempt to reach a common position among the three countries vis-a-vis the commercial banks. The Argentine Central Bank feels that active high level Bank intervention with the commercial banks is required to avoid rescheduling of the co-financed loans and wants to inquire about the Bank's position in this respect.

Attachments

BIOGRAPHICAL INFORMATION

Dr. Jorge Wehbe. Sixty-two year old Minister of Economy, Treasury and Finance since August 24, 1982, graduated from the Law Faculty of the University of Buenos Aires. He is the first Argentine to have been appointed Minister of Economy three times, having held the post in 1962 and 1972 respectively under short-lived governments. He has served as either the president or a director of four major Argentine banks, has taught financial law in local universities and has been long associated with the Argentine automobile industry.

Dr. Julio Cesar Gonzalez del Solar. Sixty-six year old President of the Central Bank since August 26, 1982, graduated from the Faculty of Economic Sciences of the University of Buenos Aires. He also has a PhD in economics from Harvard University. His latest appointment brings him back to the Central Bank where he first worked from 1935 to 1946, and served as vice president in 1959-61. He also has been an advisor to the Finance Ministry (1957-59); a consultant to the Guatemalan Government economic and financial authorities; a consultant to the Bank and an IMF staff member. Dr. Gonzalez del Solar has been active in Argentine private banking and industry over many years.

FIVE YEAR LENDING PROGRAM AS OF 12/31/82
RUN ON 01/03/83

ARGENTINA

MID-81 POPULATION: 28,137,000

GNP PER CAPITA: 2,560

	FY 83 - 84		IDA ALLOCATIONS		FY 83 - 87	
	IBRD	IDA	FY 81 - 83	FY 84 - 86	IBRD	IDA
REVIEW GROUP 12/06/82	200.0	.0	.0	.0	800.0	.0
CUR REV GROUP 12/06/82	200.0	.0	.0	.0	800.0	.0
LAC PROGRAM	200.0	.0	.0	.0	800.0	.0
AVG. ANNUAL PER CAPITA LENDING						
REVIEW GROUP		3.55				5.69
CURRENT REVIEW GROUP		3.55				5.69
LAC PROGRAM		3.55				5.69

CODE	FISCAL YEAR	PROJECT NAME	RESERVE PROJECTS		FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
			BANK/IDA	SOURCE						
TH05	84S	HIGHWAY SECTOR		IBRD		100.0				
GI03	84	OIL & GAS DEVT II		IBRD		100.0				
TP03	85S	BAHIA BLANCA PORT		IBRD			155.0			
GI04	85	OIL & GAS CREDIT II		IBRD			150.0			
TR03	85R	RAILWAYS III	125.0	IBRD						
WU01	86S	WATER SUPPLY & SEWERAGE		IBRD				195.0		
GI05	87	OIL & GAS DEVT III		IBRD					100.0	
DD05	88S	INDUSTRIAL CREDIT III		IBRD						100.0
GI06	88	OIL & GAS CREDIT III		IBRD						150.0
TP02	88R	PORTS II	150.0	IBRD						

COUNTRY TOTAL

IBRD	.0	200.0	305.0	195.0	100.0	250.0
	0	2	2	1	1	2
IDA	.0	.0	.0	.0	.0	.0
	0	0	0	0	0	0
TOTAL		200.0	305.0	195.0	100.0	250.0
	0	2	2	1	1	2
OF WHICH 'S'		100.0	155.0	195.0		100.0
		1	1	1		1

In compliance?

OFFICE MEMORANDUM

December 10, 1982

1700

TO: Mr. Ardito Barletta
(through Enrique Lerdau, Director, LCP)
FROM: Peter R. Scherer, Division Chief, LC2DD

SUBJECT: Recent Developments in Uruguay and Argentina

URUGUAY

1. As you know, Mr. Arismendi has resigned as Minister of Finance. He was replaced by Mr. Luziardo Aznarez, the former Minister of Industry. Mr. Arismendi's resignation comes as no surprise. While supported by the President and the military up to the very end, he had become too much of a liability for the Government. Mr. Arismendi is identified more than anybody else with the economic policies which, according to general opinion, have led to the present problems.

2. The recent decision to float exacerbated the crises of confidence and triggered increasingly vitriolic attacks on Arismendi. The policy package announced just a week ago, and discussed previously with the Fund, seemed just to be the right thing to do - from a technical point of view. It is most disturbing that it missed the mark so miserably in practice. Instead of stabilizing, it seems to have created havoc. The present float level is tantamount to a devaluation of 130%; price increases are accelerating; banks' have lost 10% of their US\$ denominated deposits; 65% of the private industrial and 35% of the agricultural debt are in US\$; and special support programs may be unavoidable to prevent massive defaults.

3. The general climate in Uruguay and the appointment of a representative of the industrial sector for Minister of Finance don't augur well for a continuation of liberalization policies. I understand that the customs tariff reform program will be abandoned; while average nominal tariffs may not be increased, reclassification of tariff groups combined with wider tariff differentials will probably result in a significant increase in effective protection. There is little doubt that a more interventionist and protectionist policy course will be pursued in Uruguay in the future. The chances of success for a SAL obviously have not increased through the recent turn of events. I am in touch with our economic mission and the Fund. I shall keep you posted on significant developments.

ARGENTINA

4. Yesterday, Argentina reached agreement with the commercial banks on (i) a bridge loan of US\$1.1 billion (1% commission; 1 5/8% above LIBOR or 1 1/2% above prime at the choice of the bank; average life 11 months); (ii) US\$1.5 billion of fresh medium term financing to be disbursed throughout 1983 (1 1/4% commission; 2 1/2% above LIBOR or 2 1/8% above prime; 3 years grace, 5 years maturity); and (iii) refinancing of all the public sector debt falling due in 1983, estimated at about US\$5 billion (1

1/8% commission; 2 1/8% above LIBOR or 2% above prime; 3 1/2 years grace, 7 years maturity). The agreement will be signed next week. The banks accepted, with a minor modification regarding the transferability of the dollar-denominated bonds, the formula for rescheduling the US\$4.7 billion private external debt contracted in 1981 with a public exchange rate guarantee. Negotiations for a BIS Loan of US\$500 million are continuing. While the BIS Loan would help improve the cash flow, it apparently is not essential any longer now that the agreement with the commercial banks is in place.

5. Following an early inquiry of mine, the Argentine Central Bank pressed for an exemption of loans co-financed in association with the banks from the debt rescheduling. I was told that this had been accepted by the commercial banks. However, the respective provision in the agreement, which was read to me over the phone this morning, does not seem to be sufficiently clear to make, subsequently, a convincing case for co-financing. I was informed that CitiCorp, the leader of the Steering Committee, sent out offer sheets to the other member banks today. Because Gonzalez del Solar (President, Central Bank) and Aguirre (Chief Argentine negotiator) are out of BA over the weekend, I will only be able to talk to them on Sunday evening. I will ask them to request that an unambiguous provision be included in the agreement exempting co-financed loans in association with the commercial banks. In coordination with Carlos Quijano, I have asked Frank Vibert to make, on behalf of the Bank, a case for exemption to the members of the Steering Committee except for those banks with which I have had direct contact. I shall keep you posted.

*I'm
rechecking
this
with Rhodes.*
DB

6. Generally, the political climate in Argentina seems to be deteriorating. Trade unions and political parties are becoming more and more assertive, trying to strengthen their respective positions by staking out large claims. There is no doubt that the Government will have a hard time complying with the Fund program; I would not be surprised if it failed to meet the conditions for the release of the second tranche. I will ascertain whether the deal with the private banks is conditioned upon Argentina living up to the agreement with the Fund.

7. Yesterday evening, Minister of Economy Wehbe dismissed his two most important undersecretaries for no apparent reasons. Rumors that a conflict with the President of the Central Bank were the cause were not substantiated. However, there was apparently a disagreement with the Secretary of Planning in the Presidency over cuts in the public budget.

cc: Mr. Quijano

PScherer:gc

1. The first part of the document is a letter from the President of the United States to the Congress, dated December 1, 1982. The letter is signed by Ronald Reagan and is addressed to the House of Representatives and the Senate. The letter discusses the state of the Union and the administration's policies.

2. The second part of the document is a letter from the Vice President of the United States to the Congress, dated December 1, 1982. The letter is signed by George H. W. Bush and is addressed to the House of Representatives and the Senate. The letter discusses the state of the Union and the administration's policies.

3. The third part of the document is a letter from the Secretary of the United States to the Congress, dated December 1, 1982. The letter is signed by Alexander Haig and is addressed to the House of Representatives and the Senate. The letter discusses the state of the Union and the administration's policies.

4. The fourth part of the document is a letter from the Secretary of the United States to the Congress, dated December 1, 1982. The letter is signed by Alexander Haig and is addressed to the House of Representatives and the Senate. The letter discusses the state of the Union and the administration's policies.

RECEIVED
1982 DEC 16 AM 11:01
OFFICE OF THE PRESIDENT

OFFICE MEMORANDUM

DECLASSIFIED

CONFIDENTIAL

AUG 7 7 2019

WAGE ARCHIVES November 23, 1982

TO: Mr. Ardito Barletta
(through Enrique Lerda, Director, LCP)
FROM: Peter R. Scherer, Division Chief, LC2DD

SUBJECT: ARGENTINA: IMF Stand-by

Below is a summary of the performance criteria and macro-economic targets agreed upon between the Argentine Government and the Fund together with a brief assessment.

I. Performance Criteria:

(1) ~~Equilibrium in the overall balance of payments for 1983~~ and for the program period through the first quarter of 1984 as measured by changes in the net international reserve position of the Argentine Central Bank.

(2) A set of ceilings limiting the expansion of the net domestic assets of the Central Bank to the smaller of (a) of its currency issue adjusted in line with inflation targets and (b) fixed percentages of the adjusted base stock in banknote issues.

(3) ~~Cumulative limits on the borrowing of the non-financial public sector~~, covering net borrowing from the domestic financial system, net placements of government paper outside this system and net external borrowing.

(4) ~~A ceiling on the increase in the total disbursed external debt~~ of the public sector as well as a complementary set of ceilings on the total principal payments falling due within three years of each quarterly test date, whatever their final maturity, through March 1987. (This limit is designed to permit the rollover of existing debt on a short-term basis, pending formal restructuring, while constraining the amount of principal falling due from new loans.)

(5) The usual undertakings regarding the exchange and import system; ~~an undertaking to eliminate all current external payments arrears by June 30, 1983~~; and a schedule for the phased elimination of the minimum prefinancing requirement for imports.

(6) A special review clause requiring that understandings be reached on a schedule for the ~~elimination of all multiple currency practices and restrictions on foreign currency payments before the third~~ purchase can be affected.

(7) An undertaking by the Government to reach agreement with its major foreign creditors on a satisfactory restructuring of its debt by June 30, 1983.

II. Macro-Economic Targets:

(1) real economic growth rate of 5%, compared with a prospective negative economic growth of 4% in 1982;

(2) A deceleration of inflation to 110% in the last quarter of 1983 from an annualized rate of some 870% in the third quarter of this year;

(3) Balance of payments equilibrium, compared to a prospective overall deficit of US\$5 billion in 1982 (also performance criterion);

(4) Public sector deficit of 8% of GDP compared to a prospective deficit of 14.5% of GDP in 1982.

III. Assessment:

The Fund program appears to be significantly stronger on the external than the internal side. On the one hand, Argentina has been put on a short leash; on the other, Argentina's creditors will have to extend their lending terms if they want the stand-by to stay in place. In addition to an overall constraint of US\$2 billion on net external borrowing over the 15-month program period, the program contains a (novel) condition to limit the amount of maturities falling due during the target period. The Government has already unified the two exchange markets at a level that seems reasonably close to equilibrium. The rate is to be moved at least in line with domestic inflation and, in any event, at a pace consistent with the achievement of balance of payments equilibrium. There is an understanding that the Government will eliminate quickly all external payments arrears, presently amounting to some US\$1.7 billion, and thereafter provide foreign exchange freely for all bona fide international payments and transfers. However, I understand, the Fund did not object to the unilateral decision of the Central Bank to delay payment of the US\$4.7 billion of private Argentine debt contracted abroad under an exchange rate guarantee. (You received a memo on this matter).

As regards the internal side, a number of policy issues still need to be clarified. The monetary program and balance of payments target are critically dependent on an aggressive interest rate policy. Yet, the Central Bank seems to hold out for zero rates in real terms, at most. The drastic reduction in the fiscal deficit combined with an increase in public investment to 10% of GDP will require large real increases in public sector rates and prices as well as holding a tight line on public salaries; still, Government officials are talking about a salary increase of 3% in real terms. Given the uncertainties about the

OFFICE MEMORANDUM

TO: Mr. Enrique Lerda, Director, LC2

November 22, 1982

FROM: Peter R. Scherer, Chief, LC2

SUBJECT: ARGENTINA--Rescheduling of External Debt

1. As you know, the Argentine Government has declared that it will ~~substitute a medium-term dollar-denominated bond for the hard currency required to pay for the US\$4.7 billion private external debt rolled over or contracted for a minimum of 18 months under an exchange rate guarantee scheme in 1981.~~ The transactions included back-to-back loans, open lines of credits, transfers between subsidiaries and headquarters of multinational corporations, as well as IFC loans. The Central Bank believes that a large part of these loans was prepaid before the April 1981 devaluation, but that they were kept in the books to take advantage of the exchange rate guarantees and to circumvent anticipated foreign exchange controls. The first repayment on the guaranteed debt of US\$2 billion was due in December but the Central Bank would not have had the necessary revenues.
2. The bonds will have a ~~3-year grace period and 5-year maturity.~~ They will probably carry an interest rate of 1 7/8% above Libor. They will be issued and traded in Luxembourg. Unlike other external bonds of the Argentine Government (BONEX), they will not be resaleable within the country to avoid pressure on the exchange rate. This provision notwithstanding, it might well be that debtors will sell the bonds at a discount and go to the black market to cover the difference in order to pay back.
3. We were told that the IMF stand-by will not be affected by the unilateral decision of the Government to postpone debt repayment. We were also told by private bankers that the US\$1.1 billion bridge financing (average maturity 14 months) would not be affected. ~~The large banks seem to be quite pleased to see the Government take over from the private sector responsibility for repaying their loans and to have the Argentine Central Bank put pressure directly on the smaller banks.~~ The legal implications of the measure are not yet clear. Since most of the loans in question are subject to laws outside Argentina, i.e. New York, creditors might start suing their Argentine debtors or the Argentine Government. Since litigation costs are high, the process is cumbersome and time consuming and the results uncertain, few actions of that sort are expected. Obviously, ~~damage has been done to the credibility of the Argentine Government.~~ At the very least, foreign exchange rate guarantee schemes have to be ruled out for a long time, something the present administration does not seem to be unhappy about. ~~By assuming private sector debt, the Central Bank will have to pay interest to the tune of US\$600 million per year.~~

PScherer/KEbiri:mac/gc

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Boards of Governors • 1982 Annual Meetings • Toronto, Ontario, Canada

MEMORANDUM FOR THE RECORD

FROM : (EJ) Lerda
SUBJECT : Argentina - Meeting Between Mr. Clausen
and Minister J. Wehbe
DATE : September 5, 1982

A meeting was held on September 4, 1982 in Toronto between Mr. Clausen and Minister of Economy Jorge Wehbe. Also present were Messrs. Gonzalez del Solar, Guillermo Blanco, Alberto Sola and Eduardo A. Zalduendo, as well as Messrs. Stern, Barletta and Lerda.

Minister Wehbe said that Argentina was fundamentally a solvent country which could and would honor its obligations. Mistakes had been made in the past and excessive debts falling due in the near future had been taken on, so that now help was needed to improve the maturity structure, but Argentina had a tradition of paying its debts which was not about to be broken. The program of payments that had to be worked out had to be such as to leave no doubt about Argentina's ability to comply with it in minute detail.

Mr. Clausen applauded this intention and agreed that the problem was basically a temporary liquidity squeeze, not a fundamental inability to service debt. But a program was needed, of course, to overcome even a temporary difficulty, and he asked the Minister what his plans were.

The Minister said that these included monetary, fiscal and financial measures which were being elaborated, as well as debt rescheduling in agreement with the commercial banks. These would include the U.K. banks; he was optimistic that an agreement would be reached. Eventually, he also would want to have an agreement with the IMF. He added that once the Bank of England removed its restrictions, the U.K. would receive net payments of some US\$300 million on official account that had already accumulated. The private Argentina funds blocked amounted to some US\$1.3 billion. The Minister stressed that he had consulted the major political leaders and had obtained general support for the approach outlined.

Continued on page 2

A constitutional government would take office in the foreseeable future and it was his objective not to let them inherit an unmanageable situation.

In response to questions the Minister said that he attributed great importance to the prompt execution of the silos program, but said that what was needed were not large silos but on-farm silos, to avoid rail and shipping congestion.

He also said that early next year it would be possible financially to resume work on the Yacyreta project. He did not refer to the procurement issue.

Mr. Clausen stated his desire to be as helpful as possible in the solution of Argentina's serious difficulties, and the Minister praised the past help that Argentina had received from the Bank and stressed his appreciation for Mr. Clausen's forthcoming attitude.

c.c. ✓ Mr. Clausen's Office
Mr. Stern's Office
Mr. Ardito Barletta
Mr. Scherer

RECEIVED

1982 SEP 20 PM 2:56

OFFICE OF THE PRESIDENT

9-4-82

ARGENTINA

1982 ANNUAL MEETING BRIEF

Key Points

Argentina's economic and political situation deteriorated steadily through 1981, and the resulting crisis was exacerbated by the Falklands conflict of early 1982. The present Government, the third since March 1981, is beset by widespread industrial and commercial bankruptcies, as well as increasingly open protest over unemployment levels not known for many years. Its political base is thin. The economy remains deeply depressed, inflation has returned to three-digit levels, and some rescheduling of the foreign debt will be needed despite a projected trade surplus. The Government's near-term priorities are to reduce the financial burden on the industrial sector and to stimulate a gradual economic recovery, but no clear program has yet emerged to make these objectives consistent with either stabilization or long-term growth objectives. The present situation raises particular concern about possible delays in the execution of several Bank projects (see pp. 2-3).

Political Background

Argentina is demoralized and in a gloomy political impasse. The 2-month old Government of President Bignone is weakened by limited backing from the divided military which has lost much prestige because of the prolonged economic problems and the Falklands defeat. The Government is consulting with various civilian leaders, who generally favor a return to inward-looking and populist economic policies, and has just approved the machinery for holding elections by April 1984. The planned transition to civilian rule is clouded, however, by the extremely sensitive issues of military excesses during the earlier anti-terrorist campaign and the assignment of responsibility for the Falklands defeat, as well as the possibility of a military coup.

The Economy

From 1978 through 1980, Argentina's economic policy stressed reducing tariffs and lagging exchange rate adjustments in order to lower inflation and attract foreign capital. The public sector deficit remained high, however, and the appreciating real exchange rate and high domestic interest rates inhibited industrial activity, which produced heavy capital outflows and fears of a domestic financial crisis. Post-1980 governments failed to restore public confidence, and the exchange rate policy collapsed in a wave of massive devaluations. Meanwhile, the recession deepened, unemployment rose, and inflation accelerated.

Domestically, the Government is stressing the revitalization of the private sector and the stimulation of economic recovery. Its approach includes ceilings on short-term interest rates, multiple exchange rates, wage adjustments, increased protection from imports and subsidies to exports, and a large-scale refinancing plan covering virtually all

private-sector debt. The Government acknowledges the immediate inflationary impact of these measures but views them as a "one-shot" event to be dampened over time by tighter monetary, fiscal, and wage policies. In the wake of a large-scale devaluation, the mid-year adjustment of public wages (which remained frozen for the first half of the year) and the low ceiling (6% per month) imposed on short-term deposits, there was a substantial shift from financial to real assets. As a result, wholesale prices increased over 25% per month on average during July and August. Money supply is planned to increase 7% per month, but the government aims to absorb excess liquidity through the sale of short-term treasury bonds carrying 10% monthly interest. It is encouraging that some sectors have already responded to the real depreciation of the exchange rate and increased their activity. A satisfactory economic recovery, however, depends on the resolution of political and economic uncertainties, to permit the reestablishment of a positive investment climate. A major element in creating the needed public confidence would be the introduction of a credible program of monetary and fiscal measures to bring the reaccelerating inflation under control. Such a program does not exist and would be difficult for the present weak government to carry out.

Externally, the Government appears to be having difficulty agreeing on a common approach for negotiating a refinancing of its sizable foreign debt obligation (US\$ 8 billion of interest and capital are due to be paid in the remainder of 1982). The issue is complicated by the continued freeze of Argentine assets in U.K. banks and European Community economic sanctions. Ex-minister of Economy Dagnino Pastore was reportedly pressing for the reestablishment of economic relations with Britain as a basis for broader international debt renegotiation when policy disputes within the Government caused his resignation last month. The Delegation will be concentrating on debt relief measures in Toronto, including possible access to IMF assistance.

The Delegation may inquire into the possibility for non-project Bank assistance. In light of the above uncertainties, I recommend a cautious and non-committal response that stresses the need for a sound economic program and points out that, in any event, the resources the Bank could allocate in this way are small relative to Argentina's present financing needs.

Operational Issues

The Government has been preoccupied with economic and political problems and has not yet therefore formulated a position regarding possible new Bank support. In addition to the above question of non-project assistance, outstanding operational issues include the resolution of several problems affecting ongoing projects, especially the following:

Yacyreta Hydroelectric Project. This US\$210.0 million loan was signed in November 1979 and became effective in July 1981. The Yacyreta Authority's bid evaluation for the main civil works contract was received in November 1981. It was found to be incompatible with ICB policies. We suggested that the Government either negotiate with the lowest evaluated bidder or rebid. The

we should stress, however, the absolute importance in getting a program formulated and offer any help they wish from us, with this. e.g.

Moreover, almost of our recent lending has been fast disbursing - e.g. credit lines for DFCs and oil/gas.

I would recommend downright negative response. Argentina at \$2400 per capita GNP has a small program - about \$250 m. per year. There is no basis for a substantial increase. And whether \$250 m. in annual commitments disburses more or less rapidly is not germane to their problem.

Government was believed to be bringing together the two lowest bidders to form a joint venture when the Falkland crisis and EEC economic sanctions (affecting the two contractors) forced a delay. The new authorities are believed to be preparing to press ahead with the project, having just appointed a new Yacyreta Authority executive director and drawn up plans for some Authority administrative changes. We have pressed for their early decision on whether to proceed with Yacyreta, and how to settle the procurement problem, and would expect decisions on these issues by the end of 1982.

Grain Storage Loan (signed June 28, 1978). Two small components of the US\$105 million loan are on schedule, but the main works--construction of 20 major silos--have not proceeded. In 1979, the Government decided to channel the loan funds through banks for private grain storage investment rather than through the Government grain board as planned. Inadequate private sector interest in the unsettled investment climate of the past several years has disrupted this approach. The Government now is reviving the credit approach, to be channeled through the second largest Argentine bank (Banco de la Provincia de Buenos Aires). The latter is now discussing the problems of the foreign exchange risk responsibility with Treasury official and is collaborating with the Agriculture Ministry in revising the other project components. I believe that unless we have a satisfactory proposal by the end of 1982 for implementing the project, the balance of the loan should be cancelled.

Vocational Training. This US\$58.0 million loan, approved in October 1980, became effective in February 1982. While start-up requirement have been completed, full implementation is delayed by the lack of counterpart funds (an estimated US\$82 million over the next five years). As further implementation delays would threaten the project's feasibility, the Government should make a prompt decision to commit the necessary funds or to cancel the loan.

September 1, 1982

ANNEX 1

ARGENTINA

Lending Program

	<u>FY83</u>	<u>FY84</u>
Highway Sector Loan	100.0	
Oil and Gas Development II		150.0(s)
Bahia Blanca Ports		115.0(s)
Water Supply		<u>50.0(s)</u>
	<hr/>	
TOTAL	100.0	315.0

FY 83/84

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August 17, 1982

BIOGRAPHICAL INFORMATION

Dr. Jorge Wehbe. Sixty-two year old Minister of Economy, Treasury and Finance since August 24, 1982, graduated from the Law Faculty of the University of Buenos Aires. He is the first Argentine to have been appointed Minister of Economy three times, having held the post in 1962 and 1972 respectively under short-lived governments. He has served as either the president or a director of four major Argentine banks, has taught financial law in local universities and has been long associated with the Argentine automobile industry.

Dr. Julio Cesar Gonzalez del Solar. Sixty-six year old President of the Central Bank since August 26, 1982, graduated from the Faculty of Economic Sciences of the University of Buenos Aires. He also has a PhD in economics from Harvard University. His latest appointment brings him back to the Central Bank where he first worked from 1935 to 1946, and served as vice president in 1959-61. He also has been an advisor to the Finance Ministry (1957-59); a consultant to the Guatemalan Government economic and financial authorities; and an IMF staff member. Dr. Gonzalez del Solar has been active in Argentine private banking and industry over many years.

behavior of the demand for money, the Fund did not specify this limit in the conventional numerical terms. The formula used instead -- following the example of Mexico's EFF arrangement in 1977-79 -- limits the net expansion on account of discretionary domestic operations of the Central Bank to the growth of its currency issue. This guideline appears onerous under prevailing conditions.

The Argentine Government has gone out of its way to consult with the political parties before and during the preparation of the stand-by. As a consequence, and given the interest of the parties to have the economy in orderly condition when an elected civilian government is expected to take over in mid-1984, there has been surprisingly little criticism of the Government's cooperation with the Fund. However, internal opposition is beginning to surface now that the first measures are being taken. The Government's power base is fragile and its capacity to stick to the program is by no means certain.

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