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Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

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Washington, D.C.

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Contacts with member countries: Argentina - Correspondence 01

Folder 1

**DECLASSIFIED**  
WBG Archives

ARGENTINA

ARGENTINA

1. 4/15/68 Dr. Pedro Eduardo Real, Governor of the World Bank and President of the Central Bank of Argentina
2. 10/2/68 Dr. Krieger Vasena, Minister of Economy and Labor  
Dr. Pedro Eduardo Real, President of the Central Bank  
Admiral Francisco N. Castro, Secretary, National Development Council  
Dr. Angel R. Caram, Financial Counselor, Embassy
3. 10/14-10/22/68 Memoranda of Conversations during visit to Argentina:  
*(Filed in Mr. McNamara's office).*
  - 10/18/68 (B.A.) Dr. Pedro Eduardo Real, President of the Central Bank  
Mr. Hernando Campos Menendez, ~~Vice President~~ **Public Works**
  - 10/18/68 (B.A.) Bernardo J. Loitegui, Secretary of Public Works  
Other Urban officers
  - 10/21/68 (B.A.) Director, Analisis Dr. Fernando M. Morduchowicz
  - 10/21/68 (B.A.) Dr. Jose Alfredo Martinez de Hoz, Director, Aceros Industria Argentina (ACINDAR)
  - 10/21/68 (B.A.) Emilio F. van Peborgh, Minister of Defense
  - 10/21/68 (B.A.) Dr. Guido di Tella, Vice President, Siam di Tella, Ltd.
  - 10/21/68 (B.A.) Dr. Krieger Vasena, Minister of Economy and Labor *(Region's memo at Feb 3)*  
Dr. Francisco Soldati, Adviser, Ministry of Economy and Labor
  - 10/21/68 (B.A.) Dr. Roberto Alemann, Director Delegado, Alemann & Cia; former Minister of Economy and U.S. Ambassador
  - 10/22/68 (B.A.) President Juan Carlos Ongania  
Dr. Krieger Vasena, Minister of Economy and Labor
  - 10/22/68 (B.A.) Dr. Carlos M. Llerene, Lawyer and Economic Consultant
  - 10/22/68 (B.A.) Dr. Carlos C. Helbling, Presidente, Promotora de Finanzas (industrial finance)
  - 10/22/68 (B.A.) Dr. Jorge Rosner, population expert; director of an institute for research, a part of the Jesuit University in Buenos Aires
  - 10/22/68 (B.A.) Prof. Dr. Julio H. G. Olivera, Director, ~~Director~~, Instituto de Investigaciones Economicos, University of Buenos Aires

Meetings for which there are no Memoranda of Conversation:

- 10/19/68 Pablo Larreta, Estancia Aceleín-Tandil (overnight at the ranch)  
(B.A.)
- 10/19/68 Senor Comisionado Municipal de la Ciudad de Cipolletti  
(Rio Negro)
- 10/20/68 Gen. Juan Carlos de Marchi, Presidente Ferro Carriles, Argentinas  
(Mar del Plata)
- 10/20/68 Prof. Gaston Bordelois, President of INTA  
(Balcarce)
- 10/21/68 Luis M. Gotelli, Secretary of Energy and Mining  
(B.A.)
- 12/17/68 Dr. Roberto Alemann, former Minister of Finance
- 12/19/68 Luis Maria Gotelli, Secretary, Energy and Fuels  
Daniel Fernandez, Financial Counselor, Argentine Embassy  
Ambassador Eduardo A. Roca
- List of others Mr. McNamara possibly met at end of Tab 3
4. 1/23/69 Bernardo Loitegui, Secretary of Public Works  
Victor Mangonnet, Sub-Secretary of Public Works and General  
Administrator of Vialidad
- 4/2/69 Dr. Jorge Rosner, population expert; director of an institute for  
research, a part of the Jesuit University of Buenos Aires
- 4/14/69 Dr. Carlos C. Helbling, Presidente, Promotora de Finanzas, Argentina
- 5/2/69 Dr. Pedro Eduardo Real, Governor of the World Bank and President of  
the Central Bank of Argentina  
Daniel Fernandez, Minister (Financial Affairs), Embassy
5. 5/27/69 Dr. Krieger Vasena, Minister of Economy and Labor (came as head of the  
& Krieger Vasena Committee)  
5/28/69
- 7/18/69 Alberto J. Gabrielli, Special Adviser to the Minister of Justice  
(Aspen - Eisen. Ex.)
6. 9/27/69 Jose Maria Dagnino Pastore, Minister of Economy and Labor  
Egidio Iannella, President, Banco Central de la Republica Argentina

7. 10/2/69 Dr. Jose Maria Dagnino Pastore, Minister of Economy and Labor  
Dr. Manuel San Miguel, Under-Secretary of International Economy  
Dr. Francisco N. Soldati, Director of Finance, Ministry of  
Economy and Labor  
Dr. Mario Brodersohn, Adviser to the Minister of Economy and Labor  
Dr. Javier R. Villaneuva, Director of Development Policies,  
National Development Council
- 2/22/70 Dr. Raul Prebisch, Director General, Latin American Institute  
for Economic and Social Planning
8. 2/25/70 Dr. Jose Maria Dagnino Pastore, Minister of Economy and Labor
9. 3/23/70 Ambassador Pedro E. Real
- 6/18-19/70 Dr. Raul Prebisch, Director General, Latin American Institute  
(Heidelberg) for Economic and Social Planning
10. 9/24/70 Carlos M. Moyano Llerena, Minister of Economy and Labor  
(Copen.) Daniel Fernandez, Secretary of State for Energy  
Francisco P. Soldati, Adviser, Director of Finance
11. 12/22/70 Dr. Juan Llamazares, Under Secretary of Public Works  
Com modore Eduardo V. Di Prisco, Under Secretary of Industry  
Ing. Juan Carlos Franck, Ministry of Economy and Labor  
Cor. Lucio H. Mazzola, Argentine Railways  
Cor. Enrique Mario Barrague, Argentine Railways
12. 7/12/71 Ambassador Pedro E. Real
13. 9/27/71 Dr. Juan A. Quilici, Minister of Finance  
Dr. Carlos S. Brignone, President of the Central Bank  
Dr. Angelo R. Caram, Minister, Embassy of Argentina  
(other representatives of the Ministry and Central Bank)
14. 12/15/71 Ambassador Carlos Manuel Muniz  
Angel Caram, Financial Counselor, Embassy
15. 2/3/72 Dr. Carlos S. Brignone, President of the Central Bank  
Dr. Dante Simone, Director of Policy, Ministry of Finance  
Dr. Horacio Alonso, Assistant General Manager, Central Bank  
Dr. Angel R. Caram, Financial Counsellor, Embassy of Argentina  
Ambassador Carlos Manuel Muniz
- 6/16/72 Jorge Born, Chairman and President, Bunge & Born S.A., Buenos Aires  
(NY)
16. 3/26/73 Jorge Wehbe, Minister of Treasury and Finance  
Dr. Jorge Bermudez Emparanza

17. 8/1/73 Gomez Morales, President, Central Bank  
Horacio Alonso, Department Head in Central Bank  
Mr. Tersoglio
18. 11/29/73 Ambassador Orfila
19. 1/10/74 Ambassador Orfila
20. 1/17/75 Finance Minister Gomez Morales  
Ambassador Orfila  
Mr. Angel Caram, Financial Attache of Embassy  
Mr. Bauer, Ministry of Finance  
Mr. Barrios, ED and Mr. Sojit, Alternate ED
- 4/8/76 Mr. Legisa (Argentine members of Yacyreta Binational  
(In Asuncion) Mr. Lemonica Entity - Paraguay/Argentina)
21. 6/16/76 Jose Alfredo Martinez de Hoz, Minister of Economy  
Alfredo Diz, President of the Central Bank  
Arnoldo Musich, Ambassador to the US  
Francisco Soldati, Director of the Central Bank  
Daniel Dante Simone, Financial Attache of Embassy
22. 10/5/76 Jose Martinez de Hoz, Minister of Economy  
(Manila) Adolfo C. Diz, President, Banco Central de la Republica Argentina  
Carlos C. Helbling, President, Banco Nacional de Desarrollo
23. 9/27/77 Jose Martinez de Hoz, Minister of Economy  
(Annual Miguel Iribarne, Director of Economy  
Meeting) Eduardo Conesa, Alternate Executive Director, IBRD
- 10/26/77 Roberto Olejaveska, Director, Galeria de Arte Renacimiento  
(Courtesy call)
24. 6/26/78 Walter Klein, Secretary for Coordination & Programming
25. 9/26/78 Dr. Jose Alfredo Martinez de Hoz, Minister of Economy  
Annual Miguel Iribarne, Director of External Finance  
Meeting Juan Carlos Iarezza, Financial Attache  
Eduardo Conesa, Alt. ED  
Alberto Sola, ED designate
- 6/24/80 Minister Klein  
Lunch Ambassador Espil  
Mr. Sola (ED)
26. 10/1/80 Dr. Jose Alfredo Martinez de Hoz, Minister of Economy  
Annual Mr. Sola (ED)  
Meeting Mr. Soldati, Director, Banco Central de la Republica  
Mr. Blanco, Director Nacional de Politica Economica  
y Financiera Externa

1



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara *Las Man*

DATE: April 12, 1968

FROM: Roger Chaufournier *R*SUBJECT: ARGENTINA - Dr. Real's Visit

1. Dr. Pedro Eduardo Real, President of the Central Bank of the Argentine Republic and our Governor for Argentina, is to call on you on Monday, April 15, at 3:00 p.m.
2. Dr. Real was born in 1911 and holds a law degree from the University of Buenos Aires. He served at the Central Bank from its establishment in 1935 until 1950, with an interruption in 1944 when he assumed the duties of Under-Secretary for Finance and Public Works in the north-western Province of Tucuman. In the early 1950's, Dr. Real was active in banking and industry. Returning to the Central Bank in 1955 as Deputy General Manager, he held the post of General Manager in 1956/57. After five years in business, he was appointed Vice-President of the Central Bank in 1962 but left in 1963 when Dr. Illia was elected President of the Republic. Between 1963 and 1967, he headed a metallurgical company and was a director of two private banks. Dr. Real became President of the Central Bank in early 1967, at the time Dr. Krieger Vasena took over as Minister of Economy and Labor in the Government of President Ongania. Since then, the two men have worked together well, although Dr. Krieger is an internationally-minded liberal, while Dr. Real has long espoused conservative and nationalistic views.
3. Dr. Real is coming mainly to pay you a courtesy call. Argentina recently told us that it was prepared to release its 9% capital subscription to the Bank and Dr. Real may mention this as evidence of Argentine support. He might also bring up a question which has arisen under our \$15 million livestock loan of 1967, namely the interest rate to be charged to farmers. We cannot review our position on this question without further discussions with Dr. Real, and we plan to hold these with him after his talk with you.

cc. Messrs. Alter o/r  
Bell  
Skillings/Fajans/Dosik  
Stoops/Schaefer-Kehnert  
Keltie  
Webb

*rate of inflation [rate of inflation]*  
*what steps to revive*  
*agri price incentives*  
*rate of productivity inc*  
*[what steps to revive*  
*agri-price incentives*  
*rate of productivity inc]*

2

October 4, 1968

Joseph Fajans

ARGENTINA - Mr. McNamara's Meeting with  
Delegation to Annual Meeting

1. On October <sup>2</sup>1, Dr. Krieger Vasena, Minister of Economy and Labor; Dr. Real, President of the Central Bank; Admiral Castro, Secretary to CONADE; Dr. Carra, Financial Counselor at the Argentine Embassy; and Dr. Fernandez called on Mr. McNamara at the Sheraton Park Hotel. Dr. Escobar and Messrs. Knapp, Alter and Fajans were present. The meeting lasted twenty minutes.

Mr. McNamara's Visit to Argentina

2. Dr. Krieger and Mr. McNamara thought that an excellent program had been worked out for the visit. Dr. Krieger wished Mr. McNamara to see things good and bad, meet people of his choice, and gain a personal impression of the country which would be of great interest to Dr. Krieger and his colleagues. He mentioned the humid pampa where the Bank was already giving technical assistance to agriculture, and the important industrial area of Zarate-Cazpans where Mr. McNamara would meet, and talk to, the Argentine workers. Mr. McNamara responded that he did not know Latin America well, looked forward to his trip to Argentina where the Bank expected to more than double the volume of lending, and was particularly interested in the area of El Chocón. He wished to learn more about this project for which the Bank was about to lend a substantial amount. He would be pleased to share his impressions with his hosts but wanted to forewarn them that five days was too short a time to form firm impressions.

Argentina's Economic Past

3. Dr. Krieger said that before World War II, Argentina could look back at fifty years of stability and growth. The country had had large monetary reserves and vast food resources. In the '20s, Argentina's condition was comparable to that of Canada. In the '30s, it was close to that of Australia. Then came a period of mismanagement; it was interesting to see how a government could destroy an economy through inflation, nationalization and expropriation. Argentina devoted the last ten years to the reconstruction of its economy. Even now, the country faced tremendous problems of modernization of the economy and improvement in social conditions. Dr. Krieger went on to explain the differences between Argentina and some other parts of Latin America. However, the problems of the southern part of South America were similar and resulted mainly from the inflation and the poor condition of the public sector of the economy.

The Railways

4. Mr. McManara referred to the huge deficit of the railways and asked whether this was a political problem resulting from the opposition by the population in the affected areas to the closing of uneconomic lines. Dr. Krieger replied that political opposition to railway reorganization had come from the powerful railway union; the union struck in 1962 and sounded a death knell to the Larkin Report. The present Government was fully conscious of the fact that if the railway deficit could be eliminated, the Government budget would show a surplus. Army engineers were currently running the railways without any interference on the part of the union. Reducing personnel and closing lines no longer presented political problems. Improvement in cargo handling and passenger service was evident to recent Bank missions, but a huge investment was required in rehabilitation and modernisation. Dr. Krieger knew the problem but did not know how to resolve it. The Bank's transport mission would certainly be forming views on these matters.

Argentina's Relations with the Bank

5. Dr. Krieger emphasized the fact that Argentina had joined the Bank too late. This had been a grave mistake. Compared with Mexico and Brazil, the Bank had done very little in Argentina. The Bank's staff should not be blamed for this; it was Argentina's fault that she did not pursue correct policies. Since the present Government had embarked on the right course, the Bank had been helping greatly through the livestock and Segba loans, the proposed El Chocón loan and the transport mission. People in Argentina thought of the Bank's staff as sometimes cruel but always just. In perspective, he should compliment the staff on its judgment. He was happy to see Mr. McManara in his new capacity as President of the Bank. Mr. McManara thanked Dr. Krieger and said that he had the help of a magnificent staff under Mr. Knapp.

cc: Messrs. Knapp  
Alter  
Steehan  
Baum/Sadove  
Knox/White/Sheehan  
Evans/Stoops  
Wright  
Skillings/Desik  
Cancio  
Keltie

Jfa:jans:ur

3

*Mr. McNamara - to see please.*  
*AKS 11/1*

## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: October 31, 1968

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with Minister of Economy of Argentina,  
Dr. Krieger Vasena

Mr. McNamara met in Buenos Aires on Monday, October 21 with Minister of Economy Krieger Vasena, his economic secretaries, his deputy and the Director of CONADE. Messrs. Alter, Steckhan and Clark were also present. Mr. McNamara met briefly with Minister Krieger Vasena on Tuesday, October 22 and Dr. Krieger Vasena attended a luncheon with the President on the 22nd. This memorandum summarizes discussions with the Minister of Economy on all three occasions.

Dr. Krieger Vasena stated that the two major problems facing Argentina are how to accelerate growth and maintain the stabilization program. External assistance is needed because an expansion of investment is essential for growth and there is a limit to the extent to which they can restrict consumption. They want to avoid political extremes while at the same time calling for reasonable sacrifices on the part of the people. Stopping inflation is essential if Argentina is to mobilize its own resources and orient investment to proper channels. It is crystal clear that they cannot use inflation any longer as a positive force for development.

There was a brief review, by several of the secretaries, of the investment program in the major sectors.

1. With respect to energy, Mr. McNamara had had a thorough discussion with Secretary Gotelli during the course of the trip over the weekend and no major problems were posed. It was pointed out that the Government was under very strong pressure from Cordoba to set up an atomic energy plant and the Government was taking a negative position. With respect to YPF, Mr. Gotelli mentioned that they have reduced the number of workers by 10 percent and increased production by 40 percent. YPF's operations have greatly improved and they now have a capital inventory for the first time. Gas del Estado constitutes the chief problem at the moment. There is a need to study their tariffs which are probably too low and also to establish a more rational pricing policy for gas, introducing some geographical differentials.

The Minister stated that with respect to state enterprises in general, they are now planning to establish a new institutional base for their operations using as their model SEGBA. They want to introduce more flexibility into the operations of the state enterprises while at the same time preserving for the Government basic policy direction. In 3 or 4 months, they hope to have a new basic statute for state enterprises. Minister Krieger Vasena, at the conclusion of one of the meetings, paid

President has seen

special tribute to the World Bank for insisting upon the efficient operation of public enterprises. He pointed out that many Governments, after nationalizing activities in basic fields, failed to operate the enterprises in a businesslike manner.

2. Minister Krieger Vasena confirmed that Argentina would want Bank assistance in transport and communications. While in the road transport field an overall plan was still to be formulated, he felt the people in this sector were doing a good job and the problem deserved Bank support. He indicated some preference for roads in the interior of the country citing the road program in Misiones and the major trunk roads in the rest of the country. At the same time, the Secretary for Public Works stressed the need for access roads in Buenos Aires, where the deficit is very great. Secretary Loitegui expressed his view that Argentina needs larger loans from the Bank in the highway field. Small loans make it very difficult for Argentina to accept the consulting services that the Bank seems to require (I pursued this subject in a private conversation with the Secretary - I doubt this is a very serious matter). With respect to railways, the Minister was eagerly awaiting to receive the report of the World Bank so that he could take it into account in formulating decisions with respect to the railways for 1969. In a private conversation during lunch, Dr. Krieger Vasena emphasized that the prospect for direct assistance from the Bank for railways, even if not immediate, would assist him greatly in getting approval for a railway rehabilitation program. He seemed to doubt whether the prospective Bank assistance in other fields of transport would help greatly in dealing with the railway problem as such. I referred him to the approach which we are following in Brazil and cited the recent letter we had received from the Brazilian transport authorities on transport policies as a whole, in connection with our forthcoming loan to Brazil for railways.

Mr. McNamara pressed the Minister to clarify the order of priorities he placed on subways, access roads, highways, railways, etc. Admiral Castro replied, at the suggestion of the Minister, simply pointing out that CONADE is working on a 5-year plan which incorporates their order of priorities on these various projects.

3. Dr. Krieger Vasena confirmed the Government's interest in Bank support for the telephone sector. A telephone plan for the medium term should be available in 3 months.

4. With respect to the industrial sector, Dr. Krieger Vasena referred to the increased interest which IFC is displaying and urged Mr. McNamara's support. He also mentioned the possibility of obtaining IFC financing for toll roads, toll bridges and other public works projects which might be turned over for development to private concessionaires. He observed that such systems had worked well in Argentina in the past and that they might want to approach IFC in the future. Mention was also made of the possibility later on, of the coming to the Bank for some large projects in the industrial field, maybe in the aluminum sector.

Minister Krieger Vasena mentioned that the economic target for 1969 is a growth rate of about 6 percent. He feels the primary problems lie in incomes policy and fiscal policy. They are preparing, along the lines recommended by the Bank, a new land tax and a consolidation of the social security tax with the income tax. They hope to raise about 100 billion in additional revenues from these measures. (The figure was reported privately to Mr. Alter during a luncheon conversation. There is some uncertainty about the 100 billion figure. The IMF representative in Buenos Aires mentioned 60 billion pesos as the amount of additional revenues which would be produced by the two measures cited above.) He recognized that they would have to continue reducing the export retentions and for this, as well as other reasons, a substantial increase in revenues as a result of new measures was called for.

Minister Krieger Vasena, who had just returned from his European trip, expressed considerable optimism about the prospects for Argentine meat exports to European markets and to Japan. He cited the very heavy subsidies now being paid to the Common Market countries to promote their domestic meat production, suggesting that the Governments were prepared, in the face of a very heavy demand for meat created by raising incomes, to permit larger imports. The Minister is convinced that in the current phase of its development, Argentina must also develop its manufacturing for export. Industrialization in the past was promoted by balance of payments crises. Indiscriminate import substitution resulted. While they have succeeded in reducing tariffs somewhat, they are still too high and they want to continue to reduce tariffs in order to increase competition and promote efficiency.

Dr. Krieger Vasena mentioned in a luncheon conversation with Mr. Alter that it is unlikely that Argentina will have a new standby with the Fund on the expiration of the present standby in April. Argentina is now in the super gold tranche and he was told by Mr. Schweitzer during his recent visit to Washington that it was not Fund practice to have standbys with countries that are creditors of the Fund. Dr. Krieger Vasena stated that it would be advantageous, both for the Government's internal and external relationships, to have an understanding on economic policy with the World Bank next year.

cc: Mr. Knapp  
Mr. Wiese  
Mr. Skillings  
Mr. Baum  
Mr. Dosik

GAlter:pa.



## OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for Record

DATE: October 31, 1968

FROM: Gerald Alter *GA*

DECLASSIFIED

SUBJECT: Meeting of Mr. McNamara with President Onganía of Argentina

SEP 19 2012

WBG ARCHIVES

Mr. McNamara met with President Onganía in Buenos Aires on October 22, prior to having lunch with the President. Minister Krieger Vasena and Mr. Alter were also present.

Much of the discussion focussed on President Onganía's philosophy concerning the future development of Argentina. President Onganía expanded at length on his conception of the important role that the military had to play at this critical juncture in the development of Argentina's national spirit and its political and economic integration. He clearly feels that providing the armed forces with modern technology is a high priority requirement for the country, justified by the particular role that military groups must play in the orderly development of the country.

Argentina's prime need at the moment is a reordering and transformation of its economic life so that at a later stage political institutions could be restructured and representative government re-established. The Government, in his judgment, must demonstrate a capacity to do things effectively and only after it is demonstrated such a capacity, can the country afford a return to representative government. President Onganía did not indicate how long a period would be required but he seemed to imply that this process may take many years.

These discussions with President Onganía revealed weak points in the Argentine situation which must be carefully watched.

1. The President's mystical conception of the role of the military may well lead to irrational and costly expenditures for military purposes and for other purposes considered by military groups to be important for "national integration".
2. While the populace seems to be willing to accept for the moment a delay in the establishment of representative institutions, there is no assurance that President Onganía's indefinite time schedule will prove acceptable.

cc: Mr. Wiese.

GAlter:pa.

President has seen

## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: October 4, 1968

FROM: Joseph Fajans

SUBJECT: ARGENTINA - Mr. McNamara's Meeting with  
Delegation to Annual Meeting

1. On October 1, Dr. Krieger Vasena, Minister of Economy and Labor; Dr. Real, President of the Central Bank; Admiral Castro, Secretary to CONADE; Dr. Caram, Financial Counselor at the Argentine Embassy; and Dr. Fernandez called on Mr. McNamara at the Sheraton Park Hotel. Dr. Escobar and Messrs. Knapp, Alter and Fajans were present. The meeting lasted twenty minutes.

Mr. McNamara's Visit to Argentina

2. Dr. Krieger and Mr. McNamara thought that an excellent program had been worked out for the visit. Dr. Krieger wished Mr. McNamara to see things good and bad, meet people of his choice, and gain a personal impression of the country which would be of great interest to Dr. Krieger and his colleagues. He mentioned the humid pampa where the Bank was already giving technical assistance to agriculture, and the important industrial area of Zarate-Campana where Mr. McNamara would meet, and talk to, the Argentine workers. Mr. McNamara responded that he did not know Latin America well, looked forward to his trip to Argentina where the Bank expected to more than double the volume of lending, and was particularly interested in the area of El Chocon. He wished to learn more about this project for which the Bank was about to lend a substantial amount. He would be pleased to share his impressions with his hosts but wanted to forewarn them that five days was too short a time to form firm impressions.

Argentina's Economic Past

3. Dr. Krieger said that before World War II, Argentina could look back at fifty years of stability and growth. The country had had large monetary reserves and vast food resources. In the '20s, Argentina's condition was comparable to that of Canada. In the '30s, it was close to that of Australia. Then came a period of mismanagement: it was interesting to see how a government could destroy an economy through inflation, nationalization and expropriation. Argentina devoted the last ten years to the reconstruction of its economy. Even now, the country faced tremendous problems of modernization of the economy and improvement in social conditions. Dr. Krieger went on to explain the differences between Argentina and some other parts of Latin America. However, the problems of the southern part of South America were similar and resulted mainly from the inflation and the poor condition of the public sector of the economy.

President has seen

The Railways

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Argentina's Relations with the Bank

5. Dr. Krieger emphasized the fact that Argentina had joined the Bank too late. This had been a grave mistake. Compared with Mexico and Brazil, the Bank had done very little in Argentina. The Bank's staff should not be blamed for this; it was Argentina's fault that she did not pursue correct policies. Since the present Government had embarked on the right course, the Bank had been helping greatly through the livestock and Segba loans, the proposed El Chocon loan and the transport mission. People in Argentina thought of the Bank's staff as sometimes cruel but always just. In perspective, he should compliment the staff on its judgment. He was happy to see Mr. McNamara in his new capacity as President of the Bank. Mr. McNamara thanked Dr. Krieger and said that he had the help of a magnificent staff under Mr. Knapp.

cc: Messrs. Knapp  
Alter  
Steckhan  
Baum/Sadove  
Knox/White/Sheehan  
Evans/Stoops  
Wright  
Skillings/Dosik  
Cancio  
Keltie

JFajans:mr

4

## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: January 28, 1969

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with Ing. Bernardo Loitegui,  
Secretary of Public Works of Argentina

Mr. McNamara met on Thursday, January 23 with Secretary of Public Works Ing. Bernardo Loitegui and Ing. Victor Mangonnet, Sub-Secretary of Public Works and General Administrator of Vialidad. Mr. Alter was also present.

The Secretary of Public Works indicated that while Argentina was in the process of developing a more rational economically justified highway program, they had to take into account many considerations in deciding on the size and composition of their total program. While they understood well the Bank's insistence on high priority projects in the case of Bank financing, they would have great difficulty in accepting the Bank's insistence on their whole program conforming to Bank standards. Mr. McNamara responded by observing that even though the Bank lends for specific projects it must also be concerned with the overall justification of the program in which the specific projects financed by the Bank form a part. The Secretary seemed to accept this point of view (as he had in previous discussions with the staff) and Mr. Alter observed that we seemed to be reaching agreement with the Argentine authorities on a reconnaissance survey of the highway field which would provide technical bases in judging the relative merits of the various projects to be included in the highway investment program. In a follow-up conversation with the Secretary after the meeting Mr. Alter confirmed that the Secretary is willing to accept Bank "involvement" in the overall highway program. He seems to fear that the Bank will insist that all of the roads in Argentina be submitted to a rigorous economic test, even those being undertaken by the provinces in cases where the national authorities have no control under present law. Mr. Alter assured the Secretary that we would not expect absolute perfection in the road program but that the extent of our financing in the future would be contingent on our being satisfied that real progress was being made in formulating and implementing a rational program.

With respect to the access roads around Buenos Aires, the Secretary again referred to his plan for toll roads under private concessions. Mr. Alter pointed out that while he had not an opportunity to discuss this proposal with the Secretary, he understood that the staff had many reservations on this proposal. They felt that the roads in question may not be adapted for tolls and that a system which envisages private contracting and financing joined together in this manner did not assure most economical financing terms and construction costs. It was agreed that the staff would have further discussions with the Secretary on this matter.

cc: Messrs. Knapp, Baum, Geolot, Skillings.

GAlter:pa.

President has seen

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May 28, 1969

MEMORANDUM OF CONVERSATION WITH DR. KRIEGER VASENA

Vasena stated:

- a. He is preparing a "letter of intention" to be sent to the Bank and a written statement of a 4- or 5-year program to eliminate the railroad deficit, a copy of which he will also send to the Bank. (His railroad re-organization program will include a plan to lay off 45,000 people, more than the Bank recommended.)
- b. The transmission of both of these statements to the Bank will, in his opinion, exert a discipline on Argentinian political authorities.
- c. Following a review of the statements by the Bank, he hopes we can make a statement to the Argentine Government indicating our receipt of them, our support of them, and our willingness to proceed with a substantial lending program with the Argentine Government, assuming that the commitments made in the two statements are met. He indicated we made such a statement with respect to Spain in 1964. I did not commit the Bank to an endorsement of the Argentinian program or to a public statement regarding a future lending program, but I did say we would examine his statements carefully and do everything possible to support his objectives.
- d. He is planning to borrow in the Swiss, German and U.S. markets, not primarily because of a requirement for capital but rather again as a disciplinary measure, imposing obligations on the Argentine economy to adhere to standards of performance acceptable in the international money markets.

RMcN

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 23, 1969

FROM: Gerald Alter *gh*SUBJECT: Visit of Dr. Krieger Vasena

1. Although you do not have a private meeting scheduled with Dr. Krieger Vasena during his visit here next week, we know of a number of subjects about which Dr. Krieger might speak to you during his stay.

Preference for Suppliers in Borrowing Countries

2. The Argentines are deeply interested in the discussions that have been going on in the Board about the possible increase in the margin of preference granted to suppliers in borrowing countries, and Dr. Krieger indicated to a recent Bank mission that he intended to take this general subject up with you. He will probably press for an increase in the percentage, but may also mention a scheme for sharing orders among domestic and foreign suppliers (the "Meoli formula"). For the new SEGBA project, which has just been appraised, the Argentines have indicated that they will agree once more to the 15 percent margin applied to the last loan, provided the Board has not in the meantime increased the percentage generally applied. Dr. Krieger has told us however, that he wanted to explore the subject further before the proposed railway loan is negotiated, since he apparently believes that under the simple 15 percent margin Argentine railway equipment manufacturers will have difficulty competing (unlike manufacturers of electrical equipment who fared very well under the latest loan to SEGBA).

Economic Performance and Policy

3. Attached is a near final draft of a new economic report which reflects the Argentines' fine performance in the past year. Attached also is a memorandum by Mr. Glaessner describing economic policy discussions he held with the Government in early May when reviewing the economic report with them. Dr. Krieger appears to want to address a letter to the Bank dealing with economic policy.

Proposed Second Highway Loan

4. Negotiations are well advanced for a second highway loan of approximately \$25 million and there is still a chance that we can present this to the Executive Directors before the end of June. However, it is possible that there will be some delay as a result of the resignation of Secretary Loitegui on May 16--a resignation that was foreshadowed some time ago when he expressed the wish to return to private business.



May 23, 1969

Railways

5. The Government informed the recent mission that it continues to place great importance on the role of the Bank in helping to carry out a railway rehabilitation program. The Argentines have been impressed by the role the Bank played in Spain. They have taken, or are about to take, a number of measures to start the program. We will send a railway mission to Argentina in June in order to review progress and assist in the preparation of a railway investment project. If all went well, we would hope to make a railway loan in the first half of 1970.

Urban Transport

6. We are planning a small mission in June to get acquainted with the organization of urban and urban transport planning in metropolitan Buenos Aires, and to discuss steps needed to identify a first urban transport project.

Attachments

cc: Messrs. Cope  
Glaessner  
Skillings  
Fajans

*Philip Glaessner*  
Philip Glaessner

ARGENTINA - Economic Policy Discussions in Argentina  
Back to Office Report

1. During my visit to Argentina from May 4 to May 10, the Minister of Economy and his staff indicated that they were in substantial agreement with the analysis presented in the report, and confirmed their intentions with respect to the major issues raised.

2. Specifically, they indicated:

(i) That the increase in public sector investment during 1969 will be, at least, 10 percent less than originally budgeted;

(ii) That on the basis of actual tax collections and current expenditures during the first four months, the 1969 public sector savings target is likely to be met. Tax collections have exceeded estimates; gasoline taxes were raised by over 40 percent on May 11 and at the same time passenger railroad rates were increased by 25 percent on the suburban lines and 15 percent for long distance travel, marking the first stage in the execution of the five-year railroad redimensioning program;

(iii) That the Argentine Government has already placed a \$25 million ten-year bond issue in Germany, has made arrangements for placing a further \$25 million on similar terms in that country in the fall, has received assurances from Switzerland that a \$15 million bond issue can be floated there with a term of at least ten years and is negotiating with Kuhn Loeb for a \$25 million bond issue to have a term of 10 1/2 years. The Government thus feels confident that it will be able to place \$90 million in external bond issues on acceptable terms. It still intends to borrow the remaining \$60 million abroad, but will not do so if the situation in the external capital markets becomes such that these issues would have to be placed on "very unfavorable" terms;

(iv) That good progress has been made in preparing a multi-year public sector investment and financing program, which should be ready by October 1969, in time for the 1970 budget discussion and

(v) That the Government has completed arrangements to carry out a new across-the-board tariff reduction, averaging 10 percent, within the next four weeks and is actively discussing with private industry a five-year program for periodic, further reductions of industrial tariffs.

May 14, 1969

3. It is expected that the foregoing policy intentions and other aspects of the Government's economic program, will be communicated to the Bank in a letter, the first draft of which the Minister of Economy intends to bring to Washington at the end of May, if it can be completed in time. This letter is viewed by the Argentine authorities as a useful device for internal planning and discipline, particularly in view of the fact that by mutual agreement Argentina's IMF Stand-by Agreement has been allowed to expire at the end of April.

PGlaessner/agr.

BASIC DATA

Area: 2.8 million km<sup>2</sup>-  
(1.1 million sq. miles)

Population (1968): 23,617,000

Growth Rate (1950/51-1967/68) 1.7 percent

Gross Domestic Product (1968): M\$N 6,049.0 billion  
(\$17.3 billion)

Real Growth Rate (1950/51-1967/68) 2.5 percent

Per Capita GDP \$732

Origins of Gross Domestic Product (1967): Percent of GDP

Industry	31%
Agriculture	16%
Commerce	15%
Transport and Communication	6%

Expenditure on Gross Domestic Product (1968): Percent of GDP

Gross Fixed Investment	19.5%
Private Consumption	68.6%
Public Consumption	10.6%
Current Account Balance	1.3%

Cost of Living: Annual Average Year-end to Year-end  
Percent Change Percent Change

1965	28.5%	38.2%
1966	31.8%	22.0%
1967	29.3%	27.4%
1968	16.2%	9.6%

Money Supply M\$N, End of Period Percent Change

1965	498	26.1%
1966	672	34.9%
1967	872	30.0%
1968	1,105	26.7%

National Public Sector Finances:Percent of GDP

	<u>1966</u>	<u>1967</u>	<u>1968</u>	
National Government				
Current Revenue	10.2	13.8	13.3	
Current Expenditure	10.0	10.3	10.1	
Total Public Revenue (incl. Social Security)	16.2	20.1	18.5	
Public Saving	-0.5	3.7	4.1	
Public Investment	4.0	4.8	5.1	
<u>Balance of Payments (\$ million):</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Exports	1,493	1,593	1,465	1,365
Imports	-1,198	-1,124	-1,096	-1,135
Trade Balance	295	469	369	230
Invisibles	-111	-216	-189	-224
Current Account Balance	184	253	180	6

Foreign Exchange Reserves (\$ million):December

	<u>1966</u>	<u>1967</u>	<u>1968</u>
Assets, Central Bank	231	759	805
Net Position, Incl. Treasury Liabilities	-154	279	428

Public Foreign Debt (June 30, 1968)\$ million

Outstanding as reported by IBRD (excluding undisbursed)	1,718.8
Debt Service Ratio	29%

## SUMMARY AND CONCLUSIONS

1. Last year's Economic Report (WH-182a, July 1968) reviewed the success achieved by the Argentine Government in carrying out its stabilization program during 1967, discussed the 1968 program, stressing the increased emphasis given the achievement of more rapid growth and analyzed in considerable depth longer-term structural problems of the various sectors of the economy. The present report focuses on 1968 performance and the shape of the 1969 program. It also reviews and updates information on the longer-term outlook for public sector savings and investment, agricultural and industrial policy and the balance of payments. The significance of the efforts being made by the Argentine Government to consolidate price stabilization and achieve a steady, self-sustaining rate of growth and the relatively favorable prospects for the success of these efforts, should be viewed against the background of slow, uneven growth, chronic inflation, industrial development through import substitution at virtually any cost and failure to take full advantage of its rich agricultural resource base, characteristic of Argentine developments during the post World War II period.

2. During 1968 the Government achieved virtually all of the objectives of its economic program. There was a sharp decline in the rate of price increase. The cost of living increase was held to less than 10 percent compared with 27 percent in 1967, and wholesale prices rose by only 4 percent. GDP grew by almost 5 percent, following two years of stagnation, despite a relatively poor agricultural year. Industrial expansion gathered momentum, sparked by a construction boom reflecting the increase in public investment. Private investment started to increase. Unemployment declined. Foreign exchange reserves continued to grow in spite of lower than expected exports; this increase reflected a moderate rise in the inflow of long-term capital, including increased project financing by international financial institutions; the placement of \$75 million in Government bonds abroad; a substantial repatriation of Argentine funds and the inflow of short-term foreign capital as confidence in the success of the stabilization program became more widespread both at home and abroad.

3. The economic "tour de force" of combining a sharp reduction of price inflation and continued balance of payments stability with economic recovery was achieved by sharply limiting access by the public sector to Central Bank credit and successfully maintaining the wage freeze and price agreements instituted in March 1967. Cost inflation was thus curbed without significantly reducing real wages while liquidity and private sector credit expanded. This expansion had little effect on prices given the large under-employment of industrial plant.

4. Public sector savings and investments rose by about 17 percent in real terms from their 1967 levels. Savings reached only about 85 percent of the planned level, due mainly to the fact that Central Government revenues declined slightly in real terms, compared with 1967. This was due to a sharp drop in foreign trade tax collections and to the failure of sales tax collections to come close to revenue estimates; the latter

reflected the fact that tax administration did not improve as much as had been hoped. On the other hand, substantial progress was made in reducing the size and increasing the productivity of the public sector's labor force - particularly of the State enterprises.

5. Public investment performance was uneven. Highway investment more than doubled, achieving its ambitious 1968 target, and there were sizeable increases in investments in the petroleum, power and communications sectors as well as in education and the water and sewerage systems. In these sectors project preparation improved and multi-year investment plans are beginning to emerge. Most State enterprises and decentralized agencies (other than the National Highway Department) fell short of their 1968 targets, but generally by not more than about 15 percent. Provincial and municipal authorities sharply increased their investments, primarily in highway construction. No progress was made in 1968 in developing a multi-year over-all public sector investment and financing program.

6. Export incentives were maintained at a satisfactory level. Non-traditional exports reached the highest level in the last decade. Export taxes on most agricultural exports were reduced to moderate levels - 6 percent for wheat and 8 percent for most other cereal crops. Traditional exports in the form of chilled sides of beef are being replaced by special chilled and frozen cuts, cooked and frozen beef and other types of processed meats. As a result, export markets are becoming much more diversified both by type of export and geographically, and higher prices per ton are being obtained.

7. The Government's 1969 economic program aspires to an even higher rate of economic growth than in 1968 (an increase of at least 6 percent in the GDP), further progress towards price stability (a rise in the cost of living of about 5 percent and near stability in wholesale prices) and a further substantial increase in net foreign exchange reserves. This consolidation of the advances towards stabilization and renewed growth made during 1967 and 1968 is to be achieved by again limiting wage increases so as to avoid a cost push (but without reducing real wages); prudent monetary policy; an across-the-board reduction in import duties; further stepping up of public sector savings and investment and increased placement of Government obligations at home and abroad.

8. An auspicious start has been made in carrying out the 1969 program through the adoption of an incomes policy in January by which basic wage increases are being limited to 8 percent, a rate which the private industrial sector seems able and willing to absorb without increasing prices substantially as evidenced by the fact that industrial prices increased by only about 1 percent during the first quarter of 1969. In the public sector, basic wages are also being raised by 8 percent, but most State enterprises and many sectors of the public administration are to absorb the extra cost by stepping up their rationalization efforts. In addition the budget provides for special,

selective salary adjustments for teachers, judges, the armed forces and central administration personnel as part of a 5-year program, put into effect in March, to restore a more reasonable salary structure and to bring public sector wages gradually more into line with remuneration in the private sector. At the end of 1968 a number of tax reform measures were undertaken, of which the most significant is the establishment of a tax on agricultural land (net of improvements) which will replace some of the revenue foregone by the Government in reducing export taxes, lay the basis for agriculture to bear a fairer share of the tax burden and is likely to lead to more intensive use of land and greater efficiency in agricultural and livestock production.

9. Some aspects of the 1969 economic program will require particularly careful handling by the Government, if speeding up of the rate of economic growth is to be combined with further progress in achieving price stability: (i) the increase in public sector fixed investment, originally budgeted, would have raised such investment by 26 percent in real terms over the level achieved in 1968. This seems over-ambitious at a time when many industries are much closer to making full use of their capacity than a year ago, when private investment seems to be increasing markedly and when there are indications of construction cost increases; (ii) the planned public sector savings level - a real increase of 18 percent - can only be achieved if tax collections come up to revenue estimates which will require a substantial improvement in tax administration and a further increase in fuel taxes. Moreover, current expenditures will have to continue to be severely contained and further substantial progress will have to be made in reducing the State Railroad deficit; (iii) even if the public sector savings target were achieved, the gap between public sector savings and budgeted investments would increase substantially, which would require not only an increase from 27 to 40 billion pesos in domestic Government bonds sales, which is not likely to be difficult, but also the placement of \$150 million of bonds abroad, which may only be partially possible on terms fully compatible with Argentina's need to improve the structure of its foreign debt.

10. Developments during the first four months of 1969 have been reassuring with respect to the above aspects of the program. Public sector investment is expanding at a lower rate than originally budgeted. This is partly due to a review by the Government of some investment programs, such as highways and water and sewerage facilities, which have tended to rise very rapidly and partly to the fact that, like in 1968, some entities will fall short of their investment targets. The projected level of public sector savings, on the other hand, is likely to be achieved. Actual revenue collections have thus far exceeded estimates, reflecting in part a real improvement in tax administration. Current expenditures have been held within budgeted levels. In early May gasoline taxes earmarked for highway construction and railroad passenger fares were increased substantially. A 20 billion peso internal Government bond issue has been oversubscribed.



11. The export outlook for 1969 appears more promising than in 1968, reflecting removal of the United Kingdom's sanitary embargo on most meat imports from Argentina, the recovery of corn production and exports, and a continued increase in the level of "non-traditional" exports. But, there is also every indication that imports will rise significantly and that heavy net outflows of interest and other service payments will continue. Thus, like in 1968, the current account surplus in the balance of payments may be reduced to a relatively small figure. However, there are strong indications of a substantial rise in direct foreign investments, disbursements of long-term loans should increase markedly and the Government has placed a first bond issue of \$25 million abroad. With the inflow of short and medium-term funds apparently continuing, a substantial further rise in foreign exchange reserves has taken place in recent months.

12. From the longer-term point of view, maintenance of an incomes policy designed to prevent the re-emergence of a wage-price spiral by encouraging the negotiation of wage agreements in which increases bear a reasonable relationship to the growth in productivity is of the first importance. To implement such a policy successfully, after free collective bargaining is reestablished at the end of 1969, will only be possible if agricultural and industrial output expand considerably more rapidly than in the past.

13. With respect to agriculture, the Government, by reducing export taxes to relatively modest levels and enacting a national land tax, has laid the basis for a much stabler set of policies than in the recent past. To prevent a significant deterioration in the terms of trade between agriculture and the rest of the economy resulting from the decline of livestock prices to a level substantially lower than in the middle 1960's and some weakness in international grain prices, the Government intends to bring down the prices of agricultural inputs by reducing the tariffs applied to imported farm requisites, lowering the level of protection of domestic industry producing such inputs and reviewing the requirement that virtually all components of farm machinery have to be produced domestically.

14. Argentine industry seems to be adapting relatively well to the new, non-inflationary environment, even though the adaptation is not painless. While some old established firms have gone bankrupt, most corporations are attempting to increase both the scale and efficiency of operations through reduction of inventories to permanently lower levels; selective reequipment, reduction in staff, mergers and reorganizations. What is needed now is a well-conceived, longer-term industrial policy, worked out by the Government in close coordination with the private sector, designed to make Argentine industry more competitive internationally by systematically reducing the "effective" tariff of many industries. The Government has submitted the outline of a longer-term approach along these lines to private industry.

15. A fairly high and growing level of public sector investment - although increasing at a slower rate than originally budgeted for 1969 -

will prove important over the next few years, both to make up for many years of neglect of much of the country's infrastructure and help maintain an acceptable level of employment while agriculture, many industries and the public sector go through a process of cost cutting and rationalization. A five-year public sector investment program appropriate to achieve the above objectives could be financed without endangering financial stability or incurring an excessive volume of debt at home or abroad if (i) National Government tax revenues increase at the same rate as the GDP (assumed to rise 5 percent a year on the average). This should be achievable even without raising tax rates; (ii) the growth in current Government expenditures continues to be contained; (iii) the State Railroad deficit is eliminated by 1974, which requires prompt implementation of the 5-year redimensioning and reequipment program and (iv) savings of the Social Security System are restored to a level close to that achieved in 1967.

16. With a relatively favorable medium-term world market outlook for most of Argentina's traditional exports and continued efforts to promote "non-traditional" exports and given the basically very strong international competitive position of Argentina in meat and grains, it should be possible to increase exports from \$1,400-1,500 million at present to about \$2 billion by 1974. While imports may rise markedly in response to sustained GDP growth, the current account balance of the balance of payments is likely to remain in virtual equilibrium. Argentina should thus continue to have no net external capital gap. Gross external capital requirements - about \$300 million per year - will reflect annual amortization payments on debt. Allowing for a modest expansion of private direct investment and for loans presently in the pipeline, about \$1 billion in new borrowing abroad over the next five years or some \$200 million a year will be required. In view of the fact that debt service will still absorb nearly 30 percent of the exports of goods and services during 1969 and 1970, reducing the debt service burden will have to continue to be an important objective of policy. The debt service ratio could decline to about 14 percent by 1974 if relatively short-term suppliers' credits continue to be strictly limited, the Government, while pursuing its successful policy of reopening the external capital market to Argentine Government bonds, limits such issues to amounts which can be placed on terms of not less than 8-10 years, including a grace period and the rest of the new borrowing is on terms similar to those of the international financial institutions.

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September 27, 1969

MEMORANDUM OF CONVERSATION WITH DR. JOSE MARIA DAGNINO PASTORE, MINISTER  
OF ECONOMY AND LABOUR, ARGENTINA, SEPTEMBER 27, 1969

During a discussion of the arrangements for the meeting of the  
Governors next week, Dr. Pastore made the following points:

1. He supports our lending rate of 7%, believing that it is far  
more important to expand our lending and expand our borrowing to support  
the higher rate of lending than it is to hold the lending rate down and  
run the risk that this will serve as an argument for restricting Bank  
borrowing during a period of high interest costs.

2. The Bank should be in the forefront of developing new ideas  
in the field of development; for example, the developing countries need  
advice and counsel with respect to the economics of urbanization.

3. Many of the developing countries, perhaps fifteen in total,  
would benefit from action the Bank might take to expand local procurement  
of items financed with banking loans and credits.

Robert S. McNamara



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 7, 1969

FROM: Robert F. Skillings *RS*SUBJECT: Meeting of the Argentine Delegation with Mr. McNamara, October 2, 1969Argentine Delegation:Bank:

Dr. Jose Maria Dagnino Pastore -  
Minister of Economy and Labor

Mr. McNamara

Mr. Knapp

Dr. Manuel San Miguel - Under-  
Secretary of International  
Economy

Mr. Alter

Mr. Skillings

Dr. Angel R. Caram - Executive  
Director

Dr. Francisco N. Soldati - Director  
of Finance, Ministry of Economy  
and Labor

Dr. Mario Brodersohn - Adviser to  
the Minister of Economy and Labor

Dr. Javier R. Villaneuva -  
Director of Development  
Policies, National Development  
Council

Economic and Financial Policy

1. Dr. Dagnino Pastore began by describing recent economic and financial trends and policies. He said that at the beginning of 1969 the Government set as targets for the year a growth rate of 6.5 percent, stable wages, and a fiscal deficit limited to that which was consistent with monetary expansion of no more than 35 billion pesos. There was expected to be a surplus in the balance of trade enough to offset net financial outflows and leave the reserves unchanged. The money supply was expected to increase by 14 percent which was consistent with the 6.5 percent growth target and price increases of 6 percent.

2. In the first six months of 1969, actual growth of GNP was at an annual rate of 6.1 percent. Wages were stable and the budgetary accounts developed in accordance with expectations. The money supply expanded by a little more than the target, and foreign trade had expanded faster than expected on both the import and export side with a smaller than forecast trade surplus and a small loss in reserves caused by financial outflows in the second quarter.

October 7, 1969

3. For 1970, the Government expected the rate of growth to be a little slower, at 5.5 percent, since the capacity of the economy would then be fully employed and unemployment would be less than 5 percent. The balance of trade in 1970 should continue to be in surplus as in 1969, with imports remaining at the higher level reached in 1969 but no longer rising. The 1970 fiscal deficit was to be about the same as in 1969 but its financing would be different, with fewer bond issues; the public sector was expected to absorb a slightly lower proportion of GNP. Monetary expansion, projected at 13 percent, would be approximately the same as 1969 and would be consistent with the same rate of inflation. At the same time, there should be an increase in real wages (see paragraph 15 below).

4. In the longer term the Minister felt there were two main impediments to economic expansion: the balance of payments and the supply of skilled labor. In order to tackle the former, the Government intended to encourage exports and imports substitutes, provided in the latter case that the Argentine production was not unduly inefficient. Promoting exports might create a fiscal problem since it was necessary to find alternatives to the income from export taxes, which should be reduced to encourage exports. The solution lay in increasing the yields of existing taxes and increasing the tax base rather than imposing new taxes. This problem was accentuated by the Government's desire to reduce import duties in order to promote industrial efficiency. To cope with the shortage of skilled labor, the Government intended to embark on a program similar to one carried out in Spain, involving concentrated short-term training schemes and the creation of labor exchanges.

5. Mr. McNamara inquired about the outlook for meat exports. The Minister said that Argentina enjoyed a comparative advantage and should be well placed to increase meat exports. The problem was to comply with increasingly severe sanitary regulations in importing countries and also to respond to the increasing diversification in the demand for meat. The imposition of quotas and variable import duties in the European market was noted, but the Minister was optimistic that Argentina would be able to gain ground. He noted the recent difficulties with the U.K. on meat exports; agreement had finally been reached. In general in the industrial field, said the Minister, Argentina needed to organize its industry to produce for a medium-sized market. This might well mean consolidation of small producing units into larger ones in order to promote efficiency. One objective would be to expand industrial exports to other countries in Latin America.

#### Foreign Financing

6. As regards foreign financing, the Minister said that the Government was anxious to improve the structure of its debt, by maintaining a large flow of funds from international agencies like the Bank and the IDB and also by improving the terms of credits from other sources. He mentioned Argentina's success in obtaining "buyers' credits", with better terms than suppliers' credits.

October 7, 1969

7. The Minister said that the Government wanted to identify medium-term sectoral investment plans with financing agencies like the Bank in order to be able to agree on programs of financing several years ahead. Completion of the Government's overall public investment program by the end of this year should facilitate this.

8. The Minister also expressed the desire that financial institutions like the Bank should modify their rules to insure greater participation by local industry. In fields like electrical equipment and telephone equipment the Government wanted to encourage local manufacturers to expand and rationalize their output, but could only reach this objective by assuring them a continuous flow of orders. If the bulk of their output was subject to the hazards of international competitive bidding, they could not be expected to expand their production facilities. The Minister noted that there were references to this problem in the Pearson Report.

9. Mr. McNamara said he shared the Minister's view of the need for good long-term planning. Argentina's economic performance had been so good in the past two years, that it should be possible for the Bank to reach agreement on medium-term lending programs. On the assumption that good economic performance would continue, the Bank hoped to be able to lend \$90-100 million a year to Argentina over the next few years.

10. As regards the problem of the participation of local industry, Mr. McNamara said that the Bank had deep interest in helping Argentina develop its industry on an efficient basis, but would not wish to foster inefficiency. Mr. McNamara felt that much industrial inefficiency existed in Argentina and other Latin American countries as a result of policies which, while well-intentioned, had the wrong effects. Mr. McNamara agreed that the present flat 15 percent preference rule was a very rough instrument and should be restudied. Among other things, it took no account of differences in the proportion of the value added in various kinds of goods, nor did the percentage change over time, gradually diminishing as producers become more efficient. But, Mr. McNamara emphasized, he would not want to change the present procedure without introducing some other element to bring in the force of competition. The Minister noted that the problem of the dumping was arising more frequently. Mr. McNamara said that we were aware that this was one of the problems. The Minister remarked that procurement of equipment not financed by Bank loans was in the context of the country's tariff structure. While not wishing to defend Argentina's present tariff structure, which was inadequate in many respects, he did not feel that the Bank could claim that flat 15 percent protection was an improvement. Mr. McNamara agreed that the 15 percent was only a crude rule of thumb which the Bank would seek to improve upon as time passed.



October 7, 1969

### Bank Financial Assistance

11. The Minister then turned to the sectors in which Argentina hoped to obtain Bank assistance. He said that he was happy with the Bank's concentration in the field of transportation, in which he felt we had made a good start; indeed, without the technical advice given by the Bank, the recent progress in the sector would not have been possible--Argentina would be much worse off than it is at present. He hoped the Bank would put the accent on the railways, and he looked forward to the visit of the railway mission. [A pre-appraisal mission to review the railways' progress was subsequently scheduled for October 20]. The railways operating deficit had been reduced by 50 percent in the past three years. The Government had recently enacted a new statute for the railways giving them the form of a private enterprise. The Government was also paying to the railways a fixed sum as working capital, thus enabling them to pay suppliers promptly and reduce costs of procurement.

12. As regards urbanization, transportation in the Buenos Aires metropolitan area was becoming difficult to handle. The Government was now finishing an urban development plan for the Buenos Aires area, and felt that assistance from the Bank should start with subways. In the corridor along the river, surface transport would be economic, but to the west development was so dense that subways were less costly than surface transport. He would like to have the Bank look at the whole question once the Buenos Aires urban plan was completed.

13. Mr. McNamara said that he was reluctant to have the Bank finance subways. They were a means of transport about which we knew very little. He was not giving a flat "no" to the request, and the Bank would examine the urban plan, but at the same time the Argentines should recognize that there were obstacles in the way of Bank finance for subways. He recognized that there were a few cities in which subways were not a prestige investment; in particular, Calcutta and Buenos Aires might present opportunities for the Bank to experiment with subway financing which would conceivably be worth doing even if it made mistakes. One problem was that financing of one subway might make it difficult to refuse requests from other Latin American cities. Mr. Knapp observed that the desirability of the Bank making a large volume of resources available to Argentina was not in question; the problem was only to find what channels would best suit both the Argentines and the Bank. The Minister agreed and suggested that once the urban plan was completed, the Bank should study it and see what kind of investments within it would be most appropriate for Bank finance. [It was subsequently arranged that a mission would visit Argentina in the first half of November to assist the Government to prepare terms of reference for a study of transport requirements in the corridor along the river. Review of the overall metropolitan development plan is scheduled for the first half of 1970].

October 7, 1969

14. The Minister said that Argentina would also like to turn to the Bank for financing industrial export industries, especially food processing. Mr. McNamara thought that this was of very high priority, and said he would be pleased to have the Bank move ahead in this field. The Minister said that as far as Bank assistance for meat processing was concerned it would not be feasible to channel it into multinational companies that had direct access to international capital markets. It was observed that in addition to meat processing there might be other export industries such as fruit processing which the Bank could assist. The Minister said that the Government was at present conducting market studies of products that could be grown on irrigated land, and that interesting investment possibilities might emerge from that study. [We are now arranging for a preliminary mission that will seek to identify a project for Bank financing in the meat processing sector.]

#### Recent Student and Labor Unrest

15. At the end of the meeting Mr. McNamara asked the Minister to comment on the recent student and labor unrest in Argentina. The Minister said there were several components of this unrest. In the first place there were subversive organizations consisting of small groups of well-organized people trained abroad (mostly in Cuba but some also in Algeria), who financed themselves by robbing banks, and who took advantage of opportunities created by other unrest to perform acts of violence. Their objective was to overthrow the established order. In the second place there was unrest among student organizations, which had been aggravated by the not-very-wise management of the educational system in Argentina in the past two years. A new Secretary of Education was doing much better, and the Minister felt that student unrest had now calmed down to the point at which it was no longer worse than in other countries. In the third place there was labor unrest. The labor movement was split into three fractions: something less than 20 percent consisted of extremists, including the new Catholic left, the Communists, the recalcitrant Peronists and the anarchists. A second 20 percent was linked to traditional political parties. Finally, the great bulk of the labor movement, some 60 percent, were traditional Peronist-style trade unionists. There had been violent confrontations with the first group in one or two interior cities. The rest of the movement had joined together in an effort to force the Government to negotiate higher wages and there had been an upsurge in this movement from May to September 1969. In the past few days the Government had taken a new firm stand as a result of which a threatened general strike had been called off, but a new split had appeared in the labor movement. The Government was willing to concede certain matters, including an increase in employers' contributions to pension funds, but it was not willing to lift the state of siege as the labor movement was demanding. The Government was resolved that the forthcoming wage negotiations would be conducted within the limits imposed by the stabilization policy. This, in fact, might enable some increases to be awarded, since real wages had fallen about 1.6 percent since 1966, while productivity had increased by 6.5 percent. The

October 7, 1969

Government thus believed that, on the average, enterprises had room to give a wage increase of some 8.1 percent, which would restore the income distribution pattern of 1966 without threatening stability. In addition, the Government was willing to have higher wages granted if they were accompanied by changes in labor contracts which would bring about higher productivity.

16. Mr. McNamara, in closing, thanked the Minister for the trouble he had taken to give such an interesting account of the Argentine situation.

cc: Mr. McNamara's Office (2 copies)  
Mr. Knapp  
Mr. Alter  
Mr. Knox  
Mr. Evans  
Mr. Sadove  
Mr. Wiese  
Mr. Lerdau  
Sir Gordon Mackay  
Mr. Engelmann  
Mr. North  
Mr. Glaessner  
Mr. Fajans

8

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 24, 1970

FROM: Gerald Alter *ga*SUBJECT: Visit of Minister Dagnino Pastore on February 25, 1970

The Minister of Economy and Labor of Argentina is scheduled to visit you at 11:30 a.m. on Wednesday, February 25. We are informed by his aides that he regards this as a courtesy visit, and has requested that we have a second meeting with them to discuss some specific problems. A meeting for this purpose is scheduled at 11:45 a.m. in my office.

If you have raised with Mr. Schweitzer the question suggested in paragraph 6 of my briefing memorandum to you of February 20, please inform me of the outcome. I do not think it is necessary for you to raise with the Minister any of the questions which I suggested in that memorandum.

cc: Mr. Knapp

*President has seen*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
through Mr. J. Burke Knapp

DATE: February 20, 1970

FROM: Gerald Alter *GA*

SUBJECT: ARGENTINA - Meeting with Minister Dagnino Pastore

1. Dr. Jose Maria Dagnino Pastore, Minister of Economy and Labor, is coming to Washington for the annual CIAP meeting on Argentina, after a visit to Europe. His trip is directed mainly toward raising loan capital with which to cover the gap in the 1970 budget, a problem to which our own lending program bears little relation. He will call on you on Wednesday, February 25, at 11:30 a.m. He recently told Bank representatives in Buenos Aires that he would like to have periodic reviews with the international agencies of their lending programs (such as he had last November with a mission from the IDB) and may wish to talk with you about forthcoming Bank lending operations. We believe that he also has several new projects in mind (see paragraph 12 below). The notes below describe our present activities in Argentina. Attached is the latest five-year lending program table covering 1971-75.

Economic Mission

2. We have scheduled a major economic mission for late April and May. We hope that the mission will be able to put together a new picture of Argentina's long-term investment priorities and its external capital requirements. As you will remember from the Minister's visit at the last Annual Meeting, the Government hoped to be able to put together a five-year public investment program by now. We have not yet seen it and suspect it may be delayed. You may wish to inquire what progress the Government is making in putting together a picture of the country's investment needs over the medium term and in estimating external capital requirements.

3. The economic mission will also do sector work in agriculture, industry, transport, power, water supply and urban development, preparing the ground for the next review of the Bank's lending program. In addition to including two agricultural specialists in the economic mission, we plan to send a team to Argentina next May to review the livestock sector of the economy, re-appraise our existing Balcarce livestock project and identify the reasons for the slow progress in committing the loan proceeds. This work should throw some light on the cost-price structure of the livestock industry in Argentina, supplementing the study of export incentives to be undertaken by the economic mission. The subsector mission will also review with the Government progress in preparing a meat processing industry project referred to in paragraph 10 below.

Short-term Problems

4. While our overriding concern with Argentine economic policy relates to those aspects which bear on the country's medium and long-term growth

President has seen

February 20, 1970

problems, we have serious reservations about several features of short-term financial management policy. The problems are potentially serious enough to affect adversely longer-term growth prospects or to force on the Government a painful choice between its growth and stability objectives. Ostensibly the Government's economic stabilization program is still proceeding reasonably well, despite some drain on the foreign exchange reserves in the past eight months, part of which may be due to confidence factors. Although some apprehensions are being voiced that new student and labor disturbances may occur in April or May, the labor situation is relatively quiet at present, the Argentine summer season. In previous years, the Ministry of Economy and the Central Bank have carefully worked out a financial program at the beginning of each year to ensure that the financing of the budget deficit, the program for bank credit, and the planned change in foreign exchange reserves are all consistent with each other, and with the objectives of price and wage stability and economic growth. However, a Fund mission that was in Argentina in January has reported that this year the problem has not been faced, and indeed they gained the feeling that Minister Dagnino tends to ride with events rather than actively managing economic policy. Specifically, the Fund fears that with the budget deficit for 1970 only a little smaller than in 1969, and with somewhat less favorable prospects than in 1969 for obtaining foreign finance on reasonable terms, the Government will be forced to resort to some inflationary financing for the budget. If balance of payments stability is to be maintained and price increases are to be held to 7 percent (the same as 1969), the authorities would have to resort to very strict controls on private credit, allowing a growth of no more than 8 percent in money terms, or hardly any growth in real terms. If such controls were indeed applied, this could have a very serious affect on the growth of the private sector of the economy. More probably, credit controls would not be applied firmly, so that the price and balance of payments situation could well become troublesome. Fund staff recommend a more rigorous fiscal effort, in the context of a well worked out financial program.

5. During his Washington visit, the Minister will be making a presentation to CIAP describing the Government's economic and financial program, and in fact I would also expect him to spend ten or fifteen minutes doing this at the outset of his meeting with you. We will send you a supplementary note if we can find out before your meeting what line he will be taking. However, we suspect that his presentation will suffer from the defects that the Fund fears. It would be interesting to hear his response if you were to ask him whether the contemplated 1970 program will allow enough expansion in credit to the private sector to continue the very satisfactory rate of growth of the economy of the past two years, without at the same time leading to renewed inflation and weakness in the balance of payments.

6. Some years ago Bank economists helped the Government in the work of preparing annual financial programs. More recently the Fund has done so in the context of their annual negotiation of a standby arrangement. In 1969 Dr. Krieger Vasena decided the economy was strong enough to dispense with a standby and in the circumstances prevailing a year ago he seemed to be justified in doing this. Dr. Dagnino Pastore is reported to be very reluctant to seek a Fund standby, because it might create the public impression that the Government was allowing the economy to slide back. You may wish to discuss this situation in advance with Mr. Schweitzer who is seeing the Minister on the afternoon of Wednesday, February 25 (after your meeting). One possible solution would be to persuade the Argentines that they should seek a Fund standby, which would oblige them to work out with the Fund a consistent financial program. An alternative, which we considered last year with Dr. Krieger Vasena but which never materialized, was for the agreement on economic policy to be with the Bank rather than with the Fund. This might be politically more palatable than a Fund standby. Before he left the cabinet, Dr. Krieger Vasena had intended to write the Bank a letter on his financial program, and when he first took office, Dr. Dagnino Pastore told us that he also intended to do so; we indeed saw in September 1969 a draft of it in Buenos Aires. However, the Argentines never pursued the matter. You could suggest to Dr. Dagnino Pastore that we would be quite happy to have him follow this avenue. Still a third possibility might be a dialogue with the Fund and the Bank jointly, resulting conceivably in a letter on economic policy directed to both institutions. This might be more acceptable politically than an arrangement with the Fund alone, and might be justified in Argentina as a prelude to the large Bank lending program we contemplate in the next twelve months.

#### Lending Program for 1971-1975

7. Our lending program for the five years 1971-75 is \$545 million, of which \$435 million would be in the transport sector (\$200 million for railways, \$135 million for highways and \$40 million for urban transport). As you may recall, Dr. Dagnino Pastore told you during the Annual Meeting that he was pleased with the importance which the Bank attached in its lending program to the transport sector, and to the rehabilitation of the railways in particular. We hope to make three loans in fiscal 1970-71: \$60 million for railways, \$35 million for roads and \$20 million or more for meat processing.

#### Status of Operations for Fiscal 1971 and 1972

8. Railways. In recent months, a new railways enterprise law has been enacted, the railways have made further progress in preparing a scheme for redimensioning the system, including closing lines, merging workshops and reducing staff, and improving organization, commercial practices and



tariff and salary structure. The operating deficit is forecast to decline again in 1970, and the program to eliminate the deficit within five years still seems feasible. Simultaneously, the railways have been drawing up, with the help of French and Argentine consultants, a new five-year investment program. We have scheduled for late April a mission to appraise the program as a basis for an initial railway loan, which we hope to be able to make this year. One of the factors that might influence the formulation of this loan are large suppliers' credits apparently being offered by some equipment exporting countries, especially Japan. You may wish to point out to the Minister that if the railways take on commitments to buy large amounts of equipment abroad financed by suppliers' credits, care needs to be taken to ensure that the purchases are consistent with a rational long-term investment program. It is possible that such credits on a large scale would leave little or no room for Bank financial assistance.

9. Roads. The Highway Authority is making good progress in improving its investment planning methods. Its consultants have completed the road network reconnaissance survey recommended by us, and we hope shortly to agree on a program of feasibility studies to be financed under the highway loan we made last year. A member of the Transportation Projects Department is presently in Argentina to identify road sections which might be included in a new third road loan, which might be about \$35 million. The major road to be included in this next loan will probably be Route 14 in the Mesopotamia region on which detailed engineering is in progress. A fourth highway loan is programmed for fiscal 1972.

10. Meat Packing. Last December, a preparatory mission discussed in Buenos Aires possible Bank support for a credit program for the modernization of the meat packing industry which would enable it to meet the demand for more highly processed meat products and to satisfy the increasingly stringent sanitary requirements of the importing countries. Subsequently, in mid-January, we wrote Minister Dagnino Pastore making proposals for the shape of such a project. We are now awaiting the Government's reaction, and you might inquire what the Minister thinks of the proposed operation. Independently of this, representatives of Deltec International have approached the Bank and IFC about financial assistance for plant modernization of Swift-Armour, a wholly-owned subsidiary of Deltec, which is the largest meat-packing company in Argentina. Deltec would like to bring Argentine investors into the company, which might help to overcome the Government's reluctance to guarantee a Bank loan for a foreign-owned company, which in the Government's view should have access to other sources of external capital.

11. Urban Transport. As agreed between you and the Minister during the Annual Meeting, we expect shortly to receive from the Government a comprehensive master plan for Buenos Aires now being completed by the Metropolitan Region Office. The Economic mission will appraise this plan,

inter alia as a framework for evaluating the various urban development projects that have been mentioned to us. In addition to this plan, a metropolitan transport study is underway at the Transport Secretariat. On our part, we have recommended that Argentina make a study of the coastal corridor between Buenos Aires and La Plata which would assess future transport needs and determine priorities for the various proposals for building an expressway, electrifying suburban railways and extending the subway system. We hope that these studies will enable us to identify urban transport projects for Bank financing in fiscal 1972 and in later years.

12. Other Urban Infrastructure. We understand that Dr. Dagnino Pastore may wish to interest the Bank in three other projects for the Buenos Aires area which are not included in the lending program. These include water and/or sewerage (a sector in which the IDB has been active); improvement of the technical facilities at Ezeiza International Airport; and the construction of a modern central produce market, costing around \$45 million, on the outskirts of the city. The Government has just furnished some documents on this project and representatives of the Buenos Aires Central Market Corporation plan to visit the Bank in March for discussions. You might say to the Minister, if he puts these projects forward, that we would like to be able to see how these projects fit into the metropolitan region master plan, which we expect our economic mission to review in April-May, and only thereafter can we determine their suitability for Bank financing.

13. Development Finance Companies. Our lending program includes two loans for privately-owned development finance companies ("investment banks"), to be used in a manner which will help develop the Argentine capital market. The legislative framework for investment banks was enacted some time ago but none has yet been established, in part at least because the Central Bank had not yet formulated the necessary regulations. However, the President of the Central Bank has now requested us for assistance in drafting these regulations. Mr. Diamond plans to visit Argentina soon in order to become familiar with the general investment climate, to identify the problems standing in the way of the creation of these finance companies, and to arrange whatever assistance we can.

#### Bolivian Gas Pipeline Loan

14. You may wish to express to the Minister our appreciation for the constructive role Argentina has been playing in the efforts to reconstitute the Bolivian pipeline project. Among other things, the Argentines are ready to guarantee the Bank's loan, in substitution for Gulf's guarantee. You might tell him that we recently postponed the terminal date for effectiveness of the loan by a further three months to May 4, in order to allow more time for further efforts by all parties interested in the reconstitution of this important project. You may also wish to say that construction of the project might possibly be resumed in a few months, if Bolivia and Spain agreed that a Spanish company would market Bolivian oil and gas, and pay compensation to Gulf Oil Corporation from export earnings.

Attachment

cc: Messrs. Knapp, Wiese, Ross, Skillings

Population: 23.9 m  
Per Cap. GNP: \$800

ARGENTINA - PAST AND PROPOSED LENDING  
through FY 1975

		(\$ million)													Total	Total	Total
		Through	Fiscal Years											1964-68	1969-73	1971-75	
		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975			
Livestock	IBRD						15.3										
Meat Packing	IBRD									20.0							
Rio Negro Irrigation	IBRD											15.0					
Agricultural Processing - Unidentified													25.0				
DFC	IBRD									25.0				25.0			
SEGBA Power I	IBRD	95.0															
SEGBA Power II	IBRD						55.0										
Power - El Chocon Hydro	IBRD							82.0									
SEGBA Power III	IBRD								60.0								
SEGBA Power IV	IBRD											25.0					
Power - Unidentified														25.0			
Highways I	IBRD	48.5															
Highways II	IBRD							25.0									
Highways III	IBRD									35.0							
Highways IV	IBRD										50.0						
Highways V	IBRD											50.0					
Railways I	IBRD									60.0							
Railways II	IBRD											70.0					
Railways III	IBRD												70.0				
Urban Transport I	IBRD										40.0						
Urban Transport II	IBRD												50.0				
<b>TOTAL</b>		<u>143.5</u>					<u>70.3</u>	<u>107.0</u>	<u>60.0</u>	<u>95.0</u>	<u>135.0</u>	<u>110.0</u>	<u>125.0</u>	<u>120.0</u>	<u>70.3</u>	<u>507.0</u>	<u>585.0</u>
No.		2					2	2	1	2	4	3	3	3	2	12	15
IBRD Loans Outstanding																	
- including undisbursed		142.9	142.9	141.5	119.4	114.9	177.8	277.8	328	415	541	641	753	854			
- excluding undisbursed		89.5	88.7	104.4	105.6	105.2	105.0	127.5	193	259	351	456	558	659			

Western Hemisphere  
12/10/69

9

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Gerald Alter *GA*

SUBJECT: ARGENTINA - Luncheon with Ambassador Real

DATE: March 20, 1970

1. Dr. Pedro Eduardo Real, who recently presented his credentials to President Nixon, is lunching with you on Monday, March 23. He is the former President of the Central Bank and Governor of our Institutions for Argentina (a biographical note is attached).

2. We have not prepared a special briefing for the occasion. Instead, I attach:

- (i) my memorandum of February 20 addressed to you before the recent visit of Dr. Dagnino Pastore, Minister of Economy and Labor; and
- (ii) my letter of March 11 to Dr. Dagnino Pastore, of which I sent you a copy.

3. Lately, we have been increasingly confused by the news of large Japanese suppliers' credits, in the range of \$130 - 180 million, about to be concluded with the Argentine railways. I raised this matter in my letter to Dr. Dagnino Pastore and followed it up with a cable asking for clarification as to how these possible credits would fit in with proposed Bank lending for the railway investment program. Dr. Caram knows of our interest in this matter and has been making enquiries in Buenos Aires.

4. As indicated in paragraph 14 of the attached memorandum, the Argentine Government has taken a constructive approach to the problem of reconstituting the Bolivian gas pipeline project. Mr. Skillings is presently participating in La Paz in discussions among the representatives of the Argentine, Bolivian and Spanish Governments on this subject.

cc: Messrs. Cope  
Wiese  
Skillings o/r

President has seen

DR. PEDRO EDUARDO REAL

Born 1911

Doctor of Laws, Buenos Aires University

With the Central Bank 1935 - 1950

In business 1950 - 1955

Assistant General Manager of the Central

Bank 1955, General Manager 1956 - 1962,

Vice President 1962

In business 1963 - 1967

President of the Central Bank 1967 - 1969

Mr. Robert S. McNamara  
through Mr. J. Burke Knapp  
Gerald Alter

February 20, 1970

ARGENTINA - Meeting with Minister Dagnino Pastore

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2. We have scheduled a major economic mission for late April and May. We hope that the mission will be able to put together a new picture of Argentina's long-term investment priorities and its external capital requirements. As you will remember from the Minister's visit at the last Annual Meeting, the Government hoped to be able to put together a five-year public investment program by now. We have not yet seen it and suspect it may be delayed. You may wish to inquire what progress the Government is making in putting together a picture of the country's investment needs over the medium term and in estimating external capital requirements.

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Short-term Problems

4. While our overriding concern with Argentine economic policy relates to those aspects which bear on the country's medium and long-term growth

February 20, 1970

problems, we have serious reservations about several features of short-term financial management policy. The problems are potentially serious enough to affect adversely longer-term growth prospects or to force on the Government a painful choice between its growth and stability objectives. Ostensibly the Government's economic stabilization program is still proceeding reasonably well, despite some drain on the foreign exchange reserves in the past eight months, part of which may be due to confidence factors. Although some apprehensions are being voiced that new student and labor disturbances may occur in April or May, the labor situation is relatively quiet at present, the Argentine summer season. In previous years, the Ministry of Economy and the Central Bank have carefully worked out a financial program at the beginning of each year to ensure that the financing of the budget deficit, the program for bank credit, and the planned change in foreign exchange reserves are all consistent with each other, and with the objectives of price and wage stability and economic growth. However, a Fund mission that was in Argentina in January has reported that this year the problem has not been faced, and indeed they gained the feeling that Minister Dagnino tends to ride with events rather than actively managing economic policy. Specifically, the Fund fears that with the budget deficit for 1970 only a little smaller than in 1969, and with somewhat less favorable prospects than in 1969 for obtaining foreign finance on reasonable terms, the Government will be forced to resort to some inflationary financing for the budget. If balance of payments stability is to be maintained and price increases are to be held to 7 percent (the same as 1969), the authorities would have to resort to very strict controls on private credit, allowing a growth of no more than 8 percent in money terms, or hardly any growth in real terms. If such controls were indeed applied, this could have a very serious affect on the growth of the private sector of the economy. More probably, credit controls would not be applied firmly, so that the price and balance of payments situation could well become troublesome. Fund staff recommend a more rigorous fiscal effort, in the context of a well worked out financial program.

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9. Roads. The Highway Authority is making good progress in improving its investment planning methods. Its consultants have completed the road network reconnaissance survey recommended by us, and we hope shortly to agree on a program of feasibility studies to be financed under the highway loan we made last year. A member of the Transportation Projects Department is presently in Argentina to identify road sections which might be included in a new third road loan, which might be about \$35 million. The major road to be included in this next loan will probably be Route 14 in the Mesopotamia region on which detailed engineering is in progress. A fourth highway loan is programmed for fiscal 1972.

10. Meat Packing. Last December, a preparatory mission discussed in Buenos Aires possible Bank support for a credit program for the modernization of the meat packing industry which would enable it to meet the demand for more highly processed meat products and to satisfy the increasingly stringent sanitary requirements of the importing countries. Subsequently, in mid-January, we wrote Minister Dagnino Pastore making proposals for the shape of such a project. We are now awaiting the Government's reaction, and you might inquire what the Minister thinks of the proposed operation. Independently of this, representatives of Deltec International have approached the Bank and IFC about financial assistance for plant modernization of Swift-Armour, a wholly-owned subsidiary of Deltec, which is the largest meat-packing company in Argentina. Deltec would like to bring Argentine investors into the company, which might help to overcome the Government's reluctance to guarantee a Bank loan for a foreign-owned company, which in the Government's view should have access to other sources of external capital.

11. Urban Transport. As agreed between you and the Minister during the Annual Meeting, we expect shortly to receive from the Government a comprehensive master plan for Buenos Aires now being completed by the Metropolitan Region Office. The Economic mission will appraise this plan,

February 20, 1970

inter alia as a framework for evaluating the various urban development projects that have been mentioned to us. In addition to this plan, a metropolitan transport study is underway at the Transport Secretariat. On our part, we have recommended that Argentina make a study of the coastal corridor between Buenos Aires and La Plata which would assess future transport needs and determine priorities for the various proposals for building an expressway, electrifying suburban railways and extending the subway system. We hope that these studies will enable us to identify urban transport projects for Bank financing in fiscal 1972 and in later years.

12. Other Urban Infrastructure. We understand that Dr. Dagnino Pastore may wish to interest the Bank in three other projects for the Buenos Aires area which are not included in the lending program. These include water and/or sewerage (a sector in which the IDB has been active); improvement of the technical facilities at Ezeiza International Airport; and the construction of a modern central produce market, costing around \$45 million, on the outskirts of the city. The Government has just furnished some documents on this project and representatives of the Buenos Aires Central Market Corporation plan to visit the Bank in March for discussions. You might say to the Minister, if he puts these projects forward, that we would like to be able to see how these projects fit into the metropolitan region master plan, which we expect our economic mission to review in April-May, and only thereafter can we determine their suitability for Bank financing.

13. Development Finance Companies. Our lending program includes two loans for privately-owned development finance companies ("investment banks"), to be used in a manner which will help develop the Argentine capital market. The legislative framework for investment banks was enacted some time ago but none has yet been established, in part at least because the Central Bank had not yet formulated the necessary regulations. However, the President of the Central Bank has now requested us for assistance in drafting these regulations. Mr. Diamond plans to visit Argentina soon in order to become familiar with the general investment climate, to identify the problems standing in the way of the creation of these finance companies, and to arrange whatever assistance we can.

Bolivian Gas Pipeline Loan

14. You may wish to express to the Minister our appreciation for the constructive role Argentina has been playing in the efforts to reconstitute the Bolivian pipeline project. Among other things, the Argentines are ready to guarantee the Bank's loan, in substitution for Gulf's guarantee. You might tell him that we recently postponed the terminal date for effectiveness of the loan by a further three months to May 4, in order to allow more time for further efforts by all parties interested in the reconstitution of this important project. You may also wish to say that construction of the project might possibly be resumed in a few months, if Bolivia and Spain agreed that a Spanish company would market Bolivian oil and gas, and pay compensation to Gulf Oil Corporation from export earnings.

Attachment

cc: Messrs. Knapp, Wiese, Ross, Skillings

RFSkillings/bds

Population: 23.9 m  
Per Cap. GNP: \$800

ARGENTINA - PAST AND PROPOSED LENDING  
through FY 1975

		(\$ million)											Total 1964-68	Total 1969-73	Total 1971-75			
		Through 1963	1964	1965	1966	1967	1968	Fiscal Years 1969 1970		1971	1972	1973				1974	1975	
Livestock	IBRD						15.3											
Meat Packing	IBRD										20.0							
Rio Negro Irrigation	IBRD											15.0						
Agricultural Processing - Unidentified													25.0					
DFC	IBRD										25.0			25.0				
SEGBA Power I	IBRD	95.0																
SEGBA Power II	IBRD						55.0											
Power - El Chocon Hydro	IBRD							82.0										
SEGBA Power III	IBRD								60.0									
SEGBA Power IV	IBRD											25.0						
Power - Unidentified														25.0				
Highways I	IBRD	48.5																
Highways II	IBRD							25.0										
Highways III	IBRD									35.0								
Highways IV	IBRD										50.0							
Highways V	IBRD												50.0					
Railways I	IBRD									60.0								
Railways II	IBRD											70.0						
Railways III	IBRD													70.0				
Urban Transport I	IBRD										40.0							
Urban Transport II	IBRD												50.0					
<b>TOTAL</b>		<u>143.5</u>					<u>70.3</u>	<u>107.0</u>	<u>60.0</u>	<u>95.0</u>	<u>135.0</u>	<u>110.0</u>	<u>125.0</u>	<u>120.0</u>	<u>70.3</u>	<u>507.0</u>	<u>585.0</u>	
No.		2					2	2	1	2	4	3	3	3	2	12	15	
IBRD Loans Outstanding																		
- including undisbursed		142.9	142.9	141.5	119.4	114.9	177.8	277.3	328	415	541	641	753	854				
- excluding undisbursed		89.5	88.7	104.4	105.6	105.2	105.0	127.5	193	259	351	456	558	659				

Western Hemisphere  
12/1/69

March 11, 1970

Minister Jose Maria Dagnino Pastore  
Ministry of Economy and Labor  
Buenos Aires, Argentina

Dear Mr. Minister:

I thought that it might be useful, following our conversation at the Bank on February 25 and my meeting with Secretary Zaldueño on February 27, briefly to review our plans for Bank lending operations in Argentina in the months to come, as well as the forthcoming work of the economic mission to Argentina.

The next Bank loan to Argentina will probably be the proposed third highway loan. Mr. van Dijk of the Transportation Projects Department, who has just returned from a visit to Vialidad Nacional in Buenos Aires, has reported that by April, the preparation of the detailed engineering designs for the reconstruction of Route 14 will have progressed to the point at which costs can be estimated with some reliability, and we have therefore scheduled for late April a mission to make the final project appraisal that would be a prelude to loan negotiations. However, as regards Route 9, Mr. van Dijk has reported that engineering work on the final designs for the Rosario-San Nicolas section has only recently been resumed. Vialidad expects the project preparation to be sufficiently advanced to be considered by our April appraisal mission. If so, the mission could appraise this project. It could also consider any other high priority road sections that were ready at that time. In any case, we understand that Vialidad has expressed a preference to proceed with the negotiation of a loan for Route 14 even if Route 9 and other road sections could not be included. Route 9 could in that case be considered for the next in the series of road loans we hope to make. Assuming that no major problems arise during appraisal, we would hope to be able in September to invite the Government to send representatives to Washington for loan negotiations, and if all went well, to present the loan for approval to our Executive Directors in November, with signature following quickly thereafter.

Turning to the proposed Bank lending for railways, as you know, the railway enterprise originally informed us that their new five-year investment program would be ready before the end of 1969, and we had therefore arranged to carry out the appraisal of the railway investment program in

March 11, 1970

January 1970. We were then informed that the program would not be ready until March, and we therefore rescheduled the field appraisal to April. Now, on the basis of information about delays in completion of the investment program received from Minister Gotelli and confirmed by Dr. Zaldano, we have again postponed the appraisal. Our present thinking is that if by April 15 we receive a copy of the railways investment program in Washington for study (April 15 being the date on which the program is now expected to be submitted for review to CONADE), we would be able to organize an appraisal mission for May. We would, of course, bear in mind that the program might be modified after CONADE's review. On the other hand, if you would prefer to delay sending us the program until after it had been approved by CONADE, that too would be perfectly acceptable to us, although yet a further delay in the appraisal mission would then be necessary. Given satisfactory results of the appraisal and the preparation of a project suitable for Bank financing, and as a response to the major effort which the Government and the railways are making to overcome that organization's long-standing problems, we shall be ready to make a major financial contribution to the railway investment effort. We have in mind that the Bank's contribution to the railways could consist of a series of loans, which would hopefully total at least \$200 million to be made over the period of the investment program. The first loan would finance a proportion to be agreed of the first two years' segment of the program.

In this connection, we understand that Argentina is holding discussions with Japanese representatives about a possible large Japanese credit, in the range of \$180 million for the railways. I have some question whether there would be room in the same investment program for such a large suppliers' credit together with Bank lending of significant size, especially because we would expect that our loan would be devoted to the foreign exchange component of the railways investment program, or mainly so. In any case, I would hope that the railways would not need to take a decision on the Japanese equipment purchases in question until after the completion of their investment program, and its review by CONADE and by our own appraisal mission. I should be grateful to have your views on this matter.

We would hope to be in a position to invite the Government and the railways to send representatives to Washington for negotiation of the first loan within about four months after the return to Washington of the appraisal mission, with submission to the Executive Directors and approval of the loan following within the next two months. If it proves possible to send the appraisal mission in May, it should therefore be able to conclude the first railway loan by the end of 1970.

The third proposed loan which is contained in our lending program to Argentina for the Bank's fiscal year ending June 30, 1971, is the proposed loan for meat packing projects. I am writing you separately about this loan. Let me say here only that if it can be brought to a successful

March 11, 1970

conclusion, together with the railway and highway loans, we should in our next fiscal year, ending June 30, 1971, be able to extend assistance of the order of \$100 to \$120 million to Argentina.

What rate of lending to Argentina will be appropriate for the Bank in the following years should be clear once our forthcoming economic mission has completed its review of Argentina's new five-year development plan, and of the requirements for external capital under that plan. Similarly, the selection of projects to be included in the future lending program should be greatly facilitated once the priority sectors and projects are identified by the economic mission. I would hope that, *inter alia*, the Bank could continue to contribute to the major investments that will continue to be necessary in highways and railways. In addition, we shall be happy to consider other projects in other sectors of the economy, and the forthcoming economic mission will provide an excellent opportunity for a preliminary review of such projects. The economic mission will include sector specialists in transportation, agriculture, water supply, electric power, industry and urban development. While the principal task of these specialists will be to help the mission assess the development plan as a whole, these specialists will also be available to give preliminary consideration to whatever specific investment projects you may wish to put forward for the Bank's consideration.

I understand that one such project will be the proposed new central market for Buenos Aires. We shall be happy to include this project in the review by the economic mission, even though the Bank has never before assisted a project of this nature. You know already from Mr. McNamara that the Bank has some reservations about the financing of subways. However, the economic mission will review the new Buenos Aires regional development plan with care, in order to evaluate the priority of these and other investment projects in the Buenos Aires region, and to see whether there are among them projects which might be suitable for Bank financial assistance. We have taken note of your decision that irrigation projects in Argentina do not have any priority at the present time, and we have accordingly agreed with FAO to suspend all further work on the Rio Negro project.

We very much welcome, Mr. Minister, the opportunity that your Washington visit gave us for a full and frank discussion of the current relations between the Bank and Argentina. I am most anxious that we continue to be in close contact with each other as the Bank's lending program evolves. I am therefore making plans to visit Argentina during the final week of the Bank's economic mission, which we expect to be the week beginning Monday, June 1. I would like at that time to review with you the preliminary findings of the economic mission, and to hold discussions that would enable me to bring back to Washington concrete proposals about the

Minister Jose Maria Dagnino Pastore

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March 11, 1970

shape of the Bank's forthcoming lending program in Argentina. I should be most grateful to have your reaction to this idea. I am sending a copy of this letter to Minister Gotelli, Dr. Zalduendo and Dr. Caran.

With kind regards.

Yours sincerely,

Gerald Alter  
Director  
South America Department

cc: Minister Gotelli  
Dr. Zalduendo  
Dr. Caran

Cleared with and cc: Messrs. Ross, Jaycox, North

cc: Messrs. McNamara  
Knapp  
Picciotto  
Pilvin  
Moini

JFajans/RFSkillings/bds



10

## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: September 28, 1970

FROM: Dragoslav Avramovic *Av*SUBJECT: Meeting of Mr. McNamara with the Minister of Argentina,  
Mr. Carlos M. Moyano Llerena in Copenhagen on September 24, 1970

1. Mr. McNamara met with Mr. Moyano Llerena who was accompanied by Messrs. Fernandez, Soldati, Caram and Mey. Messrs. Knapp, Alter and Avramovic were also present. Mr. McNamara inquired about the current economic situation and prospects in Argentina and the Minister stated that stabilization and incomes policies would continue: they have been quite successful and have resulted in a sustained increase in real per capital income for the first time in the last 35 years. Mr. McNamara also inquired about the prospects for expansion of meat production, in view of the comparative advantage of Argentina in this field. The Minister was cautiously optimistic.
2. Mr. McNamara stated that the Bank was anxious to have a sufficiently large pipeline of projects in Argentina. He was very pleased with the progress made in the fields of railways and roads, and also with the improvements in the power sector; but project preparation in other sectors was lagging. The Bank would like to aim at a lending level of \$125 million per annum and to have a corresponding rolling three-year project flow. The Minister replied that the Argentine Government shared Mr. McNamara's views concerning the need for project preparation and that it will take measures to assure timely project availability.
3. Mr. McNamara was interested in Mr. Moyano Llerena's views of the Latin American economic situation following the latest political developments. He was concerned that private foreign capital may react negatively to political uncertainties in Latin America. In this connection, he emphasized the importance of predictability of the treatment foreign capital would get rather than the scope of the privileges it may enjoy.
4. Mr. Moyano Llerena referred to the discussions his delegation has had with the staff concerning the release of Argentina's contribution to IDA. The delegation was anxious to assure that this contribution would be primarily of benefit to the relatively less developed countries in Latin America and be identified as such. Mr. McNamara replied that we fully understood the Minister's position on this matter and he was sure that a satisfactory formulation could be found.

cc: Mr. Knapp  
Mr. Skillings  
Sir. Denis Rickett  
Mr. Alter  
Mr. Wiese  
Mr. Ross/Pilvin

President has seen



## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: December 23, 1970

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with Dr. Juan Llamazares, Under Secretary of  
Public Works of Argentina

Mr. McNamara met briefly on December 22 with the head of the Argentine Railway negotiating team, Mr. Llamazares, who was accompanied by Commodore Eduardo V. Di Prisco, Under Secretary of Industry; Ing. Juan Carlos Franck, Ministry of Economy and Labor; Cor. Lucio H. Mazzola, Argentine Railways; and Cor. Enrique Mario Barragué, Argentine Railways. Messrs. Mey and Alter were also present. Mr. Llamazares indicated that the negotiations were 90% complete but that the 10% left over was still very important. They were discussing with the Bank the procurement of freight cars in Argentina. This involved a very important industrial sector and he hoped the Bank would be aware of Argentine industrial reality. He pointed out that, after all, only a small part of the loan was involved.

Mr. McNamara explained that the staff was very interested in reaching an understanding with the Argentine authorities on this problem. He had noted that we had a similar problem in connection with the SEGBA loan which had been worked out to the satisfaction of both sides. In the past, we had sometimes accepted excessively protective systems and this, we felt, was neither in the interest of the borrowing country nor consistent with our own role in trying to encourage industrial efficiency. He felt sure that Argentina would want to encourage the play of competitive forces and on this basis was hopeful that a mutually satisfactory solution would be found.

Mr. Llamazares explained that he was planning to return to Argentina, but would come back early in January with a smaller group to complete the negotiations.

cc: Mr. Knapp  
Mr. Jaycox  
Mr. Skillings  
Mr. Moini

GAlter:pa.

President has seen

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: December 22, 1970

FROM: Gerald Alter *GA*SUBJECT: Your Meeting with Argentine Railway Delegation

1. At 5 p.m. today Dr. Mey is bringing to your office Dr. Juan Llamazares who is the head of the Argentine railway negotiating team, and possibly other senior members of the team (which in total comprises 19 people, including two representatives of the private railway equipment manufacturing industry). Dr. Llamazares, who is about 55, is an intelligent, level-headed person who has been pleasant to deal with. An economist by training, he is a professor in the University of Buenos Aires. In the late 1950's he was for a short while Minister of Commerce in the government of General Aramburu. He was recently appointed Undersecretary of Public Works and Services, with the principal assignment of the preparation and negotiation of loans with international lending agencies for projects in sectors covered by the Ministry of Public Works and Services. Although he has had his job for less than two months, he has already contributed to improving the Government's working relations with us.

2. The proposed railway loan of \$84 million will help finance the first two years of a five-year investment program of Ferrocarriles Argentinos. The investment program is itself only a part of a major rehabilitation effort, which involves many difficult decisions and is designed to modernize and redimension the system and eliminate the deficit which has been a serious burden on the treasury. Present estimates are that the working deficit can be eliminated by 1975 and the total operating deficit a few years later. The five-year investment program amounts to \$839 million and the two-year tranche which we are helping to finance now to \$368 million. Our proposed loan of \$84 million would help to cover the foreign exchange cost of this two-year tranche, which is estimated to range between \$159 and \$178 million (depending on whether freight car orders are won by foreign or by domestic suppliers). About \$65 million of the foreign exchange costs are expected to be financed through foreign suppliers' credits, chiefly for locomotives, while the remaining foreign exchange cost will be met through Argentina's other foreign exchange resources.

3. Negotiations have in general proceeded quite smoothly. The major unfinished item is the drafting of the letter of intent which the Government will address to the Bank describing the rehabilitation program.

4. Only one question has caused difficulty, namely the method of procurement of freight cars. About \$40 million of our loan would be allocated for these, of which \$22 million is for bogies which will be procured abroad after international competitive bidding, about which there is no controversy. The discussion has centered about the procurement of freight car bodies, for which we expected our loan would cover about one-

*President has seen*

December 22, 1970

half of the cost. The Argentines would like to reserve for domestic procurement the other half, which we do not finance. We are trying to negotiate a formula similar to that which was incorporated in the last SEGBA loan, under which the portion not financed by the Bank would be reserved for local suppliers only if those suppliers could deliver at a price which does not exceed an agreed percentage over the lowest foreign price. Discussion of this point is not yet completed.

5. The Argentines will probably repeat to you their desire to insure maximum participation by Argentine industry. You may wish to say that we share this desire but that we also feel that the rules should be designed to give Argentine industry incentives to supply at reasonable prices. We do not anticipate that the delegation will bring up any other issues of substance.

Cleared with and cc: Mr. Jaycox

cc: Messrs. Knapp  
Cope  
Knox  
Skillings  
Moini

12

MEMORANDUM FOR THE RECORD

August 16, 1971

Messrs. McNamara and Knapp met with Ambassador Real of Argentina on July 12. Mr. Knapp informed me that this was merely a courtesy visit.

L.E. Christoffersen



13

## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 5, 1971

FROM: Hendrik van der Heijden

SUBJECT: ARGENTINA - Mr. McNamara's Meeting with the Argentine Delegation.

1. On Monday September 27, 1971, Mr. McNamara received the Argentine delegation to the Annual Meeting, headed by Dr. Juan A. Quilici, Minister of Finance, and consisting of Dr. Carlos S. Brignone, President of the Central Bank, Dr. Angelo R. Caram, Minister, Embassy of Argentina, Dr. Luis B. Mey, Executive Director, and other representatives of the Ministry of Finance and the Central Bank. Also present were Messrs. Knapp, Alter and van der Heijden.

2. Mr. McNamara expressed serious concern with this year's adverse developments of Argentina's balance of payments, the high rate of inflation and the increasing level of unemployment. Mr. McNamara invited the Minister's views.

3. The Minister stated that the present Government fully shares Mr. McNamara's concern for the current difficult economic situation, and stressed that the Government, while making preparations for the transfer of power to a democratically elected government scheduled for May 1973, would be taking all measures needed to pass a soundly functioning economy on to the new government. In this connection, the following points were made:

(a) The outline of the 1972 budget was already available and aimed at a very substantial reduction in the budget deficit, and from January 1, 1972 onwards at financial self-sufficiency of state enterprises. To achieve the latter, rate increases would be introduced in November, particularly affecting the power sector and the railways. As to the railways, the Government was determined to progressively reduce, and within a period of 5 years eliminate, Central Government financial support to the railways.

(b) As to the recent exchange rate measures, including the temporary ban on imports, the Minister stated that the Government's aim was to achieve a reduction in imports as well as to restructure foreign trade. These measures will be followed by trade negotiations with some individual countries. The exchange measures were one element entering into a comprehensive program designed to reduce the current high rate of inflation, now approaching 40 to 50 percent on an annual basis, to a level which would approach 20 to 25 percent per annum, which was a rate Argentina could live with.

(c) As to monetary policy, measures would be taken to stop inflation gradually, while at the same time avoiding a severe recession. These policies would be synchronized with exchange rate and the fiscal policies.

(d) Development expenditures in 1972 would emphasize an increase

President has seen

October 5, 1971

in the public works program, while at the same time industrial promotion measures will be taken, including the granting of incentives for foreign investment, so as to assure rapid growth of production and employment.

4. Upon Mr. McNamara's question regarding the outlook for Argentina's trade balance, Dr. Brignone stated that while it is now in deficit, the measures which the Government is planning to take would certainly lead to an improvement in the balance of payments situation. In this connection, Dr. Brignone said that the Government would consider it extremely important for the export sector to have sufficient incentives. The situation would be watched closely and should there appear incentive problems, the Government intended to shift merchandise exports from the current exchange rate of 5 pesos to the dollar (which in all likelihood is not an equilibrium rate) to the financial market where a higher rate prevails.

5. Mr. McNamara asked for a full report on the discussions between the Argentine delegation and Bank staff, particularly focussing on the specific measures which the Government intended to take beyond the ones already mentioned by the Delegation.

6. The Minister emphasized the Government determination to correct the present unsatisfactory economic situation and indicated that the Argentine delegation would be fully prepared to have further discussion with Bank staff on the Government's economic program.

Cleared with and cc: Mr. Alter

cc: Messrs. Knapp  
Knox  
Weiner  
Wiese  
Avramovic  
Ross

HvdHeijden:grs

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

October 5, 1971

Mr. McNamara:

As you will see from the attached, we had quite a useful meeting with the Argentine Delegation after their rather disappointing performance in your office. It is unfortunate, in my judgment, that they have given up the crawling peg, but it was apparently necessary in order to put through their incomes policy. We shall be sending a mission in November for further discussions with the Argentine authorities.



Gerald Alter

Attachment

cc: Mr. Knapp  
Mr. Chenery

President has seen

## OFFICE MEMORANDUM

TO: Files

DATE: October 5, 1971

FROM: D.G. Greene *MG*SUBJECT: ARGENTINA: Discussions with Delegation to Annual Meetings

1. On September 29 discussions were held with members of the Argentine Delegation to the Bank/Fund Annual Meeting. These discussions were largely concerned with recent economic developments and the Government's program. Bank staff present included Messrs. Alter, Wiese, Avramovic, van der Heijden, Fajans, Moini, and Greene. The Argentine participants in this discussion were:

Dr. Juan A. Quilici, Minister of Finance  
Dr. Carlos S. Brignone, President, Central Bank  
Dr. Dante Simone, Director, Ministry of Finance  
Dr. Horacio Alonso, Assistant Manager, Central Bank  
Mr. Alberto Chazelle, Department Manager, Central Bank  
Mr. Theodoro Fernandez, Division Chief, Central Bank  
Dr. Angel Caram, Minister, Embassy of Argentina  
Dr. Luis Mey, Executive Director, IBRD.

Introduction

2. The discussion opened with the Delegation stressing the necessity of developing a stabilization program which would have general political backing in view of the present Government's attempt to bring about a transition to civilian rule. This would imply a gradual reduction in the rate of inflation -- approximately 40-50 percent on an annual basis just before the price freeze -- to a manageable level, i.e., 20-25 percent per year, since, it is felt, more rapid deceleration would lead to a severe recession. It was mentioned that several important new measures and some personnel shifts were imminent. In addition, measures have been taken very recently to permit more effective control over economic policy. These include the movement of CONADE, the planning agency, into the office of the President where it would have general responsibility for coordination of economic policy and the centralization of control over all public sector external borrowing activities in the National Development Bank. The general outlines of the Government's stabilization policy were spelled out by members of the Delegation.

Exchange Rate

3. The Government recognizes that its attempts to reach parity by a series of "midi" devaluations has not been successful. It feels that the frequent and substantial devaluations contributed to inflationary psychology and adversely affected expectations. Therefore, as part of the general economic truce arrived at with labor unions it agreed that the official exchange rate would be frozen at 5 pesos per dollar. This rate,

President has seen

the Delegation stated, might not be an equilibrium rate, and the Government, therefore, established a dual market with most merchandise transactions at the official 5 peso rate and invisibles at a higher flexible "financial" rate. The Delegation expressed the opinion that this system would give immediate relief from pressure on foreign exchange reserves. In addition, over the medium term it would allow the Government to disguise exchange rate movements by transferring certain transactions in whole or in part from the official market to the financial market. Export incentives could thus be retained while there would be no impact on the domestic price level. This has already been done for nontraditional exports, where 10 percent of foreign exchange proceeds may be sold on the financial market. The measure recently taken which had the effect of suspending imports was acknowledged to be only temporary and was characterized as an antidote to inflationary stockpiling of imports and the Government is already granting liberal exemptions.

#### Fiscal Policy

4. It was emphatically stated that the 1972 budget, currently under preparation, will be "essentially balanced". By this it was meant that very little financing by the monetary authorities will be required. The stated goal is for public saving to cover at least 40 percent of investment. This would require, in addition to other measures, raising tariffs for public services so that the entities which provide these services (except for railroads) would be independent of the budget from 1972 onwards, i.e., would not have to rely on transfers from the budget or financing from the Central Bank. The Government plans to increase tariffs in early November and again in February. Financial independence of the railroads, whose present situation is very serious, is a medium-term goal and the railroads will continue to depend on budgetary support for a five-year period, as agreed with the Bank. There will also be an attempt to better revenue performance by improving administration and eliminating or consolidating some minor taxes. However, the major revenue measure will be the introduction of a value added tax. While this has been under consideration for several years, the Government has finally decided to go ahead. However, because of administrative problems involved in introducing such a tax, its imposition will be delayed, probably until the end of the first quarter of 1972. It was acknowledged that the budget for 1971 is in severe disequilibrium and that it will require 1.5 billion pesos in Central Bank financing. As a result of inflation, and wage increases the Government has felt compelled to grant, there has been a 40 percent increase in current expenditures over the level originally budgeted, while revenues have increased only 25 percent against a probable 40 percent increase in nominal GNP. The introduction of the value added tax is designed to make the revenue structure more responsive to changes in money GNP. Tax pressure is estimated to have declined by 1.5 percent of GDP in 1971 and without introduction of the value added tax the Ministry of Finance projects another 1.5 percent decline in 1972.

#### Incomes Policy

5. The Delegation recognized that the keystone of any stabilization program is incomes policy. It feels that recent collective labor agreements

have contributed to inflationary pressure and that the Government's policy of delaying wage increases as long as possible, and then allowing large readjustments, contributed to instability. It has been decided, therefore, that for the time being, collective agreements will be forbidden and that real wage rates will not be permitted to rise. Instead, the Government will adjust wages periodically according to changes in the cost of living. The intention is to increase wages by 10 percent each time the cost of living index rises by 10 percent - hopefully two or three times per year. The Government feels that its incomes policy will be aided by a projected upturn in cattle slaughter this spring which will stem the rise in internal beef prices. Since the cost of living index gives a disproportionate weight to beef prices, stable beef prices and wages lagging behind increases in the cost of living could provide an important stabilizing element. In any event, the recently introduced freeze on prices, other than those of public services, and wages, which initially was to last only until October 31, 1971, has been extended to January 31, 1972. The Government feels that the prospect of a return to civilian government in which Peronist unions will, undoubtedly, participate, is making these unions more receptive to its incomes policy. The theory is that they would rather have the present Government take hard measures than be left with an unmanageable economic situation when they share power.

#### Industrial Policy

6. The Delegation stated that the Government intends to give high priority to export promotion. Its goal is for exports to increase at a faster rate than GDP. They recognized that while nontraditional exports can play an important role, in absolute terms, traditional exports, especially beef, are more important. In this regard the Delegation mentioned that the Bank's further assistance in the livestock sector would be welcome. The Delegation indicated that the Government's policy was not to discriminate against either foreign investment or domestic private investment. It expects that the effect of the new foreign investment code will be to maintain foreign direct investment in Argentine industry at its present proportion to total industrial investment. As two examples of its balanced approach to industrial development, the delegation mentioned YPF will be following the policy of distributing crude petroleum to other oil companies for refining when its own present capacity is fully utilized, permitting the balanced expansion of the industry and that it has been decided to assist the privately-owned steel company, Propulsora, rather than nationalize it.

#### Monetary Policy

7. It was mentioned that the monetary authorities recognize that, in view of the rate of inflation, the present interest rate structure is unrealistic. While a definite policy has not yet been formulated, most technicians favor allowing a gradual rise in the interest rate. The Government has, apparently, decided to limit the amount of swap operations it will permit to the present \$400 million level. This would require permitting resumption of domestic bank credit to foreign firms. It was indicated that this will take place but that the growth of loans to foreign firms in each commercial bank's portfolio would be limited to one-half the rate of growth of its total lending.

October 5, 1971

In order to be able to control monetary expansion an attempt will be made to bring credit expansion in the acceptance market under control by linking the volume of each financial intermediary's dealings in acceptances to its own capital structure. In general, the feeling was expressed that sufficient credit could be extended by the banking system to the private sector in 1972 without undue overall expansion, since credit needs of the public sector would be limited.

8. In response to a request by the Bank staff, the Delegation indicated that a small updating economic mission would be welcome but that because of expected new measures and personnel changes in October, November would be more timely.

Cleared with and cc: Mr. Alter

cc: Messrs. McNamara  
Knapp  
Chenery  
Weiner  
Knox  
Wiese  
Avramovic  
Ross  
van der Heijden  
Fajans  
Moini  
Sporon-Fiedler  
Hay

DGGreene:ak





## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: December 16, 1971

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with Mr. Carlos Manuel Muñiz,  
Ambassador of Argentina

407  
12/16

The Argentine Ambassador, Mr. Carlos Manuel Muñiz, accompanied by Dr. Angel Caram, Financial Counsellor of the Argentine Embassy, and by Dr. Luis B. Mey, Executive Director, called on Mr. McNamara on December 15. Messrs. Knapp and Alter were also present.

The Ambassador made a long rambling opening statement on the importance his Government attached to friendly political relationships with the U.S., emphasizing the importance of internal order as well as economic and financial health if Argentina were to play a proper role in the world. The Ambassador recognized that the country has a serious internal financial problem which needs to be solved if they are not to be faced with more serious economic and political problems in the future. At the same time, he emphasized that we must take into account the need to establish political order in taking steps to solve their financial problems. The Ambassador mentioned that they were now negotiating with private banks to obtain some US\$500 million in credits.

The Ambassador then asked Mr. McNamara to indicate his understanding of the present state of Argentine-World Bank relationships, since he was going to Argentina this week and would like to be up-to-date.

Mr. McNamara outlined the history of recent relationships with Argentina, pointing out that as the Argentine Government had shown its willingness to go ahead with a sound economic program, the World Bank had responded by mounting a larger lending program. While there had been in the past differences and difficulties, on the whole, we had been able to proceed with planning on an expanded scale of activity. The developments in the recent past, however, have caused us great concern. In particular, the agreements reached in connection with the SEGBA power loan and the railway loan were not being implemented. These weaknesses in performance on existing projects not only affected our ability to associate ourselves with ongoing projects, but raised serious questions for future lending. Already it was clear that there would be no new loans to Argentina this fiscal year, which was a great disappointment.

In the discussion that followed, the Bank representatives indicated that the primary cause of concern was the failure to put through tariff increases as called for under the loan agreements. The Argentine representatives insisted that a decision had already been taken to increase tariffs of public enterprises, including power and railways, by an average of 45%. While they conceded that the increases had not yet been implemented, there was no question concerning the firmness of these decisions, which had been taken at the highest level in the Argentine Government. Dr. Mey indicated

President has seen

December 16, 1971

that according to his information, the tariff increases would be put into effect within the next two days, and the Ambassador confirmed that it was his understanding that the increases would be implemented very soon. The Ambassador understood that the Bank staff had been told earlier that these increases would be implemented and that this had not happened. He therefore appreciated that we might be skeptical, referring again to the political limitations which may affect the timing of the introduction of measures. He was now very confident, however, that these decisions would be implemented. The meeting ended on a friendly note, with both Bank and Argentine representatives expressing hope that the basis would be soon established for the resumption of closer relationships.

Addendum: Decrees instituting rate increases for SEGBA and the railways were published in Argentina on December 16.

cc: Mr. Knapp  
Mr. Weiner  
Mr. Knox  
Mr. van der Heijden

GAlter:pa.

204  
OFFICE MEMORANDUMTO: Mr. Robert S. McNamara (through  
Mr. J. Burke Knapp)

DATE: December 14, 1971

FROM: Gerald Alter *GA*SUBJECT: ARGENTINA - Visit by Ambassador Carlos Manuel Muñiz

(MOON-YIS)

1. The new Argentinian Ambassador, Mr. Carlos Manuel Muñiz, will call on you tomorrow at 12.15 p.m. He will be accompanied by Dr. Angel R. Caram, Financial Counsellor of the Argentine Embassy, and by Dr. Mey. The Ambassador will pay you a courtesy visit and, as he is travelling to Buenos Aires towards the end of the week, would like to hear your views on Bank-Argentine relationships.

Some Background on Ambassador Muñiz

2. Ambassador Muñiz, about 50, has been serving as Ambassador to the United States since October of this year. Having obtained his law degree in 1946 from the University of Buenos Aires, he embarked on a teaching career: he became Professor of Political Science at the University of La Plata and also taught Constitutional Law at the University of Buenos Aires. He entered public life in September 1955 and served for three months as Sub-Secretary in the then Ministry of Interior and Justice. He was later appointed Ambassador to Bolivia, where he remained until 1959, when he became Ambassador to Brazil. He accepted the post of Minister of Foreign Affairs in the Guido Administration in October 1962, which he held until May 1963. The Ambassador is well respected within Argentina and over the years has maintained good relations with the military. He is reportedly close to President Lanusse. In his present function, he has already contributed towards an improvement in the U.S.-Argentine relations.

Bank relations with Argentina

3. Mr. Knapp will have told you that we are facing some very serious problems with two important projects (Railways and SEGBA) that are receiving substantial IBRD financial support. In summary, we are not at all making progress with the financial and technical rehabilitation of the Argentine Railways. This rehabilitation program is being supported with a US\$84 million Bank loan, and a special meeting of the Loan Committee held yesterday considered that the lack of progress had been such that we should take action on disbursements. As to SEGBA, the Loan Committee agreed that action on disbursements should be taken with a view to improving performance in the power sector. These actions were recommended on the grounds that both written and oral representations by Bank staff on these matters during the past six months had been without effect. In view of the need for preventing what could become a public confrontation between Argentina and the Bank, and considering that adequate performance in the near future on the two projects is still not ruled out, there was agreement that we should ask the Argentines not to present withdrawal applications to the Bank, rather than initiating a formal suspension of disbursements.

President has seen

December 14, 1971

4. The economic mission which visited Argentina in November of this year is preparing its report. Preliminary conclusions are that the economic program for 1972 does not meet the requirements of what is an extremely difficult internal and external financial situation. Unless supplemented by additional measures in the field of fiscal, monetary and balance of payments policy, there is great danger that Argentina might run into a situation in which it will have to suspend foreign payments. Faced with these prospects, and in the light of uncertainty regarding supplemental policy action, we have deferred sending to Argentina a mission to appraise the proposed fourth highway project. As a result, there will not be any Bank lending to Argentina this fiscal year.

5. The Ambassador, in all likelihood, is fully briefed about the deterioration in Bank-Argentine relationships. You may wish to express the Bank's concern at this deterioration and our hope that meaningful additional measures are taken to set the economy on the right course. I do not feel that it is appropriate to tell the Ambassador about actions on disbursements that we soon may take in relation to the SEGBA and the Railway loans.

cc: Messrs. Knapp  
Broches  
Cope  
Chadenet  
Baum  
Weiner  
Knox  
Wiese  
Ross

HvdHeijden:grs