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McNamara Papers

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Folder 2

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15

March 14, 1972

Gerald Alter

Meeting of Mr. McNamara with Dr. Carlos Brignone, President of the Central Bank of Argentina

Dr. Carlos Brignone, President of the Central Bank of Argentina, called on Mr. McNamara on Thursday, February 3. He was accompanied by Mr. Carlos Manuel Mufiz, Ambassador of Argentina, and Dr. Luis B. Mey, Executive Director. Messrs. Knapp and Alter were also present. The major part of the meeting was taken up by a presentation on the part of Dr. Brignone on Argentina's current economic problem and its historical origin. He emphasized that Argentina has had five years in which GNP has risen each year. This is quite a change from their previous experience. He conceded that the very good economic program initiated in 1967 had to be abandoned for political reasons. The greatest difficulty was created this past year when President Levingston decided that, in order to facilitate the process of transition to a representative government, the Army needed to become more popular. A populist Government policy was instituted without concern for inflationary effects. International reserves were drawn down by over US\$700 million. There was a flight of capital. Nationalist slogans were encouraged and economic chaos resulted. The Military Junta decided to take over, but a lot of time bombs remained on the premises that needed to be defused.

In August of 1971, they began to develop a new plan to deal with the situation. The basic ideas were very similar to those which prevailed before Onganía was deposed. The exchange rate was devalued, but they found they could not defend the rate. Inflation began to accelerate. A new exchange system was devised to provide for effective devaluations and the outlines of a comprehensive scheme were developing. Unfortunately, it was not possible to proceed with the program as rapidly as originally envisaged, Lanusse becoming ill and delays in decision-making becoming inevitable. Increases in utility rates, which were adequate when they were originally planned, turned out to be inadequate when actually adopted.

On the balance of payments side, they have a very serious problem, with the volume of swaps now greater than reserves. They are trying to improve their short-term position by borrowing from commercial banks and by obtaining IMF support.

The political situation, Dr. Brignone stated, has calmed down. The military is clearly in favor of a popular elected government. They want to put order into the economy, while at the same time preventing the emergence of unemployment. Unemployment, it is strongly felt, would simply radicalize the political environment. They must avoid both excessive inflation and a recession. Dr. Brignone pleaded for Bank support in the difficult task which they face.

March 14, 1972

In the discussion that followed, Mr. McNamara congratulated Dr. Brignone on his presentation and thanked him for the frankness with which he had pictured the situation. However, he went on to point out, it is very difficult to see how we can help. Our pipeline of loans for Argentina is fairly dry and we are not even sure that we can continue to disburse on certain projects that are under execution. He referred specifically to SEGBA and the railways, where in addition to the tariff problem there are management, organizational and other difficulties. We shall have to examine the new economic program to see if we can lend it support.

Addendum: After the meeting with Dr. Brignone, it was decided that we should not precipitate greater difficulties for the Argentine authorities at this time by suspending disbursements on the railways and SEGBA loans. We should wait for about a month to see how the new economic program now being discussed with the Fund finally emerges, and give the Argentine authorities time to conclude their current round of discussions with U.S. and European banks.

cc: Mr. Knapp  
Mr. Knox  
Mr. Weiner  
Mr. van der Heijden (o/r)

Galter:pa.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 3, 1972

FROM: Gerald Alter *GA*SUBJECT: ARGENTINA - Biographical Sketch of Dr. Carlos S. Brignone

1. Dr. Carlos S. Brignone, President of the Central Bank of Argentina since August 21, 1971 is well known to the Bank, having been its Executive Director, and later Alternate Director for Argentina, in the period 1958-64. Born in the province of Córdoba in 1918, he obtained his doctorate in accounting from the University of Buenos Aires. He also holds a MPA from Harvard (Class of 1944). Dr. Brignone has been serving as U.N. Advisor to the Governments of Nicaragua and Colombia, and has been associated with the Argentine Central Bank from time to time over the last 35 years, and was Vice President in 1967. He is a recognized authority on monetary matters and has served as an advisor to the Government on several occasions.

2. Dr. Brignone is fully aware of the difficulties which confront Argentina at the present time and recognizes the need for corrective action. While his initial remarks upon taking the office in August, 1971, indicated that he would not take the lead in setting national economic policies, subsequently, Dr. Brignone has been instrumental in designing the economic program for 1972. He will be the first to recognize that additional measures are urgently called for, but he is undoubtedly constrained by current political realities.

President has seen

HvanderHeijden:nq

cc: Messrs: Knapp  
Wiese

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**REMARKS**

*Mr Knapp suggested we send you this directly without passing it through him in order to save time. He has a copy.*

From

*Gunter Wiese*

## OFFICE MEMORANDUM

394 TO: Mr. Robert S. McNamara (through Mr. J. Burke Knapp) DATE: February 3, 1972

FROM: Gerald Alter *GA*SUBJECT: ARGENTINA - Visit by Argentine Delegation

1. Dr. Carlos S. Brignone, President of the Central Bank and head of a Delegation which is visiting the United States and Europe, reputedly to borrow US\$1 billion, will be calling on you today at 5:30 p.m. He will be accompanied by the Argentine Ambassador, Mr. Carlos Manuel Muniz, Dr. Dante Simone, Director of Policy in the Ministry of Finance, Dr. Horacio Alonso, Assistant General Manager of the Central Bank, and by Dr. Angel R. Caram, Financial Counsellor of the Argentine Embassy.

2. A short biographical sketch of Dr. Brignone will soon be submitted. We are not certain what is the purpose of his call, but we have some information that he might be seeking from the Bank US\$100 million as part of the borrowing target. You are, of course, aware of the problems which we have been encountering in Argentina with respect to general economic performance, and with performance on two important projects, SEGBA and the Argentine Railways. Please find attached, as background, the conclusions reached by a Bank mission, headed by Mr. Gunter K. Wiese, which visited Argentina last week for discussions with the Government. In short, the economic program for 1972 is not sufficiently strong to arrest the very serious financial deterioration which took place in 1971. The program is particularly weak in respect of the Federal budget. Credit to both public and private sectors is therefore being expanded further at a rapid rate. The rate of inflation is accelerating (prices in January rose by at least 10 percent), and large reserve losses continue at a monthly rate of about US\$65 million. It is, therefore, almost certain that the Government's target for decelerating inflation and for balance of payments equilibrium will not be reached. In fact, it is our considered judgment that unless the political constraints to improving the Argentine Government's economic program are removed or ignored, there is every prospect that during the course of 1972 the Argentine Government will either obtain a rescheduling of, or default on its external debt obligations. As to the problems with SEGBA and the Argentine Railways, the mission did not get a meaningful response from the Government and, unless we get such a response during the forthcoming meeting, I shall recommend that the Bank suspend disbursements on the third loan to SEGBA and the first loan to the Railways.



February 3, 1972

3. Our concern with Argentina's unsatisfactory economic performance is shared by the International Monetary Fund which has been requested not only to provide accommodation in an amount of approximately US\$200 million, which they are likely to receive under the gold tranche, the compensatory drawing and SDR's, but also US\$110 million in the form of the first credit tranche. It is the understanding that the IMF is requiring a substantial improvement in the program, particularly with respect to exchange rate policy, as a condition for a first credit tranche drawing. We also understand that our concern about the economic performance is being shared by leading banks in the United States and Europe, which have been notified that Argentina expects from them commitments totalling US\$575 million. It is clear that as soon as our negative evaluation of the economic program, as well as our decision to suspend disbursements on our two most important loans, become known to the financial community, it will become even more difficult for Argentina to borrow substantial sums from the commercial banks. //

4. The Argentine authorities are likely to indicate that they have already taken courageous measures to deal with the general economic problems and to increase tariffs of public enterprises. They will probably emphasize the political constraints within which they must operate. You may wish to indicate your understanding of the political problems that confront the Government in its efforts to reinstate representative Government. However, it is difficult for us to see how these political constraints are going to change significantly during the course of 1972. The Government must in any case reconcile these political constraints and economic reality. Further postponement of economic measures will lead to progressive deterioration in the economic situation and the resulting economic difficulties will make even more difficult the transition to representative government. //

5. Should the delegation raise the subject of new lending to Argentina, you may simply wish to inform the Argentines that we would like to learn how the Argentine Government intends to strengthen its economic program so as to permit further bank lending. As you know, as a result of the postponement last December of a mission that would appraise the Fourth Highway Project, there would be no Bank lending to Argentina anyway this fiscal year. The Highway Appraisal Mission is now in the field; it was sent on the expectation that general economic performance, as well as performance on the railway project would improve in the course of the first six months of 1972.

February 3, 1972

6. In the fields of electric power and transport, our present position is that, because of current defaults on both SEGBA and the Argentine Railways, and in the light of the inadequate response which we have so far received from the authorities, that we suspend disbursements on loans 644-AR and 733-AR. I do not, however, suggest that you communicate a decision to the Delegation, leaving this to the staff. Unless the response of the Argentine Mission is more positive on SEGBA and the Argentine Railways we would have to tell the Argentine authorities that we would not be in a position, as long as the suspension remains in force, to consider new projects in the fields of electric power and transport. Lending in these two sectors constitutes the preponderant share of our proposed lending to Argentina in FY 73; out of a total of US\$215 million in the Operations Program for 1973, US\$170 million was planned to go to these two sectors: US\$80 million for Railways II, US\$50 million for Highways IV, US\$40 million for SEGBA IV. The two remaining projects are in the field of livestock (US\$25 million) and meat packing (US\$20 million). As to these two projects, they are at a very early stage of preparation and appraisal is unlikely within the next few months. Consequently, there is little, if any, prospect on general economic and project grounds, that we will be able to adopt a positive lending posture, unless the Argentines substantially change their approach towards economic management and project performance.

Attachment

cc: Mr. Knapp  
Mr. Aldewereld  
Mr. Chenery  
Mr. Broches  
Mr. Cope  
Mr. Chadenet  
Mr. Baum  
Mr. Knox  
Mr. Weiner  
Mr. Wiese  
Mr. Jaycox  
Mr. Cancio  
Mr. Sheehan  
Mr. van der Heijden

GAlter/GWiese/MRoss/vdHeijden:pa

## OFFICE MEMORANDUM

TO: Mr. Gerald Alter

DATE: February 3, 1972

FROM: Gunter K. Wiese *W*SUBJECT: Mission to Argentina - Back-to-Office ReportI. Introduction

1. A mission which I headed, consisting of Messrs. Rovani, Ribi, Cancio, van der Heijden and Fajans, visited Argentina from January 19 to January 29 for discussions with the Government on the economic program for 1972 and the financial difficulties and proposed reorganization of SEGBA. The mission also discussed, together with Mr. David Knox, the financial situation of the Argentine railways.

II. Economic Situation

2. The Argentine Government's efforts to obtain the necessary external financing for 1972 are entering a critical phase with the visit to the U.S. and Europe of a delegation headed by the President of the Central Bank, Dr. Carlos S. Brignone. The delegation is trying to arrange financing which would permit a level of imports consistent with a modest level (3 percent) of economic growth in 1972 -- a level considered essential to stem a further increase in unemployment -- and to fortify the monetary authority's weakened reserve position. The delegation will attempt to convince potential lenders that the fiscal, monetary, and incomes' policy of the Government's program for 1972 will bring about a deceleration of inflation from the 40 percent of 1971 to 25 percent in 1972 and that the program will result in a halting of the capital flight which played such a large role in the \$827 million loss of foreign exchange reserves in 1971. However, our recent review of the economic program and a concurrent review carried out by the IMF indicate that chances for its success are almost zero. The long delays in enacting monetary and fiscal measures have allowed inflationary pressure to build up to the point where it will require stronger measures to reduce the rate of price increase and improve the balance of payments than is contained in the program.

3. The keystone of the stabilization program is incomes' policy. The Government intends to limit wage increases in 1972 to 25 percent -- which would match the target rate of increase in the cost of living. A 15 percent wage increase was decreed effective January 1, 1972, and one further increase of 10 percent is planned for July 1. While the authorities have not made a formal commitment to maintain real wages if price increases exceed expectations, experience shows that this Government has not been able to resist pressures for wage increases under such

circumstances. It is now clear that inflationary pressures, built up during 1971, will produce a price increase of at least 15 percent during the first three months of 1972. There are already reports, confirmed in Government circles, that the cost-of-living index for January will show an increase of at least 10 percent. Under these circumstances, it is doubtful whether the Government will be able to hold the line on wages until July. Should the Government be forced to grant additional wages increases, as appears likely, the Government's present program will be forced into major adjustments as regards the budget, the monetary program and the balance of payments and exchange rate program.

4. The collapse of the incomes<sup>1</sup> policy beginning in mid-1970 and unplanned wage increases for public sector employees during 1971 contributed to the budgetary chaos during the past year. Wage increases throughout the public sector also necessitated a heavy increase in Treasury transfers to the state enterprises and the provinces. Continued increasing personnel costs and transfers account for the major part of the 37 percent increase in expenditures programmed for 1972. Although fuel prices and export taxes have been increased as part of the economic program, the Treasury deficit for 1972 is officially estimated to be larger, at least in nominal terms, than that in 1971. Despite the larger deficit, the Government estimates that less Central Bank financing will be required than in 1971. It hopes that more non-Central Bank financing will be possible this year by larger additional issues of dollar indexed bonds and a new issue of higher yielding peso Treasury obligations which will be permitted because of a recent increase in interest rates. It is difficult to assess whether it will be possible to obtain the level of non-Central Bank borrowing programmed; however, the figure in the budget is undoubtedly the upper limit of non-Central Bank borrowing. The fiscal hazards involved in deviation from planned incomes<sup>1</sup> policy are easily demonstrable. An additional 10 percent wage increase granted next March, for example, would increase the deficit by 1.5 billion pesos; a similar increase in September would cost about 0.6 billion pesos in 1972. Any such increase in the deficit would imply an equal further increase in Central Bank financing.

5. The monetary program for 1972 provides for a 29.4 percent increase in domestic credit, based on an expansion of Central Bank credit of 4.4 billion pesos, largely to finance the public sector. Under this program, credit to the private sector would rise by 24.3 percent. The programmed ratio of total bank credit expansion to increased Central Bank credit is much smaller than in 1971, reflecting the decision to gradually increase commercial Bank legal reserve requirements by 6 percentage points during the first part of 1972. So far only one point of the six-point increase has actually been put into effect. Even assuming that the remaining steps to increase reserve

requirements are taken, any collapse of the present incomes policy targets will render it practically impossible to restrict private credit to a growth rate of 24.3 percent. An additional 1.5 billion pesos financing of the Treasury by the Central Bank would result in an overall monetary expansion of 40 percent during the year, far more than the programmed 28 percent increase in nominal GDP and would generate another round of price increases. In such circumstances a rate of inflation of at least 40% is likely to result. Given the Argentine experience such a rate of inflation may be expected to have deleterious effects both on the Government revenues and on the balance of payments in the absence of appropriate adjustments in exchange rate and in interest rates.

6. Balance-of-payments prospects for 1972 have been substantially revised from the last mission's (November 1971) estimate. Projection of imports has been increased from \$1,860 million (the same level as in 1971) to \$2,040 million, which is probably more realistic. Export projections have been revised downward by almost \$100 million to \$1,733 million to reflect damage to the corn and sorghum crops. A current account deficit of \$546 million is now expected, against which the Government presently estimates it can count on net capital inflows of about \$135 million. This means, assuming zero short-term capital outflow for the year, that about \$415 million in additional financing is required. Since some capital outflow is highly likely, this figure should be considered understated. The IMF appears to be the key target of the Government's search for additional external financing. It is to be the largest individual source of such financing. Moreover, a favorable appraisal of the Argentine program by the IMF would have an important effect on the attitudes of other lenders. Argentina can draw approximately \$200 million from the IMF, utilizing SDRs, the gold tranche and a compensatory drawing (for which they have applied). This would leave a minimum of \$215 million to be obtained from other sources. The Argentinians would like to obtain \$110 million of this amount in the form of a drawing of the IMF first credit tranche. However, the IMF's appraisal of the Government's program, as it now stands, is not enthusiastic. Fund officials feel that as a first remedial step a devaluation of at least 22 percent, coupled with additional export taxes, is required. Government authorities oppose the IMF view on the grounds that devaluation would have an adverse impact on import prices and thus on industrial production and employment. They allege that it would also have an adverse effect on expectations as well as negative political ramifications. At this moment, therefore, prospects are dim for an agreement between the Government and the IMF on measures to strengthen the program. Without such agreement it would not seem likely that the IMF would permit Argentina to draw an additional \$110 million in the form of the first credit tranche, and thus improve the climate in foreign financial circles.

7. Lack of an agreement with the IMF may not preclude obtaining at least a portion of the additional financing of \$215 million but this would not give the Government sufficient resources to cope with continued substantial short-term capital outflows. In the absence of a stronger economic program and with continuation of high rates of inflation, such outflows could reach sizeable proportions. Under these circumstances, prospects are for dwindling foreign exchange reserves leading to some import prohibitions, build-ups of commercial arrears, a slowdown or suspension of payments on Government external obligations, and, finally, to a debt rescheduling operation of some sort.

8. In our view, strengthening of the economic program would require:

- i) accelerating the rate of devaluation, coupled with increased export taxes, which would both brake the increase in imports and reduce the fiscal deficit;
- ii) tightening the monetary program by accelerating the increase in Bank legal reserve requirements;
- iii) assuring that interest rates remain positive through the year;
- iv) the Government's unwaivering commitment to hold to its declared wage policy.

SEGBA and the Argentine Railways

8.a) Government efforts to slow down inflation in Argentina through lagging rate adjustments for power and railway services have had a serious adverse effect on the finances of SEGBA and the Railways, threatening the execution of these companies' investment programs, reversing the improvement in their finances which took place in the 1967-1970 period, creating further difficulties for the already extremely weak public finances, and facing the Bank with defaults on financial covenants entered into by the Argentines in connection with the three loans to SEGBA (US\$210 million) and the first loan to the Argentine Railways (US\$84 million). In addition, Government plans to introduce far-reaching changes in SEGBA's organization will culminate in formal approval of these changes in a meeting of SEGBA's shareholders to be held tomorrow (February 4, 1972) and will introduce very serious doubts regarding the continuity and efficiency of SEGBA's management and organization. The latter would preclude, for some time to come, our consideration of a US\$40-80 million fourth loan to SEGBA.

9. In accordance with decisions reached at a Special Loan Meeting on January 12, 1972, a Bank mission visited Buenos Aires from January 13-29 and discussed these problems at the company and Government level. While a positive response did come forward from the management of both SEGBA and the Railways, the discussions with the Argentine Government were fruitless; little willingness was shown to discuss with the mission a specific program of remedial action indicating the Government's helplessness in resolving - in partnership with the Bank - the critical issues facing both SEGBA and the Railways. Consequently, I recommend that we inform the Argentine Government that the Bank would temporarily disassociate itself from the SEGBA and Railway projects through a suspension of disbursements on Loans 644-AR and 733-AR until conditions have been restored for the successful execution of these two important projects.

10. The Bank mission reviewed with SEGBA its financial position and prospects for 1972, in the light of the 1971 earnings deficiency, the 54 percent rate increase introduced as of January 1, 1972, and the investment program for 1972. The mission confirmed our earlier suspicion that the 54 percent rate increase would not be sufficient to generate in 1972 the resources needed to carry out SEGBA's investment program, that it did not give SEGBA the 8 percent rate of return specified in the Concession (even disregarding the 1971 earnings deficiency) and that the Government, in deciding upon the 54 percent rate increase had ignored the ground rules laid down in SEGBA's Concession. On the basis of realistic assumptions regarding the rate of inflation and exchange rate depreciation in 1972, the mission concluded that SEGBA would need an immediate and sizeable rate increase, to be followed by others in the course of 1972, if the 8 percent return provision was to be subscribed to by Government and if the financing

plan for 1972 was to be assured. These rate increases assumed further importance since it had become abundantly clear that the public finances would be in no shape to provide any financing relief to SEGBA.

11. In specific terms, to fill the gap in SEGBA's 1972 financing plan entirely out of power rates, and to achieve the 8 percent rate of return in that year, the mission concluded that, as a start, a rate increase of about 25 percent would need to be introduced as early as March 1, 1972. Further rate increases would be necessary to compensate for further cost increases undoubtedly in prospect. The extent and timing of these additional rate increases are difficult to determine now, but could be reviewed jointly in the course of the year.

12. In discussing the problems affecting SEGBA's finances with the Ministers of Finance and Public Works, and with Planning Secretary Martinez, the mission expressed the Bank's concern with SEGBA's finances and its capacity to finance the expansion program. The mission informed the Government that the Bank considered Argentina in default on the tariff provisions of the Guarantee Agreements and expressed the mission's views that the Bank would find it difficult to continue disbursing on the third SEGBA loan, unless the Government resumed to apply the tariff regime laid down in SEGBA's Concession and communicated to the Bank its decision to adjust tariffs by a specified amount at a specified early date.

13. The Argentine response was disappointing. The Finance Minister stated that the Government shared the Bank's concern with SEGBA's finances and intended in 1972 to return to the tariff regime specified in the Concession. However, it was politically impracticable to raise electricity tariffs so soon after the January 1, 1972 tariff increase. The matter called for further study before a decision could be taken. This response from Government effectively rules out adherence to the policy of timely and adequate rate adjustment needed in the light of continuing cost increases and heavy financial requirements of the 1972 investment program. Consequently, the mission recommends that the Bank suspend disbursements on Loan 644-AR.

14. As to the reorganization of SEGBA - which will be formalized at tomorrow's meeting of SEGBA's shareholders - the mission informed the Government about the dangers inherent in the dissolution of the Executive Committee, the limitations to the powers and authority of the Executive Vice President and SEGBA's department managers, and about its doubts regarding SEGBA's ability to retain and attract qualified executives at the greatly reduced salary levels. The Government's response on this point was mixed; on the one hand, it reiterated that vesting the authority of management in the Board was an improvement to the earlier organizational structure; on the other hand, it indicated that, by virtue of a last-minute amendment to the draft statutes, management salaries would be fixed annually by SEGBA's shareholders in the light of market conditions and the requirements of a Government incomes policy.



15. The mission considers that the proposed changes are of a far-reaching nature, that they raise the obvious dangers of a deterioration in the quality, continuity and authority of management, but that it is difficult, if not impossible, to demonstrate concretely that the new organizational structure will damage SEGBA's operations, or even to know the possible effects of having SEGBA subject to discretionary authority of Government officials as a result of SEGBA's having been transformed from a Corporation to a State Enterprise. We will need, therefore, some time to observe the impact of the proposed changes. I recommend that we inform the Argentines about our serious concerns and that, even if the Bank were to be satisfied as regards SEGBA's electricity tariffs, we would not be able to appraise the fourth SEGBA Project (which had been scheduled for April 1972, and which could have led to a US\$40-80 million loan) until after SEGBA's new management system had been in operation for some time and we were satisfied with the results.

The Argentine Railways

16. As you know, Loan 733-AR (US\$84 million, effective since August 5, 1971) was made in support of a program designed to achieve - over a five-year period - the technical and financial rehabilitation of the Argentine Railways, starting in 1971. When the loan was made, quantitative understandings were reached on the financial rehabilitation which were specified in terms of an improvement in the working ratio. Expected improvements in the ratio, together with the actual results, are set out below:

|        | <u>Working Ratios</u> |             |                            |
|--------|-----------------------|-------------|----------------------------|
|        | <u>1970</u>           | <u>1971</u> | <u>1972</u>                |
| Target | -                     | 126         | 117                        |
| Actual | 147                   | 183         | 177 (expected by railways) |

17. As a result of rapidly rising costs in 1971, principally wage and fuel costs which account for 75 and 10 percent of total operating expenditures, respectively - and consequent upon a consistent postponement of tariff increases until January 1, 1972, the financial situation of the Argentine Railways deteriorated very substantially: instead of showing an improvement, 1971 witnessed the worst financial performance since 1966. As of January 1, 1972, however, rates were increased by an average 45 percent, even though the Railways had requested an average 60 percent increase. The denial of this request in full, together with the increases in wages and fuel costs also introduced on the same date, will mean, in the absence of any further measures, a financial performance in 1972 that will at best hardly show an improvement over 1971 and will, essentially, repeat the thoroughly unsatisfactory pattern of heavy Railways' dependence upon the Central Government finances: the Government budget provides for coverage of Ar.\$1.5 billion out of a total Railways

deficit of Ar.\$2.3 billion, still leaving an unfinanced gap of some Ar.\$0.8 billion. Even these numbers may turn out to understate the 1972 gap. It was against this background that the mission discussed with Government its policies regarding financial rehabilitation of the Railways.

18. In specific terms, the mission stressed with Government the need for progress towards financial rehabilitation in 1972, to be brought about by early and adequate rate adjustments. In particular, the mission suggested that a 25 percent rate increase be effected no later than April 1, 1972, which would be feasible in the light of the Railways' assessment of the prospects for diversion of traffic to roads. This rate increase would lead to a decline in the working ratio to about 145 (the level achieved in 1970 when the Bank appraised the current program) provided that all further cost increases in 1972 (beyond the 10 percent wage increase in prospect for July 1) would be covered by additional rate increases. To be sure, even with such rate increases two years would still be lost in terms of the original program of financial rehabilitation. The mission, nevertheless, indicated that it would recommend that the Bank consider this acceptable and revise the targets in the loan documents accordingly, providing, of course, for substantial further financial progress beyond 1972. Although the mission indicated its recognition of the difficulties which an early rate increase of the size mentioned would present to the Government, it emphasized that the Bank was faced with a default on the Loan and Guarantee Agreements.

19. There was no meaningful response from Government to this presentation. The Finance Minister responded by saying that he hoped to come to an agreement with the Railways on the financial problem, and he left it at that. Consequently, it has not been possible for the mission to get from the Government any commitment regarding adherence to the objectives of financial rehabilitation of the Argentine Railways. In these circumstances, and unless specific information on pending remedial action is given to us during the meeting, I recommend that we inform the authorities that the Bank will suspend disbursements on Loan 733-AR until such time as the Government has given concrete evidence of its determination to proceed with the financial rehabilitation of the Argentine Railways.



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: March 27, 1973

FROM: Hendrik van der Heijden, Division Chief, LAC II

SUBJECT: ARGENTINA: Mr. McNamara's Meeting with Argentina's Minister of Finance

1. On Monday, March 26, 1973, Mr. McNamara received Argentina's Finance Minister, Dr. Jorge Wehbe, who was accompanied by Dr. Jorge Tersoglio, Argentina's Executive Director. Messrs. Knapp, Wiese and van der Heijden attended the meeting.

2. Mr. McNamara invited the Minister to comment on the possible economic policy posture of the new Government, which is scheduled to come to office on May 25, 1973. Dr. Wehbe said that it was rather early to comment on this; representatives of the new Government would only be designated after April 15, and it was only after this date that a clearer idea about the new policies would emerge. However, the Minister did not expect the new Government to introduce any major changes in economic policy.

3. Mr. McNamara expressed his hope that the economic policies of the new Government would permit the Bank to mount a substantial lending program for Argentina. Dr. Wehbe said that the present Government shared Mr. McNamara's hope. It would facilitate this process by pushing forward with the preparation of the proposed Industrial Credit Project and the Livestock Credit and Agriculture Development Project, so as to enable the new Government to quickly bring these projects to a stage where they could be considered for Bank financing.

Cleared with and cc: Mr. Wiese, Director, LAC II

cc: Messrs. McNamara ✓  
Knapp  
Alter o/r  
Knox, Director, LAC Projects

HvdHeijden:cf

President has seen

## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: March 14, 1972

FROM: Gerald Alter *gal*SUBJECT: Meeting of Mr. McNamara with Dr. Carlos Brignone, President of the  
Central Bank of Argentina

*4/3/14*

Dr. Carlos Brignone, President of the Central Bank of Argentina, called on Mr. McNamara on Thursday, February 3. He was accompanied by Mr. Carlos Manuel Muñiz, Ambassador of Argentina, and Dr. Luis B. Mey, Executive Director. Messrs. Knapp and Alter were also present. The major part of the meeting was taken up by a presentation on the part of Dr. Brignone on Argentina's current economic problem and its historical origin. He emphasized that Argentina has had five years in which GNP has risen each year. This is quite a change from their previous experience. He conceded that the very good economic program initiated in 1967 had to be abandoned for political reasons. The greatest difficulty was created this past year when President Levingston decided that, in order to facilitate the process of transition to a representative government, the Army needed to become more popular. A populist Government policy was instituted without concern for inflationary effects. International reserves were drawn down by over US\$700 million. There was a flight of capital. Nationalist slogans were encouraged and economic chaos resulted. The Military Junta decided to take over, but a lot of time bombs remained on the premises that needed to be defused.

In August of 1971, they began to develop a new plan to deal with the situation. The basic ideas were very similar to those which prevailed before Onganía was deposed. The exchange rate was devalued, but they found they could not defend the rate. Inflation began to accelerate. A new exchange system was devised to provide for effective devaluations and the outlines of a comprehensive scheme were developing. Unfortunately, it was not possible to proceed with the program as rapidly as originally envisaged, Lanusse becoming ill and delays in decision-making becoming inevitable. Increases in utility rates, which were adequate when they were originally planned, turned out to be inadequate when actually adopted.

On the balance of payments side, they have a very serious problem, with the volume of swaps now greater than reserves. They are trying to improve their short-term position by borrowing from commercial banks and by obtaining IMF support.

The political situation, Dr. Brignone stated, has calmed down. The military is clearly in favor of a popular elected government. They want to put order into the economy, while at the same time preventing the emergence of unemployment. Unemployment, it is strongly felt, would simply radicalize the political environment. They must avoid both excessive inflation and a recession. Dr. Brignone pleaded for Bank support in the difficult task which they face.

President has seen

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In the discussion that followed, Mr. McNamara congratulated Dr. Brignone on his presentation and thanked him for the frankness with which he had pictured the situation. However, he went on to point out, it is very difficult to see how we can help. Our pipeline of loans for Argentina is fairly dry and we are not even sure that we can continue to disburse on certain projects that are under execution. He referred specifically to SEGBA and the railways, where in addition to the tariff problem there are management, organizational and other difficulties. We shall have to examine the new economic program to see if we can lend it support.

Addendum: After the meeting with Dr. Brignone, it was decided that we should not precipitate greater difficulties for the Argentine authorities at this time by suspending disbursements on the railways and SEGBA loans. We should wait for about a month to see how the new economic program now being discussed with the Fund finally emerges, and give the Argentine authorities time to conclude their current round of discussions with U.S. and European banks.

cc: Mr. Knapp  
Mr. Knox  
Mr. Weiner  
Mr. van der Heijden (o/r)

GAlter:pa.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara and Mr. J. Burke Knapp      DATE: March 23, 1973

FROM: Gunter K. Wiese, Director, LAC II

SUBJECT: ARGENTINA - Your Meeting with the Minister of Finance and the President of Argentina's Central Bank

I. INTRODUCTION

1. Argentina's Minister of Finance, Dr. Jorge Wehbe, and the President of the Central Bank, Dr. Jorge Bermudez Empananza, who are here to attend a meeting of the Group of Twenty, will call on Mr. McNamara on Monday, March 26 at 6:30 p.m. They will be accompanied by Dr. Jorge Tersoglio, Argentina's Executive Director. Their meeting with Mr. McNamara is of a courtesy nature; the meeting with Mr. Knapp has been scheduled for Wednesday, March 28 to discuss the status of present and prospective Bank operations in Argentina. Short biographical sketches are attached.

II. BACKGROUND FOR DISCUSSION

2. The elections which took place on March 11 should bring to power, on May 25, 1973, a democratically elected Government which will be dominated by the party headed by Juan Domingo Peron. Dr. Campora will assume the Presidency as of that date, but our information indicates that Juan Peron will be the power behind the scene, either from Madrid where he is currently residing or from Buenos Aires where he might establish himself. Both the Senate and the House will have a Peronist majority. Similarly, the provincial legislative and executive branches will be dominated by the Peronistas. The results of the elections came as a severe shock to President Lanusse's Government, which had over the past 18 months been attempting to demonstrate that Peronism was a myth and that Juan Peron had lost his appeal to Argentina's voters. Nonetheless, the Military have decided to accept the results of the elections. Therefore, an orderly transfer of power is envisaged. Arrangements are being made for representatives of the new Government to gradually involve themselves in the management of the economy, even before the formal transfer of power takes place.

3. Dr. Wehbe is likely to inform you about the election results and to bid you farewell as he will be leaving his job on May 25; so will Dr. Bermudez Empananza.

4. The delegation may tell you that Argentina is ready to play its role in the international financial community and that they expect that the new Government will retain Argentina's membership in the IMF and the Bank, even though election rhetoric of the Peronist Party indicated otherwise. On our side, we have been having some discussions

President has seen

with those who are rumored to assume economic leadership roles in the new Government. On the whole, these discussions indicated that it would be a major objective of the new Government to decelerate inflation, increase both public and domestic private investment, to pursue sound balance of payments and development policies, and to introduce substantial reforms in the distribution of income and property. As to the latter, there are indications that a comprehensive land reform might be introduced as well as reforms in the fiscal system with the emphasis on progressive direct taxation and increased taxes on wealth. It is far too early to say what the policy posture of the new Government will be. We shall know more within the next few months, and we plan to have policy discussions with the new Government in early June.

### III. ISSUES FOR DISCUSSION

#### Subjects Mr. Knapp may wish to raise

5. Mr. Knapp may wish to indicate to the delegation that the Bank stands ready to assist Argentina in its development effort and that we will initiate a dialogue with the authorities shortly after their assumption of power. Meanwhile, the present Government could help in maintaining the good relationship between Argentina and the Bank by taking the measures called for under the Loan and Guarantee Agreements. In particular, Mr. Knapp may wish to say that we expect prompt remedial action with regard to tariffs charged by the Argentine Railways: since January 1, the Government has not complied with the modified agreements entered into as of August 1972. Second, Mr. Knapp may wish to indicate that we expect continued adherence to the understandings reached with regard to power rate policies, i.e. the continued application of the principle of bimonthly rate adjustments with the aim of reaching the Concession-specified 8 percent rate of return in 1973.

6. Mr. Knapp may also wish to tell the delegation that our efforts to prepare projects in Argentina are likely to pay off in terms of projects in the critically important fields of industrial export development and agriculture development. Projects are also under consideration in the fields of transport and electric power. As a result of these preparatory efforts, a high level of lending is in prospect for FY74, but Mr. Knapp may wish to indicate to the delegation that the decision to translate these efforts into Bank loans would depend on the results of the discussions which we are planning to have with the new authorities. (The most recent Country Program Paper was reviewed by Mr. Knapp on January 29, 1973. Attached to this memorandum is the Postscript and the revised Lending Program which indicate that as in FY72 there will not be any Bank lending to Argentina in FY73.)



Mr. Robert S. McNamara and  
Mr. J. Burke Knapp

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March 23, 1973

7. With regard to the proposed Industrial Credit Project, Mr. Knapp may wish to tell the delegation that a recent Bank mission identified a project aimed at supporting industrial export development. The establishment of an Industrial Development Fund in the Central Bank is envisaged to which various financial institutions could have access. Mr. Knapp may wish to say that we support the idea of the establishment of a privately-owned Argentinean industrial finance institution (the proposed Banco Argentino de Inversion to be formed by Argentina's four most prestigious commercial banks); other institutions are also interested in entering the term-lending field (e.g. the Banco Federal Argentino and some of the better-established Financieras) and their access to the Industrial Development Fund would also have great merit. As to the preparation of the new Livestock Development and Agriculture Development Project, Mr. Knapp may wish to say that we feel that good progress is being achieved; however, more rapid progress could be made (and Bank assistance for preparation could be made more effective) if the Government would soon decide to broaden the preparation team by including specialized Argentinean expertise in the team, i.e. Argentinean consultants to cover inter alia the meat packing component.

Subjects that the delegation might raise

8. We do not expect the delegation to raise any subjects with you, leaving the operational discussions to the meeting with Mr. Knapp. They are likely to tell you that they did everything in their power to manage the economy within severe political restraints. They are also likely to say that they consider the Bank's association with Argentina's development to be of great importance.

Attachments (2)

cc: Messrs. Alter  
Knox, Director, LAC Projects

HvdHeijden:cf

Dr. Jorge Wehbe, Minister of Finance since October 1972, is a 52-year old lawyer from Cordoba. He served as Secretary of Finance in the Frondizi Government, as President of the National Housing Bank under President Guido and most recently held the position of President of the Banco Nacional de Desarrollo, the industrial development bank. He holds a law degree from the University of Buenos Aires and has taught political economy and tax law. Despite his membership in the more liberal Frondizi branch of the Radical Party, Dr. Wehbe has shown himself moderate and essentially orthodox in his economic thinking.

Dr. Jorge Bermudez Emparanza, a 60-year old lawyer, became President of the Central Bank last July 26. Having received his law degree at La Plata University, he was active in the 40's and 50's in the executive and legislative branches of the Government of the Buenos Aires Province. In 1960 and 1961, he was provincial "interventor" in the Cordoba Province and in 1962 in the Buenos Aires Province. In 1962-63, he held the position of Secretary of Energy in the Argentine Government. Subsequently, Dr. Bermudez Emparanza practiced law and managed his ranch. In 1971, he was appointed President of Banco de la Nacion and Director of the Central Bank.

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## OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: August 3, 1973

FROM: Gunter K. Wiese, Acting Regional Vice President, LAC

SUBJECT: ARGENTINA: Visit of Dr. Gomez Morales with Mr. McNamara

Dr. Alfredo Gomez Morales, President of the Argentine Central Bank, called on Mr. McNamara on August 1, 1973, at 3:15 p.m. He was accompanied by Mr. Horacio Alonso, Department Head in the Central Bank, and by Dr. Tersoglio, Executive Director representing Argentina at the Bank. Messrs. Knapp and Wiese were also present.

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Dr. Gomez Morales emphasized that the new Government had begun to vigorously tackle the problem of inflation which it had inherited from their predecessors and which was running at an annual rate of 70 percent. As a first step, they had reached agreement with the major labor unions on wage controls, which had immediately led to a reduction in the general price level by 2 percent in the first month of the new Government's tenure. A further reduction by 0.2 percent was expected for the subsequent month. The short-term prospects were for reasonable price stability, albeit at the price of arresting the growth in the economy. The Government was now beginning to focus on its long-term problems. One of them was the prospect of a severe energy shortage. It looked as though Argentina would need to import substantial amounts of petroleum and petroleum products in the next three years. The Government was exploring the feasibility of substituting natural gas for some of the petroleum requirements. This would, of course, create the need for more pipelines and auxiliary facilities and was, in any event, only a short-term solution. In the long run, Argentina would have to concentrate energetically on the further expansion of its hydroelectric facilities. This, in turn, would require external assistance to finance a number of projects such as Alicura, Apipe and Corpus. He would hope that the Bank would see its way clear to finance Alicura. As regards Corpus, it was unfortunate indeed that no agreement had been reached with Brazil and perhaps also Paraguay about a joint development plan for the Parana Basin. He deplored the one-sided actions which the Brazilian Government had taken in respect of Itaipu and expressed hope that the United States would support Argentina in persuading Brazil to reach an agreement with the new Peron Government, an agreement which Peron personally was trying to bring about.

Mr. McNamara raised the question about the prospects for the budget deficit. Dr. Gomez Morales replied that this was indeed a crucial problem. Unless this problem was solved, all efforts to reduce inflation would fail. Actions already taken by the Government included a postponement of all low priority investments, an intensification of the fight against tax evasion, and some measures to achieve

President has seen

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savings in the provincial budgets. Nevertheless, further measures would have to be taken. He pointed out that the share of tax revenues in GDP in Argentina was comparatively low by international standards and amounted to only 18 percent. If tax collections would be intensified sufficiently to restore revenue collection in real terms to the level achieved in 1970, one-third of the present fiscal deficit could be eliminated. He expressed confidence that the Government would be successful in its forthcoming fiscal efforts. He was also optimistic about the external sector, pointing to the likelihood that total exports in 1973 would be about \$3 billion, a record level. While part of this increase was due to rapidly rising meat prices, another part could be attributed to the non-traditional exports which now accounted for 20 percent of the total. Summing up, he would call the economic problems inherited by his new Government as "not easy, but manageable."

Mr. McNamara referred to the fact that the fiscal deficits in the past had, in no small measure, been due to the railways and the energy sector. He inquired whether the Government proposed to raise railway and power tariffs. Dr. Gomez Morales stated that that was indeed the Government's intention, but it would have to be combined with measures to raise efficiency of operations in the companies in question. To help achieve this, all public enterprises would be placed under the direction of the Minister of Economics.

Dr. Gomez Morales raised the question about the future relations between the Bank and Argentina. Mr. McNamara emphasized that we stand ready to engage in detailed discussions as soon as the Government is ready, and to assist the Government in its development efforts. He said that he fully understood that recent political developments in Argentina had necessitated a postponement of the timing of our first round of discussions with the new Government until some time after the elections in late September.

The remainder of the meeting was essentially spent on a brief discussion of the internal security problem in Argentina. Dr. Gomez Morales pointed out that the Government had by now ascertained the identify of the disruptive forces and would now move to eliminate them by a number of vigorous measures.

cc: Mr. Ljungh  
Mr. Alter o/r  
Mr. Fajans, Acting Division Chief, LAC II  
Dr. Tersoglio, Executive Director

GKWiese:mr

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. Gerald Alter) DATE: July 31, 1973

FROM: Gunter K. Wiese, Director, IAC II

SUBJECT: ARGENTINA - Visit by Dr. Gomez Morales

1. Dr. Alfredo Gomez Morales, President of the Argentine Central Bank, will call on you at 3:15 this afternoon.

Dr. Gomez Morales

2. Born in Buenos Aires in 1908, Dr. Gomez Morales studied economics and accounting and is regarded today as the leading economist among old-guard Peronists. Joining public administration in 1933, he worked on taxation and war-time supply matters. He became Under-Secretary of Commerce in 1947 and was President of the Central Bank in 1949-52. Between 1952 and 1955, he ran the Government-owned industrial enterprises and held the position of Minister of Economic Affairs. After the overthrow of Peron, Dr. Gomez Morales worked as a consultant and administered a large ranch. In May 1973, he took over as President of the Central Bank in the Campora Government and continues in this post under provisional President Lastiri.

3. Dr. Gomez Morales is considered to be a moderate, and he revealed himself as such during a long private conversation which he had, at his initiative, last February with Mr. van der Heijden of the Bank. In that conversation, Dr. Gomez Morales stressed the need for checking inflation through higher taxes and less Government spending. He favored improving Argentina's external debt structure by borrowing more from the Bank and the IDB. He came out for proper investment planning in power and adequate power rates; and for better coordination and proper pricing of transport services. The proposals for Bank assistance to agriculture and industry were welcomed by Dr. Gomez Morales, primarily on the grounds that both needed modern production technology and had to expand exports. He felt that the Bank's role in Argentina was rather modest as compared with that in Brazil and expressed the hope that it might become more important. Somewhat sentimentally, he recalled a confidential talk with Mr. Black in 1954 (a year before Peron's overthrow), in which he had explained to Mr. Black that his Government was interested in joining the Fund and the Bank but had first to dismantle the network of controls on foreign exchange and trade.

The Present Government

4. Since July 13, Argentina has had an interim Government headed by provisional President Lastiri, the President of the House of Representatives. The economic team, of which Dr. Gomez Morales is a member, consists of the men appointed by President Campora and continues to be led by Finance Minister Gelbard. Presidential elections are scheduled for September 23. General Peron is likely to be the next President and

President has seen

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his Government, possibly a coalition with the Radicals, is expected to take office by the middle of October. It is probable that Dr. Gomez Morales would hold an important position in the new Administration.

#### Economic Situation and Policies

5. When President Campora's Government took power last May 25, prices were rising at 75 percent per annum, the fiscal deficit had reached much higher levels than in previous years, and the labor unions were pressing for large wage increases. The economy had gone through a serious balance of payments crisis in 1971, and it still had a sizeable amount of outstanding short-term foreign debt. However, the overall balance of payments prospects had substantially improved, thanks to a very good harvest, an increasing domestic livestock supply, favorable world demand and price conditions for beef and cereals, and an upsurge of non-traditional industrial exports. In spite of these favorable factors, the Government of General Lanusse could not implement a consistent set of stabilization and development policies. The ability of the elected Government to do so largely depends upon the way in which political contradictions within the Peronist movement can be solved.

6. The main economic policies, adopted during the tenure of President Campora and continued by the present Government, have the support of moderate Peronists (including labor union leaders and Argentine entrepreneurs), the majority of other parties and, apparently, the military. These policies include: (a) an increase in real wages -- through a moderate rise in nominal wages and a reduction in food prices -- which partly compensated their decline since 1967; (b) a price and wage freeze for two years; (c) an agricultural tax policy designed to increase productivity in the sector; (d) an ambitious housing program; (e) a more direct control by the Government over domestic credit allocation, and over foreign trade and exchange operations; and (f) selective controls on foreign private investment. The Government is now preparing a medium-term development plan which is likely to have among its main goals a sharply increased growth rate (7 or 8 percent per annum), a continuing increase in exports (from \$1.8 billion in 1972 and an expected \$3 billion in 1973 to about \$5 billion by 1977-78), and income distribution policies designed to further increase the workers' share in national income. The Government has recognized that the most important immediate economic problem is the public sector deficit (officially estimated at about \$a30 billion, or 12 percent of GDP, of which roughly 50 percent corresponds to Central Government operations), and has indicated that it will take strong action to cope with it in the near future. These economic policies seem to be much more reasonable and less populist than expected. They will only succeed, however, if ways are found to place public finances on a sound basis, thereby contributing to price stabilization, and if exports continue to be adequately encouraged.

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State of Relations

7. We had planned to send a small mission to Buenos Aires in June to establish contact with the Government of President Campora, learn about its economic program, raise issues affecting projects in execution, and ascertain prospects for future lending. However, the timing did not suit Finance Minister Gelbard and the visit was postponed, just before the grave incidents which marked Gen. Peron's return from exile and eventually led to President Campora's resignation. We are now prepared to send a mission to Argentina in November to review the economic situation and assess the economic program of the Government which will take power in October. We are also prepared to open, at the Government's convenience, discussions on existing and proposed loans. Meanwhile, we have written to SEGBA and the Argentine Railways, with copies to Minister Gelbard, expressing the Bank's concern with the financial position of SEGBA and drawing attention to financial, technical and administrative measures required to move ahead with the rehabilitation program of the Railways supported by our \$84 million loan of 1971.

Future Lending

8. Two lending operations are now tentatively scheduled for FY74 and two for FY75. The first pair are "repeat operations", which depend on compliance with project and sector conditions relative to existing loans; the second pair require careful preparation and call for policy decisions by the Government.

9. The fourth road project, first appraised at the beginning of 1972 as a basis for a \$50 million loan, would have to be brought up-to-date once the decision is made to proceed with it. Presentation to the Executive Directors would hinge on the Bank being satisfied as to the quality of the new management of Vialidad Nacional and the availability of local funds for the third road project, now under execution, and for the proposed project. The Government would also have to agree with the Bank on a program of tariff adjustments and line closures for the Argentine Railways, in conformity with the arrangements which paved the way for restoring, in September 1972, the Railways' right to draw on the loan.

10. The proposed \$60 million fourth loan to SEGBA, for a project now scheduled for appraisal in November, could be considered only if decisive action were taken to restore the financial standing of the Company. The best way to achieve this would be to adopt the policy of modest tariff adjustments at regular intervals. Failing prompt remedial action, SEGBA would be in no position to make an adequate contribution to its 1974-75 expansion program, which the Bank had intended to support. Moreover, the Bank would want to satisfy itself that SEGBA's capacity to carry out large investment programs has not been affected by recent changes in its management, and that the Government would let SEGBA comply



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with the Bank's procurement guidelines under which, in fact, Argentine producers had been able in the past to supply over 85 percent of SEGBA's needs for transmission and distribution equipment.

11. Preparatory work on the proposed \$60 million loan to support a credit program for livestock development, meat processing, mixed agriculture and agricultural marketing, was interrupted by the political changes and a periodic visit by a Bank consultant was postponed pending expression of interest by the Government of President Campora. Should Dr. Gomez Morales confirm that the present Government would like the Bank to continue assisting in the preparation of the project, it would be desirable to revive the Steering Committee, consisting of representatives of various agencies active in the sector, and to reorganize and expand the project preparation group by incorporating in it specialized Argentine experts on a full time basis. Throughout the preparation stage, we would maintain close contact with the Steering Committee in order to develop the appropriate policy framework for the project. In this regard, we continue to have special interest in rational allocation of credit through a system of positive real rates of interest and in provision of adequate incentives for assuring long-term growth of agricultural export industries.

12. The preparation of an industrial credit project, identified by a Bank mission earlier this year and included in the FY75 lending program, has been deferred pending definition of the industrial development and export promotion policies of the new Government. The Bank believes that, given an adequate policy framework, it could effectively contribute to the modernization and expansion of efficient export-oriented and import substitution industries. In addition, this loan would help to strengthen institutions, which would provide long-term development financing to Argentine industry. If this first project proved successful, we would be prepared to make several loans for this purpose over a number of years.

cc: Messrs. Knapp  
Knox, Director, LAC Projects  
van der Heijden o/r, Division Chief, LAC II

RGonzalez-Cofino/JFajans:cf

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## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: December 4, 1973

FROM: Gerald Alter *gh*SUBJECT: Meeting of Mr. McNamara with the Ambassador of Argentina, Mr. Alejandro Orfila

*2/4*

The Argentine Ambassador, Mr. Alejandro Orfila, paid a courtesy call on Mr. McNamara on Thursday, November 29. Mr. Alter was also present. In his brief visit, the Ambassador expressed that the "new Perón" was very interested in establishing good working relationships with the international financial institutions. There was no discussion of substance, although it was indicated to the Ambassador that we were awaiting in December the Government's definition of its position on several matters.

cc: Mr. Knapp  
Mr. Wiese, Programs Director, LAC II

GAlter:pa.

President has seen

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. Gerald Alter) DATE: November 28, 1973

FROM: Gunter K. Wiese, Director, LAC II

SUBJECT: ARGENTINA: Your Meeting with Ambassador Orfila.

1. Ambassador Orfila, who is coming to pay you a courtesy call on Thursday at 5 p.m., is well known to the Washington international financial community. He was Minister in the Argentine Embassy during the Frondizi Administration in the late 1950's. In particular, the IMF had close contacts with him during that period, and he has always remained a good friend of the Fund. From 1960 to 1963, Mr. Orfila, who comes from one of the best-known wine producing families in the province of Mendoza, was Ambassador to Japan. Thereafter, he took up residence in Washington, inter alia representing Mitsubishi's interests in the United States. A curriculum vitae, supplied by the Argentine Embassy, is attached.

Recent Economic and Political Developments

2. The Government of Argentina, now headed by Mr. Peron, is preparing a Three-Year Plan 1974-1976, which should be completed by the middle of December. Its objectives are to accelerate economic and export growth, improved regional distribution of economic expansion, a considerable reduction in the inequality of the distribution of income and wealth and a sharp deceleration of the rate of inflation to some 10-15 percent per year. Argentina's balance of payments has shown a large surplus in 1973. The grain crops (mainly wheat, corn, and sorghum) have been exceptionally large, and prices have been high for both grains and meat. Exports for the year are expected to exceed US\$2.8 billion, which is an increase of over 50 percent compared with last year. In addition, the Argentine Central Bank this year has borrowed around US\$300 million from foreign commercial banks, under an agreement signed during the balance of payments crisis of 1972. As a result, Argentina's gross foreign reserves now are around US\$1.3 billion, which is the highest ever recorded. Also, since the Peronists assumed power in May, inflation has been held at zero for five months, compared with a previous rate of 80 percent per year. This has been achieved mainly by controls on agricultural and industrial prices, and by the new Government's strong influence over the labor unions. The fiscal deficit, however, remains large -- equal to about 50 percent of expenditures -- and it will be difficult to maintain price stability in 1974 without substantial progress in strengthening the public finances. Thus, the Peron Government will be faced with the need for taking a number of highly unpopular measures if it is to achieve the objectives of the Three-Year Plan. With his mandate from the voters (62 percent of the votes went to Peron), it should be possible for Peron to extract sacrifices from the people and to opt for higher economic growth and improved distribution of its benefits. It is eminently clear, however, that only Peron himself can do this, and his present poor health raises many questions about Argentina's future.

November 28, 1973

Our Relationship with Argentina

3. During the first half of November, a Bank mission headed by Program Division Chief van der Heijden visited Argentina. A beginning was made with discussions on problems affecting ongoing Bank-financed projects (in particular, the Argentine Railways Project) and with ascertaining the Government's interest in working with the Bank on new projects. While some progress was made in those discussions -- which were held mainly at the technical level -- it seems that we need confirmation at the political level that the Government of Argentina desires a close working relationship with the Bank (you will recall that Argentina only joined the Bank after Peron had been ousted in 1955). Should we receive such confirmation, we are prepared to send a small economic and operational mission to Argentina in the second half of January 1974. We would then also consider whether we should appraise the Fourth SECBA Power Project during the same month without waiting for the outcome of our discussions in January on economic policies and future Bank lending.

Attachment

cc: Messrs. Knapp  
Alter  
Calika, Assistant to the Director, LAC Projects  
van der Heijden, Division Chief, LAC II

HvdHeijden:jp

CURRICULUM VITAE OF HIS EXCELLENCY ALEJANDRO ORFILA

AMBASSADOR OF ARGENTINA

Born in Mendoza, Argentina, on March 9, 1925.

Graduated from Law and Political Sciences School, National University of Buenos Aires. Stanford University, California, on Foreign Trade, and the Tulane University at New Orleans.

- 1946 Secretary of Embassy, Ministry of Foreign Affairs, Buenos Aires, Argentina.
- 1946-1947 Secretary of Embassy, Argentine Embassy, Moscow, USSR.
- 1947-1948 Argentine Consul, Warsaw, Poland.
- 1948-1949 Argentine Consul, San Francisco, California.
- 1949-1950 Argentine Consul General, New Orleans, Louisiana.
- 1951-1952 Secretary of Embassy, Argentine Embassy, Washington, D.C.
- 1952 Resigned from the Foreign Service and became Manager of "Jose Orfila, Ltda.", Mendoza, Argentina.
- 1953-1958 Director of Information, Organization of American States, Washington, D.C..

In this post acted as advisor to several Inter-American conferences and on several occasions was OAS delegate to special meetings and conferences held in different parts of the hemisphere.

- 1958 Resigned as Director of Information of the OAS. Appointed Minister Plenipotentiary of the Argentine Foreign Service.

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1958-1960 Minister Plenipotentiary, Argentine Embassy, Washington, D.C.

Participated in most of the negotiations of the Frondizi Administration with the U.S. Government and developed an extensive public information program for Argentina in the United States, with such high lights as the visit of 28 U.S. Governors to Argentina and President Frondizi's visit to the United States.

1960-1963 Argentine Ambassador to Japan.

During his tour of duty as Argentine Ambassador to Japan, he initiated and successfully completed negotiations for five treaties between Japan and Argentina. Organized President Frondizi's trip around the world.

1963 to Present

International Consultant representing various international companies from Japan, Switzerland, Argentina and the United States.

November 1973 - Appointed Ambassador Extraordinary and Plenipotentiary of Argentina to the United States.

Decorated by the Governments of Spain, Belgium, France, Germany, the Netherlands, Italy, the Vatican, Thailand, Japan, Greece and the City of New Orleans.

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## OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: January 15, 1974

FROM: Gerald Alter SUBJECT: Meeting of Mr. McNamara with the Ambassador of Argentina,  
Mr. Alejandro José Luis Orfila

1. Ambassador Orfila, accompanied by Mr. Angel Caram, called on Mr. McNamara on Thursday, January 10. (See briefing memorandum of January 10.) Mr. Alter was also present.
2. The Ambassador expressed his appreciation for the action the Bank was taking with respect to the Highway loan. He confirmed that we shall be getting this coming week the information requested from SEGBA and the Railways. With respect to a possible new highway loan, he acknowledged that the Argentines themselves must make a decision on the relationship of the proposed highway project to the whole highway program.
3. Looking to the future, he said that he had an opportunity recently to consult with Minister Gelbard about the relationship between the World Bank and Argentina. Speaking for President Perón, Minister Gelbard and the whole economic team, he wished to convey their very strong interest in working closely with the World Bank. They would hope to obtain the Bank's collaboration in many sectors, including large electrification projects, railways, industry, agriculture and transportation. He was very happy that the Bank was sending economic and operational missions to Argentina. He hoped that the Bank would appreciate that Argentina faced an image problem in the outside world. With all the changes in Cabinet Ministers over the past few years, there had arisen a view of Argentina as being highly unstable. They were trying by their own actions to change this image and they felt that international institutions could play an important role. They hope to receive a bill of good health from the IMF under special arrangements now being discussed with that institution. They had also negotiated a package deal with the IDB. They very much hoped that after the missions of the World Bank have completed their work, the World Bank will be able to indicate that we were prepared to lend from US\$300 to US\$350 million per year. They would like some kind of an understanding with the World Bank on its intentions.
4. Mr. McNamara expressed his pleasure that the Argentine authorities wanted to work closely with us. It had been some time since we had been able to do anything in Argentina, and we had every intention of strengthening our relationship. He would expect that in the beginning stages of this relationship, we would have to concentrate on reaching agreement on near-term matters. As we proceeded, we could look further ahead.
5. The Ambassador did not press his plea for an understanding on lending levels for the next few years. On instructions from his Government, he did mention the strong interest of the Argentine authorities in Uruguay's Palmar project. Argentina is prepared, he said, to use any surplus power that might be generated at Palmar.

cc: Mr. Knapp  
Mr. Knox, Projects Director, LAC  
Mr. Wiese, Programs Director, LAC II  
Mr. van der Heijden, Division Chief, LAC II

President has seen

GAlter:pa.



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. Gerald Alter) <sup>gsh</sup> DATE: January 10, 1974

FROM: Gunter K. Wiese, Director, LAC II

SUBJECT: ARGENTINA: Your Meeting with Ambassador Orfila

1. Ambassador Orfila, who will call on you today at 4:40 p.m., has just returned from Trinidad where he met Argentina's Economy Minister Gelbard. The purpose of his call on you, we understand, is to convey to you a message from Minister Gelbard that the Argentine Government is interested in working closely with the Bank in the execution of Argentina's Development Plan 1974-77, which has just been completed. This would mean that we would receive political confirmation of such interest that had already been expressed by functionaries at the working level.

2. A small economic mission will initiate the analysis of Argentina's Development Plan this coming week in Buenos Aires. We have just received a summary of that Plan, which emphasizes accelerated economic growth (in particular agriculture and industrial exports) and improved distribution of its benefits. It also emphasizes investment in energy, steel and housing. In order to finance the substantial investment increase, domestic savings are planned to rise considerably through increased taxation and programs for increasing private savings. The latter is to be facilitated by Government programs to decelerate inflation and the introduction of positive rates of interest. Essentially, the Plan would continue policies already in effect: During its seven months in office Argentina's tax burden has already been increased significantly, inflation has been reduced to almost negligible levels and a firm incomes policy is being implemented. Much of what has already been accomplished is, of course, due to the presence of General Peron, who has been capable of capitalizing on the overwhelming support which he received during the elections of a few months ago. Obviously, President Peron's advanced age and reportedly poor health raises many questions about the future of Argentina's economic policies. These questions would be explored in more detail by the economic mission, as well as by Mr. Alter who plans to visit Argentina during the last week of the economic mission's stay in Argentina, i.e. during the second week of February.

3. As a practical demonstration of the Government's interest in working with the Bank, we will receive some time next week detailed proposals regarding the financial and technical rehabilitation of the Argentine Railways. In the light of these proposals, we will then decide on the future of the US\$84 million loan to the Argentine Railways of which only US\$9.9 million has been disbursed and whose closing date expires as of April 30, 1974. Second, next week we should also receive the financing proposals underlying the Fourth SEGBA project. It should then be possible to decide upon sending an Appraisal Mission in February as the Government has requested. You will recall that the Lending Program for FY74 included US\$60 million for the Fourth SEGBA project, as well as US\$50 million for the Fourth Highways project. The Government

President has seen

Mr. Robert S. McNamara

- 2 -

January 10, 1974

has not yet decided upon the priority of the latter project. The delay in such a decision, as well as the delay in appraising the SEGBA project, which earlier had been scheduled for January means that it is highly unlikely that any of those two loans would be presented to the Board in the course of this fiscal year. This would mean a third year of no lending to Argentina. At the time of Mr. Alter's visit, we plan to initiate discussions regarding a new operations program for Argentina.

cc: Messrs. Knapp  
Alter  
Knox, Director, LAC Projects

HvdHeijden:cf

## OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: January 23, 1975

FROM: Gunter K. Wiese

SUBJECT: Call on Mr. McNamara by Argentine Minister of Finance on January 17, 1975

1. Mr. Gomez Morales, Argentine Minister of Finance, called on Mr. McNamara from 5:00 to 6:00 PM. Since Mr. McNamara was delayed at another meeting, Mr. Knapp received the Minister until Mr. McNamara joined at 5:35 PM. Mr. Barrios Tassano, Executive Director for Argentina, also joined at that time. Bank staff present during the entire conversation were, in addition to Mr. Knapp, Messrs. Alter, Wiese and Cabezas (interpreter). The Argentine delegation accompanying the Minister consisted of the Ambassador to the United States, Mr. Alejandro Orfila; Mr. Caram, Financial Attache at the Washington Embassy; and Mr. Bauer from the Ministry of Finance. Also present during the entire time was Mr. Sojit, Argentine Alternate Executive Director.

2. After the usual exchange of courtesies, the Minister started by informing Mr. Knapp that the increase in the tariffs charged by SEGBA would soon be effected. While the exact date of the rate increase had not yet been decided, it was likely going to be February 7. The increase would be sufficient to restore SEGBA's rate of return to the statutory 8 percent level. The Government will soon send a letter to the Bank spelling out the details of the rate increase. Mr. Knapp congratulated the Minister on the proposed rate increase and said that we would, of course, examine carefully the information contained in the forthcoming letter. If we considered it satisfactory, Mr. Alter added, we would hope to be able to present the loan to the Bank's Executive Directors before the end of the current fiscal year. The Minister seemed pleased.

3. The Minister went on to inquire about the proposed highway loan and noted with satisfaction that appraisal of the project was scheduled for April of this year.

4. The Minister then presented the Government's proposals for Bank financing of projects subsequent to the proposed highway loan. He stated that the Government would be interested in obtaining Bank financing for the following projects:

(a) Storage

The Government would soon present the Bank staff with details of the project. This project, in the opinion of the Government, had top priority, both from the point of view of developing backward regions of the country and of the need to expand agricultural exports. It was estimated that it would take three years to complete the project.

(b) Yacerita Apipe

This large hydroelectric development on the border with Paraguay, in the Minister's judgment, also commands high priority because of the need to substitute other sources of energy for petroleum. The location of the project in the northern and most underdeveloped part of the country further enhanced the project's justification. He spent several minutes describing the depressed state of the economy in the northern provinces and the Government's energetic program to improve the situation. The project would draw construction labor largely from these provinces and would thus help in achieving further pacification of this politically restless area. Another attractive aspect was that the project would be executed jointly with the Government of Paraguay. The Government was therefore appealing to the Bank for substantial help in the financing of the project.

(c) Livestock

Finally, the Government was keen on having a follow-up operation on the Bank loan made a few years ago for the Balcarce project.

5. In reply to the loan requests presented by the Minister, Mr. Knapp briefed the Minister on certain recent tendencies in the Bank's operations. First, attempts were being made to direct lending away from infrastructure, particularly in higher income countries, and to concentrate on lending for the productive sectors, particularly agriculture. Second, there was a tendency to concentrate operations on the poorer countries and on the poorer regions inside member countries. Finally, certain important member countries of the Bank, particularly the United States, were pressing the Bank's management to sharply reduce or even terminate Bank lending to higher income countries such as Argentina. The Bank's management continued to feel that the Bank still had a lot of work to do in Argentina but, in the circumstances, it seemed advisable that most Bank lending subsequent to the SEGBA and highway projects be concentrated on agriculture, be it for the production or the transport or the storage of agricultural commodities. This proposed emphasis on agriculture was particularly called for in the light of world-wide priorities to produce more food. Mr. Knapp referred to the recent creation of a Consultative Group for higher food production which had been formed by the Bank, the UNDP and the FAO. It was the Bank's intention to increasingly support the activities of this Group by applying Bank resources to projects promoted by the Group. The Bank's lending for the agricultural sector in Argentina had in the past been limited to one livestock project, but he hoped that it would be possible in the future to broaden the Bank's participation in Argentina's agricultural development. In contrast with this, the Bank would have difficulties in making a loan for the aforementioned large hydroelectric project. While the project would unquestionably require very large amounts of financing, they should be provided from other sources. Substantial efforts should be made to raise much of the needed funds from domestic savings. For this reason, the Bank had always encouraged the Government to allow the power companies to charge tariffs high enough to enable them to finance a substantial portion of their large expansion programs from their own resources. The remaining financing required should be easily

available on acceptable terms from suppliers and in the private international capital markets. While the Bank would certainly not want to give the Minister a definite answer at this time to the question of a Bank loan for Yacerita Apipe, the most to be expected was that the Bank would perhaps favorably consider a small catalytic loan so as to help along the creation of a feasible financing plan for the project which might involve many different parties. At this point, the Minister intervened to express his views that Bank participation in such a financial consortium would indeed have an indispensable catalytic effect.

6. Mr. Alter emphasized that there was need for deeper conversations and considerable interchange of views on the amount and composition of Bank lending to Argentina after consummation of the SEGBA and highway loans. He referred to the balance of payments projections contained in the Bank's last economic report on Argentina on which the Government's comments had just been obtained and which would soon be released to the Bank's Executive Directors. The projections in question envisaged a progressive tapering off of Argentina's external capital import requirements. This unquestionably would seem to have implications for the amount, phasing and composition of the Bank's financial contribution to Argentina's development. The Minister agreed that Argentina's external capital requirements would soon start tapering off as envisaged in the Bank's report and the country's official 5-year development plan. The execution of this plan was aimed at precisely this objective. Nevertheless, until the completion of the plan, Argentina's capital import requirements would remain comparatively high and hence his appeal for substantial financial support from the Bank. After some further discussion (supplemented and confirmed by a further conversation between the Minister and Mr. Wiese right after the meeting), it was agreed that a small Bank mission would visit Argentina during the first half of February to discuss the Government's proposals for future Bank lending. Arrangements for the mission should be made through the Argentine Alternate Executive Director. The Minister added that during these discussions the Government representatives would take the view that agricultural development unquestionably should receive top priority, but that this would require a substantial simultaneous expansion in infrastructure.

7. At this point, Mr. McNamara joined in the conversations and Mr. Knapp summarized for him the preceding discussion. Ambassador Orfila asked whether Mr. McNamara would consider it advisable for Argentina to exert pressure on the United States to refrain from pushing for restrictions on Bank lending to high income countries like Argentina. In reply, Mr. McNamara stated that he would not consider it useful for one country to bring pressure to bear on one single other country; in the long run, such pressure was likely going to be counter-productive. He would, however, consider it advisable for one group of

countries to make representations to another group. He referred to the critical meeting of the Executive Directors scheduled for January 21. He added that he was opposed to any rigid test for phasing member countries out of our lending programs; that, although the Bank was always happy to see its borrowing members graduate, in the past we had continued to make some loans to countries with high per capita income, as had been the case of Iceland and Finland, where certain extenuating circumstances existed. The Minister seemed pleased by Mr. McNamara's statements. He then referred to the fact that Argentina had a more equal distribution of personal income than many other countries; its main problem in the distribution field was the existence of certain highly backward regions, mostly in the north of the country. He expressed hope that the current development plan and execution would vigorously address this problem and produce major achievements. He ended by repeating his appeal to the Bank for substantial financial support during the next five years while this plan was under execution.

cc: Mr. McNamara's Office ✓  
Mr. Knapp  
Mr. Alter  
Mr. Knox, Director, Projects, LAC  
Mr. Leibert, Division Chief, LAC II

GKWiese:mr



## OFFICE MEMORANDUM

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

FROM: Gerald Alter *HA*

SUBJECT: ARGENTINA - Meeting of January 17, 1975 with  
the Minister of Economic Affairs

DATE: January 15, 1975

We have attached a Briefing Paper for your 5.00 p.m., January 17 meeting with Minister Gomez Morales. The Minister prefers having an interpreter present. Mr. Fernando Cabezas of our Legal Department will be able to serve as interpreter.

cc: Messrs. Wiese, Director, LAC II  
Knox, Director, LAC Projects  
Geli, Asst. Director, LAC Projects  
Lehbert, Division Chief, LAC II  
Dickenson, LAC Projects  
Cabezas, Legal

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 15, 1975

FROM: Gerald Alter *GA*SUBJECT: ARGENTINA - Briefing Paper for Meeting of January 17, 1975  
with Dr. Alfredo Gomez Morales, Minister of Economic Affairs  
to Discuss Bank/Argentina RelationsI. BACKGROUNDPresent Political Situation

1. Since Peron's death on July 1, 1974 and the assumption of the Presidency by his wife, Argentina's political situation has been characterized by an uneasy truce between diverging interests of different political factions. Despite the declaration of a domestic state of siege and the imposition of expanded police powers, the Government has thus far been unable to effectively halt the acts of political assassination, violence and counter-violence committed almost daily by political extremists, of which the military has been a particular target. The patience of the military is not inexhaustible, and should the pattern of violence further escalate, the reimposition of military rule remains a possibility. Meanwhile, however, Mrs. Peron, with the assistance and advice of her Minister of Social Welfare, Rega Lopez (the former personal secretary of General Peron) retains her hold on power more tenaciously and with more skill than many initially believed would have been possible and is introducing increasingly stern measures against extremist activities. The political support she has received from various factions has been enhanced by the realization that, should her Government and the constitutional process fail, the likely successor Government would be one which would severely curb political activity to the detriment of most political factions. In summary, it remains difficult to predict the possible course of political events in Argentina.

Recent Economic Developments

2. In spite of political uncertainties and violence, 1974 was a favorable year for the Argentine economy and GDP growth probably exceeded the almost 5% real growth rate achieved in 1973. With the exception of beef exports, against which the Common Market imposed severe restrictions last March, the favorable export performance is largely due to the excellent prices received for agricultural exports, particularly grains. Although we do not have final figures, fiscal performance in 1974 does not appear to have been better than 1973. However, the 1975 budget prepared by Minister Gomez Morales and recently approved by the Argentine Congress proposes to reduce the budget deficit. The public sector continued to borrow substantially from the Central Bank in 1974, so that monetary expansion was above its original limit of 35%. This in turn continues to result in pressures on prices and wages, which are controlled. Despite these controls, prices rose almost 40% in 1974 and the Government now hopes to restrain price increases to 30% in 1975. Shortages and black markets have developed in controlled goods and the private sector, affected by price controls and shrinking profit

margins, has cut back investment. The present Government understands and is aware of the need to institute corrective monetary and fiscal measures and has prepared an austere budget for 1975. Its ability to undertake these measures will be challenged by the often conflicting demands of its other policies regarding full employment, a more equal income distribution and improvements in social welfare.

### Bank/Country Relations

3. The last Bank loans to Argentina were made in FY71. In the subsequent years, our relationship with Argentina deteriorated, first because of frequent changes in military governments and the declining quality of their economic management. Later on, the slow and painful transition from military rule to civilian government and the eventual return of Mr. Peron totally absorbed the attention of top officials in Buenos Aires and the dialogue between the Bank and the Government practically came to a standstill. In addition, some elements of the Peronist movement had retained their distrust of international financial institutions and thus, initially at least, the new Government showed little interest in doing business with the Bank. Over the past six months this attitude changed and the Bank, at the request of the Government, sent a mission to Argentina last September to appraise a fourth project, which had been in our lending program for several years, for SEGBA, the Government owned electric power company for Buenos Aires. At the last annual meeting, the head of the Argentine delegation and the then temporary head of the Central Bank, Mr. Hernan Aldabe, advised us of the interest of his Government in also obtaining a Bank loan for a fourth highway development project, another project which has been in our lending program for some years, and we have scheduled a mission to appraise the project in April. Other possible projects that were mentioned by the Argentine delegation were for grain storage and export oriented livestock and agricultural development. Subsequent discussions with lower level Ministry of Economy officials have indicated that the Government also attaches a high priority to obtain the Bank's and other institutions' help for financing a hydroelectric project on the border with Paraguay, which has an estimated total cost of US\$2.5 billion. We have made the Government aware that the Bank's lending program to Argentina can be expected to continue only for a limited period, because Argentina's GNP per capita is relatively high and the country can be expected to become independent of concessionary external capital inflows in the medium term if present world market conditions and prices prevail. A draft Bank economic report was sent to the Government on November 7, 1974 for comment. Although we have not yet received the Government's official comments, we understand that it is basically in agreement with the Bank's analysis.

## II. SUBJECTS FOR DISCUSSION

### Renewed Contact

4. A principal reason for requesting the meeting is the Government's desire to renew contact with the Bank at the highest level and to express its

strong interest in renewed borrowing. We therefore anticipate that the Minister will wish to explain Argentina's economic position and policies and advise the Bank about its borrowing priorities over the next several years.

#### Economic Policy

5. We should inquire about how the Government intends to cope with the rising pressure of inflation and perennial budget deficits, if this issue is not adequately covered in the discussion on general economic policies.

#### Lending Program

6. Our approved lending program was set at a \$100 million level for the next four years and a cessation of lending after that period. At present, our lending program has a project content only for FY75 and FY76. During the current fiscal year, we hope to present to the Executive Directors a \$115 million fourth loan for the SEGBA power company. As regards FY76, we have been authorized by the Chairman of the Loan Committee to proceed with a fourth highway loan in the amount of \$80 million. Minister Gomez Morales will likely ask you about the status of the foregoing projects. Our problems in respect of the proposed SEGBA loan are set forth in paragraph 7 below. As regards highways, we are planning, as noted in paragraph 3, to dispatch an appraisal mission in April of this year. No other projects are in prospect which could be ready for Board presentation before the end of FY76. Looking beyond, as indicated in paragraph 3 above, we have had difficulties so far in establishing a dialogue with the Argentine Government on the project content of our lending in FY77 and subsequent years. Indications now are that Minister Gomez Morales may stress the interest of his Government in an export-oriented grain storage project, in the large hydroelectric project referred to in paragraph 3 above, as well as in an export-oriented livestock and other agricultural credit project. We recommend that in response you suggest to the Minister that he arrange for further discussions between his staff and the Bank staff on the project content of Bank lending in FY77 and later. At the time of the last CPP review, we expressed a preference for progressively orienting our lending to Argentina to supporting projects which would accelerate Argentina's movement toward independence from external capital inflows. One of the three projects referred to in the foregoing, i.e., the hydroelectric project on the border of Paraguay, does not seem to meet this criterion. On the other hand, we are fully aware that the agricultural credit project or a conceivable additional loan for an industrial export project may confront us with insurmountable issues in respect of negative interest rates and other subsidies. Moreover, the foreign exchange content of these two projects may prove to be exceedingly low. We may therefore be forced to accept a continuing heavy infrastructure orientation of our lending to Argentina if we want to avoid a cessation of Bank lending before the end of the decade. We need further discussions with the Argentine authorities on this subject before making final recommendations.

#### Electric Power Rates

7. The Government's failure to increase power rates is the key issue holding up our further processing of the proposed \$115 million fourth SEGBA project. SEGBA has not been able to raise rates to earn the 8% on its rate

January 15, 1975

base permitted by its concession over the last five years. For example, in 1973 it only earned 0.6%. Preliminary results for 1974 indicate that operating expenses probably exceeded operating revenues. Although SEGBA's concession provides for periodic rate increases when key costs rise, the Government, in the context of its policy of price control, has not permitted such increases to occur. We have advised the Government on several occasions that we cannot proceed with the loan until rates have been increased sufficiently to permit an 8% rate of return and we are persuaded that the Government intends in the future to follow the current provisions of the SEGBA concession. Lower level Government officials advised us that a rate increase might be combined with a 15% wage increase last November, but the rate increase was deferred. Subsequently we were advised that an increase could be expected at the beginning of January after the annual wage bonuses had been granted, but again, no increase in tariffs has as yet been announced. We believe that SEGBA's low rates encourage an uneconomic use of electric power and cause further financial difficulties which will eventually have to be cured by transfers from the Government, thereby aggravating the Government's difficult fiscal position. We therefore recommend that you advise the Minister of our disappointment in the Government's failure to follow an economically sound rate policy and the inability of the Bank to continue its consideration of the project if measures are not taken to put SEGBA's finances on a sound footing.

### III. BIOGRAPHICAL

8. Dr. Alfredo Gomez Morales: (Economist, about 66 years old) President of the Central Bank and Minister of Economic Affairs under the Peronist Government which ended in 1955. He is considered to be the most brilliant economist of the Peronist "Old Guard". After 1955 he worked as a private consultant and as administrator of a large agricultural concern. Upon Peron's return to power in 1973 he was appointed President of the Central Bank. In September 1974 he resigned his position as President of the Central Bank after an alleged disagreement with the then Minister of Economic Affairs, Jose Gelbard, over monetary policy. At the time Mr. Gelbard was pressing for a more expansionary monetary policy, while Dr. Gomez Morales was known to favor restrictive anti-inflationary monetary and fiscal policies. Unexpectedly and within weeks after Dr. Gomez Morales' resignation from the Central Bank, Mr. Gelbard resigned as Minister of Economic Affairs and was replaced by Dr. Gomez Morales in October 1974.

9. We understand that the following persons will be travelling to Washington with the Minister and one or more of them may accompany him to his meeting with you:

|                       |   |   |
|-----------------------|---|---|
| Dr. Horacio Alonso    | - | Manager, Central Bank   |
| Dr. Teodoro Fernandez | - | Director of Political Economy and External Finance, Ministry of Economy |
| Dr. Saul Bouer        | - | Director of International Organizations, Ministry of Economy            |

#### Attachment

cc: Messrs. Wiese, Director, LAC II  
Knox, Director, LAC Projects  
Geli, Asst. Director, LAC Projects  
Lehbert, Division Chief, LAC II  
Dickenson, LAC Projects  
Cabezas, Legal





## OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORDS

DATE: June 18, 1976

FROM: Gunter K. Wiese, Director, IAC II

SUBJECT: ARGENTINA - Visit of Minister of Economy,  
Mr. Jose Martinez de Hoz

1. On June 16, 1976 the Argentine Minister of Economy, Mr. Jose Martinez de Hoz, called on Mr. McNamara. The Minister was accompanied by the President of the Central Bank, Mr. Adolfo Diz, the new Argentine Ambassador to Washington, Mr. Alberto Musich, and Mr. Dante Simone, Economic Counselor at the Argentine Embassy in Washington and Argentine Executive Director designate at the IMF. Bank staff present were Messrs. Knapp, Krieger and the writer.
2. The Minister began with a description of the chaotic economic circumstances preceding the recent change in the Government of Argentina. Inflation was approaching an annual rate of 1000% (see briefing for the meeting). He emphasized that the military takeover had been greeted by almost the entire population, including some parts of the Peronist movement, with a sigh of relief. During the years of the Peronist Government, and inspired by economic and political developments in neighboring countries, particularly in Peru and Chile, the military leaders had gradually developed a strong economic philosophy favoring the re-creation of a relatively free market economy and a disciplined and efficient management of the public sector. To be sure, the road to success would be long and arduous, but in the first 2-1/2 months of its tenure the Government had already started to vigorously tackle most of its problems. The major remaining problem was the elimination of the budget deficit and this might well take 3 years to accomplish. Nevertheless, he expected the Treasury deficit during the second half of this year to come down to an annual rate of 7% of GNP, as compared to 13% in the preceding year.
3. The key elements in the Government's economic strategy had been a deliberate reduction in real wages during the first few weeks of the Government's tenure. This reduction may be as much as 20% and was achieved by eliminating price controls and discontinuing the indexing system for wage adjustments. The Minister conceded that the social costs caused by a spreading recession had been high, but this action had been politically beneficial in terms of demonstrating to the country the urgent need to tighten the belt. He observed that one of the problems of Argentina in the past had been that the country possessed such a rich resource base that it could survive numerous bad mistakes in economic management without producing the political change which in other less wealthy countries would have been the automatic consequence. In any event, the sharp shock-treatment phase of the first 3 months of the new Government would now be followed by a more gradual course of action. From this point on the Government would not wish to further reduce real wages. It would also wish to begin reversing the declining trend in economic activity (the GNP for 1976 is estimated to fall by 5%). By the end of the year the Government expected the inflation rate



to be less than 5% per month as compared with almost 40% shortly before the Government change. He recognized, however, that reducing inflation below 5% would be hard to achieve. Many public sector prices were still artificially low and they would have to be raised to realistic levels. This would be a steady source of upward pressure on prices.

4. Mr. McNamara commented that the success of the Government's economic program would in large measure depend upon its ability to keep real wages down. He enquired about the present attitude of labor unions and their willingness to cooperate with the Government. In reply, the Minister described in detail the corruption that pervaded the Argentine union movement prior to the military takeover. He stated that the Government was trying to rebuild the union leadership and that he expected these efforts to be successful. At least for the time being the Government has the full cooperation of almost all the workers. Mr. McNamara observed that for this support to continue, labor leaders would have to be convinced that the entrepreneurial sector of the society was not taking undue advantage of the present ceiling on real wages. The Minister pointed out that the Government had indeed on many occasions urged the leaders of the business community to restrain themselves in setting the prices of their products, from which by now all controls had been removed. The Government had also suggested to the industrial community that they build their profits gradually and channel these into high priority investment programs. He expressed confidence that industrial and commercial enterprises could be induced to exercise restraint.

5. The Minister characterized the economic situation as showing great variations between productive sectors. The new oil program had created a mini-boom in certain regions. The agricultural sector was responding vigorously to the recent move in the exchange rate. On the other hand, construction activities were exceedingly slack. The Government was hoping that international long-term credit would soon find its way into the country to enable the Government to re-start major construction programs which had recently come to almost a standstill. Meanwhile, the Government was urging industrial leaders to keep people on their payrolls during the next critical 6 months even though the enterprises were working far below capacity. This was necessary to avoid a further spreading of the recession. He was happy to report that the industrial response to the Government's pleas had been highly encouraging.

6. Summing up, the Minister pointed to what he considers to be the strongest basis of the present Government, i.e. the unity of view among the military leaders and the full support they gave to the economic team.

7. There followed a discussion of the extent to which recent developments in Argentina could be compared with Chile. Reference was also made to the large number of political refugees in Buenos Aires (around 10,000). The Minister added that some foreign observers had commented on what they called an apparent lack of adequate protection for these refugees. The Minister explained that the Government, as is traditional in Latin American countries, had readily granted asylum rights. It was, however, difficult to assure all of them of absolute security when the rest of the population was threatened daily by guerilla attacks.

The Government had invited a number of European countries to consider receiving some of these refugees. Their presence in Argentina created a recruitment reservoir for the underground movements. The Minister went on to describe the history and present status of terrorist activities and concluded that these activities were very much reduced and suppressed. Nevertheless, the terrorists had the advantage of extreme mobility and could strike at any time, at any point, over an area too large to lend itself to really intensive police control.

8. Mr. McNamara stated that the new Government had indeed a remarkable story to tell. Unquestionably, the Bank would like to support the Government's efforts which fully met our assistance standards. He enquired whether the Government had any specific ideas about the form that Bank assistance should take. In reply, the Minister pointed out that Bank loans were important for Argentina for two reasons. First, they would help to start projects which were badly needed to reactivate economic activity; and second, they would have a tremendous impact on the confidence of the international financial community in Argentina. In particular, the Government would highly appreciate the Bank's moving forward rapidly with the proposed loans for Segba and the highways. In addition, the Government would like the Bank to initiate active project processing in the fields of agricultural storage, industrial exports and agricultural credit. He understood that the recent Bank mission had already had some initial conversations on potential loans for these sectors. Mr. McNamara replied that he indeed agreed with the need to rebuild confidence in Argentina's economic prospects. He suggested that a statement be drafted, which either he or the Minister or both together would make, the text of which would be distributed to the press. The statement would say that the Bank wished to support the efforts of the new Government and was planning to soon resume its lending operations in Argentina after a six-year hiatus. For that purpose, a number of Bank missions would soon be visiting Argentina to identify and appraise high priority projects. Mr. McNamara emphasized strongly that Bank financed projects would have to be of high quality and address themselves to unquestionable priority needs. In this respect, he had some doubts about the present highway project. During the ensuing discussion, however, it was clarified that the roads likely to be included in the proposed highway project would carry a substantial portion of the existing and future export traffic. Mr. Wiese expressed his expectation that the highway project might well reach the Board only after the aforementioned power loan. Mr. McNamara then informed the Minister that the Bank would give high priority to carrying out the necessary project work. He re-emphasized that the projects had to be sound. He referred to the fact that Bank loans to Argentina would have to be presented in a new environment. From here on the Bank had to operate in a framework of intensive constraints on its loanable resources. Argentina's per capita income was high and this would lead to the Directors' examining loan proposals more critically than might otherwise be the case. The Minister replied that he was aware of the need for strict project standards, but he was confident that Argentina would be able to meet them. He again stressed the need to have the support of the Bank in order to rehabilitate the disrupted economy, in the same manner as the Bank in the past had extended its financial help to several other important countries in the world when they were emerging from economic chaos.

In particular, he referred to the rapid pace at which the Government was increasing public utility rates. In the case of electric power for example, the Government was now raising rates by 15% every month and an additional 20% increase would be made effective on July 1st. He was hoping that this would lead to an economic level of power tariffs in the near future. In respect of per capita income, he pointed out that Argentina had regional pockets of considerable poverty. More important, however, was the fact that the computations of Argentina's per capita income were usually grossly distorted by the fact that they used unrealistic exchange rates.

9. The meeting ended with the Minister's expressing his hope that Mr. McNamara would soon be able to meet President Videla in Argentina. He expressed confidence that Mr. McNamara would be much impressed by the well balanced personality of the new President.

cc: Messrs. Burmester  
Knapp  
Krieger  
Baum  
Broches  
Cargill  
Chenery  
Adler  
van der Meer  
Lehbert

GWiese:slb:jbv

# OFFICE MEMORANDUM

TO: Messrs. McNamara and Knapp

FROM: Mr. Krieger *[Signature]*

SUBJECT: Argentina - Your 6:00 p.m. meeting with the Minister of Economy, Mr. Martinez de Hoz

DATE: June 16, 1976

*6/16*

Please find attached a memorandum dated today from Mr. Wiese which summarizes recent developments in Argentina and the prospects for Bank operations in that country. Mr. Wiese makes certain recommendations on what you may wish to tell the Minister. I fully support these recommendations.

Attachment

cc: Mr. Chenery

*[Signature]*

## OFFICE MEMORANDUM

TO: Mr. Adalbert Krieger

FROM: Gunter K. Wiese, Director, LAC II

SUBJECT: ARGENTINA - Briefing for your meeting with Mr. Martínez de Hoz  
on Wednesday, June 16, 1976

DATE: June 16, 1976

Background

1. It is difficult to overestimate the degree of damage suffered by the Argentine economy during the final months of the Peronist era. During the Presidency of Isabel Perón the country was virtually leaderless. The President was isolated by her advisors, unaware of the turbulent events surrounding her. The Congress was in total disarray and the military sat on the sidelines watching the developing power vacuum, waiting for the situation to deteriorate to the point where it would no longer be accused of usurping power. With unbridled, irresponsible unions, encouraged by demagogic leaders, and highly protected, oligopolistic industry engaged in a struggle over wages and prices, with total lack of monetary control and fiscal discipline, the country spiralled toward hyperinflation and a balance-of-payments crisis. When the military finally took control on March 24, 1976, inflation was approaching an annual rate of 1,000% (wholesale prices increased 916% between April 1975 and April 1976) and liquid foreign exchange reserves were down to US\$2 million. The seriousness of the deterioration of the economy is perhaps best summed up in the fact that the 1975 Treasury deficit was equal to three-fourths of expenditures, or more than 12% of GDP, a level unsurpassed even in Chile under Allende.

2. Before taking power, the Armed Forces asked several leading economists to present outlines of an economic program so that they (the Army, Navy and Air Force) could reach agreement among themselves on an economic philosophy and a general course of action before taking the reins of government. The military was very interested not to have the type of internal dissention and/or one-man rule which had frustrated military governments in the past. The program agreed upon was that submitted by Mr. José Martínez de Hoz, who became Minister of Economy. It should be emphasized that the program presented by Martínez de Hoz was an outline of his economic philosophy rather than a specific plan of action or an enumeration of measures or targets. The philosophy outlined is one which can be broadly classified as economic liberalism, i.e. a moving back from the nationalist-statist-populism which characterized Peronism to a more market -and private sector- oriented approach. The core of this approach involves removing price controls, reducing state payrolls, eliminating export duties, restoring prices of publicly produced goods and services to economic levels, reducing the role of state enterprises, simplifying the exchange and payments systems, and encouraging foreign capital inflows, including direct investment. Important measures being taken include expanding the role of domestic and foreign private firms in the oil industry, eliminating state intervention in the commercialization and financing of grain exports and returning previously nationalized industrial firms to private ownership.

The Government's Program

3. The first phase of the government's program was designed to break inflationary expectations and to avoid immediate cessation of international payments. Its first actions were to eliminate all price controls in the private sector while permitting a relatively small increase in nominal wage rates. This resulted in a sharp surge of corrective price movements and a steep decline in real wages (in the order of 15-20%), reducing effective demand. To stop the skyrocketing "free market" exchange rate, an important factor in inflationary expectations, indexed peso-denominated government bonds were issued and more export transactions were put in the free market. In addition, the government arranged US\$300 million in new short-term financing from US and European banks plus an automatic six months extension of all public sector external debts to these banks over the next six months. This resulted in a sharp drop in the free exchange rate. The combined effect of the drop in the exchange rate and the decline in real wages was a deceleration of inflation to about 13% in May (cost of living) compared to over 30% in the preceding two months. The government's target is to have the monthly rate of price increases down to 3-4% by year end.

4. The second phase of the stabilization process calls for a reduction of the budget deficit to more manageable proportions and corrective adjustment of prices of publicly produced goods and services. The major constraints on the government's freedom of action are (a) that it is now committed to maintaining the (considerably depressed) level of real wages; (b) it does not wish to provoke a more serious recession than already exists (GDP will shrink by 4-5% in 1976 with the employment-intensive manufacturing and construction sectors suffering the most precipitous declines); (c) it is fearful of precipitating a resurgence of inflationary expectations. The government has therefore moved into a more gradual phase of the adjustment process. It is moving badly lagging public utility tariffs\* in monthly and additional quarterly steps and is gradually adjusting fuel and other key prices in nominal terms, depending on continued deceleration of inflation to bring about the required real increases in other prices over time.

The Fiscal Situation

5. The major factor determining whether the government will be able to sustain the deceleration of inflation is the fiscal situation. It will take some time for the government to prepare a comprehensive restructuring of the tax system and to improve the badly debilitated administrative structure. In the short run, therefore, the government will have to rely on reduction of the public sector's wage bill to reduce the deficit. While the government has decided in principle to fire 70% of the 300,000 employees added to the public payroll in the last three years, it is moving slowly on this because unemployment is already serious. It thus appears that public sector wage levels will have to remain severely depressed if the

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\* The price of power for example was about 40% of its 1960 level in real terms in May 1976.

budget deficit is to be substantially reduced. Nevertheless, the government has put together a tax package which would raise revenues by about 2.5% of GDP in 1976 and is committed to taking additional measures in July which will raise taxes equivalent to 1% of GDP in the second half of 1976. It is also preparing a strong revenue package for provincial governments and has adopted a comprehensive schedule for adjusting prices of publicly produced goods and services. These measures should permit reduction of the Treasury deficit to a target of 5% of GDP (on an annual basis) in the second half of 1976, compared to over 12% in 1976. Since this target is highly ambitious, the actual outcome, however, is likely to be somewhat less favorable.

6. The risk implicit in this program is that the size of the fiscal deficit may still not be consistent with a monetary program which would reduce inflation to the government's target of a 50% increase in prices in the second half of 1976 without squeezing credit to the private sector to the point of exacerbating recessionary pressures. At the same time upward adjustment of lagging public sector prices and increases in indirect taxes will tend to further reduce real wages. The government can be expected to be under continued pressure from both labor and industry to relax its stabilization program.

#### Balance of Payments

7. The brightest side of the Argentine picture is the balance-of-payments. Unlike the Chilean case, the Argentine economy has, in the past, proven to be quite resilient because the agricultural sector is capable of very great production responses in a short period of time. At present markets for grain exports are good and prospects for beef are improving. Early indications are that wheat planting is proceeding at a record pace. Imports are under fairly strict control and, with depressed economic activity, demand is modest. The trade picture therefore looks quite favorable for 1976 and 1977. Some debt relief has been obtained and there is evidence that Argentine capital held abroad is slowly flowing back into the country. Gross foreign exchange reserves have risen by over US\$200 million in the last few months and the danger of a balance-of-payments crisis seems to have passed.

#### Relations with IMF

8. The Argentine authorities have asked the IMF for a Stand-By arrangement into the second credit tranche. The Minister of Economy feels that reaching such an agreement will help in negotiations with US and European banks from which he hopes to obtain about US\$1 billion. These funds are not required for immediate balance-of-payments relief but will be used as a reserve. It now appears likely that agreement will be reached with the IMF which will permit drawing approximately SDR 200 million; the first credit tranche of SDR 160 million and SDR 40 million from the second tranche. Second tranche drawings would become available after fiscal, monetary and balance-of-payments ceilings in the program for December 31, 1976 are met. A Fund mission will probably return to Argentina in the next few weeks to review details of the monetary program and the new fiscal measures.

Conclusions

9. The present government has a difficult task on its hands. Stabilizing the economy will require a prolonged period of holding down real wages (which have fallen 15-20%) and of recession (economic activity is already down 5-10%) during which social pressures are bound to increase. At the same time, it will have to make a major effort to put public sector finances in order. The failure to accomplish this has been the major cause of the breakdown of past stabilization efforts. It must be strongly emphasized, however, that on the positive side, the military government seems extremely cohesive and the economic team enjoys its full support. In addition, the populace seems, because of its tiredness with economic chaos and political strife, ready to endure greater sacrifices than it has in the past. Finally, the country is enjoying greatly improved balance-of-payments prospects. The Argentine economy has in the past shown itself to be very resilient. The agricultural sector in particular, is capable of very strong output response in a short period of time. Preliminary evidence indicates, for example, that planting of the new wheat crop is proceeding at a record pace. The potential of this sector has barely been tapped and its fuller utilization, encouraged by proper macroeconomic and sector policies, could go a long way to assuring the longer term creditworthiness of the country.

Prospects for Bank Operations

10. The government's program must be regarded as the optimum feasible solution in present Argentine circumstances, given the presence of suppressed, but nevertheless persistent, guerrilla activity. The Bank mission, which I headed and which returned yesterday, has therefore concluded that Bank support of the new government is called for in substantial measure. I am planning to present you with a Draft CPP in the near future, once the mission's back-to-office report is completed. We would, of course, have to proceed with any program subject to exceedingly close monitoring of future developments.

11. The Minister, during his meeting with Mr. McNamara, will, of course, press for clearer indications of what the Bank's role is likely to be. For your information, the mission has identified five potential Bank loans, each amounting to about US\$100 million, which are likely to be feasible on project grounds during the next 2-3 years. These are: (a) Export corridor roads; (b) rehabilitation and expansion of power capacity in the highly industrialized area of Buenos Aires where many export industries are located; (c) a removal of storage bottlenecks constraining export of grains; (d) the financing of additional capacity in export industries; and finally (e) the mounting of a sizeable credit program for agricultural export crops. The first two aforementioned loans in this strongly export-oriented program are likely to be ready for Board presentation during the next several months.



Mr. Krieger

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June 16, 1976

Recommendation

12. It is probable that during his meeting with Mr. McNamara the Minister will refer to each of these possible loans. I recommend that Mr. McNamara reply that he would wish to review the report of the Bank economic mission and the recommendations of the Regional Vice President before deciding on the scope and composition of the Bank lending program during the next several years. However, given the fact that the conclusions and recommendations of the Bank mission are favorable, I recommend that Mr. McNamara state that he has already decided that we would go ahead as soon as possible with the Highways and Segba loans totalling about \$200 million.

GWiese: DGreene:slb

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Adalbert Krieger *AK*

SUBJECT: ARGENTINA: Your Meeting with Mr. Martínez de Hoz

DATE: June 16, 1976

Mr. Adolfo Diz, President of the Central Bank of Argentina, will be accompanying Mr. Martínez de Hoz today. Mr. Diz is well known in Washington as he was Executive Director to the IMF during 1966/67 and until recently Director General of CEMLA (Center for international monetary problems sponsored by all Latin American central banks). I attach biographical data on Mr. Martínez de Hoz and Mr. Adolfo Diz.

Minister Martínez de Hoz will also be accompanied by Mr. Arnaldo Musich, who is the newly-appointed Ambassador of Argentina. Mr. Musich is a very well-known personality in Argentina as he was president of FIEL, an economic and financial research institute supported by the private sector of that country. He has also been president of the Chamber of Commerce.

Other members of the delegation will be: Mr. Francisco Soldati, Director of the Central Bank and principal negotiator for financial external matters, as well as Mr. Daniel Dante Simone, financial attache of the Argentine Embassy. Mr. Simone has spent his whole career as an economist at the Ministry of Finance.

Attachments (2)

cc: Mr. J. Burke Knapp

AKrieger:cf

JOSE ALFREDO MARTINEZ de HOZ

BIOGRAPHICAL STATEMENT

Place of Birth: Buenos Aires, Argentina  
Date of Birth: August 13, 1925  
Nationality: Argentine  
Studies and Degrees: Graduated with high honors from  
Law and Political Sciences Schools  
National University of Buenos Aires.

Background

Academic and Related Fields: Professor of Agrarian and Mining Laws,  
National University of La Plata (Argentina)  
and Salvador University (Buenos Aires).  
Vice Dean, Law Faculty, Salvador University  
(Buenos Aires).  
Director of Publications, National University  
of La Plata.  
Chairman of Foundation for Latin-American  
Economic Research (FIEL).

Government Service:

1961 Member of Government economic mission to  
Washington.

1962/63 Secretary (Vice Minister) of Agriculture  
and Livestock.  
Minister of Economic and Public Works for the  
Salta Province.

1963/64 Minister of Economy.

After 1964 Chairman of National Grain Board (Junta Nacional  
de Granos).

Private Sector Activities:

President of Argentine Steel Co. (ASINDAR),  
Regional Sugar Center of Argentina (Centro  
Azucarero Regional Argentina) and of Southern  
Petroleum (Petrosur S.A.).  
Member of Board of Western Telegraph Co. of  
Argentina, Parana Insurance Co., and  
Panamerican-Argentine Air Transport Co.  
Chairman of various Argentine and Latin-American  
business associations (Argentine Business  
Advisory Council; Interamerican Commercial  
Arbitration Commission; Interamerican Council  
of Commerce and Production).

ADOLFO CESAR DIZ

Biographical Statement

Place of Birth: Buenos Aires, Argentina  
Date of Birth: May 12, 1931  
Nationality: Argentine  
Marital Status: Married, three children

Studies and Degrees:

March 1952 Chartered Public Accountant, University of Buenos Aires  
December 1952 Doctorate in Economics. Courses completed at the University of Buenos Aires  
December 1957 Master of Arts, Social Sciences Division, Department of Economics, University of Chicago  
June 1966 Philosophy Doctor, Social Sciences, Department of Economics, University of Chicago

Background:

1951/55 and 1958 Instructor of Statistics, University of Buenos Aires  
1959 Professor of Statistics, University of Tucumán (Argentina)  
1960/61 and 1964 Professor of Statistics and Econometrics, University of Tucumán (Argentina)  
1962 and 1965/66 Professor of Monetary Theory, University of Tucumán (Argentina)  
1959/65 Director of the Institute of Economic Research, University of Tucumán (Argentina)  
1966/67 Executive Director at the IMF representing Argentina and other countries.  
1967/73 Financial Representative of Argentina in Europe (Geneva).  
1976 Appointed by all central banks of the Latin American countries Director General of CEMLA.

Works and Publications:

- 1957                    "A Test of a Statistical Study of Livestock  
Production and Marketing in the U. S. , 1920-1953".  
(The study subject to test was the Hildreth and  
Jarret's econometric model published by the Cowles  
Commission as Monograph No. 16). Unpublished M. A.  
thesis, University of Chicago.
- 1959                    "A Survey in the Province in Jujuy". Published  
by the University of Tucumán, Argentina.
- 1963                    "The Money Supply in Argentina, 1935-62".  
Occasional Paper 63-3, Institute of Economic  
Research, University of Tucumán (Argentina).
- 1963                    "The Size-Distribution of Land Devoted to Sugar  
Cane in the Province of Tucumán". Occasional  
Paper 63-4, Institute of Economic Research,  
University of Tucumán (Argentina).
- 1963                    "Notes on Econometrics". Occasional Paper 63-5,  
Institute of Economic Research, University of  
Tucumán (Argentina)
- 1964                    "Proximate Determinants of the Money Supply in  
Argentina, 1935-62". Occasional Paper 64-1,  
Institute of Economic Research, University of  
Tucumán (Argentina).
- 1965                    "The Relationship between the Money Supply and the  
Monetary Base in Argentina, 1935-62". Occasional  
Paper 65-1, Institute of Economic Research, University  
of Tucumán (Argentina).
- 1966                    "Money and Prices in Argentina, 1935-62". Unpublished  
Ph. D. dissertation, University of Chicago.

Professional Associations:

Consejo Profesional de Ciencias Económicas de la  
Capital Federal, Buenos Aires, Argentina.

Asociación Argentina de Economía Política, Titular  
Member.

Institute de Science Economique Appliquée, Paris.  
Member of the Directive Committee, Argentine Branch

American Economic Association.

Econometric Society.



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 22, 1976

FROM: John A. Holsen, Chief Economist, IAC <sup>gold</sup>SUBJECT: ARGENTINA - Meeting with Delegation at Annual Meeting in Manila

1. During the Annual Meetings at Manila, Mr. McNamara met with the Minister of Economy of Argentina, Jose Martinez de Hoz, on Tuesday, 5th October, 1976. Other members of the Argentine delegation attending the meeting were Adolfo Diz and Carlos Helbling. Alternate Executive Director, Eduardo Conesa also attended. Other participants for the Bank included Messrs. Knapp, Krieger, Wiese, Burmester and Holsen (reporter).
2. The Minister of Economy opened the discussion with a description of the Government's financial program and the results being achieved. Inflation had come down to 5% per month (although corrective inflation from increases in official tariffs would raise it some in the next couple of months). This was being done without massive unemployment. There had, however, been a large reduction in real wages. Business had been called upon to pay their taxes and to maintain their payrolls. There was a general acceptance of this policy of shared lower income.
- 10/26  
3. The Minister said the economy had begun to recover; industry was beginning to invest. The balance of trade had been changed from a deficit of \$800 million in January-August, 1975, to a surplus of \$500 million in the same months of this year. Tax collections had improved tremendously. State enterprises were being reorganized as corporations. Changes in the railroads would be made only slowly; one-half of the lines would be closed in three years with the unnecessary workers receiving re-training at government expense for up to one year.
4. The Minister thanked Mr. McNamara for the quick action on the SEGBA project; the loan had had an important symbolic effect. The proposed highway loan would help move products from the interior to export markets and, in the short run, would contribute to the reactivation of the construction sector.
5. Mr. Martinez de Hoz said that a DFC loan under discussion would help decentralize industrial activity in the country, serving as a social instrument to help develop the interior. He was aware that the Bank had programmed \$200 million for Argentina this fiscal year, but he hoped it would be possible to go beyond this amount so this project could be done quickly. Mr. McNamara asked how soon the project might be prepared; Mr. Wiese replied that it could be ready for presentation to the Board in May. Mr. McNamara said he wasn't sure we would have sufficient financing capacity, but the Bank would proceed to process the project as if it had the money. Assuming it was a sound project, and that economic performance continued to be good, we might still face fund limits; we would have to check when the time came. Mr. Knapp suggested the possibility of increasing co-financing beyond the \$50 million now contemplated.

October 22, 1976

6. The Minister of Economy, in discussing future lending, spoke of the regional economy and of projects which were of common interest to several countries. As Mr. McNamara knew, there are large hydroelectric possibilities that might be developed jointly by Paraguay and Argentina. Mr. McNamara said he was, in principle, intensely interested in and would like to support such regional projects. During the visit to Paraguay and Bolivia he had been very much impressed by the tremendous potential of developing regional investment projects which benefit neighboring countries such as Argentina, Paraguay and Bolivia. He then referred to the role of the Bank as an important agent to promote integration process around the world. After making some references to problems in other regions such as Africa, he said that undoubtedly in Latin America there was a very good scope to participate in the regional integration efforts through appropriate investments such as those mentioned by the Minister.

7. Mr. McNamara then referred to the Bank's own capital problem. He told the Minister that the LDCs needed to explain the importance of this matter to the OECD countries. The LDCs should also be realistic about what was more important to them; the issue of more votes was clearly secondary to the capital subscription question. He would, however, work to maintain the present three seats for Latin America even if this resulted in an increase in Board membership. The Minister agreed that the question of seats was more important than that of votes.

8. Mr. Martinez de Hoz noted that, although Argentina had a relatively high per capita income, it had poor regions. The Government was thinking of special programs for those regions, changing cropping patterns and converting tenants to small land owners. He said he thought this might make an attractive project for the Bank. Mr. McNamara said that it would, indeed, be of interest to the Bank. He went on to say that he looked on the Bank's present lending to Argentina as "reconstruction" lending and he was not now worried about the per capita income question. This issue would, however, have to be faced in two or three years. When we reach that point, we will pass through a transition period in which lending would be justified partly by the social nature of the projects.

9. Mr. Martinez de Hoz noted the important role the IFC could play in Argentina. Mr. McNamara indicated that, while he had no particular figure in mind for Argentina, IFC as a whole had limited resources. He hoped, however, that IFC financing would have an important catalytic effect.

JAHolsen/ddm

cc: Mr. McNamara's Office  
Mr. Knapp  
Mr. Krieger  
Mr. Wiese





## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 6, 1977

FROM: Peter R. Scherer, Division Chief, LC2

SUBJECT: ARGENTINA - Meeting with Delegation at Annual Meetings in Washington

1. Mr. McNamara met with the Minister of Economy of Argentina, José Martínez de Hoz, on Tuesday, September 27, 1977. The Minister was accompanied by Messrs. Miguel Iribarne, Director of Economy, and Eduardo Conesa, Alternate Executive Director. Messrs. Knapp, Krieger, Lerda, Koch-Weser and Scherer of the Bank also attended.

2. Mr. McNamara thanked the Minister for the timely and helpful support of the Latin American countries to increase the capital of the World Bank. Mr. McNamara mentioned that, following his positive discussions with Mr. Blumenthal, he felt quite optimistic about the possibility of doubling the Bank's capital. In reply to a question from the Minister, Mr. McNamara said that Mr. Brandt was convinced of the need to open new avenues for the North-South dialogue and that he would most likely accept the chairmanship of the proposed commission.

10/10  
3. The Minister stated his appreciation for the quick and effective support of the Bank to help Argentina overcome its economic difficulties and stressed that his Government was anxious to continue the close cooperation with the Bank. He then gave a brief description of the progress made since the last Annual Meeting. After facing default on its external debt a year and a half ago, Argentina had now accumulated gross reserves of close to US\$2.5 billion and net reserves of about US\$1 billion. The structure of the public foreign debt had improved significantly and the recent bond issue in Germany undoubtedly reflected the confidence of the international financial community in the Argentine economy. Offers for further bond issues had also been made by private financial institutions in London and New York.

4. The Government had been able to avoid an increase in unemployment during the recession. The economy had now started to recover and it was expected that the GDP growth rate of 4.6% for the second quarter would be maintained for the remainder of the year. Fixed investment was 25% above last year and the domestic savings rate had increased to 30% of GDP in the second quarter of 1977; this, the Minister emphasized, clearly demonstrated the new confidence of the Argentines in their own economy.

5. Inflation was running at an annual rate of 120% and there was little likelihood that it could be reduced significantly before the end of the year. Although tax revenues had been increased by 200% in the first semester of 1977 and public expenditure reduced compared to last year, the public budget deficit still was an important source of inflation. At the same time, expectations of further inflation still exercised substantial

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pressure on prices. The Government was convinced, however, that it would bring price developments under control in 1978, and that it would be able to contain the Treasury deficit to 3% of GDP in 1977, down from the 13% of GDP when the Government had assumed office.

6. Concluding his assessment of the economic situation, the Minister stressed the positive outlook for further improvements in economic performance and a continuation of present economic policies. President Videla was fully committed to the economic philosophy of the Minister and had defended the economic program on many occasions with arguments used previously by the Minister.

7. Referring to the Bank's lending program for Argentina, the Minister selected three projects for discussion. The Minister hoped that the Bank would be able to process a railways project in FY78. The Bank had helped finance a consultant review of the railways' five-year investment program and was fully familiar with its details. The Government was complying with the targets it had set for the rehabilitation of the railways; 4,000 km of uneconomical lines had been approved for closure and another 4,000 km would be approved by the end of the year. By the end of 1979, the length of the railways system would be reduced by 50% to 20,000 km. The personnel of the railways had been cut by 28,000 persons and passenger train service reduced by 36%. The Minister hoped that the railways could be transformed into an economically viable institution and stated that his Government would take all necessary measures to achieve this objective. Mr. McNamara replied that the Bank would be happy to look into the possibility of advancing a railways project in view of the impressive progress the Government had made already towards rehabilitating the system.

8. The Minister commented that advancement of the proposed railways project to FY78 would, hopefully, increase the amount of Bank financing for Yacyreta, a large and complicated hydropower project with a total cost of about US\$4.5 billion. Yacyreta was the single largest investment project of the Government; it had been based on a thorough technical analysis in which World Bank staff had cooperated. The Minister said that participation of both the World Bank and the Inter-American Development Bank was critical for sound financing of the project. He said that Mr. Hurtado, Minister-President of the Venezuelan Investment Fund, had indicated that the Venezuelan Government may be willing to contribute US\$100 million but so far no decision had been made on the terms and conditions. Mr. McNamara explained that the construction schedule and the financing plan of the project had to be firmed up before the Bank could take a definite position. In particular, he would like to know how much the Argentine Government was planning to contribute directly and how much it was expecting to obtain from supplier's credit and from commercial banks. The Minister replied that not all the financing would

have to be committed at the same time since only half of the final generating capacity would be installed in the first stage and since the transmission line would be constructed only two years after the start of the project. The Minister added that the project would change the economic picture in the northeast of Argentina, one of the least developed regions in his country, it would also provide Paraguay with revenues of about \$80 million per annum from the sale of electricity to Argentina.

9. The Minister expressed the interest of his Government to advance processing of the El Pachon copper project which would make Argentina self-sufficient in copper. The Government was just about to promulgate a new mining law which he expected would attract foreign interests to participate in large scale mining projects in Argentina. In reply to questions by Mr. McNamara, the Minister said that production costs of the project were low in comparison to those of similar projects in other countries and that the investment requirements of about US\$800 million exceeded the capacity of Argentine investors, which had tied up their capital in the development of traditional industrial sectors. The Minister mentioned that he did not support Government participation through the state-owned Fabricaciones Militares and instead would prefer the private sector to manage this project. He noted that participation of the World Bank would provide stability and international confidence in the implementation of the project.

10. Turning back to the macroeconomic situation in Argentina, the Minister mentioned that industrial growth in the first half of 1977 derived mainly from the capital goods sector. Next year industrial production would have to spearhead economic growth since agricultural production was expected to fall due to lower prices for grains in the world market and drought in some of Argentina's major grain producing regions. Oil seeds would continue to do well however; soybean production had reached 1.4 million tons in 1977, a 40% increase over last year. The cropping pattern of Argentina's agriculture was changing as a result of the Government's new agricultural policy; the substitution of the traditional sugar production in Tucuman by intercropping of soybean and wheat was mentioned as an example.

11. The Minister reminded Mr. McNamara of his previous promise to visit Argentina and extended a new invitation. Mr. McNamara mentioned that his last visit to Argentina dates back ten years when Mr. Krieger was Minister of Economy. At that time, he had been very impressed by the human and physical resource potential of Argentina. Unfortunately, due to other commitments, he was not certain whether he would be able to travel to Argentina during the next year. In his final remarks, the Minister pointed out the improved relationship between his country and

October 6, 1977

the US. He had found an encouraging understanding of the Argentine definition of human rights in his discussions with Messrs. Blumenthal and Brzezinski. The Minister mentioned that his Government was making daily progress in this field and that it had just restored the constitutional rights to leave the country for uncharged prisoners who had been held under the Government's state-of-siege law.

Cleared with and cc: Mr. Lerdau, Director, LC2

cc: Mr. McNamara's Office (2) ✓

Mr. Knapp

Mr. Krieger

Mr. van der Meer

PRScherer:vlw



## OFFICE MEMORANDUM

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

DATE: June 23, 1978

FROM: Enrique Lerda, Director, LC2

SUBJECT: ARGENTINA -- Visit of Dr. Walter Klein, Secretary for  
Coordination and Programming

1. Dr. Walter Klein will call on you at 5:40 p.m. on Monday, June 26. Dr. Klein is Minister Martinez de Hoz' confidant and right hand in the Cabinet, and our main counterpart in the Argentine Government. Dr. Klein will be in Washington for discussions with the IMF, the IDB and the Bank. Dr. Klein will also sign two Bank loans to Argentina for Agricultural Credit (US\$60 million) and Grain Storage (US\$105 million). The visit is primarily a courtesy call. Dr. Klein will probably give you a brief exposition of the Argentine economy and may refer to the Yacyreta Hydroelectric and Railways projects. Pertinent background information is provided below.

Economy

6/23

2. Since March 1976, the Government has been implementing a stabilization and reconstruction program to overcome the most severe economic and financial crisis which Argentina has experienced in the post-war period. The authorities have been successful in sharply reducing inflation (from almost 1,000% in early 1976 to 150% at present) while simultaneously maintaining moderate rates of economic growth and low rates of unemployment. International reserves, which were virtually exhausted when the Government came to power, have been replenished and now stand at an unprecedented \$4.5 billion, equivalent to 13 months of imports. This was achieved through appropriate use of fiscal, monetary and price policies which increased returns to agriculture and greatly expanded agricultural exports. In addition, the Government has initiated measures to increase industrial efficiency, which for years has received excessive protection through overvaluation of the peso, high import duties, and a restrictive import licensing system. Other major achievements of the current administration include a return to fiscal balance, reform of the banking system to enhance its allocative efficiency, strengthening the control over monetary policy, rationalizing operations of public enterprises, and improvement in the country's energy balance. As a result of these measures, the Government has met all the performance targets set in the last CPP.

3. Despite the success in breaking hyperinflation, the Argentine economic authorities have become increasingly concerned that not enough progress is being made in reducing the current rate of inflation. As a consequence, the Government has introduced additional stabilization measures. It has discontinued its policy of adjusting tariffs of public sector enterprises by the increase in the cost-of-living index, because it believes that such adjustments have continued to keep inflationary expectations artificially high. From now on prices of publically produced goods and services are to be adjusted by the actual increases in costs in individual public enterprises. In addition, a floating

exchange rate has been introduced which will lead to smaller devaluations of the peso because of Argentina's strong balance-of-payments position.

4. To reduce expansion of the monetary base, controls on short-term external borrowing by the private sector have been imposed. The authorities are continuing to reduce import duties so as to open up the industrial sector to international competition and consequently limit price increases. This latter measure should help to reduce cost-push inflationary pressures and the outlook for the remainder of the year is for a decline in the rate of inflation. Increased efforts to stabilize prices may have the effect of reducing the rate of industrial growth somewhat this year, but agricultural production and exports will reach nearly the record levels of 1977. Prospects are good for a continuous expansion of the traditional crops and meat, and rapid growth of non-traditional products, such as soybeans, oils and fats. The Argentine authorities are acutely aware of the need for continuity in economic policy which appears to be assured through the recent renomination of President Videla for another three-year term. The outlook for continued stabilization and accelerated development of the economy is promising.

#### Yacyreta Hydroelectric Project

5. The binational Yacyreta project will be the single largest investment of the Argentine Government for the foreseeable future. Following the Paraguayan authorities' strong objections against providing a financial guarantee for that project, we have indicated our preparedness to consider making a loan to Argentina, which would assume full and unconditional liability for the service of the loan. Under this arrangement, the proceeds of the loan would be on-lent to the binational entity (EBY), which is in charge of the construction and operation of the project. We would also enter into a project agreement with EBY, and Argentina and Paraguay as its co-owners, which would include all understandings regarding the project itself, as well as necessary arrangements regarding relocation of people displaced by the reservoir and other related matters.

6. The Bank and IDB intend to reach agreement, in principle, with Paraguay and Argentina on the points to be covered in such agreement. We have agreed that a high-level mission from the IDB visit Paraguay beginning next week to discuss these matters. We expect a positive response and will then proceed with the preparation of appraisal and participation in the financing mission which is to visit the export credit agencies in the countries of pre-qualified equipment suppliers.

#### Railways

7. During the past two years, the Government has made impressive progress in closing uneconomic lines, reducing staff and curtailing uneconomic inter-city passenger traffic. The recent appraisal mission has confirmed that the revised



investment plan of the Government forms a satisfactory basis for a Bank loan of about US\$80 million. The Government has agreed to a substantially higher level of international bidding and less local procurement than originally contemplated. The project would consist only of priority items related to railway lines with present and projected high traffic density. We expect to present the loan to the Board within this calendar year.

cc: Messrs. Krieger  
van der Meer, Director, LCP  
Schloss, Div. Chief, LC2  
Montfort, LCP  
Sella/Cancio, LEG

PWogart/FJaspersen/PR<sup>7</sup>Scherer:ak



## OFFICE MEMORANDUM

TO: Memorandum for the Record  
DATE: October 4, 1978

FROM: Peter R. Scherer, Division Chief, LC2

SUBJECT: ARGENTINA - Meeting with Delegation at Annual Meeting in Washington

1. Mr. McNamara met with the Minister of Economy of Argentina, Dr. José Alfredo Martínez de Hoz, on Tuesday, September 26, 1978. The Minister was accompanied by Messrs. Miguel Iribarne, Director of External Finance; Juan Carlos Iarezza, Financial Attaché; Eduardo Conesa, Alternate Executive Director and Alberto Solá, Executive Director designate. Messrs. Ardito Barletta, Lerda, Wyss, Koch-Weser and Scherer also attended.

2. Mr. McNamara congratulated the Minister on the achievements of his economic program. He was particularly impressed by the strong export performance and the Government's success in keeping unemployment low in spite of economic stabilization. The Minister responded that he was focusing his attention now primarily on controlling inflation. Annual rates of inflation had been brought down to about 100%, compared to 900% when he took office. The fiscal deficit had been reduced from 13.5% to 2% of GDP and had been financed, for the first time in 20 years, without recourse to the Central Bank. This had been achieved through a doubling of tax collection in real terms and a reduction in public expenditures. Public expenditures however had to be reduced further. Public investment, which accounted for 18% of GDP at the beginning of his administration, was now down to about 12%. The Government's three year investment program aimed at a further decrease to 10% of GDP in 1980. The investment program constituted a bare-bone minimum, including mainly project for energy development and projects which had been initiated in previous years. The Government intended to rely heavily on private sector financing for major public investment projects. The expansion of the national gas pipeline grid would be financed under a toll system. Similar schemes were considered to finance large water supply projects (Grandes Acueductos) and telecommunication. The 3-year public investment budget specified financing sources to avoid recurrence of high fiscal deficits.

3. The monetary system had been reorganized and policy instruments developed which would help control monetary expansion in the future. The Central Bank had adopted a dirty float to let market sources determine the exchange rate in an orderly way. The Minister estimated that of the present inflation rate of 6% only 3% was accounted for by the underlying real inflationary trend; inflationary expectations added another 3%. The private sector was obviously unwilling to reduce prices in view of high interest rates and the Government was now pressing to reduce both simultaneously. The Minister mentioned that the private sector had difficulties adjusting to the new economic rules. The last twelve months had been particularly difficult and efforts had to be stretched considerably. After 30 years of subsidized credit, the private sector was not yet used to working with positive real rates of interest. Inflationary expectations had led to heavy demand for credit towards the end of 1977 to build up stocks. Speculators got burned however since inflation rates were lower than expected. Entrepreneurs were now building up working capital again, in many cases through the sale of

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private property. The economy has begun to recover but the Government was careful to avoid additional inflationary pressures.

4. Since 1976, the Government has cut tariffs from an average of 90% to 40%. Further cuts will be sector specific. The cost structure of individual sectors are now being analyzed. The Government will set sector specific maximum tariff levels which have to be achieved within 5 years in prescribed annual steps. Thus, the rules of the game are known to everybody. The Minister mentioned that his administration was put under tremendous pressure from industry to go slow in this process. The Armed Forces however had given him strong support throughout ("stuck it out") and the Minister was confident that his program would be completed successfully. The Minister said that it was essential to make the industrialists more cost conscious and to improve the efficiency of Argentina's infrastructure.

5. The Minister expressed his appreciation for the support of the Bank and commended the Bank staff for excellent work. The Minister explained that his Government wanted to obtain a US\$500 million loan package from the IDB and World Bank for the Yacyreta hydropower project. Mr. Ortiz Mena had indicated that the IDB might make a loan of US\$200 million and the Minister therefore asked for a loan of US\$300 million from the Bank. Mr. McNamara replied that he was willing to consider this request but that it would be very difficult for the Bank to make a loan of US\$300 million. The Minister mentioned that a loan increase for Yacyreta would compensate for the relatively small amount of lending envisaged for FY79 and that, furthermore, Yacyreta was a binational project and should not be attributed exclusively to Argentina. Mr. McNamara responded he would have to see the financing plan for the project and the Bank's two-year lending program for Argentina before making a decision. He was taking the binational character of the project into account but, because of the small size of Paraguay, this did not enter significantly in the calculation. Referring to other projects, the Minister said that the preparation of the envisaged Railways project was making good progress. There might be some delays in the execution of the Highways project since counterpart funds had to be scheduled realistically so as to avoid inflationary pressures on the budget. Mr. McNamara responded that he appreciated the Minister's concern. He hoped however that the Government would do its best to execute the project in time and in the most efficient way, something to which the Bank attached high priority.

6. Mr. McNamara suggested that the Minister write a book on his successful stabilization program. Mr. McNamara did not know of any other case where the burden of stabilization had been spread so widely and this might be a good example for other countries to follow.

Cleared with and cc: Mr. Enrique Lerdau

cc: Mr. McNamara's Office; Mr. Stern; Mr. Ardito Barletta; Mr. Wyss, LCP;  
Mr. van der Meer, LCP

PRScherrer: mac



*Corrected*

## OFFICE MEMORANDUM

TO: Memorandum for the Records

DATE October 17, 1980

FROM: Peter R. Scherer, Division Chief, LC2

SUBJECT: ARGENTINA: Meeting with the Delegation of Annual Meeting in Washington

1. Mr. McNamara met with the Minister of Economy of Argentina, Dr. Jose Alfredo Martinez de Hoz on Wednesday, October 1. The Minister was accompanied by Messrs. Sola, Executive Director; Soldati, Director, Banco Central de la Republica Argentina; and Blanco, Director Nacional de Politica Economica y Financiera Externa. Messrs. Barletta, Lerda, Lafourcade and the writer also attended.

2. Mr. McNamara stressed the need of raising the lending program of the Bank; otherwise, substantial cuts would have to be made for many countries. Argentina was a major party at risk. While the graduation issue had been shelved, the entry of China as a member with legal rights and structural adjustment lending on a broader scale would require additional funds to maintain standard Bank lending operations. To mobilize additional funds, the gearing ratio would have to be changed and/or the callable capital increased. The measures could take more than two years since congressional approval was required in some countries, such as the U.S. Therefore, something had to be done in the meantime. The proposed energy affiliate was the most promising way to mobilize additional resources. Unfortunately, the G-24 countries had been rather cool to the proposal. A position of "no opposition" was not enough; strong support was needed to get the energy facility off the ground. Mr. McNamara asked the Minister for his personal support in that matter, which the Minister promised to give.

3. Mr. McNamara stated the Bank's willingness to support energy projects in Argentina. He felt, however, that the present price structure in Argentina was not conducive to energy conservation and expansion of production. Mr. McNamara urged that petroleum prices be set closer to international levels. The Minister replied that his government was against any form of subsidy and that petroleum prices and utility tariffs had been raised significantly in real terms. The Minister stressed the importance of the refinery conversion project and the agreement on the outstanding issues concerning the financial situation of the power sector. The Minister expressed his satisfaction at the advantageous bids received for Yacyreta which had been 30% below estimates. The Minister mentioned that Argentina was planning to export gas to Brazil and Uruguay once sufficient reserves had been confirmed; he also felt rather optimistic that Argentina would become a net petroleum exporter following increased off-shore production in 1982. It was the Government's policy to move prices close to international levels; electricity tariffs were already high and industrialists were complaining strongly about an unfair burden which, in conjunction with other adjustment measures the Government had taken, was jeopardizing the sector's competitiveness.

4. The Minister said that this was his last Annual Meeting as Minister of Economy; he would step down with the change in the Presidency in May 1981. He did not, however, expect a change in political leadership nor in economic policies. The three commanders in chief of the armed forces would remain and the candidate for the presidency was a close political ally of President Videla. Economic policies would continue within the framework laid out by the present administration and the

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economic team would essentially remain intact. Mr. McNamara congratulated the Minister on the impressive achievements under his tenure. Mr. McNamara was particularly impressed at the low social cost of the stabilization program. The Minister mentioned that the economy was still at full employment. Mr. McNamara said that in his visit to Argentina he had been shocked by the level of protection given to Argentine industry and that he was delighted to learn that tariffs had been reduced drastically. The Minister replied that the reduction of tariffs had not been a popular measure and that the public had not yet fully understood that primarily those with political power had benefitted from protection and subsidies and that the changes in policy now gave everybody an even and fair chance.

5. Mr. McNamara turned again to the general theme of Bank funding. He said that the enormous amounts of money being accumulated by a few countries would eventually lead to recessionary pressure in developing countries unless a substantial part was recycled to them. Rhetoric would not solve the problem. The Fund and the Bank would have to mobilize additional financing. Time was critical and action had to be taken soon. Mr. McNamara hoped that a positive decision would be taken in the meeting of the Development Committee in May 1981 which would allow an expansion of the Bank's FY82-86 Five Year Lending Program. Because of the reluctance of most OECD and OPEC countries, progress could, however, be difficult unless individual countries took the lead and came out forcefully in favor of the energy affiliate.

Cleared with and cc: Mr. Lerdau, LC2

cc: Mr. McNamara's Office; Mr. Stern; Mr. Ardito Barletta, Mr. van der Meer; Mr. Quijano; Mr. Pfeffermann; Mr. Levy

Division 2E

PRScherer:sg