

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/29

3:00 p.m., February 18, 1987

M. Camdessus, Chairman  
R. D. Erb, Deputy Managing Director

Executive Directors

C. H. Dallara  
J. de Groote  
A. Donoso  
  
H. Lundstrom  
M. Massé  
Mwakani Samba  
Y. A. Nimatallah  
G. Ortiz  
H. Ploix  
G. A. Posthumus  
C. R. Rye  
G. Salehkhov  
A. K. Sengupta  
K. Yamazaki

Alternate Executive Directors

E. T. El Kogali  
Song G., Temporary  
  
E. Feldman  
T. Alhaimus  
B. Goos  
Hon C.-W., Temporary  
H. A. Arias  
M. Foot  
  
I. Al-Assaf  
  
S. de Forges  
  
O. Kabba  
  
F. Di Mauro, Temporary

L. Van Houtven, Secretary  
R. S. Franklin, Assistant

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Use of Fund Resources - Compensatory Financing Facility . . Page 3

Also Present

IBRD: J. B. Sokol, Latin America and the Caribbean Regional Office.  
Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director;  
M. Guitián, Deputy Director; J. Berengaut. External Relations Department:  
H. P. Puentes. Fiscal Affairs Department: V. Tanzi, Director.  
Legal Department: F. P. Gianviti, Director; A. O. Liuksila, J. V. Surr.  
Research Department: L. Alexander, N. M. Kaibni, R. Pownall. Western  
Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate  
Director; H. Arbulu-Neira, C. V. A. Collyns, J. Ferrán, D. N. Lachman,  
B. C. Stuart. Personal Assistant to the Managing Director: R. M. G. Brown.  
Advisors to Executive Directors: A. Bertuch-Samuels, L. P. Ebrill,  
S. M. Hassan, K. Murakami, G. Pineau, D. C. Templeman, N. Toé, A. Vasudevan.  
Assistants to Executive Directors: A. R. Al-Abdullatif, J. R. N. Almeida,  
J. de la Herrán, W. N. Engert, M. Hepp, G. K. Hodges, L. Hubloue,  
J. M. Jones, S. King, M. A. Kyhlberg, M. Lundsager, V. K. Malhotra,  
T. Morita, C. Noriega, C. A. Salinas, G. Seyler, B. Tamami, H. van der Burg,  
D. A. Woodward.

1. ARGENTINA - STAND-BY ARRANGEMENT; EXCHANGE SYSTEM; AND USE OF FUND RESOURCES - COMPENSATORY FINANCING FACILITY

The Executive Directors continued from the previous meeting (EBM/87/28, 2/18/87) their consideration of a staff paper on Argentina's request for a stand-by arrangement equivalent to SDR 1,113 million (EBS/87/5, 1/13/87; Sup. 1, 1/26/87; Sup. 1, Cor. 1, 2/18/87; and Sup. 2, 2/17/87), together with a paper on a request expected to be received from Argentina for a purchase equivalent to SDR 788.7 million under the compensatory financing facility (EBS/87/17, 1/29/87; and Sup. 1, 2/17/87).

Mr. Rye made the following statement:

In my opinion, the program before us must be characterized as a "high risk" one. If all goes well, the program should prove viable and the Argentine authorities should achieve their economic objectives; but there is no room either for the program to cope with less favorable external developments than assumed or for any slippage at all in the implementation of the policies which underlie it.

Before elaborating upon these statements, let me say that, particularly by comparison with the standards that applied in the past, Argentina's recent economic performance has been good. But the central question now is how the program matches up with the needs of the Argentine economy. Inflation is still high at 82 percent in 1986 and has recently shown some tendency to accelerate; deep structural problems, in the public and private sectors alike, remain to be corrected; and, above all, Argentina's external position is very fragile.

In all these areas, the Government has set objectives under the program which are at best modest. This is a disappointing contrast to the dramatic program launched in June 1985, a program which represented an all out effort to beat inflation. The results of that effort have fallen short of expectations, partly, it is only fair to say, because of an adverse external environment, but also because of slippages in policy and failure to follow through on initial steps. Thus, the credibility of Argentine economic policies has been eroded in the past 18 months or so, and there is a real question, I think, whether the new program is strong enough to restore that credibility.

In one respect, paradoxically, the program may be too ambitious. Following strong growth since the 1985 measures, the assumption now is that economic activity can continue to expand at about 4 percent per year. While I understand this accent on growth, I question whether the Argentine economy can grow at such a comparatively rapid rate without undue strain while necessary



structural reforms are only getting under way and in the face of the sharp turn for the worse in the terms of trade.

Let me now take in turn the three areas that I have identified as causes for concern: the inflation problem; the extent of structural adjustment; and the external position.

The projected decline in consumer prices from 82 percent over 1986 to 40 percent over 1987 seems to represent at first sight a reasonable degree of progress on this front. But we should not forget that prices were running at a lower rate than this for much of the second half of 1985 so that, at best, the program would only be making up the ground lost since then. Moreover, it is not clear whether the general stance of macroeconomic policies will be sufficient to achieve this objective. The program is not specific on the timing of the elimination of wage and price controls and on the pace of reforms of the Central Bank. In the absence of a clear timetable for such measures, slippages are all too likely. In other key areas of budget expenditure control, wage restraint and monetary control, the proposed measures seem lacking somewhat in ambition.

The improvement of the nonfinancial public sector deficit in 1985 and 1986 reflected a substantial increase in revenues. Expenditures remained largely unchanged in relation to GDP, despite lower interest payments in 1986 and some reduction in the operating losses of public enterprises. Indeed, after allowing for the increase in real GDP since 1985, real public expenditure in 1986 was close to 10 percent above the level in the first half of 1985. The deficit is expected to decline by 1.4 percent of GDP, but this reflects further revenue gains of nearly 3 percent of GDP. Expenditures will actually rise.

This trend cannot be sustained. As the staff notes, more than one third of the revenue gains in 1987 are expected to flow from the once-off tax amnesty program. Other revenue gains are expected from improvements in tax administration and social security taxes. Even if the authorities' plan yields the projected revenues in 1987, more permanent measures will need to be in place by 1988 if the deficit is to be contained. I would therefore have preferred to see more effort on the expenditure side of the budget from the outset. Putting hard decisions off will only limit the authorities' room for maneuver next year and will lose an important opportunity to reinforce other anti-inflationary policies. Meanwhile, the reforms to wage scales in the National Administration will need to be treated with caution. It is of course much easier to eliminate salary differentials by an increase rather than a decrease in salaries, but a repeat of the large salary increases of 1986 is very much to be avoided.



As I have already noted, a more rapid reduction in inflation could have major benefits for the program, many aspects of which are tied to the inflation rate. Lower inflation could make an important contribution to reducing the nonfinancial public sector deficit by encouraging early tax payments, reducing the operating loss of the Central Bank, and lowering wage costs. It would also keep public enterprise prices more in line with costs, thus strengthening the financial position of these enterprises. It would help contain wage and price increases in 1987 and deflect pressures for the introduction of wage indexation. It would permit a more rapid reduction in money growth with significant "second-round" benefits and would encourage the authorities to take earlier action to eliminate price controls. Finally, a lower inflation target would help protect export competitiveness and restore confidence in domestic economic management.

I have already touched on some of the structural elements which seem to me inadequately treated in this program including, in particular, the reforms in the public sector. The backsliding on import liberalization, where projected progress is very much slower than originally intended, is also disappointing and casts doubt on whether the necessary restructuring of the private sector will go ahead fast enough. As Mr. Feldman notes in his comprehensive statement, structural reforms have only just started in some areas and in others have yet to begin. In this regard, the prospective World Bank program of support for what is described as "a broad-based program of structural reforms to lay the basis for sustained economic growth" would be a most welcome development. I would be interested in hearing more about the timing and scope of this.

On the external side, I sympathize with the problems which Argentina faces as a result very largely of the agricultural trade war between the European Community (EC) and the United States. This trade war has created similar problems for some of my own countries. Nonetheless, the external objectives of the program seem very modest. In particular, the current account deficit is to be reduced only from \$2.6 billion to \$2.2 billion, and Argentina will be relying heavily on extraordinary sources of finance to remain solvent. Clearly, the external position will be fragile for many years in the face of continuing high debt service obligations.

The assumptions underlying the medium-term balance of payments projections are in my view a bit optimistic. I would have appreciated seeing a couple of scenarios to get an idea how the picture changes on the basis of, say, slower real growth, higher interest rates, more subdued export growth or faster import growth. I have similar reservations about the staff discussion of Argentina's ability to repay the Fund, which seems mechanistic and lacking in conviction.





Turning to the decision before us, I want to say that I have serious reservations about giving approval "in principle" in cases such as this. This is a procedure which has crept into our work in an ad hoc way in recent times. Such a decision by the Board is supposed to put pressure on the commercial banks to reach agreement more quickly with the authorities concerned. I think events have shown this to be mistaken, or at least highly debatable, especially where (as in the present case) our decision is virtually open-ended as to time. It seems to me more like a case of bowing to the pressures of the banks to turn our established procedures on their head, with a serious risk, in so doing, of eroding the credibility of the Fund.

Although I am very reluctant to suggest any new jobs for the staff, who have more than enough to do as it is, I believe that the time has come for us to review the matter of "in-principle" decisions on the basis of a paper which addresses the issue in general and our recent experience with such decisions.

All in all, this is not an easy decision to make. In casting a hesitant vote in favor of the proposed recommendation, I would like to underline my view that it is absolutely essential, if this program is to stand up, that the authorities adhere strictly not only to the letter but also to the spirit of their undertakings.

Finally, as regards the compensatory financing facility, I accept that Argentina meets the criteria established for access to this facility. Of course, the question is "when." The draft decision is exceedingly puzzling, and I am surprised that the staff has given us no explanation of it. I would like to know what precedents we would be setting by opting for immediate disbursement and what the case is for Fund resources to be provided for what would in effect be "bridging" purposes. I must say I do not find that thought very attractive. Pending the staff elaboration, I shall reserve my position on the compensatory financing facility.

Mr. Foot remarked that he could support the approval-in-principle approach for both the stand-by arrangement and the compensatory financing facility requests. Remarking first on the latter, he wondered how it was possible for the data on which the compensatory financing facility request was based to be so out of date. As noted on page 5 of EBS/87/17, the shortfall year was for the 12 months ended September 1986, but full export data were available only to March 1986, which made them nearly a year old. The fact that the estimated shortfall was considerably larger than the drawing requested provided some margin for error, but he found it strange that more up-to-date information was not available. He had also found odd the seemingly different explanations of the course of the real exchange rate in Argentina in the stand-by arrangement and compensatory financing facility papers. The chart on page 58(e) of EBS/87/5, Supplement 1, clearly showed that the real exchange rate had risen continuously during



the shortfall year by some 10 percent in real effective terms and by more than 20 percent against the U.S. dollar. However, in EBS/87/17, the staff had observed on page 10 that "compared with the early years of the present decade, the real effective exchange rate since about 1983 has not been allowed to appreciate, and in the last two years there was a real effective depreciation of about 6 percent in 1984/85 and 7 percent in the shortfall year." He would welcome clarification by the staff of the discrepancy. According to the chart in the stand-by arrangement paper, it would seem that inappropriate exchange rate policies played at least a part in causing the shortfall on which the compensatory financing request was based.

On the stand-by arrangement, Mr. Foot considered that the adjustment envisaged was rather limited in relation to the proposed access to Fund resources and to the need to assure Argentina's external creditors of medium-term balance of payments viability. And his concerns had been highlighted by the sharp deterioration in the current account that had occurred by 1986.

He had three points to make on the stand-by program, Mr. Foot continued. First, as several speakers had noted, inflationary pressures in Argentina were clearly running higher than the authorities had hoped and, presumably, higher than the staff had assumed in designing the program. He agreed with those Directors who had argued that inflationary pressures must be sharply reduced but not by means--notably, additional price controls--that would create problems in the future by perpetuating the misallocation of resources. Second, the significant reduction in the fiscal deficit in Argentina had been achieved primarily through revenue increases rather than expenditure restraint, an outcome that was likely to continue in 1987. If further adjustment was to be successful, greater emphasis would need to be placed on expenditure restraint. Third, he urged early implementation of measures to liberalize Argentina's trade and exchange regime. It was disappointing to note that liberalization that should have taken place under the previous stand-by arrangement could not have been undertaken as a prior action for the requested arrangement. Further delays and the introduction or continuation of discriminatory trade practices would be harmful to Argentina's long-term development.

For the future, he joined those Directors who hoped that the authorities could reach an early and successful conclusion of negotiations with the commercial banks, Mr. Foot commented. He supported the normal practice of making both the activation of the stand-by arrangement and the compensatory financing facility drawing conditional upon the attainment of the critical mass of financing from the banks. It would not be wise to bring forward the drawings under the compensatory financing facility. In addition to the argument advanced by Mr. Posthumus against such an approach, he noted that allowing immediate drawing of the resources under the compensatory financing facility would be tantamount to the Fund taking over from central banks the financing of the bridging loan that Argentina apparently required, and it would be a novel and inappropriate use of Fund resources. Based on the arguments he had heard at the present meeting, he could see some merit in treating the Argentine case as a



special one and allowing the compensatory financing facility drawing to be released when a significant movement toward commercial banks' support--even if short of the critical mass of financing--had been gathered. Like Mr. Rye, he had been somewhat puzzled by the nature of the proposed decision and its lack of detail. His preference would have been to retain the traditional linkage between the compensatory financing facility drawing and the effective date of the stand-by arrangement.

Similarly, Mr. Foot said, he saw no need to depart from the normal practice of approval in principle for 30 days. The critical mass of financing was unlikely to be obtained in that period; however, as experience with Mexico and Nigeria showed, what mattered for other parties was the fact of the initial approval in principle. If that approval in principle lapsed, then, as in the case of Mexico, the stand-by arrangement and the compensatory financing request could be brought back to the Board on short notice. At that time, provided the staff could ensure that the program was on track, the approval could immediately be reactivated. That having been said, he could go along with an indefinite period for the approval in principle if that was the wish of the majority of the Executive Board. However, as a number of Directors had remarked on various occasions, the time had come for an early discussion of the general issue of approvals in principle.

Mr. de Groote made the following statement:

I support the two requests before us. These requests must be seen within the broad context of Argentina's difficulties and efforts to overcome them: Argentina is one of the many developing countries obliged to struggle continuously against powerful external adversities. In the early 1980s, extremely high international interest rate levels and a very strong U.S. dollar rendered Argentina's foreign debt nearly unmanageable. More recently, Argentina's economy has been hard hit by the collapse of world market prices for its principal exports, and the case of Argentina has become, in fact, the one with the most ominous implications for the system as a whole.

It must be recognized that the Argentine authorities have made reasonable efforts in the face of these difficulties to get their economy back on track. A good example is the Austral Plan, which represents a very serious attempt to exorcize the ghost of inflation. The hyperinflation which existed when the Plan was introduced has been brought down to the more reasonable, although still excessive, level of 80 percent. Other successes are the steep increase in production and the growth of GDP, two aspects that have not been mentioned much today.

The present stand-by arrangement and compensatory financing facility can only help in obtaining a lasting improvement in Argentina's performance, provided the authorities succeed in



bringing inflation down further and adjusting their external imbalance. Wage and price controls might give some short-lived relief, but any lasting improvement in the inflation rate will require discipline strictly limiting monetary growth to a level consistent with the inflation target. Further reduction of the still high public sector borrowing requirement (PSBR) will be a key element in achieving noninflationary growth: it is obvious, for example, that the sharp falling off of industrial activity during the fourth quarter of 1986 was due to the PSBR's "crowding out" effect in the financial market.

There are some indications that the inflation target of 40 percent is overoptimistic, in the light of the spending plans for the Government. The authorities should be urged to correct the PSBR by freezing expenditures rather than by increasing revenues in relation to GDP. Also, instead of raising taxes, the authorities should try to improve the profitability of the public enterprises through organizational streamlining and through more realistic pricing of the services and products they offer to the public.

More generally, it is questionable whether the authorities can implement their program if measures to achieve the intended deficit reduction are not yet in place. It is therefore urgent to identify further areas where public spending can be cut, and the more so since the partial failure of past programs was due mainly to slippages in the fiscal area.

I particularly welcome the authorities' intention to streamline the public sector, where bureaucracy seems to complicate issues. An example was provided by the myriad administrative difficulties which once prevented the timely settling of Argentina's arrears. A problem of immediate concern is the scheme for reducing the public sector work force by giving workers who leave voluntarily a lump sum payment plus 6 to 12 months' salary. It is not obvious that this scheme will produce much savings for the public deficit. It seems much more likely to produce high costs, at least in the short run. Attrition--the nonreplacement of normal retirees or resigning staff--seems greatly preferable. Nonperforming employees might be induced to leave the public sector by a better system of promotion, which would place them at an appropriate disadvantage. I would be very interested to learn the staff's views on the prospective costs of the Government's work force reduction plan and its implications for the success of the adjustment program.

The size of the public work force and the ways in which the public sector is administered are both appropriate subjects for review. Public administration appears to be grossly overregulated, with needlessly complicated rules. Typical is the refunding of indirect taxes to exporters. Here we see encumbrance piled on top of complexity by making the amount of the refund dependent on the





origin of the exports and the port through which shipment is made. And, of course, experience teaches that the more complicated the rules, the easier it is to circumvent them.

Another example of burdensome administration is the Government's intervention in the wage settlement process, which introduces needless rigidities into the labor market and leaves little room for differentiation between profitable and unprofitable companies, or for wage differentiation within a single company. There is a need to explore other ways of motivating employees, for instance, through employee participation in the capital of their company, which would particularly benefit companies with a high profit potential.

Though the rigidity characteristic of the whole economy is compounded by price controls, I share the authorities' and Mr. Kafka's view that extreme caution must be exercised in dismantling them to avoid the risk that inflation would be rekindled, undermining the Government's credibility and the success of the program. The danger of a resurgence of inflation is real, since the Government has not yet succeeded in discrediting the inflationary expectations of the economic agents. And though it is reassuring that no goods shortages have appeared, as has occurred in other countries where price controls were imposed, control clearly cannot last forever.

Generally speaking, the Government's credibility is central to the success of the authorities' economic program. The Government must convince the economic agents that the program will succeed. An important test for the Government's credibility will be the revision of the social security system so that benefits can be paid at the levels required by law. Until the Government's credibility is re-established, removal of restrictions on the transfer of profits and dividends may only amount to the legalization of capital flight. And, since this is one of the program criteria, it must receive careful attention at the time of the next program review.

The current account deficit outlook seems to many Directors and to me to be the most vulnerable part of a program Mr. Rye appropriately regards as a "high-risk" one. A country with a debt burden as high as Argentina's should aim to show a surplus in 1992 rather than a deficit. A surplus would leave some room for maneuver in future and would help free up the program's close dependence on the level of international interest rates.

On the request for a stand-by arrangement, it is our view that despite obvious shortcomings, the program embodies a clear commitment of the authorities to tackle the sharp deterioration in the current account, and thus draws the conclusion of last year's experience by directing new action toward the areas where weaknesses had become evident, as is convincingly demonstrated by Mr. Feldman's opening statement. I can, however, give my support only in principle,



pending an agreement with the commercial banks and in the hope that the Fund's support will reinforce the Argentine Government's intention of strengthening the corrective measures in the course of the year.

On the request for a purchase under the compensatory financing facility, Argentina seems fully justified to draw, given the evolution of its export prices, and I could go along with an early or immediate release of the amounts available under this facility. There is no need to apologize for a decoupling of the stand-by from the compensatory financing facility, since they have in our view only been coupled in practice, never in principle. The Fund continues to need a wide spectrum of instruments with different degrees of conditionality. It is fortunate that the case of Argentina gives us an opportunity to reaffirm our case-by-case approach to compensatory financing facility disbursements as well as the intrinsic difference between a stand-by and the compensatory financing facility. Given the usefulness of an early or immediate release of the compensatory financing facility for the success of Argentina's negotiations with other sources of financing, I would be in favor of such a solution.

However, it is, in my view, not clear how we could draw a distinction between "immediate" or "early" relief. If the country is entitled today to have access to the compensatory financing facility, I do not see on what basis we could postpone access, except perhaps for tactical reasons, in which case, these should be spelled out.

If the country has immediate access to those resources, I do not see much need for bridging operations. I suppose they will be an alternative to a central bank bridging operation, in which case part of the problem referred to in our discussion might disappear and the whole issue might become at once more simple and straightforward.

The issue has also raised a number of interesting legal points because, if a country is really entitled to the compensatory financing facility, it is questionable whether it can be prevented from having immediate access to the resources. The question remains for me a rather difficult one.

On the matter of precedence, we have to be mindful of the fact that in a jurisdiction like the Fund Board, it is difficult to accept a case and then pretend that we never heard of it. What we do is always a precedent, whether we feel happy or less happy about it. So, we might find in this interesting precedent good reason for taking a fresh look at our procedures.



Mr. Lundstrom made the following statement:

We can support the proposed stand-by arrangement, although this support does not mean that we do not share the concern expressed by some previous speakers about the adequacy of the Argentine economic program. Mr. Rye called it a "high risk" program, and I am inclined to agree. In light of the tight external liquidity situation, the program does not appear to be sufficiently far-reaching, particularly with regard to the planned reduction of the current account deficit. The substantial increase in this deficit during 1986 indicates that the adjustment efforts have to be strengthened. At the same time, the priority given to the growth target is understandable. But growth should not imply strong expansion of consumption at the expense of investment.

The adjustment in the economy since mid-1985 has, in spite of a less satisfactory result in 1986, led to a considerable decrease in the rate of inflation, although it remains on a high and recently rising level. A reduction in the rate by one half in 1987 seems to be a reasonable target. However, when it comes to ways and means of achieving this, one is left with some questions.

I agree with the staff that the reduction in the overall public sector deficit should be directed to a larger extent toward cutbacks in public spending. The revenue-increasing measures outlined in the program--i.e., the tax amnesty, the reform of the social security system, and the restructuring of wage scales in the National Administration--are too vague and need to be specified further.

With respect to monetary policy, the commitments concerning the interest level are very unclear. I would appreciate a clarification of how certain interest rates are meant to be brought in line with averages of monthly rates of inflation. Like others, I want to emphasize the decisive role played by interest and exchange rate policies, as evidenced by the extensive capital flight.

Price and wage controls are to be continued, although to a decreasing extent. We question the sustainability of such a policy, since it is bound to distort resource allocation in a longer perspective. We agree with the staff that the task of maintaining a stable price level should center primarily on strict demand policy and on measures aimed at promoting competition, including increased competition from abroad.

One positive feature of the program is the review foreseen for June 1987 of Argentina's export prices and growth performance as a basis for deciding whether there is a need for additional resources, further actions, or adjustment of targets. In our view, this is a flexible way of dealing with the problem of uncertainty, which is particularly serious in the case of Argentina with its vulnerable economic structure and presently very difficult situation.



On the Argentine request for a purchase under the compensatory financing facility, I think there is no doubt that the case for such a purchase has been made. When it comes to the effectiveness of an approval, it would not seem possible to reach a consensus today on either an immediate release or a strict coupling to the effectiveness of the stand-by arrangement. Under such circumstances, it may be wise to make provision for returning to the question at a later date, if the effectiveness of the stand-by arrangement should be unduly delayed. I can therefore support the decision proposed by the staff, but I do it hesitantly and with the understanding that the Argentine case will not be considered as setting a precedent. And I concur with Mr. Rye and Mr. Foot that the time has come for an examination and reconsideration of our praxis in dealing with the effectiveness problem.

Mr. Goos made the following statement:

I welcome the recommitment of the Argentine authorities to the objectives of the Austral Plan and the fact that they have turned again to the Fund for support of their economic program for this year. They undoubtedly deserve to be commended for having chosen this cooperative approach. If pursued with determination and persistence, it holds not only the promise of an orderly and smooth transition to a viable overall economic position but also the prospect for broad-based support from the international financial community.

In this latter regard, the Fund is apparently prepared to take the first important step by pledging its own resources, but Argentina still has some way to go in securing the financial contribution of commercial banks. In view of the critical importance of that contribution to the eventual release of Fund financing and, in the final analysis, to the provision of official bridging finance, I hope that the authorities will work toward an early conclusion of their negotiations with the banks. Recent announcements by Argentine representatives to the effect that those negotiations are expected to be difficult and protracted and that the authorities would be insisting on major concessions from the banks might be part of the normal process of building up bargaining positions. But I am afraid that such announcements could be less than helpful in the effort to reach an early agreement. In this context, one should also bear in mind that undue delays in the negotiations with the banks could impair the Fund's credibility inasmuch as such delays could be perceived by observers as a reflection of doubts about the adequacy of the Fund arrangement.

I agree that the thrust of the measures contemplated in the economic program for 1987 is in the right direction. However, the staff's analysis clearly reveals a number of difficulties and concerns that warrant the authorities' increased attention, if not





a strengthening of the program in important respects. Since I am in full agreement with the staff appraisal in the stand-by paper, I will refrain from commenting on all the specific problem areas.

I should, however, associate myself explicitly with the staff's concern about the credibility of the authorities' stabilization effort. There are indeed several indications that this credibility might again be at stake only 1 1/2 years after it was restored--or at least greatly strengthened--as an immediate and perhaps the most important result of the Austral Plan. In this context, one certainly has to bear in mind that credibility and confidence cannot be easily turned on and off at the discretion of policymakers. Accordingly, in the absence of convincing corrective action, there is the definite risk that the earlier aspirations fostered by the Austral Plan could give way to a growing and lasting disillusionment in the marketplace, thereby depriving the authorities of the rather unique opportunity to build on the encouraging results of that Plan.

Like Mr. Rye and others, I wonder whether the program as presented in the paper can really be considered strong enough to pull the economy back on the track to overall stability. In general, it appears that the authorities have reverted to the gradual approach to adjustment of the pre-Austral Plan period, as evidenced in particular by the rather modest inflation target, the postponement of fiscal adjustment to the second half of this year, and the lack of progress in tackling the operating losses of the central bank. Actually, in real terms, the overall fiscal deficit will apparently be allowed to remain on a substantially increasing trend in the first half of this year as will the losses of the central bank for the whole of 1987. Similar concerns arise from the continued delays in the implementation of structural measures that were already agreed under the previous stand-by arrangement, most notably, as has been mentioned by many previous speakers, in the area of import liberalization.

The inherent risks of such a gradual approach to adjustment are quite obvious, particularly in light of the pre-Austral Plan experience. But on top of that, like others, I feel that the recent strong acceleration in the inflation rate and the re-emergence of substantial spreads between the rates of the official and parallel exchange markets should be taken as clear warning signals that the pursued pace of adjustment is probably too slow. In this regard, I understand from Mr. Feldman's very helpful statement that his authorities have reacted by emphasizing their commitment to the objectives and targets set for this year. While this is certainly welcome, I would have felt more at ease if the program had provided explicitly for a set of contingency measures that could be activated if the program targets came under serious



pressure. Such contingency measures would have been especially helpful in the area of fiscal adjustment, considering in particular that the measures needed to meet the deficit target are not yet in place and that the Board's repeated recommendations to shift fiscal adjustment to expenditure-cutting measures still await implementation.

In this context, I wonder whether the authorities have given thought to an accelerated reduction in the spread between the interest rates paid on central bank liabilities and the rates charged on rediscounts in order to curtail the substantial losses of the central bank. To conclude on this subject, I feel that the program could have been strengthened further if it had explicitly addressed, through appropriate measures, the pronounced decline in capital inflows in the wake of the recent liberalization of transfers for interest payments, dividends, and profits.

In light of these considerations, I feel that the success of the program hinges critically on close monitoring of economic developments and policy implementation combined with the willingness of the authorities to adapt policies promptly to unexpected adverse developments. We therefore attach particular importance to the forthcoming program review. In this context, I should like to express a word of caution on the review clause concerning Argentina's growth performance, spelled out in paragraph 25 of the letter of intent. While it is certainly welcome that this review clause is much more flexible than the clauses adopted in some other cases, I feel that it would only be prudent to ensure, first and foremost, that the stabilization program proceeds on a sound footing rather than attempting to adapt policies to short-term fluctuations in output growth. I feel that Argentina would have a lot more to gain in the longer run--in particular, in terms of economic growth--if the 1987 program resulted in a lasting elimination of inflationary expectations and the necessary restoration of confidence in the future course of economic policy.

To conclude, I should perhaps assure Mr. Feldman that my critical remarks and reservations were clearly put forward in a constructive spirit. Therefore, and in recognition of the encouraging progress achieved since the adoption of the Austria Plan, I can go along with the requested stand-by arrangement. I can also support the proposed compensatory financing facility drawing, since the relevant criteria for access to the compensatory financing facility seem to be largely met. I would have liked to see, however, a more thorough assessment of the requirement that the shortfall must be beyond the control of the authorities and, for that matter, an analysis of the potential impact of export taxes and exchange rate policy on export performance. Nevertheless, in view of the substantial margin between the calculated shortfall and the proposed amount of purchase, I am satisfied that the purchase is consistent with the compensatory financing facility decision.



Mr. Dallara made the following statement:

Since the middle of 1985, considerable progress has been made by the Argentine authorities on a range of economic fronts. In fact, since the inception of the bold economic program referred to as the Austral Plan, inflation has been dramatically reduced, major strides have been made in cutting the fiscal deficit, and, in general, a substantially greater degree of financial and economic order and discipline have been restored in the Argentine economy. All this has contributed fundamentally to the recovery of real economic activity that occurred last year in Argentina and to the good prospects for continued growth this year. We join other Directors in commending the authorities for this impressive record of accomplishments. If in the spring of 1985, Mr. Feldman or his predecessor had advised us that in 1986 he foresaw the Argentine economy with an annual inflation rate in the range of 70-80 percent, a real growth rate in excess of 5 percent, and a consolidated nonfinancial public sector deficit of less than 4 percent, we would have reacted, I am sure, with substantial dubiousness, if not a degree of incredulity, which we would have tried to hide, perhaps, due to our politeness in such circumstances. Argentina has indeed brought this record to pass, and we think that, if one views the entire period of the last year and a half, one cannot help but be impressed by these singular accomplishments.

At the same time, as many Directors have noted, there were serious slippages in the program effort in 1986 with regard to inflation, the reduction in the fiscal deficit, trade and payments liberalization, and the overall payments position. These slippages were tackled in a significant way in measures undertaken in the latter part of the summer of 1986, and we view the program put forward today by the Argentine authorities as a continuation and a consolidation of those corrective efforts, building on them. If the objectives of this program are achieved, we believe this would represent an important consolidation and extension of the progress made in the previous year and a half. But, in some areas, like other Directors, we find the program not particularly ambitious. For example, with regard to the fiscal program, we find the objectives themselves appropriate and supportable, but the lack of specificity about how those objectives will be accomplished is a matter of some concern.

On the fiscal deficit, we are somewhat uneasy about the backloading of the fiscal adjustment in the second half of 1987. Had the 1986 experience not been behind us, we might not be so concerned about this. But, in the circumstances, this is something which, in our view, will require particularly close monitoring. We also note that the largest part of the overall reduction in the deficit is expected to come from the revenue effects of the tax amnesty. We would welcome the staff's or Mr. Feldman's comments on the degree of reliability which they might associate with the



projections in this area, since it has been our experience across the range of countries we have looked at that the actual effects of tax amnesty are rather difficult to predict. Also, we are somewhat concerned that the emphasis on reduction in the fiscal deficit continues to be on the revenue side. At the same time, some of the revenue measures--such as the tax amnesty, forced savings, and temporary foreign trade taxes--do not appear to strengthen the basic revenue structure. We would be interested in knowing a little more about the nature and timing of any Argentine plans for more fundamental tax reform. We indicated that the Fund has in the past year or two provided technical assistance in this connection, and we would appreciate any information on this matter that might be provided. On the subject of government spending, we hope that additional restraint in the fiscal effort could come from the spending side, thereby facilitating the achievement of the overall objectives without undue pressure on revenue raising.

In a related area, we note that a new holding company has been created for public enterprises. We welcome this step, which appears to be another in the continuing efforts of the authorities in the past year and a half to improve management and reduce losses from parastatal enterprises. In this connection, we welcome the effort which is under way to privatize some of the public enterprises. This is an effort which, somewhat inevitably, has gone rather slowly, yet has been characterized by important progress. We would appreciate any information which might be provided on how the holding company is to play a role, if it is, in the overall privatization effort.

Turning to financial policy and monetary policy, we welcome the assurances that central bank interest rates will be raised, if necessary, to achieve the limit on central bank losses and that the Central Bank will try to reduce its financial intermediation role in the financial markets. However, the commitment in this area does not seem particularly concrete and, here again, we have a record in the past year and half of considerable difficulty on the part of the authorities in achieving their stated objectives. Therefore, we would underscore the importance of making genuine and steady progress in this area in the year ahead. Also, the expression of an intent to consolidate the trend of an increase in the proportion of bank deposits which are subject to unregulated interest rates seems somewhat general. While we welcome the commitment to keep regulated deposit rates at least approximately equal to inflation rates and to keep regulated lending rates moderately positive in real terms, again we do not find this particularly ambitious in the circumstances. We hope that these matters will receive close attention by the authorities in the period ahead and in the review of this program that will be conducted in a few months.





Greater success during the past year in fiscal and monetary restraint and in trade liberalization might, of course, have permitted a faster pace of dismantling of price and wage controls. We appreciate the very difficult problems the authorities have faced in price and wage deregulation, but we feel that some of the problems which developed in the past year were due to a degree of laxity in the fiscal and monetary area. We understand the need to move cautiously in 1987 on price and wage deregulation. Yet, like the staff, we hope that the authorities make every effort to move as rapidly as circumstances permit, since there is a potential for distortions to build up in the economy, and it is critical that the investment rate in Argentina not decline due to any distortions which might be created. In the wage area, we welcome the draft labor law, which will allow collective bargaining at the firm level, and we understand the need and motive for some temporary continuation of wage guidelines, set forth, as we understand them, in an effort to moderate increasingly the wage developments.

On the balance of payments, we, like other Directors, view as somewhat disappointing the performance in 1986, but a great deal of the shortfall in this area was due to exogenous developments. We believe the objectives set for 1987 are sound, although we wonder whether the 40 percent growth rate for manufactured exports will be easily achieved. In this connection, I would also express some concern about the rapid growth of imports which occurred in 1986 and I wonder whether or not this poses a dilemma for the authorities in 1987.

Related to this, both retrospectively and prospectively, have been exchange rate developments. We have felt somewhat uneasy about the rather steady real effective appreciation of the rate in the past many months. Export growth and efficient import substitution in the framework of continued economic recovery could be facilitated by a very strong competitive position. The persistence of import licensing, the 10 percent import surcharge, export rebates, and other related practices make it difficult for us to assess the adequacy of the exchange rate. When these are viewed in combination with the lack of major progress in trade and payments liberalization, we wonder whether the authorities currently have a fully competitive situation.

We believe it is particularly important during 1987 that the authorities move ahead on trade and payments liberalization. We were looking for some additional information in the document concerning the status of efforts toward this end in conjunction with World Bank help, since we have the impression that many of the trade liberalization areas which had been dealt with rather specifically in past programs with the Fund are now being dealt with more specifically in the context of a loan with the World Bank. If this is the case, we feel that it is important that information in this area be provided.



The authorities continue to be confronted by a difficult external debt profile, with the staff's scenario showing a debt ratio of 55 percent in 1992 and a debt service ratio before rescheduling in the range of 73 percent. This suggests clearly that exceptional financing in the form of debt relief and concerted lending may well be needed for several years to come. The financing requirement for this year alone is, of course, not insignificant. Nevertheless, with continued sound and, where necessary, reinforced economic policies, we believe that Argentina should be able to raise the needed external financing, and we certainly hope and believe that external creditors will step forward and cooperate in this effort in 1987.

Regarding the decisions we have before us, like other Directors, we have had increasing concerns about the use of the approval-in-principle process, as recent experience in this area has not been particularly encouraging. We would join other Directors in welcoming a general review of this approval-in-principle approach. In this particular case, however, we feel that it is the appropriate approach, not only to send a clear signal to Argentina that its program--the policies of which it is not only committed to but is in the process of implementing--is supported by the IMF, but also to send an important signal to the international financial community at large, and the commercial banks in particular.

We are ambivalent on the question of whether or not the stand-by decision should be open-ended. We certainly appreciate the point of Mr. Foot and others, who would prefer a 30-day time period in the approval-in-principle decision. At the same time, we have to be cognizant of the realities of the marketplace which Argentina and other debtors currently face. These realities suggest that, if we were to place a 30-day deadline in this decision, we might put ourselves in the position of having to review and perhaps revise this decision more than once. Therefore, we would be willing to go along with the approval-in-principle decision for the stand-by arrangement without a date. However, if others felt strongly, we would be willing to put a date somewhat down the road in the decision. Perhaps an alternative would be to leave the decision as it is, but to agree that the Managing Director report on the status of the discussions with the commercial banks and the status of the financing package to the Board at a certain time in the future. This would give an opportunity to the Board to review the status of this matter, without requiring it, necessarily, to formally revise the decision on the stand-by arrangement.

Regarding the compensatory financing facility decision, again we understand and share many of the reservations which Directors have expressed concerning a modification of our standard practice in this respect. Yet, when one looks at the individual



characteristics of this case and when one considers the need for bridge financing in order to facilitate an orderly management of Argentina's external position during the months ahead, we see the merit in, and clearly the possible need for, some modification in the date of disbursement of the compensatory financing facility. In the circumstances which exist today, where it is not entirely clear what particular approach would be most appropriate to facilitate the structure of a bridging arrangement and the other objectives which I have mentioned, we support the draft decision which has been put forward by the staff. I would add that as soon as these uncertainties are clarified, and as soon as a particular approach emerges which might be consistent with the full range of considerations existing in this case, we would be happy to come back to take an early decision to clarify exactly what the circumstances for disbursement of the compensatory financing facility would be.

In concluding, we support the program before us, believing that it provides a sound basis for a continuation of Argentina's economic adjustment and growth program. We have sensed that, perhaps, the lack of specificity in some aspects of the program shows the willingness of the staff and management to demonstrate that it accepts in full good faith the intent of the Argentine authorities to fully implement this program as outlined. We certainly hope and expect that the authorities will, therefore, make every effort to achieve the objectives of the program. We believe that, if that is done, this cannot help but reinforce confidence, both domestically and internationally, and improve the prospects for continued sound growth in the Argentine economy.

Mr. Salehkhrou made the following statement:

Notwithstanding a number of slippages in some of the performance criteria under the previous stand-by arrangement, which resulted mainly from some relaxation of fiscal, monetary, and wage policies, Argentina's economic and financial performance under the program was satisfactory. The considerable efforts made by the authorities and the achievement of the main objectives of the program in substantially bringing down the then prevailing very high level of inflation and in correcting external imbalances are commendable. The Fund's flexible policy in helping Argentina maintain its stabilization program by, inter alia, extending the period of the previous stand-by arrangement and granting waivers for nonobservance of performance criteria in order to enable the country make final purchase is encouraging. I hope that this flexible treatment will be applied more frequently to other cases.

The developments in economic variables since 1985 could be characterized by a swing with a general trend toward a normal position. The implementation of tight fiscal and monetary policies,



which was accompanied by a wage freeze in early 1985, led to a sharp fall in the consumer price index to an average of 2 1/2 percent from August 1985 to February 1986. However, slippages in financial policies and monetary aggregates in the second half of 1985 gave rise again to disappointing inflationary pressures. Beginning in March 1986, the consumer price index began to surge, reaching a peak of 8.8 percent in August. Recognizing the potential danger, the authorities made considerable efforts, through implementation of radical reforms, to tone down inflationary expectations. The abandonment of certain industrial commodity prices and wage indexation, which accompanied a marked tightening of monetary policy, resulted in a deceleration in the rate of inflation during the last quarter of 1986. All in all, the overall achievement for the year 1986 was impressive, as the consumer price index abated to 82 percent, from 385 percent in 1985.

On the external side, Argentina's balance of payments position, which had registered a significant improvement in 1985, deteriorated again in 1986, with the current account deficit estimated to have widened from less than \$1 billion in 1985 to \$2.6 billion in 1986. Export shortfalls, reflecting a sharp decline in international prices of primary agricultural products and adverse effects of widespread flooding in the Buenos Aires province on the volume of wheat exports, as well as a strong rise in imports, were the main causes of this growth in the deficit.

The situation required the continuation of the stabilization program in order to consolidate the progress already achieved. Successful implementation of corrective measures envisaged in the context of the 1987 program would create a favorable environment for sustainable growth in the medium term under a viable balance of payments and lower inflation. The attainment of the program's objectives, particularly the reduction of the inflation rate by one half and the shrinking of the external current account deficit to \$1.7 billion in 1987, necessitates the authorities' strong adherence to the policies envisaged under the proposed program. A further reduction in the overall public sector deficit and a deceleration in the growth of monetary and credit aggregates in line with the projected decline in inflation would help restrain aggregate demand. The public sector deficit is intended to abate from 3.9 percent of GDP in 1986 to 2.5 percent, mainly due to a further increase in public sector revenues--particularly through the proposed tax amnesty plan--an increase in the rate of social security taxes, and an improvement in the tax administration. These revenue measures, however, are likely to provide only temporary relief, and more emphasis should be put on addressing the structural problems of the public sector, especially on the expenditure side. In this regard, I welcome the authorities' recognition that a more permanent solution to Argentina's fiscal problem needs to be developed.





On the monetary front, credit policy should be kept flexible to play an important role in strictly limiting domestic credit expansion. Taking into account the existence of strong pressure in the economy for price and wage increases, the Government has a difficult task to effectively implement its wage and price guidelines that have proven to be useful in reducing inflation expectations. Despite the long-term costs, application of price restraints and guidelines, and the setting of upper and lower boundaries for wage increases in the private sector, are necessary under the present circumstances. I welcome the flexibility applied in this case, especially as far as price controls are concerned.

Commenting briefly on Argentina's external financial policies, I note, first, given further projected declines in agricultural export prices and increasing protectionist tendencies, the balance of payments objectives, particularly the 40 percent increase in manufactured exports or 11 percent increase in overall export earnings in 1987, appear to be rather optimistic. However, firm and timely implementation of monetary, fiscal, price, and wage policies will, it is hoped, bring about an improvement in Argentina's external position. Steps already taken to enhance export competitiveness, including significant reductions in the export tax on agricultural commodities and incentives for industrial exports, are in the right direction. Further improvements in the balance of payments would help eliminate the country's external arrears that were to have been settled under the previous stand-by arrangement.

In this regard, I strongly share the authorities' view that international agricultural prices remain an element of major concern and that any decline in export prices below the projected level is bound to erode the country's export and, subsequently, growth performance. However, the Fund's flexible approach in considering export and growth developments at the time of the review of the proposed stand-by arrangement, to adjust the targets and to establish performance criteria for the rest of the program, would significantly help compensate for the adverse effects of unforeseen factors. Although not going far enough in the form of a straight contingency clause, the Fund's flexible treatment is welcome, and I urge the staff to apply the same treatment to other members, irrespective of their size and/or position in the international financial community.

Second, I note that the trade liberalization measures to which the authorities had committed themselves under the previous arrangement could not be met because of delays in the completion of the study of a tariff reform to supplement the lifting of trade restrictions. I welcome the authorities' indication that negotiations with the World Bank on a trade policy loan to support the program are now well advanced. However, I wonder whether under the new arrangement the authorities have made any commitments to



trade liberalization. Comments on this question by the staff or the World Bank's representative would be welcome.

Third, given the medium-term balance of payments outlook projected by the staff, Argentina's external position will remain highly vulnerable. Improvement in the balance of payments will depend heavily on the level of international interest rates and capital inflows. Any deviation in the assumptions will not only erode the country's external position; it will also jeopardize other objectives of the program. The situation thus calls for a firm implementation of envisaged policies by Argentina and strong cooperation from the international financial community in meeting Argentina's financing needs on concessional terms.

In concluding, I wish to support the request for the stand-by arrangement and the compensatory financing facility drawing. I have no problem with the proposed decision on the stand-by arrangement. On the compensatory financing facility, however, like many previous speakers, I wish to oppose paragraph 3 of the proposed decision.

Mr. Song made the following statement:

The Argentine authorities have experienced several ups and downs in their stabilization efforts since mid-1985, and the present situation is the result of a long and arduous process. We are pleased to see that an upward trend in economic performance has emerged since the last quarter of 1986. We believe that the authorities' economic program for 1987 represents a continuation of their stabilization efforts and deserves Fund support, and that the success of the program is without doubt in the interests of both the Argentine people and the international community. For these reasons, and based on the Memorandum of Understanding on Economic Policy which has been submitted by the authorities, we support the request for the stand-by arrangement.

In view of the fact that the requirements of the compensatory financing facility have largely been met on the calculation of export shortfall, we therefore also support the request for a purchase under the compensatory financing facility.

Finally, we endorse in principle the two proposed decisions on the stand-by arrangement and on the compensatory financing facility and hope that early disbursement can be made in response to Argentina's urgent need.



Mr. Alhaimus made the following statement:

Since mid-1985, Argentina has embarked on a strong and, one could say, pioneering program to overcome the chronic problem of inflation and to set the economy on a more viable course. This effort, which has achieved a good measure of success so far, should indeed be continued, as is now envisaged in the 1987 program, to maintain the gains already achieved and to avoid the kind of slip-pages that caused a resurgence of inflationary tendencies in early 1986. The new program embodies a reasonable set of objectives and policies, but, as the staff rightly points out, there is a need not only for firm adherence to the program, but also for a more vigilant attitude in the fiscal and monetary areas.

Of particular importance in the fiscal area is to ensure that all measures required to reduce the fiscal deficit are in place and that, as the staff rightly emphasizes, a larger share of the fiscal adjustment is borne by a reduction in expenditures rather than continued reliance on revenue increases.

On monetary policy, there seems to be a need to keep a close watch on prices to ascertain whether further measures are needed to keep inflation within the projected limits.

A more difficult policy issue is the appropriate timing of any possible removal of price and wage controls, which the staff strongly urges. The distortions and uncertainties that these controls may perpetuate should certainly lead to their eventual removal, but this should be most appropriately undertaken when the envisaged demand-management measures are in place to avoid an upsurge of inflation when controls are removed.

Finally, the request for a compensatory financing facility drawing seems to be in conformity with the compensatory financing facility decision. I agree with other Directors that the request should be considered on its own merits, and disbursement should not be contingent on final approval of the stand-by arrangement.

The Chairman observed that Argentina, running short of reserves, was clearly in a difficult situation; and a good case could thus be made for considering a rapid disbursement of resources under the compensatory financing facility. However, according to the advice he had received from the staff, the conditions for such a disbursement had not been fully met. Of course, he could have departed from the guide lines and recommended a special ad hoc decision in the Argentine case, but he felt that such an approach would be inappropriate, especially on the eve of a major review of the compensatory financing facility. He was aware that an early disbursement of resources under the compensatory financing facility, assuming the appropriate conditions were met, could make it easier for Argentina



to obtain bridging finance. And it was for that reason that the proposed decision referred to the possibility of consideration by the Board of early disbursement, if certain conditions were met.

Mr. Nimatallah noted that if the Fund decided to release the resources under the compensatory financing facility early, then, once the stand-by arrangement became operative, a portion of the amounts released under the compensatory financing facility could be deducted from the initial purchase or purchases under the stand-by arrangement.

The Director of the Legal Department observed that one of the basic conditions for a purchase under the compensatory financing facility was that a finding be made by the Executive Board that the member met the condition of cooperation with the Fund. The concept of cooperation had been set out in the guidelines adopted in 1983, with a distinction having been made between lower and upper credit tranche purchases. In the Argentine case, the request was for a purchase in the upper tranche from the compensatory financing facility. For an upper tranche purchase, a finding must be made that the member had been cooperating with the Fund; and different criteria for that finding were listed in the guidelines. There were four alternative criteria. The first was the existence of a satisfactory balance of payments position apart from the effects of the shortfall. In view of Argentina's circumstances, it was clear, at least in the opinion of the staff, that the first criterion had not been met.

The second criterion was broadly satisfactory performance under an arrangement with the Fund, the Director continued. However, for the time being Argentina did not have an effective stand-by arrangement with the Fund. The third criterion was the adoption of such an arrangement at the time the request for a compensatory financing facility purchase was made. The proposal for approval in principle, if it were accepted by the Executive Board, might give the impression that the third criterion was fulfilled; however, it could not be said that an arrangement was adopted until the arrangement became effective. If, after the approval in principle, commercial banks asked the Fund to certify that Argentina had a stand-by arrangement, the position of the staff would be that, for the time being, it did not.

The fourth criterion was a fairly complex one, the Director remarked. The guidelines stated that "if a member's current and prospective policies were such as would in the Fund's view meet the criteria of the use of resources in the credit tranches, the member would be deemed to have been satisfactorily cooperating with the Fund even though such use was not contemplated at the time of the compensatory financing facility request." The purpose of the sentence was clear: it contemplated the case of a member that was not requesting a stand-by arrangement or an extended arrangement with the Fund, but was nevertheless applying policies that were adequate to deal with its balance of payments problem. It could be argued in the case of Argentina that the current and prospective policies met the criterion for use of the Fund's resources. However, in order to make the precise finding that the criterion was met, a theoretical question





must be asked. The question was whether the Executive Board, on the basis of the member's current and prospective policies, would be prepared to adopt a stand-by or extended arrangement. In other words, was the Fund prepared to authorize the use by Argentina of the Fund's resources. The answer to the question could be found in the proposed approval in principle for a stand-by arrangement. An approval in principle meant that the Fund was not prepared to authorize the member to use the Fund's resources until the financing gap had been closed by an agreement with the member's creditors. As such, the member's policies were not sufficient to warrant an arrangement with the Fund. If the gap were not met, other policies would have to be proposed. In other words, if Argentina were to request the use of the Fund's resources without the financing gap being closed, other policies would be needed. That was why the staff had reached the conclusion that, for the time being, the fourth criterion for cooperation had not been met. Of course, any one of the criteria could be met in future, which was why the proposed decision left open the possibility in the third paragraph of a finding that the test of cooperation with the Fund might be met at a later date.

Mr. Kabbaj asked for a clarification of the practice with respect to requests for purchases under the compensatory financing facility when associated stand-by arrangements had been approved only in principle. Was it the norm to withhold compensatory financing facility resources, or to disburse them in such circumstances?

Mr. Ortiz observed that the guidelines cited by the Director of the Legal Department were dated September 1983. Had any approvals in principle taken place before that date?

The Deputy Director of the Exchange and Trade Relations Department replied that the first approval in principle had been granted in June 1983 for Sudan, and it had become effective some six weeks later.

The Director of the Legal Department, responding to Mr. Kabbaj's question, observed that the combination of an approval in principle of the compensatory financing facility and an approval in principle of a Fund arrangement had occurred at least five times in the past: for Zambia and Zaïre in 1983; for Jamaica in 1984; and for Somalia and Chile in 1985.

Mr. Ortiz remarked that he understood the Director of the Legal Department to be suggesting that approval in principle of an arrangement was not sufficient for the fourth criterion for purchases under the compensatory financing facility to be met because the Fund would not be willing to commit its resources if the entire financial package was not in place; and if it was not, additional policies beyond those contemplated under the arrangement might be required for the Fund fully to approve the program. However, he recalled a clause in the stand-by arrangement which stated that, in the event that, say, the financing was not available, the authorities would be prepared to take additional measures. And that commitment would seem to be sufficient.



The Deputy Director of the Exchange and Trade Relations Department observed that performance criteria were based on understandings concerning policy measures that the authorities planned to take as well as on assumptions about financing packages to accompany those measures to make them work effectively in accordance with the plan that had been agreed. If there were no assurance of the financing, it was not only that additional policy measures might be needed; it would be necessary to assess once again whether the performance criteria that had been set on the basis of certain prospects of financing remained appropriate. It was in that sense that the Director of the Legal Department was suggesting that the fourth criterion for purchases under the compensatory financing facility had not been met. In general, the judgment that the Board had to make when approving a program was whether or not the policies as measured by performance criteria that had been set on the assumption of prospective available financing were sufficient to safeguard the revolving character of the Fund's resources. In that respect, the availability of financing was an important element in the Board's judgment.

The questions raised by Mr. Nimatallah would no doubt be answered during the forthcoming general review of the compensatory financing facility, the Deputy Director continued. Those were questions related mainly to the design of programs. Stand-by arrangements together with requests for purchases under the compensatory financing facility were based on a need for both types of resources, but it was not clear that they could replace one another in terms of the amounts involved. Nonetheless, the issues raised by Mr. Nimatallah clearly touched upon the relationship between access under the compensatory financing facility and access under the credit tranches, and the staff would be looking into that issue.

The staff representative from the Research Department, replying to a question by Mr. Kabbaj, observed that there had never been a case in which the test of cooperation for a purchase under the compensatory financing facility had been met by the existence of a stand-by arrangement such that the compensatory financing resources had been disbursed ahead of the entry into effect of the stand-by arrangement.

The staff representative from the Western Hemisphere Department recalled that a number of Directors had raised questions about the tax measures envisaged under the program and had asked for some assessment of their impact. Since the letter of intent had been circulated to the Board, certain of the tax measures had been enacted. As Mr. Feldman had noted in his opening statement, the tax amnesty--the most important of those measures--had passed through the Congress. In addition, a cigarette excise tax and a banking tax had been put in place. Nevertheless, improvements in tax administration would be required to produce the revenues foreseen under the program, particularly for the second half of the year. To the extent that shortfalls in tax revenue occurred, offsetting measures would need to be taken. The staff would be looking into the need for such measures on the occasion of the midterm review.



Recalling questions by Mr. Massé and Mr. Dallara on the staff's estimates of the yield of the tax amnesty law, the staff representative observed that the staff had been guided by Argentina's past experience with similar tax amnesty laws, and it believed that the estimate included in the program was a reasonable one. Of course, progress under the tax amnesty program would need to be monitored closely, and its success would depend upon the public's perception of tax efforts in other areas. In the past, the Argentine authorities had achieved good results with tax administration, and it seemed only reasonable to expect a continuation of such performance. It should perhaps be noted in that respect that the Fiscal Affairs Department of the Fund had been providing technical assistance in the tax administration area.

In response to Mr. Ortiz's query on the reason for a performance criterion on Treasury outlays, the staff representative noted that such a requirement was by no means new; indeed, such a criterion had been included in the stand-by arrangement of 1984. Moreover, the Argentine authorities assigned importance to controlling expenditure rather than simply to focusing on the deficit.

The relationship of the holding company to the privatization process had been questioned by Mr. Dallara, the staff representative recalled. The idea behind the holding company was that outside observers would be invited to look at the functioning of the public enterprises. The aim was to improve the efficiency and operation of those enterprises, and privatization was certainly one option available to achieve that aim.

The authorities had experienced considerable difficulty in gaining control over rediscount policy, for want of adequate data, the staff representative continued. The World Bank had begun a program with the Argentine Central Bank to facilitate the gathering of data that would enable the authorities to exercise better control. Progress could be expected within the next few months and would represent a key element in the financial reform program that the Argentine authorities were considering undertaking with the support of a World Bank loan. Both Mr. Posthumus and Mr. Goos had asked why the rediscount rate had not been increased immediately. As one could well imagine, political sensitivities were involved. The authorities expected that with the decline in inflation, free market interest rates in real terms would also decline. It was specifically envisaged in the program that if the interest rates on which the Central Bank was paying holders of its paper did not decline, offsetting action would be taken.

On the sterilization of overperformance in the balance of payments and the adequacy of open market operations, the staff representative noted that the partial sterilization of such overperformance that was envisaged in the program would automatically be enacted by the reserve requirements already in place. With regard to questions on regulated interest rates, he noted that the Central Bank would set the rates, taking into account the projected rate of inflation over the subsequent three-month period. It should perhaps be noted that as inflation had picked up, an increase in those regulated rates had recently been undertaken.



In response to a question by Mr. Posthumus on the settlement of the COGASCO dispute, the staff representative observed that in preparing its papers, the staff had been guided by the Argentine authorities' indication that an outline had indeed been worked out and that the matter was nearly settled. The staff had consulted again with the Argentine authorities to determine the precise situation; and, if need be, a revision to the report would be issued. It should perhaps be mentioned that the staff had not assumed that any payments had been made but rather that the arrears to COGASCO had been rescheduled.

Finally, on the question of trade liberalization and the role of the World Bank, the staff representative said that at the time of the negotiations of the program, the World Bank had not yet fully defined its position on the trade liberalization that was to take place under a trade reform loan. Since then, the Bank had reached some conclusions and was looking for an automatic mechanism that would ensure the transfer of certain import items from the prior list to the automatic list. In addition, the loan envisaged a commitment by the authorities to move nearly all items to the automatic list within a three-year period.

Another staff representative from the Western Hemisphere Department observed, in response to Mr. Dallara's question about the effects of recent tax reform measures, that in the past 18 months the Government had eliminated the bank secrecy law and had made bonds and stocks nominative, which had greatly improved the authorities' ability to check on tax evasion. The Government had also introduced important changes in the administration of the value-added tax and had taken steps to computerize the administration of taxes, which allowed for the cross-checking of tax returns. In passing, he commented that, in January 1987, tax revenues had been 5 percent higher than projected in the program. The increase was not related to the fact that inflation had been higher than projected, because taxes were collected with a lag. In the past, the projections for tax revenue had tended, if anything, to be conservative.

Responding to Mr. Ortiz's question about the design of the net domestic asset test and about why the projected--as opposed to the actual--exchange rate had been used in calculating net domestic assets, the staff representative remarked that the design of the ceiling in the program avoided an upward adjustment in the net domestic asset limit if inflation, and the exchange rate adjustment, turned out to be higher than projected.

Some Directors had noted an apparent discrepancy between Chart 5 on the exchange rate (EBS/87/5) and the description in the text of the paper on the compensatory financing facility (EBS/87/17), the staff representative recalled. Indeed, the exchange rate had appreciated in real terms in the course of the shortfall year. However, a look at the average level of the real effective exchange rate in the shortfall year, relative to the preshortfall year, showed a depreciation. One could see in Chart 5 that, from August to November, the effective exchange rate appreciation had been stopped, and preliminary estimates suggested that the real effective exchange rate had depreciated in December 1986 and January 1987.





by 4-5 percent. Finally, on the relative merits of using attrition versus incentives to streamline the public sector, it should be noted that a hiring freeze had been in place in the Government since 1985. It was the intention of the Government to continue to limit hiring at the same time that the Government's program of paying people to leave the public sector was being put into place.

The Deputy Director of the Exchange and Trade Relations Department noted that Mr. Posthumus, in referring to the guidelines on approvals in principle, had asked whether the reference to prior actions meant that Directors had intended that the approval in principle procedure should be used essentially when the only element lacking was the financing for the arrangement. As he saw it, there was no question of prior actions or of policy understandings not having been reached in the Argentine case; indeed, if the financing were available, the staff's recommendation would be to put the arrangement into effect immediately.

Some Directors had expressed concern about the open-endedness of the approval in principle recommended in the specific case of Argentina, the Deputy Director remarked. Of course, a deadline had certain advantages as well as disadvantages. The staff believed that in the Argentine case, it would be appropriate for the procedure to be open-ended with respect to time but not with respect to the need to achieve satisfactory arrangements for the financing. The staff had attempted to convey that view by stating in the decision that the stand-by arrangement would come into effect once satisfactory arrangements for its financing had been made, provided the program was still being carried out. Finally, the staff had taken note of the request by a number of Directors for a more general review of the approval in principle procedure.

The staff representative from the Research Department recalled the suggestion by Mr. Goos that in the Argentine case, the requirement that a shortfall must be beyond the control of the authorities had perhaps not been as well articulated as it could have been in the paper on Argentina's request for a purchase under the compensatory financing facility. The staff had attempted to suggest that the shortfall in total exports in Argentina was related mainly to the drop in international prices of virtually all of Argentina's major exports as well as to a decline in the export supply, based on adverse weather conditions. Mr. Goos had also suggested that export taxes might have had an impact on the shortfall, and the staff had mentioned on page 9 of its paper that all major export products had for some time been subject to an export tax, although the trend had been for the tax to be reduced. Beginning in December 1985, the rate of taxation on wheat, for example, had been lowered from 26 percent to 15 percent; and a reduction to 5 percent had occurred in September 1986. Taxes on maize and sorghum had also been lowered considerably. Abstracting from those changes, one might conclude that any effect that they might have had on exports had not been intensified in the shortfall year. On the contrary, the effect of the tax had been reduced, and it could thus be inferred that exports had not been adversely affected in the shortfall year, by comparison with the extent to which they had been affected in years prior to the shortfall year.



The staff representative from the World Bank noted that the Bank had been expanding its lending program in support of stabilization and structural reforms in Argentina and was currently working on a trade policy loan that would be followed by an export promotion loan and an industrial restructuring loan, all of which would enable the Bank to make a concerted and interrelated approach to support structural reform in industry and the trade sectors. Those would be accompanied by a loan in support of reform in the financial sector being undertaken by the Government through certain central bank actions.

In the area of trade policy, the World Bank was supporting a number of initiatives by the Government, the staff representative continued. The first was the phasing out of export distortions, subsidies, and export taxes. Another was the effort to simplify trade procedures for both imports and exports; at present, because of their complicated nature, trade procedures in Argentina tended to delay trade. Yet another area for action was export promotion, and the Bank was supporting an overhaul of the temporary admission regime so that exports would have an automatic simulated free trade area in which to operate. Finally, the Government was attempting to phase out quantitative restrictions by moving more products to the automatic list. The Bank staff was in the process of preparing a proposal to the management for a feasible integration of all the elements he had mentioned. With management's approval, the proposal would be put forward as a basis for negotiation with the Argentine authorities.

Mr. Feldman, noting that the staff had answered most of the questions raised, said that he would limit his remarks to a few key points. On fiscal policy, most Directors were concerned that the adjustment effort weighed heavily on the revenue side and that not enough of an effort had been made to cut expenditures. It should be noted that from the beginning of the program, expenditures of the public sector had declined sharply. Henceforth, the focus must be on the quality of expenditures. In that respect, the economic program for 1987 envisaged a slight change in the composition of expenditure toward investment and somewhat away from current expenditure. To ensure that economic growth was sustained in Argentina, the Government could not commit to any further reductions in investment, which must gain some shares in total expenditure.

On the revenue side, while all were agreed that the revenue structure in Argentina at present was by no means the best, it was far better than that which had existed before the Austral Plan, when a large proportion of revenues had relied on the collection of the inflationary tax, Mr. Feldman continued. As the rate of inflation had been reduced from 30 percent a month to 25 percent a month, the authorities had substituted explicit taxes for the inflationary tax and were moving toward the introduction of structural reforms in the public sector.

One speaker had wondered whether the social security system might not be contested in the courts and whether any subsequent decision would affect that system, Mr. Feldman recalled. He could assure his colleagues that the emergency decree related to the social security system was safe



from being overturned; one judge had attempted to stop the decree, but his decision was about to be reversed by the Federal Chambers and the Supreme Court. In the meantime, the decree was still operative, and the isolated challenge he had mentioned would have no effect on the social security system.

The Argentine authorities had acknowledged some slippages in monetary policy during part of 1986 and had noted the relationship of those slippages to the rebound in inflation in mid-1986, Mr. Feldman commented. It was clear to the authorities that there had been an unfortunate combination of permissiveness in monetary policy with excesses in the concessions of wage increases in some industrial sectors. However, from October 1986 onward, much tighter monetary policy had been implemented, together with a deregulation of the financial markets. On a related matter, the Government was strongly committed to lower rediscounts and lower reserve requirements within the framework of a program of financial sector restructuring to be worked out with the World Bank. It was clear that the way in which the discounts had been granted in recent years had prevented Argentina from rapidly recovering those resources; however, now that control over new rediscounts was stronger, the stock of discounts would fall, and there should be a decline in the amount of reserves that the banking system must hold. It should also be noted that the Central Bank was prepared to issue some voluntary bonds to widen the range of financial assets available to the public in Argentina. Such steps should help to put the monetary program on the right track and should allow for the substitution of some other public bonds that would fall due in the next few months. Moreover, the Central Bank would be able to allow the commercial banks to lower the compulsory nonvoluntary reserves they were required to hold at present.

Some Directors had expressed concern about the increase in the interest rate toward the end of January 1987, Mr. Feldman recalled. Corrective action was being taken. However, one of the benefits of high inflation--perhaps the only benefit--was that because a large proportion of the grants of the Central Bank was linked to inflation, the quasi fiscal deficits would be lower in January and part of February. On a related matter, the authorities had been looking at contingency measures in case of an acceleration of inflation. The way in which the program was designed meant that it would become automatically tougher when the inflation rate accelerated--as had happened in January--because the authorities intended to stick to the targets. In passing, he noted that the wages paid by the public sector were fixed at 9 percent for the entire quarter, which meant that the acceleration of inflation would presumably bring a stronger decline in the real wages of the public sector than had earlier been expected.

Remarking on the proposed decision, Mr. Feldman said that he was obviously in agreement with those who felt that Argentina deserved an immediate disbursement under the compensatory financing facility. It had been mentioned during the course of the discussion that Argentina should comply literally and in spirit with the adjustment program to which it was committed. In that respect, the disbursements under the compensatory



financing facility should perhaps be linked more to the spirit in which the facility had been created than to the criteria mentioned by the Director of the Legal Department.

It was clear that Argentina faced a difficult situation at present and was running short of reserves, Mr. Feldman continued. In the circumstances, Argentina required strong support from the international financial community, and his authorities were asking for such support as well as understanding. If it was not possible for Argentina to receive disbursements under the compensatory financing facility immediately, bridging finance would have to be arranged. He hoped that the Executive Board would be able to find a solution to the problem that would facilitate disbursement of compensatory financing facility resources without relying solely on linking the disbursements to the obtaining of the critical mass of financing.

Mr. de Groote recalled that the Legal Department's argument was that Argentina was not entitled to immediate disbursements under the compensatory financing facility because the critical mass of financing had not yet been reached. Apparently there was need for additional bridge financing; and if that bridge financing was not available, Argentina must adopt additional policies. Under present circumstances, in the absence of bridge financing, Argentina could not implement the envisaged policies and therefore did not meet the criteria for disbursements under the compensatory financing facility. It was interesting to note that the needed bridge financing and the envisaged compensatory financing were of equal amounts, which raised the question of whether or not the compensatory financing was included in, or excluded from, the fourth criterion mentioned by the Director of the Legal Department.

The Fund was apparently saying to Argentina that it would be fully entitled to have the entire financing package if the bridge financing were made available, Mr. de Groote continued. The Fund could give the country the compensatory financing instead of working to arrange the bridge financing, but it was apparently unwilling to do so until the bridge financing was available. Another way of arguing the case was to state that, with the compensatory financing, the financial package would be complete. It seemed rather circular reasoning to state to the Argentine authorities that the financial package was incomplete because they did not have in hand an amount equivalent to the compensatory financing that they would be able to obtain if that amount were already in hand.

The Director of the Legal Department replied that the compensatory financing was not the only element missing from the package. There was also the financing gap, which was a separate matter entirely and would not be closed by the disbursement of the compensatory financing.

Mr. Nimatallah said that he failed to understand why approval of a program, even if only in principle, could not be used to meet the third criterion for purchases under the compensatory financing facility





mentioned by the Director of the Legal Department. If an "in principle" decision had no meaning, then it was a waste of the Board's time to adopt such a decision.

The Deputy Director of the Exchange and Trade Relations Department observed that the Board was meeting to discuss and approve in principle a program which specified policies and performance criteria, all of which were predicated on the availability of the necessary financing. The discussion of the approval in principle was not a waste of the Board's time, since the decision would facilitate negotiations between Argentina and its creditors and thus contribute to putting together the appropriate financing package. Indeed, it would help to reduce the time difference between approval of a program in principle and the coming into effect of a program. That was important because if the financing package were not put in place within a reasonable time period, it was possible that new understandings would have to be reached between the Fund and the authorities on the appropriate adjustment path.

Mr. Nimatallah replied that if the main purpose of the approval in principle procedure was to encourage the creditors to provide appropriate financing, it was certainly reasonable for the Fund--which was one of Argentina's creditors--to begin the process by providing some of the needed financing. He hoped the Director of the Legal Department would look again at the Argentine case with a view to seeing whether the envisaged program was sufficiently acceptable to the Fund such that some or all the amounts requested under the compensatory financing facility might be released.

Mr. Sengupta stated that he was concerned about the implications of adopting as proposed the decision on the compensatory financing facility. A debate had been going on for some time about the extent to which the test of cooperation should be the determining factor in purchases under the compensatory financing facility. However, the proposed decision would go even further and make disbursements under the facility dependent in addition upon the willingness of the commercial banks and others to provide sufficient financing for the stand-by program. He found logic in Mr. de Groote's view that Argentina deserved the resources under the compensatory financing facility. If those resources helped the country to negotiate with others for additional financing, that was acceptable. But to make the disbursement of the compensatory financing facility resources conditional upon the success of those negotiations seemed to go against the spirit in which the compensatory financing facility had been established.

On a related matter, Mr. Sengupta noted that the decision would become effective either when certain conditions were met or on "a date to be determined" by the Executive Board. If the Board in fact had the freedom to fix a date on which the decision would become effective, it could choose any date, including the present one. In that respect, within the form of the existing decision, the means were available by which the Executive Board could resolve Argentina's problem while remaining consistent with the spirit of the compensatory financing facility decision.



The Chairman commented that he had felt himself bound by the guidelines for purchases under the compensatory financing facility and had put forward his proposal accordingly. The views that had been expressed by Directors in the course of the discussion had clarified a number of issues, and he was grateful for their remarks. The Board would have three formal opportunities in the relatively near future to take action on the basis of its views. The first opportunity was related specifically to the case of Argentina, which would occur either with the coming into effect of the stand-by arrangement or else on a date to be determined by the Executive Board. Another opportunity for a broader look at the issue would be the occasion of the review of the compensatory financing facility itself. Finally, the matter would no doubt again arise in the course of the scheduled debate on the overall debt strategy, toward the end of March.

The Chairman then made the following concluding remarks:

I should like to summarize the main views and suggestions put forward by Directors at today's discussion on Argentina because the debate has been an important one and many nuances have been expressed.

Directors observed with great satisfaction the fundamental role played by the introduction of the Austral Plan in reducing the internal and external imbalances of the Argentine economy. Particular note was taken of the very sharp reduction of inflation, the sizable decline in the public sector deficit, and better control of monetary expansion. Following a short recession, economic activity quickly recovered, and the growth results since then have been very positive. Unfortunately, some policy slippage was experienced in 1986--which the Argentine authorities have since tried to correct--and the external current account position deteriorated.

The determination of the authorities to continue with the thrust of the Austral Plan and to develop further its positive aspects is well manifested in the Argentine request for a stand-by arrangement that we considered today. Directors endorsed the general approach of this stand-by arrangement, but also expressed doubts about whether current economic policies are sufficient to enable achievement of all the program objectives. And some Directors felt that the external objectives were somewhat modest. In that context, they considered that the assumptions for the balance of payments for 1986/87 were perhaps on the optimistic side, while the medium-term targets for, say, 1991/92 were not sufficiently ambitious.

The chair for Argentina agreed with those who observed that, on the fiscal side, the emphasis had been more on raising revenue than cutting expenditure. In that connection, it was noted that



the tax amnesty would not lead to a permanent increase in revenue and that the effects of the package of other tax measures would be seen only in the second half of 1987. Most speakers, therefore, insisted on the need to continue curbing government expenditures, and some--rightly, I believe--insisted on a sharp focus on the quality of expenditure. More generally, especially from a longer-term perspective, Directors felt that it was essential to encourage growth of investment while improving control of government outlays.

I was impressed by the emphasis which Directors put on monetary policy in Argentina. Indeed, for some Directors, it is clear that the time has come for special emphasis on monetary policy, a point with which I fully agree and which I understand is the intention of the monetary authorities in Argentina. In that regard, a tightening of the rediscount policy should help to strengthen the effectiveness of monetary policy overall.

The situation with respect to wage and price policy in Argentina is a tricky one. A number of Directors remarked on the need for caution in the removal of price controls. However, it was observed that with the reacceleration of inflation, price distortions were becoming apparent between different sectors, and the importance of a timetable for the abolition of controls was noted.

I have noted Directors' remarks on the need to introduce more competition into the economy and their concerns about the failure to move more boldly in the field of trade liberalization. It was remarked that the corrective measures envisaged under the previous stand-by program in this sector had not been carried out as scheduled, and that the degree of openness of the economy has been somewhat reduced. Hence, the authorities were urged to ease trade and exchange controls and to follow an appropriately flexible exchange rate policy aimed at improving the competitiveness of the export sector.

In sum, the Board believes that there is no room for slippage, that the authorities should stand ready to implement additional measures as warranted, and that they should tackle more rigorously the structural weaknesses in the public sector and public enterprises, the weaknesses in pricing policies and the trade area as well as the need for tax reform with a view to increasing savings.

That being said, I have also to note that the Board has been quite keen to support the efforts of Argentina, and I think we are all in favor of finding a way to facilitate bridge financing arrangements that will enable us to meet again very soon in order to make effective our decisions in principle of today on the stand-by arrangement and the compensatory financing facility.



The Executive Board then turned to the proposed decisions.

Mr. Sengupta recalled that the Chairman had indicated that the Board might have an opportunity to meet later to decide when the decision on the compensatory financing facility would become effective. Should he interpret those remarks as meaning that the Board was not in a position at the present meeting to decide on such matters?

The Chairman considered that the Board was not in a position at the present meeting to determine the effective date of the decision on Argentina's request for a purchase under the compensatory financing facility.

Mr. Sengupta responded that, in the circumstances, he would propose an amendment to paragraph 3 that would delink the decision on compensatory financing from the effective date of the stand-by arrangement. Under his proposal, paragraph 3 would read: "This approval shall become effective on a date to be determined by the Executive Board."

The Chairman observed that the purpose of making the effective date of the decision on the compensatory financing facility dependent upon the effective date of the stand-by arrangement was to avoid departing from the existing guidelines. The Board could of course change the guidelines if it so wished; in the meantime he must follow the guidelines provided to him by the Executive Board.

Mr. Sengupta indicated that his concern was not so much with the guidelines themselves as with their interpretation, and there appeared to be differences in view about how the guidelines should be interpreted. In the circumstances, he had been suggesting only a minor amendment to the decision, which he felt would protect the spirit of the guidelines while taking the differences of view into account. However, he would not pursue the matter.

Mr. Posthumus noted that the request for a purchase under the compensatory financing facility had not yet been received. Was it common practice to approve the decision, even in principle, in the absence of a request from the relevant country?

The Director of the Legal Department replied that the authorities clearly intended to send the request once all the conditions for the use of the Fund's resources had been met. The approval in principle would be granted on the basis of their intention to send the request, and that was common practice.





The Executive Board then took the following decisions:

Stand-By Arrangement

1. The Government of Argentina has requested a stand-by arrangement for a period of 15 months for an amount equivalent to SDR 1,113.0 million.
2. Subject to paragraph 3 below, the Fund approves the stand-by arrangement set forth in EBS/87/5, Supplement 3 and waives the limitation in Article V, Section 3(b)(iii).
3. The stand-by arrangement set forth in EBS/87/5, Supplement 3 shall become effective on the date on which the Fund finds that satisfactory arrangements have been made for the financing of Argentina's balance of payments needs in 1987, provided the Fund finds that Argentina's economic program, described in EBS/87/5, Supplement 1, is being carried out.

Decision No. 8530-(87/29), adopted  
February 18, 1987

Exchange System

Argentina maintains exchange restrictions and multiple currency practices as described in Appendix IV to EBS/87/5, Supplement 1. The Fund welcomes the intention of Argentina to eliminate the restriction evidenced by external payments arrears and the multiple currency practice relating to profits and dividends, in the context of its comprehensive adjustment program, and encourages Argentina to further simplify its exchange system and to eliminate the remaining exchange restrictions and multiple currency practices as soon as possible. As of the date on which the stand-by arrangement for Argentina set forth in EBS/87/5, Supplement 3 becomes effective, the Fund approves exchange restrictions and multiple currency practices of Argentina as described in parts 1(a)(i), (ii), (iv), and (v), (b), and (c), and 2(a), (b), (c), (d), and (f), of Appendix IV to EBS/87/5, Supplement 1 until July 31, 1987 or the completion of the next Article IV consultation with Argentina, whichever is earlier.

Decision No. 8531-(87/29), adopted  
February 18, 1987



Use of Fund Resources - Compensatory Financing Facility

1. The Fund expects to receive a request from the Government of Argentina for a purchase equivalent to SDR 388.7 million in accordance with the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979, as amended).

2. The Fund approves the purchase subject to confirmation of a shortfall of at least an equivalent amount as of the effective date of this approval.

3. This approval shall become effective on the date when the stand-by arrangement set forth in EBS/87/5, Supplement 3 becomes effective or a date to be determined by the Executive Board, whichever is earlier.

4. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 8532-(87/29), adopted  
February 18, 1987

APPROVED: September 17, 1987

LEO VAN HOUTVEN  
Secretary

