

MASTER FILES

ROOM C-120

IM  
INTERNATIONAL MONETARY FUND

## Minutes of Executive Board Meeting 83/120

10:00 a.m., August 15, 1983

W. B. Dale, Acting Chairman

Executive Directors

A. Alfidja

B. de Maulde

R. D. Erb

T. Hirao

A. Kafka

J. Tvedt

N. Wicks

Alternate Executive Directors

H. G. Schneider

M. Teijeiro

S. R. Abiad, Temporary

J. Reddy, Temporary

D. I. S. Shaw, Temporary

C. Robalino

G. Grosche

G. Gomel, Temporary

V. K. S. Nair, Temporary

J. Suraisry

T. de Vries

M. J. Kooymans, Temporary

H. Alaoui-Abdallaoui, Temporary

E. I. M. Mtei

E. Portas, Temporary

Wang C. Y., Temporary

A. Wright, Acting Secretary

J. A. Kay, Assistant

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Also Present

African Department: I. C. Tandeciarz. Asian Department: M. R. P. Salgado.  
Exchange and Trade Relations Department: C. D. Finch, Director;  
K. B. Dillon, M. Guitian. External Relations Department: H. O. Hartmann.  
Fiscal Affairs Department: V. Tanzi, Director. Legal Department:  
J. G. Evans, Jr., Deputy General Counsel; S. A. Silard. Research  
Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett,  
Deputy Director. Treasurer's Department: D. S. Cutler. Western Hemisphere  
Department: E. Wiesner, Director; S. T. Beza, Associate Director;  
E. S. Kreis, B. C. Stuart. Advisor to the Managing Director:  
E. W. Robichek. Advisor to Executive Director: P. Kohnert. Assistants  
to Executive Directors: E. M. Ainley, H. A. Arias, J. Bulloch, M. Eran,  
G. Ercel, A. K. Juusela, H. Kobayashi, P. Leeahtam, J. Schuijjer, A. Yasseri.

1. ARGENTINA - REVIEW UNDER STAND-BY ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a staff report (EBS/83/143, 7/8/83; Cor. 1, 8/12/83; and Sup. 1, 8/12/83) for the review of the exchange and trade system pursuant to paragraph 4(f) of the stand-by arrangement for Argentina approved by the Executive Board at EBM/83/18 (1/24/83).

The Acting Chairman suggested that Executive Directors should confine their discussion essentially to the review of Argentina's exchange system. While additional and broader information on performance under the stand-by arrangement was contained in EBS/83/143, the applicable performance criterion related to the review of the exchange system. Moreover, a staff mission would depart on August 16, 1983 for Argentina to discuss more general questions pertaining to the stand-by arrangement with the authorities. If Executive Directors so wished, a report prepared by the mission could be placed on the Executive Board agenda in the fall of 1983.

Mr. Teijeiro, thanking the Acting Chairman and the staff for the efforts they had made to bring the matter to the agenda in such a short time, made the following statement:

The present review of the Argentine exchange and trade system will be conducted in the context of a satisfactory development of Argentina's economic program.

Argentina has made the first two purchases under the stand-by arrangement, and it will soon be verified that Argentina is currently meeting all of the performance criteria for the third purchase, except the arrears test.

Although it is now necessary to request a reformulation of the arrears test, that need has arisen as a result of events that were beyond the control of Argentina. The program had been designed on the assumption that the loan contracts with the commercial banks would be signed by April 1983. Instead, the medium-term loan is expected to be signed by August 16 and the first refinancing agreement by the end of August.

As a result of these delays, the final US\$300 million tranche of the bridge loan and the US\$500 million corresponding to the first tranche of the medium-term loan have not been disbursed.

Also, arrears have accumulated on items that would have been refinanced if the refinancing agreements had been in effect; such refinanceable items account for about US\$500 million of the present stock of arrears.

These three elements add up to US\$1.3 billion, a figure that explains most of the current level of arrears. The staff has proposed that the arrears test be adjusted in such a way as to take into account what is refinanceable under the general agreements

between Argentina and the commercial banks. This change, coupled with the pending disbursements and the disposition of part of the current level of available reserves, will allow Argentina to meet the arrears test in the near future.

The effort implicit in the proposed schedule for the liberalization of Argentina's exchange and trade system is quite significant given the current constraints. It should be noted that, from today, all foreign firms will be allowed to obtain foreign exchange at the official rates, to enable them to remit profits, dividends, royalties, and payments for technical assistance. This and the other measures proposed under this review indicate Argentina's commitment to continue sparing no effort toward liberalization and toward a full compliance with the Articles of Agreement.

My authorities believe that, in present circumstances, the proposed schedule of liberalization is the maximum attainable during the current program. Further achievements are expected during 1984, as economic progress continues and the negotiation of a new program under the extended Fund facility allows room for future improvement.

Mr. Wicks stated that, while he would confine his remarks to the payments system of Argentina, he welcomed the Acting Chairman's indication that the Executive Board should discuss the stand-by arrangement for Argentina and the country's economy in September 1983. He assumed from the fact that the Executive Board was not discussing the program as a whole that there would be firm evidence that the economic performance criteria had been met before drawings were made. On a similar point, he was interested to know when Argentina was expected to make the next drawings from the Fund, and how the timing of the drawings would be related to the elimination of arrears.

The letter from Mr. Gonzalez del Solar, President of the Central Bank of Argentina, and Mr. Jorge Wehbe, Minister of Economy of Argentina, to the Managing Director, dated July 8, 1983, described useful relaxations in the restrictiveness of Argentina's exchange system, Mr. Wicks considered. The adoption of lower minimum import financing requirements; the elimination of the special tax rebate for exports; the reduction in the list of imports subject to requirements of prior study by the Secretariat of Commerce; and from August 15, 1983, access by firms to the official foreign exchange market for transactions to transfer profits, dividends, royalties, and payments for technical assistance, were clearly welcome steps, and he commended the Argentine authorities for having taken them. He also noted from the same letter that it was the intention of the Argentine authorities to continue phasing out restrictions on payments and transfers for current international transactions. The announcement that further liberalization was in prospect was also welcome, although he understood from Mr. Teijeiro that the further achievements might be somewhat delayed.

When the Executive Board had last discussed the program for Argentina in January 1983 (EBM/83/18, 1/24/83), Mr. Wicks went on, the country had maintained discriminatory restrictions against a Fund member, and his predecessor had asked that those elements should be removed. The letter from the President of the Central Bank and the Minister of Economy dated July 8, 1983 stated that "administrative measures already have been adopted to terminate these discriminatory practices in the case of both financial institutions and nonfinancial firms." Mr. Teijeiro had emphasized that from August 15, 1983 all foreign firms would be allowed to obtain foreign exchange at the official rates to remit profits, dividends, royalties, and payments for technical assistance. He was glad to have heard Mr. Teijeiro's emphasis on the word "all."

He had been informed by his authorities that morning, Mr. Wicks stated, that relaxation of the restrictions on trading in BONEX--Government of Argentina bonds--by the companies of the member country concerned appeared to be taking place. At least one company of the member country concerned had been able to transport its BONEX certificates outside Argentina and would be able to trade them. Others intended to try to transmit the proceeds of disposing of their BONEX out of Argentina through the banking system. Although no nonfinancial company had yet managed to do that, he believed that the flow of funds from Argentina to London was expected to start during the week. However, if he found that there was any undue delay in processing claims, or that the liberalization of the foreign exchange market did not in fact apply to the companies of the member country concerned, his authorities might need to inform the Managing Director, so that the Fund might consider whether the next drawing should be permitted. There was no reason to think that there would be any such delay, especially in light of the assurances contained both in the revised letter from the President of the Central Bank and the Minister of Economy and in Mr. Teijeiro's statement; but he felt it necessary to make clear the position of his authorities.

The action to lift the discrimination, although delayed, must be welcome to all, Mr. Wicks considered. Discrimination was against the fundamental spirit of the Fund; it was destructive of everything that the Fund stood for. Nevertheless, while the action of the Argentine authorities was most welcome, the discriminatory legislation against the Fund member was still on the statute books in Argentina. The situation was regrettable, especially as the Fund member that was the subject of the discrimination had itself some time ago repealed its discriminatory legislation. He therefore urged the Argentine authorities to repeal their discriminatory legislation at the earliest possible moment. In the circumstances, he believed that it was of the greatest importance for the Fund to provide a safeguard against further discrimination. Should discrimination be reintroduced against the Fund member concerned, the country imposing the restriction should not be eligible for further drawings from the Fund under the stand-by arrangement. Indeed, he understood that such an outcome was the effect of the language in paragraph 3(c) of Decision I in EBS/83/143, Supplement 1. If he was right, the effect of that paragraph was to provide for the suspension of further drawings, for example,

if the old discriminations were reimposed, or if there were a liberalization of the existing payments regime, which were implemented on a selective basis so that the particular Fund member did not benefit. It would be most helpful to his authorities if the Acting Chairman could confirm that his understanding of the language in paragraph 3(c) was correct. If the Acting Chairman could do so, he could support both the decisions before the Executive Board.

The Acting Chairman remarked that Mr. Wicks had raised three questions: the first concerned the performance criteria that would have to be met before Argentina could make the next drawing. Second, there was the question of the time by which those performance criteria might be met, particularly the criterion relating to existing arrears. Third, there was the hypothetical question about the procedure that would be needed if discriminatory restrictions were reintroduced or if a Fund member with a stand-by arrangement in force were to adopt selective or discriminatory liberalization of its exchange system.

The Director of the Western Hemisphere Department considered that the most likely time for the next drawing on the Fund by Argentina would be late September 1983. The country would have to meet the performance criteria, which included a number of targets set out in the stand-by arrangement, including the elimination of arrears. The arrears were expected to be eliminated shortly after Argentina received the last tranche of the bridging loan and the first part of the medium-term loan from the commercial banks; those disbursements were expected within the next two to three weeks. The Fund would only know whether the Argentine authorities had met the performance criteria when its mission, which was leaving for Argentina the following day, returned to Washington. In any event, the present proposed decisions did not, by themselves, provide the basis for a request for a purchase by Argentina.

The Deputy General Counsel remarked that two provisions in the stand-by arrangement would be relevant to Mr. Wicks's request for confirmation of his understanding with respect to the discriminatory application of exchange restrictions in the future. The first was paragraph 4(g)(i) of the arrangement, adopted January 24, 1983, which was a performance criterion that provided that purchases would not be requested if restrictions on current payments and transfers were introduced or intensified. That performance criterion applied in general terms to any and all aspects of the restrictive system, and would cover, of course, all those measures referred to in the various paragraphs of the letter of July 8, as amended on August 8, from the President of the Central Bank and the Minister of Economy, which, to the best of his knowledge, was a complete description of all the measures in effect that were subject to the Fund's jurisdiction. Thus, it covered any renewal in whole or in part of the measures described in the letter as already having been removed or to be removed on August 15, 1983, including those affecting certain invisibles described in paragraph 8, for which the present unrestrictive application of the regulations was to be formalized. The other restrictive elements subject to Fund jurisdiction that remained in the system were certain multiple currency practices,

one of which applied to travel to five neighboring countries, for which no official exchange was provided, and the restrictions on payments, as described in the letter, arising from arrears with respect to certain loans that carried exchange guarantees and measures that required certain minimum financing for imports. The arrears and minimum financing requirements were subject to understandings that they would be eliminated by the specified terms.

The second relevant provision, the Deputy General Counsel went on, was the performance criterion contained in the proposed new paragraph 4(f) of the stand-by arrangement, which was set forth in paragraph 3(c) of the decision on the review of the stand-by arrangement (EBS/83/8, Supplement 1), and which was proposed for adoption at the present meeting. The new text of paragraph 4(f) provided that purchases would not be requested if the understandings in paragraph 10 of the letter and in the other paragraphs referred to in paragraph 15 of the letter of July 8 as amended, were not observed. By those references, the understandings with respect to the removal of the existing restrictions in the manner stated, namely, in a nondiscriminatory manner, were incorporated as a performance criterion in the stand-by arrangement.

The Acting Chairman, commenting further on paragraph 3(c) in the draft decision on the review of the stand-by arrangement, noted that the effect of the reference to paragraph 10 and paragraph 15 in the letter from the Minister and the Central Bank President dated July 8, 1983 was to make paragraphs 4, 6, 8, 9(a), 10, 11, and 12 of the letter, performance clauses under the stand-by arrangement. Paragraph 5 of the letter, referring to minimum financing requirements for imports other than capital goods, was subject to paragraph 4(d) of the stand-by arrangement; consequently, paragraphs 4-12 inclusive, with the exception of paragraph 9(b), of the letter from the Central Bank President and the Minister were referred to in the proposed decision, and paragraph 3(c) of the decision was a performance criterion. The paragraphs in the letter that he had mentioned contained a comprehensive description of the Argentine exchange system. The description contained no hint of discrimination, apart from paragraph 9(a), where the discrimination was carefully limited and precisely defined, and paragraph 10 where, with the amendment, what was described was a termination of discrimination. Discrimination through the exchange system against the residents or nationals of a particular member country or countries was so antithetical to the standards and policies of the Fund that it would not be appropriate or reasonable for the management or staff to assume that such discrimination would be acceptable, even if it resulted from something that would otherwise be desirable and helpful, namely, liberalization of the exchange system. Consequently, the emergence of discrimination even in such a manner would be inconsistent with the description of the exchange system contained in the paragraphs he had cited in the letter from the Central Bank President and the Minister of Economy, and it would result in an inability of the member to make the next drawing.

Mr. Kafka stated that his chair warmly approved the proposed decisions. He fully endorsed the Acting Chairman's proposal to limit discussion to the exchange system. On that topic he agreed with the staff's description and analysis. He was particularly satisfied that the Argentine economy had begun a process of recovery. Indeed, with respect to those variables that were under the control of the authorities, the economy had performed almost without exception better than was required by the program. He was particularly gratified that the liberalization already accomplished or agreed upon for the future was so substantial. The actions of the Argentine authorities would redound not only to the benefit of the country itself but also to that of the entire international community.

Mr. Portas, Mr. Wang, Mr. Alfidja, and Mr. Alaoui-Abdallaoui all stated that they strongly supported the proposed decision.

Mr. Schneider recalled that during the discussion of the proposed stand-by arrangement (EBM/83/18, 1/24/83) his chair had expressed concern that the then existing restrictions on payments and transfers might not be eliminated in a short time, and had suggested that a timetable should be established for their elimination. As he understood from Mr. Teijeiro and from the staff, progress had been made in relaxing the exchange restrictions, a step that he greatly welcomed. However, the Argentine authorities had not eliminated the arrears as originally envisaged, partly because the timetable agreed with the foreign banks could not be adhered to. As he felt, with Mr. Teijeiro, that the events leading to the delay in the disbursement of foreign financing and the restructuring of the external debt had been largely beyond the control of the authorities, the proposals for dealing with arrears contained in the staff paper seemed more realistic than the previous ones. Nevertheless, he hoped that the authorities would make additional efforts to carry out the policies, and to establish a schedule for further liberalization. Like others, he welcomed the recent decision by the authorities to terminate the discrimination against transfers to a Fund member. He fully agreed with Mr. Wicks's understanding regarding those restrictions, and he was satisfied with the explanations that the Acting Chairman had given. In those circumstances, he could support both the proposed decisions.

Mr. Erb stated that he was pleased with the decision of the Argentine authorities to terminate the practice that had discriminated against nationals and residents of a member country in connection with the transfer of profits, dividends, royalties, and technical assistance payments. As his chair had emphasized at the time of the discussion of the stand-by arrangement, he could not support Fund disbursements in connection with the present review if any such discriminatory legislation against a member country remained in effect. Although he did not anticipate any problems in the future, he had been pleased to hear the response to Mr. Wicks's question regarding the consequences should any discriminatory treatment be re-established. He too understood the Acting Chairman's reply to mean that future disbursements could not be made if such discriminatory practices were established against any member of the Fund. He stressed the



importance of a general liberalization and opening up of the Argentine exchange system for all transactions, a topic that could perhaps be discussed on a future occasion. He could also support the staff appraisal regarding arrears. Like Mr. Schneider, he felt that the new schedule was more realistic than the previous one; it should enable the Argentine authorities to complete the complex negotiations required with commercial banks. He supported the proposed decisions.

Mr. Grosche said that he too could support the proposed decisions. He welcomed the progress that Argentina had made in liberalizing the exchange system, and he especially welcomed the decision to terminate discrimination against a Fund member country. Like Mr. Wicks, he would have preferred it if Law No. 22591 had not only been declared inoperative but entirely eliminated, so as to demonstrate clearly that the Argentine authorities were willing to act in accordance with the Fund's principles of equality of treatment and nondiscrimination. Nevertheless, his understanding of paragraph 3(c) of the proposed decision on the review of the stand-by arrangement was that the reintroduction of discriminatory practices, whether the same as or different from those being rescinded, would prevent Argentina from making any additional drawings on the Fund. He was grateful for the Acting Chairman's remarks on that point. However, while he could approve the two proposed decisions, he wished to join Mr. Schneider in asking for a schedule for further liberalization of Argentina's trade and payments system.

Mr. Shaw commented that he too welcomed the decision by the Argentine authorities to remove the payments restrictions against a Fund member. He also welcomed the Acting Chairman's explanation, and that of the staff, to the effect that future drawings would not be available if such restrictions were reimposed.

While he could support the draft decisions, Mr. Shaw went on, he found it difficult to understand the exact meaning of paragraph 3(b) of the draft decision on the review of the stand-by arrangement modifying paragraph 4(e) of the arrangement. He hoped that he had understood correctly that a fuller review of the Argentine economy would have to be made, and that all performance criteria set out in paragraph 4 of the stand-by arrangement would have to be met before a further drawing would be permitted. As he understood it, a drawing could have been made on August 21, 1983 if the performance criteria had been met and a review had been carried out. However, if by August 21, 1983 the performance criteria described in paragraph 4 of the stand-by arrangement had not been reviewed, a drawing would not be made. As to the proposed amendment of paragraph 4(e) of the stand-by arrangement, which dealt with arrears, he noted that in paragraph 3(b) of the proposed decision the starting point for the period within which external payments arrears should not persist or reappear was August 12, 1983, namely, the preceding Friday. He wondered what significance could be attached to that date.

Furthermore, Mr. Shaw went on, the proposed decision modifying paragraph 4(e) mentioned in the fourth line of paragraph 3(b) "specified debt referred to in Appendix I of EBS/83/143, Supplement 1." In practice,

as he understood it, there was no Appendix I to EBS/83/143, Supplement 1; only an Appendix. Of more importance, he did not understand why arrears in respect of specified debt referred to in the Appendix should be exempt until December 31, 1983. What concerned him was that the existing arrears, which were considered payments arrears under some definitions, could be included in the exempt "specified debt." If the meaning of the paragraph was that all current arrears would be eliminated by December 31, 1983 he would be satisfied with the decision. Like other speakers, he looked forward to the full review of the Argentine economy in the fall of 1983.

Mr. Hirao also welcomed the steps taken by the Argentine authorities toward liberalizing the exchange system, and their decision to terminate the practice by which they discriminated against a Fund member country in respect of transfers and other payments. He hoped that the authorities would continue their efforts to consolidate the progress made so far, and to further liberalize the exchange system. He supported the two proposed decisions.

Mr. Gomel remarked that his authorities' position was similar to that of other speakers. He did welcome the decision by the Argentine authorities to terminate their discriminatory practices against a Fund member, and he supported both the proposed decisions. He also welcomed the suggestion that there should be a full discussion of the stand-by arrangement and the Argentine economy in the fall of 1983.

Mr. Suraisry observed that he was in general agreement with the staff's analysis and that he could support the two proposed decisions. He was glad to see that the Argentine authorities were in general making satisfactory progress under the stand-by arrangement, and that all but one of the performance criteria had been met so far. It was important that they should continue to make progress in correcting the imbalances in the country's economy. Such progress would help to restore the confidence of the international financial community in Argentina. More specifically, he welcomed Mr. Teixeira's statement that Argentina was making significant efforts to liberalize the exchange and trade system. It was particularly encouraging that henceforth all foreign firms would be allowed access to foreign exchange at the official rate and be permitted to transfer profits, dividends, and royalties freely. Discriminatory treatment was counterproductive and not in the interest of any member. Any new liberalization should therefore be applied to all Fund members, and he was satisfied with the Acting Chairman's explanation of that matter.

Mr. Kooymans commented that he could support the proposed decisions and that he welcomed the measures either planned or already taken to liberalize the exchange system of Argentina. The proposed schedule covering the removal of the remaining exchange restrictions seemed to be reasonable, and he particularly welcomed the elimination of discriminatory restrictions on payments and transfers for current international transactions with respect to firms owned or controlled by residents of one Fund member. He welcomed the Acting Chairman's clarification of the meaning

and intent of paragraph 3(c) of the proposed decision on the review of the stand-by arrangement, and he strongly supported the understandings contained therein. He also supported the proposed modification of the performance criterion regarding external payments arrears, and he looked forward to a full-scale review of the economy of Argentina in the fall of 1983.

Mr. de Vries stated that he welcomed the measures taken by the Argentine authorities. In particular, he was pleased by the abolition of the discriminatory restrictions. Like other speakers, he would have preferred it if the abolition had taken the form of an elimination of the law on the statute books. However, what was important was the practical result, and on that point a number of assurances had been given. The reintroduction of discriminatory measures would make it impossible for Argentina to draw under the stand-by arrangement, as it would for any other country. He also noted that Mr. Teijeiro had emphasized that all foreign firms would be allowed to obtain foreign exchange at the official rates, to enable them to remit profits, dividends, royalties, and payments for technical assistance. On the question of arrears, he felt, like others, that a more realistic schedule had now been worked out, and he was fully prepared to support the relevant decision. He also welcomed the Acting Chairman's suggestion that there should be a discussion of the Argentine economy in the fall of 1983.

Mr. Mtei said that he welcomed the efforts of the Argentine authorities to implement the program under the stand-by arrangement. They had been able to keep within the ceiling set for the major financial indicators, and the balance of payments deficit had been below what had been envisaged. They had failed to meet the criterion for the elimination of arrears, largely due to events beyond their control. He noted the significant efforts that they had made in liberalizing the exchange and trade system, an essential feature of the Government's overall stabilization policy. He also noted from Mr. Teijeiro's remarks and from the staff paper that additional measures had been put into effect that would allow all foreign firms to obtain foreign exchange at the official rates to enable them to remit profits, dividends, royalties, and payments for technical assistance. He welcomed the authorities' decision to remove the element of discrimination from their payments arrangements, even though Argentina's balance of payments remained under severe pressure. He hoped that in future the Fund would continue to be evenhanded, so that when discrimination was practiced by any member, however influential, the Fund would continue to object. In the present circumstances, the Fund should be willing to grant some dispensation and to allow the authorities enough room in which to take further policy actions. He could therefore support the proposal regarding external payments arrears, and the retention of exchange restrictions. He could also endorse the proposal to modify the limit on external debt maturities.

Mr. de Maulde stated that, in the view of Mr. Teijeiro's statement, Mr. Wicks's remarks, and the clarification given by the Acting Chairman and the staff, he could support the proposed decisions. He welcomed the liberalization of the payments system and the return to more normal

trading. He looked forward to the forthcoming discussion of the stand-by arrangement for Argentina, and he hoped that the Fund would continue to support the Argentine authorities.

Mr. Nair commended the Argentine authorities on their recent actions liberalizing the exchange system. He could support the two proposed decisions and he asked Mr. Teijeiro to convey to his authorities best wishes for the successful completion of the stand-by program.

Mr. Abiad remarked that, in light of the assurances conveyed by Mr. Teijeiro, particularly with respect to Argentina's commitment to adhere fully to the Articles of Agreement, and of the clarifications offered by the management and staff, his chair would support the two decisions.

The Director of the Western Hemisphere Department, replying to questions, noted first that the date of August 12, 1983 in the proposed draft of paragraph 4(e)--paragraph 3(b) of the decision on the review of the stand-by arrangement--had been chosen because it was the date on which the staff paper had been issued. He could confirm that the Argentine authorities would not be able to make any purchase until they had eliminated their payments arrears, with the exception of those arrears that would be refinanced by the commercial banks. Originally, the staff had not known that the commercial banks would refinance any arrears outstanding as of December 31, 1982. It now knew, however, that the commercial banks would finance all the arrears owed to them, and the language of paragraph 4(e) had had to be adjusted accordingly.

Mr. Shaw inquired whether the "specified debt" mentioned in paragraph 3(b) of the proposed decision and described in the Appendix would include not only maturities owed to the commercial banks that they would refinance, but also the down payments on the debts, which would also have to be eliminated.

The staff representative from the Exchange and Trade Relations Department said that he understood that the commercial banks would be refinancing the arrears owed to them to the extent of 100 percent. Thus, all that would be exempt in paragraph 3(b) was any amount of arrears owed to the commercial banks that would not be refinanced. However, even that amount was only being exempted until December 31, 1983. By that date, all arrears had to be eliminated, whether they had been refinanced or not. The Fund was expecting the refinancing agreements in respect of such arrears to be signed before the end of 1983, and it also expected Argentina's payments of interest as well as other payments to be fully up to date by that time and thereafter. Mr. Shaw's problem could perhaps be overcome by explaining in paragraph 3(b) of the draft decision--and consequently in paragraph 4(e) of the stand-by arrangement as rewritten--that the exclusion would only cover arrears in respect of specified debt to foreign banks, as described in the Appendix to EBS/83/143, Supplement 1. The whole Appendix referred only to debt to commercial banks.

The Acting Chairman added that the implication was that, in addition, all debt owed to official entities abroad, including debt bearing government guarantees, would have to be repaid up to date, although it was open to the parties to refinance if they wished to do so.

Mr. Teijeiro recalled that he had said that the Argentine authorities would eliminate payments arrears in the near future. It was impossible at the present time to make a precise statement about when arrears would be eliminated because of the uncertainties involved. The first uncertainty was the timing of the first disbursement, amounting to US\$500 million, of the medium-term loan. The disbursement was subject to other preconditions, in addition to the signing of a contract that was expected to take place the following day, August 16, 1983. The most important of those preconditions would be the signing of the first refinancing agreement, that with Aerolíneas Argentinas, which he expected would be concluded by late August 1983. Thereafter, some two or three weeks would be needed for *the authorities to make disbursements, on administrative grounds.* The Executive Directors would understand that in a country where such detailed payments controls had been enforced, it was not easy to make arrangements for payment of arrears very rapidly. Moreover, even if the authorities were able to estimate the size of the financeable arrears as redefined in paragraph 4(e) of the stand-by arrangement, it was so far impossible to know the exact amount. Consequently, the Argentine authorities were not able at the present time to foresee when they would be able to eliminate payments arrears, and thus qualify to make the third drawing under the stand-by arrangement.

The Acting Chairman, bringing the discussion to a close, remarked that there were in effect three requirements that Argentina would have to fulfill before making the next drawing under the stand-by arrangement. The first was the conclusion of the present review of the exchange system. The review was a performance criterion under the stand-by arrangement; it would be concluded with the taking of the proposed decisions. The second was the elimination of arrears, apart from those referred to in the Appendix, and Mr. Teijeiro had indicated the considerations relating to the timing of the elimination. The third requirement was that the Argentine authorities should meet the other quantitative performance criteria set out in the stand-by arrangement. As he understood it, the performance criterion related to the financing of the public sector had been met because that was a criterion that referred to the close of the previous calendar quarter on June 30, 1983. However, *the net domestic assets test was applied continuously during a quarter, and the Fund mission that would be leaving for Buenos Aires the following day would be examining the most recent information affecting that test.* No further action would be required by the Executive Board on that matter. Once Argentina had met those three conditions, it would be able to draw under the stand-by arrangement.

When the Executive Directors took up the decisions, they agreed to amend paragraph 3(b) of the decision on the review of the stand-by arrangement to read, in part, "(e) during any period after August 12, 1983 in which external payments arrears other than arrears in respect of specified debt to foreign banks referred to in the Appendix to EBS/83/143, Supplement 1,...."

The Executive Board then took the following decisions:

Review of Stand-By Arrangement

1. Argentina has consulted the Fund in accordance with paragraph 5 of the letter dated January 7, 1983 from the Minister of Economy and the President of the Central Bank of the Republic of Argentina attached to the stand-by arrangement for Argentina (EBS/83/8, Supplement 1), paragraph 6 of the memorandum of understanding annexed thereto, and paragraph 4 of the stand-by arrangement.

2. The letter dated July 8, 1983 from the Minister of Economy and the President of the Central Bank of the Republic of Argentina, attached to EBS/83/143 (7/8/83), as amended by the telex dated August 8, 1983, attached to EBS/83/143, Supplement 1 (8/12/83), shall be attached to the stand-by arrangement for Argentina, and the letters dated January 7, 1983 and May 16, 1983, attached to the stand-by arrangement, shall be read as supplemented and modified by the letter of July 8, 1983 as amended.

3. Accordingly,

- (a) subparagraph 4(b)(iv) of the stand-by arrangement shall read: "(iv) the limits on total maturities falling due within 36 months of the end of each calendar quarter described in paragraph 5 of the memorandum of understanding annexed to the letter dated January 7, 1983, as modified by paragraph 14 of the letter dated July 8, 1983, have been exceeded, or;"
- (b) paragraph 4(e) of the stand-by arrangement shall read: "(e) during any period after August 12, 1983 in which external payments arrears other than arrears in respect of specified debt to foreign banks referred to in the Appendix to EBS/83/143, Supplement 1, and during any period after December 31, 1983 in which external payments arrears in respect of such specified debt, persist, or reappear; or" and

- (c) paragraph 4(f) of the stand-by arrangement shall read:  
"during any period after August 12, 1983 in which the understandings in paragraph 10 and in the paragraphs referred to in paragraph 15 of the letter dated July 8, 1983, as amended, have not been observed, or,."

Decision No. 7491-(83/120), adopted  
August 15, 1983

Exchange System

The Fund grants approval for the retention

(a) until September 30, 1983, of the restrictions described in paragraphs 6 and 8 of the letter dated July 8, 1983,

(b) until September 30, 1983, of the restriction described in paragraph 11 of the letter dated July 8, 1983, as amended, and until December 31, 1983 of that restriction in respect of specified debt referred to in the Appendix to EBS/83/143, Supplement 1, and

(c) until April 23, 1984, of the restriction described in paragraph 7 and the multiple currency practices described in paragraph 12 of the letter dated July 8, 1983.

Decision No. 7492-(83/120), adopted  
August 15, 1983

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/119 (8/5/83) and EBM/83/120 (8/15/83).

2. 1983 ANNUAL MEETING - FORMAL NOTICE AND BRIEF AGENDA

The Executive Board instructs the Secretary to communicate the notice and brief agenda by cable and by airmail letter to all Governors and Alternate Governors. (EBD/83/201, 8/3/83)

Adopted August 5, 1983

3. APPROVAL OF MINUTES

a. The minutes of Executive Board Meeting 83/41 are approved. (EBD/83/203, 8/4/83)

Adopted August 10, 1983

b. The minutes of Executive Board Meetings 83/42 through 83/46 are approved. (EBD/83/204, 8/5/83).

Adopted August 12, 1983

4. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the proposal set forth in EBAP/83/205 (8/4/83).

Adopted August 9, 1983

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/204 (8/4/83), EBAP/83/206 (8/5/83), EBAP/83/207 (8/8/83), EBAP/83/208 (8/9/83), and EBAP/83/210 (8/11/83) and by an Advisor to Executive Director as set forth in EBAP/83/207 (8/8/83) is approved.

APPROVED: February 17, 1984

JOSEPH W. LANG, Jr.  
Acting Secretary