0404

September 14, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 89/145

The following correction has been made in the final minutes of EBM/89/145 (11/10/89):

Page 3, first para., line 4: for "(SM/89/199, 10/17/89)"
read "(EBS/89/199, 10/17/89)"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

1. ARGENTINA - 1989 ARTICLE IV CONSULTATION; STAND-BY ARRANGEMENT; AND EXCHANGE SYSTEM

The Executive Directors considered the staff report for the 1989 Article IV consultation with Argentina and Argentina's request for a 16-month stand-by arrangement in an amount equivalent to SDR 1,104 million (EBS/89/199, 10/17/89), together with a letter of intent from the Argentine authorities (EBS/89/194, 10/12/89). They also had before them a background paper on recent economic developments in Argentina (SM/89/30, 2/8/89).

The Chairman indicated that he had asked the Director of the Western Hemisphere Department to visit Buenos Aires on November 6, to ensure that the Fund properly understood the developments taking place in the exchange markets, and to discuss with the authorities what would be the appropriate reaction.

The Deputy Director of the Western Hemisphere Department made the following statement:

> Economic activity continued to recover in October, with industrial production rising by an estimated 2.5 percent. Inflation was down to 5.6 percent for consumer prices and to 1.5 percent for wholesale prices: the increase in the average of the two indices declined from 6 percent to 3.5 percent between September and October.
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> As regards wages, for the six-month period through end-March 1990, the Government has announced an increase of a flat sum of ₳ 12,000 for all employees of the National Administration, including the public enterprises. This represents an average increase of somewhat less than 10 percent for government employees and substantially less for employees of the public enterprises. These increases are consistent with the fiscal plan included in the program. Notwithstanding strikes by certain groups of employees, the Government has held a firm line on wages.
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> It is more difficult to obtain a picture of wage developments in the private sector. Partly because of the buoyancy of sales in some sectors, many firms are reported to have given sizable wage increases in the recent past, but the extent of the slippage is not clear. Wage bargaining units have been meeting to negotiate basic wages for the period ahead. The Government is striving to keep the increase broadly in line with the increase in the public sector, and it has indicated that the Ministry of Labor will not recognize increases that do not conform to the general policy objectives.
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> In the fiscal area, preliminary data available for October suggest that the Treasury had an operating surplus that exceeded

the program projections, as revenues continued to be fairly strong; transfers to the provinces were virtually eliminated; and operating transfers to the state enterprises were limited largely to the payment of the wage bill of the state railways. Moreover, the finances of the social security system appear to have improved on the basis of a recovery of revenue in the wake of the amnesty that was referred to in the staff report. The surplus of the Central Administration and social security combined would appear to go a long way to cover the losses of the Central Bank. Thus far, there is little information on the operation of the public enterprises.

As regards monetary developments, real money balances continued to grow in October at a rapid pace--31 percent for M1 and 23 percent for M2--as remonetization continued. Interest rates declined sharply in the first few days of the month. However, as a spread reappeared between the parallel and official exchange rates, the Central Bank pushed interest rates up gradually, and by the end of October rates were generally higher than at the end of September. Rediscount policy was tightened further, in particular with the discontinuation of seasonal central bank rediscounts for the National Grain Board, and there was an increase in legal reserve requirements on certain kinds of deposits. Despite rising interest rates, the spread between the parallel and official exchange rates widened to an average of about 10 percent in the second half of October, from about 5 percent in the first half.

Notwithstanding the above pressures, the Central Bank was able to continue to buy foreign exchange on a net basis in the official market, such purchases amounting to nearly $150 million for the month of October as a whole. The gross disposable international reserves at end-October were little changed from the end-September level of $1.8 billion. Partial information suggests that by late October the net international reserve position was roughly consistent with the quarterly target.

As the spread between the parallel and official exchange rates tended to widen, in the final days of October the authorities started to intervene, in an attempt to bring down the parallel rate through sales of foreign exchange in the parallel market or the auctioning of 90-day and 180-day dollar-denominated notes. Through November 7, sales of these notes amounted to some $325 million, and sales of foreign exchange to some $230 million, with sales of more than $100 million on November 7 alone. At the same time, the Central Bank continued to purchase foreign exchange in the official market on a net basis--a little more than $50 million in the period November 1-7. In that situation and because of concern for the international reserves, the authorities decided to withdraw support of the parallel exchange market, and on November 8, the exchange rate spread