

INTERNATIONAL MONETARY FUND
Minutes of Executive Board Meeting 61/54

10:00 a.m., December 8, 1961

H. M. Cochran, Acting Chairman

Executive Directors

J.J. Anjaria
Th. Asgeirsson
M.C. Bicalho

J.M. Garland
W. Guth
G.W. Klein

D.B. Pitblado

S. Siglienti
S. Slamet
F. A. Southard

B. Tann

Alternate Executive Directors

G. Kielland

J. Waitzenegger

H.M.H.A. van der Valk
J.A. Montealegre
R.H. Bonham Carter
W.A. McKay, Temporary
A. Mansour
C.P. Caranicas
A. Nikoi
J.S. Hooker
M. Kumashiro
I.S. Sun
M. Toussaint

Roman L. Horne, Secretary
F. Hodel, Assistant Secretary

Also Present

Mr. Roberto Alemann, Minister of Economy of Argentina; Mr. Luis Otero Monsegur, Vice-President of the Central Bank of Argentina; Mr. C. Brignone, Alternate Executive Director, IBRD. African Department: L. Dini. Asian Department: M. Gumbart, P. Narvekar, Tun Thin. European Department: G. Ferras, Director. Exchange Restrictions Department: E. Jones, Deputy Director; H.K. Zassenhaus. Legal Department: H. Aufricht, A.S. Gerstein. Research and Statistics Department: W.R. Gardner, Deputy Director; J. Ahrens Dorf, W.H. Taylor. Western Hemisphere Department: J. Del Canto, Director; E.W. Robichek, Deputy Director; W. Ashwell, S.T. Beze, P.J. Brand, G.J. Clark, C.D. Finch, M.H. Jafri, R.A. Radford, F. Vera. Office of the Treasurer: Y.C. Koo, Treasurer; R. Kroc. J.K. Horsefield, Chief Editor. Information Office: J. Reid, H.G. Hopkins. Technical Assistants to Executive Directors: H.G. Heinrich, L. Marini, Y. Mizoe. G. H. Fleming, Training Staff. J. R. Guiard, Trainee.

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1. EXECUTIVE DIRECTOR

The Acting Chairman welcomed Mr. McKay, Temporary Alternate Executive Director, to the Executive Board.

2. APPROVAL OF MINUTES

The draft minutes of Meetings 61/51 and 61/52 were approved.

3. USE OF THE FUND'S RESOURCES - STAND-BY ARRANGEMENT WITH PARAGUAY

The Executive Board took up a request from Paraguay for a stand-by arrangement with the Fund, together with the staff's analysis and recommendation (EBS/61/157, 11/24/61).

Mr. Klein made the following statement:

The report of the staff is, on the whole, so clear and to the point that I shall add only a few words to summarize the situation.

Paraguay is a small country with less than 2 million inhabitants and is consequently to a considerable extent dependent on, and influenced by, the development of her external economy.

Fortunately, Paraguay has been experiencing an increased economic activity, and there seem to be fair signs that this trend will continue in 1962. We should attribute this increased activity principally to the sound and prudent moderation which Paraguay has applied in her fiscal, as well as in her credit and monetary policy. This attitude has allowed her to take advantage of the more favorable conditions abroad, in the first place, the recovery of her neighbor to the South, Argentina, her main customer and supplier, and also the foreign aid and credit facilities which are more abundantly forthcoming than in any previous period.

The Government has spent substantially the same amounts as last year. There has been, it is true, an increase in salaries in the order of 10 per cent in June and we lack figures, such as the coefficients of productivity or the growth of National Gross Product, which would allow us to appreciate the economic significance of such a rise. But we know that it is moderate in comparison with what has been granted in neighboring countries. It is also worth stressing that military expenses have been lower and educational expenses substantially higher than in previous years, both healthy developments.

The revenue of the Government has increased slightly. But there seems to be scope for some further improvement, as the staff has also mentioned. Income tax revenue should not decline in a period in which individual incomes have increased. It is doubtful whether the decline in the customs duties is really justified. Export taxes have increased, and these are not always the most commendable taxes.

The credit policy has also followed a moderate course. I do not find the report of the staff very easy to follow in this respect, nor are the different tables included in the report readily reconciled, and I wonder whether in future such data could not be presented in a less difficult and confusing way. In any event, the money supply, which in the first part of 1960 declined, owing it would seem to a weakening of confidence which at the same time was accompanied by an outflow of international reserves, has since then increased appreciably, without so far having produced pernicious effects. There has been, it is true, a considerable increase in the cost of living. But it would seem that this is partly attributable to an adjustment of controlled prices and partly may be only nominal insofar as such controlled prices were not actually enforced. To the extent that market prices have been substituted for former arbitrary prices, the increase in money supply (and also the increase in wages) could be considered as being a consequence rather than a cause of the rise in the cost of living.

There appears to be a slight increase in agricultural production, including meat and timber, and an increase in exports which reflects a greater demand in the Argentine market. Industrial production appears to be rather stationary; the figures do not suggest any definite trend. As Paraguayan industry is still small, the new plants financed by the Inter-American Development Bank should reflect in the statistics as a sizable increment in industrial output once they get started.

In an economy which shows the characteristics of the Paraguayan economy, a change in money supply is normally in the main determined by the trade balance, by independent internal currency or credit expansion or contraction, and eventually by foreign aid or loans. It is not likely that there should be very considerable short-term monetary flows either way. In 1962 there will appear, it seems, some expansionist factors: the release of advance import deposits, approximately ₡ 200 million, the release also of some ₡ 80 or ₡ 90 million as capital of the new Development Bank, which up to now have been sterilized on the books of the Central Bank, payments to the employees of the Banco del Paraguay (some ₡ 50 million we are told) and possibly 25 per cent of the Inter-American Development Bank loan of US\$3 million which may be used in order to finance expenditure, that is to say, another ₡ 100 million. This adds up to some ₡ 440 million, an amount which is not insignificant if one compares it with the volume of the currency issue (₡ 1.800 million according to Table 4), though it is not likely that all of it would be released to the market during 1962.

It is therefore sensible that the Minister of Finance should adhere, as he mentions in his letter of intent, to a very cautious course in matters of Bank credit.

The other developments, the freeing of trade and of the exchange market, and the suppression of the system of advance deposits, are to be welcomed.

Under these circumstances I believe the requested stand-by is justified and the Board should agree to it.

Mr. Southard said he readily concurred in the staff's recommendation and in Mr. Klein's conclusion that the Fund should continue to support Paraguay's stabilization effort. As everyone knew, the Fund's past collaboration with Paraguay had been a pioneering effort when not much else was being done from the outside to assist the country. This help, though important to Paraguay, was modest in amount and also had generally

lacked support on the investment side which always must come at the proper time in a stabilization effort. Quite apart from the improvements which had occurred in Paraguay's situation, Mr. Southard found real encouragement, as had the staff, in the amount of outside assistance of various sorts which was now available to Paraguay and on a much larger scale than at any time in which the Fund had been cooperating in the stabilization effort. If, as Mr. Klein said, the trend of increasing economic activity and the Government's cautious financial policies continued in 1962 a better basis for Paraguay's development effort should now become apparent.

Mr. Southard shared Mr. Klein's feeling that the staff's analysis of the credit side was hard to follow. While he had no reason to question it, he assumed that the Board could conclude that the credit situation was not likely to be in undue difficulties in the coming year, though there had been considerable expansion and clearly there was not much of a margin of safety.

Mr. Bicalho noted that the staff report revealed an improvement in exports, a strengthening of confidence in the country's future, and an increase in international reserves. This showed that Paraguay was making unusual efforts to advance its development which, as Mr. Klein had pointed out, was vitally important to Paraguay. Mr. Bicalho added that he had great pleasure in giving his full support to Paraguay's request.

Mr. Guth also was pleased to add his support. He thought the picture in Paraguay was very reassuring, not only because the stabilization program was sound and because the authorities seemed determined to follow the proper policies, but also, as Mr. Southard had mentioned, there was now the promise of effective coordination between short- and long-term assistance to Paraguay which always should be the objective aimed for.

Mr. Pitblado said he had been pleased by the encouraging features in the Paraguayan picture which had developed since the Board's last discussion of this country (EBM/61/21, Item 2, 5/3/61), especially the improvement in confidence and the underlying trend in exports. He thought the Fund should be pleased also by the way the stabilization program had been carried out and by the tight rein held over government expenditures. It was to be hoped that Paraguay would move rapidly to put into effect the overdue reform of its tax system, the need for which they themselves had recognized. While there had been some improvement in the control of credit, the intention not to lower bank reserve requirements during the period of the stand-by was perhaps the minimum safeguard called for. It seemed clear that the situation would be aggravated by the planned relaxation of prior import deposits. Nevertheless, he welcomed the intention of the authorities to do so and hoped that this action would be accompanied by the elimination of other restrictions.

Mr. Pitblado noted that in their request for a new stand-by arrangement, the Paraguayan authorities seemed well aware of the need to keep the inflationary factors in the economy under control. Like other speakers he also found the increase in the availability of aid from abroad very encouraging and shared the view that the present request was a proper one at a time of seasonal difficulty. He was pleased to give it his support.

Mr. Garland also had no difficulty with the request and was prepared to support the staff's recommendation. He had one question, however, with respect to the statement in the letter from the Paraguayan authorities that, if at any time during the period of the

stand-by arrangement additional restrictions on imports were introduced, Paraguay would consult the Fund and agree with it on the terms on which further drawings might be made (EBS/61/157, p. 32, 11/24/61). This seemed to be a new type of stipulation in stand-by arrangements which he assumed would not become standard practice. He hoped the staff would offer some clarification.

The representative of the Western Hemisphere Department pointed out that this type of provision was not unusual, but that in other cases the trade and payments restrictions had been referred to in a single clause. In this case, the clauses had to be separated for technical reasons since there were no present restrictions on payments but some minor trade restrictions were in effect.

The Executive Board proceeded to review the text of the proposed stand-by arrangement and had no changes to suggest. It was agreed that the arrangement should be effective for a period of one year from December 11, 1961.

The decision was:

The Government of Paraguay has requested the Fund to agree to a stand-by arrangement. The Fund agrees to the request, approves the stand-by arrangement set forth in EBS/61/157, Sup. 1 and grants the necessary waiver under Article V, Section 4, of the Fund Agreement.

4. ARGENTINA - 1961 ARTICLE XIV CONSULTATIONS AND STAND-BY ARRANGEMENT

The Executive Board took up the report and recommendations of the staff on the 1961 Article XIV consultations with Argentina (SM/61/85, 11/24/61 and Cor. 1, 11/29/61) and considered Argentina's request for a stand-by arrangement with the Fund, together with the staff's analysis and recommendation (EBS/61/154, 11/22/61). Mr. Roberto Alemann, Minister of Economy of Argentina, Mr. Luis Otero Monsegur, Vice-President of the Central Bank of Argentina, and Mr. C. Brignone, Alternate Executive Director of the IBRD, were present.

Mr. Klein said he had no comments at this time since the Minister of Economy wished to make a statement on the economic situation and policy of Argentina.

Mr. Alemann thanked the Board for permitting him to attend the meeting which afforded him an opportunity to express the appreciation both of his Government and himself for the cordial relations that had existed between the Fund and Argentina and for the Fund's assistance in the past. He noted that the staff had presented a clear and comprehensive report on the progress made by the Argentine economy and a good analysis of the present situation. He would not repeat the details submitted in the report but wished to stress certain points which needed emphasizing in order to understand the main directions of Argentine monetary policy.

After having recovered reserves during 1960, Minister Alemann continued, Argentina was faced in 1961 with an important and complicated problem with respect to the budget which still had a large deficit and substantial arrears for the Treasury. He was pleased to report that, while the budget deficit for the period ending October 31, 1961 had been

programmed at M\$N 20 billion, the estimated final deficit for 1961 was now only M\$N 5-8 billion. During the current year the Treasury had not relied on any stand-by credits abroad or on Central Bank borrowing, but on its own resources. A substantial loan was floated in Europe and currently negotiations were under way in New York for a long-term bond issue. The Government was able to live on its current income and improve the Treasury situation mainly because of a great improvement in the tax program. During the first nine months of the current fiscal year, the number of taxpayers registered with the Internal Revenue office was increased by some 63,000, which represented a substantial gain when one took into account that the total number of registered taxpayers had been slightly less than 1 million. Registered taxpayers did not include salaried persons whose taxes were deducted from their wages. While the efforts to increase the number of registered taxpayers would continue, it was recognized that increased collections alone would not be enough. Serious efforts to reduce government expenditures would have to continue. These efforts were being made in several directions. In the first place, the civil service personnel had been reduced by approximately 100,000 (from 950,000 to 850,000), and the Government's program in this respect envisaged a further reduction of at least another 100,000. This would not only aid the Treasury and the Government agencies, but should also ease the employment situation. Secondly, the Government was trying to divest itself of industries and services and had already succeeded in doing so in several cases. Insofar as the public transportation system of Buenos Aires was concerned the Government had turned over all bus lines to private companies and planned to convert the remaining trolley lines to buses under private ownership. The efforts in this field were extremely important because the deficit last year had been around M\$N 3 billion.

The Government, Mr. Alemann added, was also making similar efforts in other fields. It was trying to arrange to transfer the control of the elementary schools, waterworks, and small power plants to the provinces which were now in a better position than ever before in their history as a result of the country's stabilization program. When Argentina undertook to establish a new par value and eliminate multiple rates, taxes had to be increased to make up for the loss in revenue, and the provinces participated in this part of the program. They had their own ambitious programs to go forward with the development of public works, principally schools and roads. The Central Government now felt that the provinces had reached the point where they could take over these services which the Federal Government had so far provided in their territory. In this way the Central Government would be able to reduce by several hundred thousand people the number of its employees.

Along with the efforts to reduce government expenditure, Mr. Alemann said, efforts to increase investment had to continue. The Government's policy with respect to the oil sector had been very successful. It had been able to attract large amounts of foreign capital, including a great deal of risk capital, and Argentina was now almost self-sufficient in oil. In fact, this industry might even produce a small surplus for export in the near future. The Government had pursued a similar policy in regard to investment in the telephone industry with considerable success. With respect to the railroads, however, the Minister regretted to report that there had been little progress and that this area of the economy still created a serious problem, the solution of which was decisive for the future of the country. In 1948 when the railroads were taken over from the British they had 140,000 employees. Since that time the number of employees rose to 220,000, while railroad freight shipments went down. During that period the average work day was reduced to 3 hours and the railroad services generally deteriorated. Railroad transportation of

people and cargoes was still being handled under very poor conditions. A great deal of freight shipments were being transferred to private trucking. Last year, the Treasury contributed M\$N 13 billion to cover the operating deficit of the railroads, in addition to a contribution of M\$N 5 billion for railroad investment; such a burden was unbearable, and could not continue in the future. In order to appreciate the size of the problem it was important to note that Argentina's railroad system, which covered 44,000 kilometers, was the sixth largest in the world.

Despite continuing operating losses and the consequent heavy drain on the national Treasury, Mr. Alemann said, the railway unions continued to exert strong pressure for increases in salaries for the railroad employees. The Government had to tackle the problem in some way. It pointed out to the unions that the current earnings of the railroads would not permit wage increases. The Government also proposed a change in the work regulations, as well as a sharp reduction in railroad personnel. These proposals were strenuously resisted by the unions. Finally, about a month and a half ago the situation became so bad that the Government had to put into effect a program which was approved by the President and all members of the Cabinet: about 75,000 railroad employees were to be dismissed and offered severance pay, which was also offered to any other employees who resigned. The announcement of the program was immediately followed by a general solidarity strike of all labor unions. However, the strike was a failure in Buenos Aires, where all public utilities as well as banking and trade remained normal, including urban transportation which was mainly in the hands of private bus lines. In the industrial belt around the city, industries had to stop, but well before three days of the general strike were over, the striking workers began to go back to their jobs. The failure of this solidarity strike showed that the Argentine people were willing to work despite the risks and that the Government's program was beginning to succeed. In the Government's view the willingness of the Argentine people to work was the best basis for sustaining the program to stabilize the economy. Following the breakdown of the solidarity strike, the Government was faced with thousands of requests for severance pay and in one month it was obliged to pay out more than M\$N 2.5 billion for this purpose. In addition, it pensioned several thousand other railroad workers and gave dismissal notices to others. Some 50,000 had already left the railroad service. But the Government had now decided that it would have to slow down the program somewhat in order to ease the strain on the Treasury. The railroad unions seemed to have accepted the idea of the new working rules and the transfer of certain services, including the workshops and restaurants, to private owners, as well as the closing down of several thousand miles of the railroads. The country's large road building program would make possible a shifting of some traffic from the railroads to trucking. But the remaining railway lines would need new rolling equipment and general modernization, and to finance some of these the Government was presently negotiating with the IBRD and the U.S. Export-Import Bank for substantial long-term loans. It had every hope that it would be possible in the future to operate the railroads out of current earnings.

With such a development, the Minister continued, the Government expected there would be a substantial change in the attitude of the people. As the economy was now booming and experiencing a satisfactory rate of growth, efforts would have to be made to avoid excesses in certain areas. The Government was already trying wherever possible to restrict domestic credit expansion and foreign indebtedness without limiting the country's growth. The authorities resisted the imposition of direct controls either internally or externally and hoped that with the measures so far taken they could control credit

expansion. But the railroad situation was still creating a serious problem for the Government on the fiscal side. The large amount (M\$N 2.5 billion) recently paid to dismissed and retired railroad employees for political reasons, had placed such a strain on the Treasury that at the end of November the Government had been unable to pay wages in the administration. It would be faced with a more serious problem in December because of the 13 months' salary tradition in Argentina. When the Fund mission had visited Buenos Aires the authorities had stated that, while it was the Government's intention to strictly enforce the stabilization program on the monetary side, some difficulty might arise in connection with the severance pay for the dismissed railroad employees. In the light of the developments he had just outlined, he wished to inform the Board that for a very short time the Argentine authorities might be obliged to act in a somewhat different form than that outlined in the letter to the Fund requesting a new stand-by arrangement.

Mr. Alemann also wished to stress that during the past six months the credit situation had been very tight in Argentina. The sharp increase in reserves of last year had been fully utilized and presently a contraction in the means of payment had developed. For the first time in years the authorities had been able to hold the currency in circulation stable. This was a remarkable achievement and the authorities intended to continue in this direction. For the year end, however, they had released a small amount of the minimum reserve requirements, but only for a few months, and the business community was well aware that the release was of a temporary nature. The mounting pressures against the Government's strict policy were understandable because for about 20 years the Argentine business community had been accustomed to getting fresh funds from either the Government or the foreign sector through increases in foreign reserves. The excess liquidity of the past had now disappeared, and the whole picture on the monetary side had changed. While it would undoubtedly take some time for the business leaders and community to get used to the new situation, he was confident that they would do so in time and gradually adapt themselves to the strict monetary regime which Argentina was now enforcing.

Turning to the external side, Mr. Alemann said it was most unfortunate that Argentina had suffered a setback in exports last year due in large part to damaged crops. Another reason for the recent fall in reserves was the cancellation of some of Argentina's bilateral arrangements. One of the most serious problems for the Argentine economy was the need to expand exports. Argentina was the only country in the Western World undertaking a stabilization program which had not been able to increase its exports, which were mainly agricultural products. There were several structural reasons for this. In the first place, there had been a large movement of the agricultural population to the cities. In addition, for over 20 years over-all monetary policy had been directed against the stimulation of agriculture. This policy had now been changed and would continue that way. Another reason for the failure of exports to increase was the fact that the agricultural population had not yet taken advantage of the technical advances which were being utilized in the United States and Canada and other agricultural exporting countries. However, some steady progress in this regard was now apparent and could be expected to continue. Finally, Argentina's exports had been hurt by the discriminatory practices of other countries. For example, there was not one unrestricted market where Argentine meat could compete against other non-subsidized meat exports.

Meat production had been emphasized in Argentina, the Minister said, because its natural grass was so fertile that cattle could be raised very cheaply and with less manpower than that required for the production of grains. During 1958 and 1959 all the hidden

subsidies which had been hampering meat production were eliminated, and meat prices were permitted to rise sharply with the result that domestic consumption dropped. The objective was to allow the cattle industry to devote more time and capital to production for export. The prospects for increasing the exportable meat surplus were now favorable for next year. But, while the industry was building up, Argentina had lost much of its market in the United States, Germany and Italy, although assurances had recently been received from the latter that meat imports from Argentina would be resumed. Argentina had also lost out in the British market where competition was very intense, and the recent drop in beef prices had seriously damaged Argentina's earnings of foreign exchange. The situation was very serious for Argentina and her friends in Europe had been so advised. Although complicated discussions were now going on in Europe in connection with the development of a common agricultural policy and the application of the United Kingdom for membership in the European Common Market, Argentina had nevertheless received firm assurances from a number of European countries that they would permit a full flow of trade with Argentina. In view of this and the expected cooperation from the United States, the Argentine authorities were now very hopeful that Argentina could increase its exports of meat next year. It also hoped to produce larger amounts of grains and cereals for sale overseas in its natural markets. An increase in Argentine exports was essential for the future because the stabilization program was based on the assumption that Argentina would get long-term credits from abroad and float bonds abroad which could be repaid from its own export earnings. Strong efforts would therefore have to be made to push all exports. Now that productivity was sharply increasing, the public transportation system was improving, and bureaucracy was being reduced, there was every hope that 1962 would see an increase in exports and turn out to be one of Argentina's best years.

As part of the effort to increase exports, Mr. Alemann said, the Government intended gradually to reduce and eventually eliminate the present export taxes. This meant that the authorities would have to continue with their strong fiscal program and maintain a certain line in their tax reform policy. The export taxes would be reduced first; then the import surcharges would be eliminated and replaced by a new tariff, and finally there would be an effort to reform income taxes on wages and salaries. There were strong pressures to lift the latter, but so far the Government had been able to resist them. It was the Government's view that, since the economy was booming and there was strong pressure on prices, a reduction of income taxes would be inflationary. It was not easy to administer an economy like Argentina's where there were so many built-in pressures. But, fortunately, the people were beginning to recognize more and more that the policy of stabilizing the currency was to their own benefit and was sound from the standpoint of stimulating investment in the country. This feeling had increased with the realization that Argentina now had access to long-term credits. In the light of this change in attitude, Minister Alemann believed that the stabilization program would proceed without too much difficulty.

Mr. Alemann then turned to a review of what Argentina had been doing on the development side. He noted that a substantial road building program was now under way and that a program to improve and develop airports was being developed with the assistance of the United States. There were two gas lines in operation, while the construction of another would soon be started by an Italian firm. The Government planned to expand investments in the oil industry and to rationalize the railroad system, as mentioned earlier. Insofar as housing was concerned, the main problem arose from a shortage of long-term

mortgage capital for the lower middle classes. The Government planned to set up with the assistance of the Inter-American Bank a mechanism such as the U.S. savings and loan institutions and the Home Loan Bank. An electric power program also was well under way. An agreement had just been reached with a Swiss company, which owned one of Argentina's larger power plants, about extension of its concession and negotiations with the IBRD for finance in the power field had now reached a final stage. A program of expansion of power lines to the interior of the country had already made considerable progress. The country was also carrying on large irrigation projects. In recent months the Government had set up a program designed to attract more capital. It was hoped that this would facilitate the integration of certain industries, such as steel and petro-chemicals, and make possible the transfer of the country's largest steel company, which was Government owned, to private ownership. Other ventures in steel, paper, and aluminum were under way with the aid of private capital.

Finally, Minister Alemann assured the Board that he planned to maintain monetary stability at any cost and that he would do all he could to hold the line on credit expansion and the budget. It would, of course, take severe discipline for Argentina to live within its resources. But with the elimination of the inflationary source in the budget deficit and with the maintenance of a restrictive credit policy, he was convinced that he could hold the line. It was well known from the experience of other countries carrying out stabilization programs that the time eventually came when the public saw the benefits of such a program and realized that the authorities intended to adhere to it.

The Acting Chairman thanked the Minister for his helpful and vivid portrayal of Argentina's situation and remarkable progress.

Mr. Southard, in adding his appreciating for the statement, said it was understandable that the way in which Minister Alemann was tackling his problems should be meeting with success. He had no doubts about Argentina's request for a stand-by and was prepared to accept the staff's recommendation. Everyone was aware of the problems Argentina had faced since the downfall of the Peron dictatorship which had destroyed the incentive for saving, had followed a policy directed against agriculture, and had used up capital as other countries did when in a long war. Consequently Argentina had been trying ever since then to correct these basic errors. If there had been any reason for discouragement in the early years after the dictatorship, it was because outsiders could not sense how great the damage had been or how much would be needed to repair it and build up support within the country itself for such an undertaking. Certainly, the staff paper and the statement which Mr. Alemann had just made were the most encouraging reports the Board had received since the stabilization effort had started, because they showed that steps were being taken where necessary and that progress was now being made. Whether it was more difficult to carry out a stabilization program with stagnation or with a boom, was hard to judge but probably stagnation was worse. At least with a boom, investment was under way, popular support for the program was obtainable, and if proper fiscal and credit policies were pursued the boom could be kept under control. When he had first read the staff's report Mr. Southard said he had had some concern that 1962 would present a major problem for Argentina, particularly on the credit side. But, after hearing Mr. Alemann's explanation of the growing public support for the stabilization program and the statement on how the task ahead was being attacked, he felt that his initial worries could be set aside. The account of Argentina's development plans made it clear that there was a good footing for the present boom, and the analysis of the fiscal problem indicated that it was

chiefly of a short-term nature. In these circumstances it seemed clear that the Fund's collaboration with Argentina should continue.

Finally, Mr. Southard said he had noted the statement in the consultations report that during the coming year Argentina faced repayments amounting to \$170 million on foreign credits, half to be paid out of reserves and half from Central Bank purchases of exchange in the market (SM/61/85, Part I, p. 11, 11/24/61). But another part of the report referred to total foreign debt service payments of \$326.6 million in 1962 (*ibid.*, Part II, p. 55, Table 33). He hoped that the difference between these two sets of figures would be clarified.

Mr. Alemann stated that Argentina's large foreign debt schedule was the consequence of heavy indebtedness incurred during the inflationary period, especially in the form of short- and medium-term suppliers' credits which the authorities were now trying to substitute with long-term loans. For the next year it was expected that the inflow of private long-term credit would continue and that some of the development credits negotiated in 1961 would have a favorable impact on the balance of payments. The heavy importations of machinery and equipment related to authorized investment were not expected to cause any difficulty and exports were expected to increase. The Government felt that Argentina's reserves were adequate and that the foreign debt repayments would not impair the stabilization program provided that the authorities could hold the line on credit.

Mr. Guth said he was very grateful to Minister Alemann for his highly interesting and comprehensive analysis and explanation of Argentina's situation. His statement had provided the Board with a direct insight into the workshop of Argentine policies and once again made apparent that they were in very competent hands. Mr. Guth also thought the staff had submitted a very good report, and he agreed with its assessment and conclusions. The report provided a brilliant example of how quickly an economy could change once dynamic forces began to take hold. It thereby clearly disproved the gloomy forecasts made in some quarters that countries like Argentina, which followed the Fund's advice in carrying out stabilization programs, were doomed to stagnation. There was every reason for the Fund to be gratified by the progress Argentina had made in production, investment and employment. Even more important perhaps were a number of structural improvements, such as in the tax system and in the psychological attitude of the population toward the stabilization effort. In his view, the latter offered the best hope for a successful handling of the wage problem in the future which was so decisive for ultimate success.

Alongside these advances, however, Mr. Guth said, new dangers--or rather the old ones--of inflation had begun to appear. It was gratifying to see that the Government was aware of these and was ready to act. In this connection he had noted the statement in the report that the authorities recognized that a change in the points of emphasis of their stabilization policies was now needed (*ibid.*, Part I, p. 8). While he fully agreed that Argentina's economic growth should not be hampered, he thought it should be made clear that an overboiling of the economy would ultimately only lead to a drawback in economic development.

Continuing, Mr. Guth said that, in view of Mr. Alemann's full statement, he saw no reason to comment on all the detailed points in the report which had interested him. But he had taken special note of the Minister's remarks about the state enterprises. Action in this field had been delayed but with the measures now under way, especially the

rationalization of certain industries and the transfer of ownership to the private sector, he thought the Fund could be confident that this situation was now on the way to being brought under control. Once this was achieved, it would greatly ease the whole budget situation, whereas thus far improvements on the revenue side had been wiped out to a great extent by increasing expenditures for the state enterprises.

The one field in which Mr. Guth had some questions, and where his own assessment of the situation did not fully coincide with Mr. Alemann's, was that of credit policy. It seemed to him that the Central Bank, in the understandable endeavor not to impede growth, had waited perhaps somewhat too long to apply the brakes. At any rate, a policy of releasing reserves at a time of newly emerging strong price pressures appeared doubtful, especially since the credit expansion apparently had adversely affected savings and general confidence in the currency. It was reassuring that the authorities seemed determined not to permit any further deterioration in this area. Beyond its function to regulate the supply of liquid funds credit policy had to be considered, and was so considered, as a signal of the general trend of economic policy. It was therefore important that the Central Bank make it clear that credit could not be expanded now.

Turning to the trade side, Mr. Guth said he hoped the difficulties Mr. Alemann had mentioned in connection with Argentina's meat exports and other agricultural exports could be overcome. He also would be interested in knowing what the prospects were for the export of Argentine manufactured goods to its Latin American neighbors. It seemed to him that, now that a spirit of growth had been established, it was necessary for Argentine agriculture and industry to become more competitive. In this context it was clearly desirable that the import surcharges be reduced and eventually eliminated, and the same applied to the remaining bilateralism.

In conclusion, Mr. Guth said that he personally, as well as his Government, had confidence in Argentina's determination to achieve growth under conditions of stability and were convinced that the Fund's continued support was useful and would help to achieve this aim. It was reassuring that Argentina could at the same time count on considerable amounts of long-term foreign capital. Mr. Guth was very pleased to agree to the request for a stand-by and added his best wishes for further success of the program.

Minister Alemann thanked Mr. Guth for his appraisal of Argentina's program. With respect to credit policy, he noted that he had already stated what he firmly intended to do as Minister of Economy despite the difficulties involved in the implementation. As regards productivity, Argentina was doing everything it could to increase agricultural and industrial production. He had already outlined the efforts with respect to agriculture but wished to add that the authorities were encouraged by the fact that the farmers now seemed to be responding to the Government's program. With respect to industrial production, sharp gains had been made in the past years, and there was every hope that this trend would continue. Argentina was unique in Latin America in that it did not possess large supplies of labor; its greatest need was for increased capital in order to put more machinery to work and thus reduce the labor component. Argentina was making considerable progress on this score. More attention would have to be devoted to the question of costs, which would call for some further basic changes. One of these would be a reform of the present pension system which was now in preparation. The Argentine Government was fully aware of the need to become more competitive, and this was one reason why it had agreed to join in the establishment of a Latin American Free Trade Area.

With respect to the system of import surcharges, Mr. Alemann reiterated that it was the Government's stated policy to reduce and eliminate these charges as soon as possible. With this in view, a new tariff was now in preparation; the main problem was to establish a tariff level which was protective of domestic industry and yet reduce costs and thus make Argentine goods more competitive. Argentina also needed to have the restrictions of other countries against its goods reduced. Argentina, which had adhered to the GATT, did not discriminate against any country and hoped its trading partners would do the same toward her.

Mr. Waitzenegger thanked Mr. Alemann for his clear and thoughtful statement. He observed that in 1961 the economic evolution of Argentina was without doubt characterized by a number of favorable aspects, such as a substantial increase in production, a large expansion of investment, and a continuing inflow of foreign capital. The financial position of the Government was actually improving, even though at present the Treasury was in a difficult situation. Furthermore, active steps had been taken to deal with structural problems. However, despite all these positive aspects, it was evident that uncertainties remained and that the next few years would be of crucial importance.

The fundamental problem of price stabilization, Mr. Waitzenegger noted, was still unsolved. Wage increases had largely exceeded the improvement in productivity, and strong increases in both the cost of living and wholesale prices had taken place. It would be difficult to avoid the direct impact on prices in the event of new wage adjustments eased by a shortage of labor. Such developments could jeopardize the rate of exchange for the peso. Therefore, it was encouraging to note that the authorities were determined to follow a more cautious wage policy than in the past.

The monetary situation, Mr. Waitzenegger continued, had shown a revival of inflationary pressures. Certainly, the rate of credit expansion had been excessive, mainly through a relaxation of bank reserve requirements. On the other hand, there was a growing shortage of liquid funds which was reflected in a progressive extension of payments periods and higher interest rates. It was regrettable that the disturbed monetary situation had had an adverse effect on the capital markets, as indicated in the consultations report (*ibid.*, Part II, p. 19). One of the real improvements in recent years had been the restoration of a financial market. It also appeared that the activities of nonbank financial intermediaries had weakened the usefulness of Central Bank credit controls. The expansion of durable goods production naturally created a very large demand for funds, but such an evolution could lead to severe credit distortions. It was to be hoped that the monetary authorities would be in a position to regulate effectively the operations of the companies involved and that credit expansion would be kept within the limits indicated in the new financial program.

With regard to the Central Bank's operations, Mr. Waitzenegger wished to raise a question. He had noted in Table 17 of Part II of the consultations report (*ibid.*, p. 24) that the decrease in outstanding exchange insurance contracts for the period October 31, 1960 - September 30, 1961 amounted to about \$8 million, that is, M\$N 500 million on the basis of the difference between the former rate for the peso and the new one. However, it appeared from Table 15 of Part II (*ibid.*, p. 21) that the losses on exchange rate guarantees for the same period reached M\$N 1.6 billion, and he hoped this could be clarified.

Mr. Waitzenegger also noted that the operations of the state enterprises had remained unsatisfactory. Nevertheless, the Government had taken some efficient measures, and the

satisfactory outcome of the recent difficulties clearly described by Mr. Alemann should permit the application of a rational program of modernization. An improvement in the public finance could begin to appear perhaps in 1963. Thus, a large field of economic and financial adjustments seemed open.

In the external field, Mr. Waitzenegger observed that some progress had been achieved in considerably reducing the number of bilateral arrangements. The record was less satisfactory with respect to surcharge imports whose economic consequences were evident. According to certain press reports, it appeared that under a decree issued last September the Government was authorized to raise the existing import surcharges by up to 100 per cent in order to protect domestic industry. As no mention of this decree appeared in the staff report, he hoped some information could be given on it and, more precisely, whether the decree had been applied in some cases.

It was obvious, Mr. Waitzenegger said, that the problem of external balance was a very difficult one. The trade balance was in deficit and the trend appeared to be toward an increase of the deficit, despite favorable terms of trade. In the long run, the real worry was perhaps not so much in the expansion of imports as in the relative inadequacy of the capacity to import and the consequent external vulnerability. Though the heavy increase of petroleum production had enlarged the import margins, expanding the exports, and particularly agricultural products, was among the most important requirements for the future. Mr. Alemann had stressed this point very clearly. In Mr. Waitzenegger's opinion, seasonal factors could certainly play a significant role. Nevertheless, a determined effort was necessary and it was not only a problem of overseas marketing difficulties.

For the years ahead, Mr. Waitzenegger said, expansion and modernization of the economy would be a most difficult task. New foreign assistance would certainly be required and large amounts were, in fact, under active negotiation. The pace and volume of new debt commitments would have to be kept under constant review. Already, annual service payments were very high and would absorb a large part of export earnings, at least through the next four years. In this connection, he shared the uncertainty expressed by Mr. Southard concerning the figures on external debt payments for 1962, which appeared in the staff papers (EBS/61/154, 11/22/61 and SM/61/85, Part I, p. 11, 11/24/61).

Mr. Waitzenegger said in concluding that the recent expansion was certainly welcome after the stagnation which the Argentine economy had been facing in the past. Nevertheless, the financial environment gave cause for some concern. But the authorities had shown ability and determination on many occasions, and he hoped that their endeavors would be successful. He was prepared to give his support to the request for a stand-by arrangement in an amount equivalent to \$100 million.

Minister Alemann thanked the Alternate Director for France for his observations. He wished to make it clear that the Argentine Government was firmly determined to keep wages in line with productivity and was optimistic about doing so if a tight credit policy were maintained. As regards surcharges, he noted that the decree, which was mentioned by Mr. Waitzenegger, instituted a change in the import system. At present the surcharges were calculated on an ad valorem basis which led many manufacturers to undervalue their goods in order to bring down their taxes. Argentina was slowly moving away from an ad valorem system and was trying to establish fixed amounts for import duties. The Minister also wished to point out that Argentina faced several situations where it was confronted

with dumping which seriously hampered its efforts to industrialize. Since it was difficult for Argentina to maintain protection for its own industries where dumping occurred, some contemplation was being given to the imposition of anti-dumping surcharges. For this reason the decree had authorized an increase in import surcharges for certain specific products.

Mr. Toussaint joined other Directors in thanking Mr. Alemann for his very useful and most interesting introductory statement. He also congratulated the staff for its two excellent reports. On the basis of all the information made available to the Board, and taking into consideration the remarkable results already obtained in rebuilding a flexible and dynamic economy in Argentina, as well as the future policies described in the statement of intentions submitted to the Board and explained in detail by Mr. Alemann, he shared the view expressed by previous speakers that a continuation of the Fund's support of Argentina's stabilization program was fully justified.

Mr. Toussaint explained that he would say no more on the general assessment of the situation, which had been so clearly set forth in the staff documents and in the course of the Board discussion, but he wished to refer to two specific points on which he had some comments to present. He first drew the Board's attention to the reference made by the staff experts to the recent increase in the number and size of what their report called "nonbank financial intermediaries." These, he understood, were largely engaged in the financing of lower priority expenditures, like the purchase of automobiles; apparently, they were not subject to reserve requirements and not being restricted with respect to the interest rates they could charge or offer they had recently started to compete successfully with the banks for saving accounts. Mr. Toussaint underlined that, as Mr. Waitzenegger had already indicated, these developments might somewhat weaken the effectiveness of the Central Bank's control on the credit extended to the private sector of the economy. Furthermore, the fact that the banks were deprived from a part of their normal resources might make it more difficult for them to provide appropriate amounts of short-term working capital in essential fields of industrial and commercial activities. He thought that this question was important in view of the key role that the management of credit to the private sector of the economy was now called to play within the general framework of the stabilization effort. The staff report indicated that the Government was aware of the problem and had begun to study how to regulate the activities of nonbank intermediaries. He wondered whether more information could be given on the steps taken or contemplated in that connection.

Mr. Toussaint then indicated that he shared the staff's disappointment in the relatively small progress yet achieved by Argentina toward reducing import surcharges. As he had previously said in last year's Board discussion (EBM/60/51, Item 3, 12/9/60), the maintenance of highly protective surcharges appeared likely to hinder the development of the Argentine economy along the best lines of specialization, both by favoring the subsistence of uneconomic sectors of production and by increasing the cost of imported investment goods necessary for the development of new branches of production. He, therefore, wished to support the second sentence of paragraph 5 of the staff recommendations on the consultations which referred to the surcharges and wished to take special notice of the indication given in paragraph 7 of the Government's statement of intentions, annexed to the proposed stand-by agreement, that the Government's policy included the elimination in due time of excessive protection incompatible with sound competitive conditions.

In concluding, Mr. Toussaint expressed his hope and confidence that the Government of Argentina would be able to carry on successfully the delicate task of checking the incipient renewal of inflationary pressures, while maintaining the restored dynamism of the economy and keeping the public's support for a program the full implementation of which would bring to the Argentine people such ample economic rewards. He was pleased to support the staff recommendations on the granting of a new stand-by to Argentina under the proposed terms.

Mr. Pitblado said he had studied the excellent staff report and the general picture of the Argentine stabilization program with very great interest, and he had no hesitation in supporting the recommendations on the consultations. Previous speakers and Minister Alemann had discussed fully the crucial factors and points of potential difficulty and he would do no more than indicate his agreement with the emphasis placed on them. He agreed with Mr. Guth that there was an impressive record of expansion within conditions of relative stability. These conditions needed to be maintained. As regards wages, which raised a central problem for Argentina as in so many other countries, there seemed no elbow room. On credit policy he appreciated that the authorities were likely to find themselves under very heavy pressure from the banking community to be less stringent but if they were to yield they would have little chance of fulfilling their hope of obtaining half the \$170 million needed for debt repayments from purchases in the market. On the budget side, the staff paper brought out the progress that had been made in the form of substantial revenue increases. It rightly stressed the continuing operating deficits of the state agencies, and he was glad to note the action taken to implement the railway program. With respect to protection, he endorsed what other Directors had said and welcomed the intentions of the Argentine Government on this matter. The balance of payments, while improving, still gave some cause for disquiet. The principal needs here were expanded exports and the attraction of more capital. He also wished to welcome, as he and his predecessors had done so frequently, the steps--directly advantageous to themselves--which Argentina had taken to reduce bilateralism which he hoped could be eliminated soon.

Finally, Mr. Pitblado was pleased to add his support of the request for a stand-by arrangement, and he wished Argentina very great success in the years that lay ahead.

Mr. van der Valk said he had seldom heard in the Board such a penetrating analysis of the problems of a country trying to regain its economic position in the world as that presented by Mr. Alemann. The Minister's statement illustrated the formidable task ahead for Argentina in all sectors of its economy. The Argentine economy could, to a certain extent, be compared with the situation in Western Europe after the last war, and the lessons learned there might be helpful to Argentina. One of the most important was that wages should be kept under restraint and that savings should be increased. These savings, together with American aid, made possible the rebuilding of the war-torn European economies. He fully agreed with Mr. Waitzenegger that the possibility of a rapid increase of wages in Argentina created one of the country's most serious problems.

Mr. van der Valk also said he had been reassured by the intentions of the Argentine authorities with respect to credit policy. He went on to say that, like Mr. Waitzenegger and Mr. Toussaint, he also had been struck by the statements in the consultations report regarding the nonbanking financial intermediaries in Argentina, and he had been surprised by the indication that the Government had begun to regulate these institutions (SM/61/85, Part I, p. 7, 11/24/61), especially since the Radcliffe Report and the report of the U.S.

Commission on Money and Credit had concluded that there was no reason to extend credit controls to such nonbank intermediaries. Perhaps in the case of Argentina the term "nonbank intermediaries" was too broad because Part II of the report (*ibid.*, p.20) mentioned that the institutions involved were principally finance companies set up to finance installment purchases and that their growth in 1961 had been directly related to the booming sales of all kinds of durable goods. In view of the rising trend in wages, it came as no surprise that there had been a boom in durable goods sales.

Mr. Garland said that some passages of Mr. Alemann's statement and the staff report had a familiar ring to him, and evoked his sympathy, particularly the effort of the Argentine authorities to hit upon a credit policy which would meet their situation. Their problem, as he saw it, was to obtain an optimum rate of growth of the money supply which would ensure a maximum rate of economic growth at stable prices. If the money supply grew more slowly than the optimum, there might be a waste of resources and economic growth could be retarded; if the money supply grew more rapidly, the country might face inflationary waste and distortion. He sympathized with the attempt of the Argentine Government to obtain acceptance of the view that increases in wages should be kept in line with productivity movements. He also sympathized with the concern of the authorities about the barriers in industrialized countries to the importation of Argentine products. Since other important points in the case had already been covered by previous speakers, Mr. Garland said he would limit his remarks to the preceding expressions of sympathy and wish Argentina success in the formidable task ahead, which called for determined and resolute policies. In view of the commitments made to the Fund in the quest for a stand-by arrangement, he was prepared to support the staff recommendations.

Mr. Kumashiro wished first to congratulate the Argentine authorities on their continued determination, as explained in detail by Minister Alemann, to implement the stabilization program, to bring the present economic boom under control, and to pursue at the same time a vigorous development program. He also welcomed the successful action taken by the authorities in reducing the bilateral elements in Argentina's trade relations with other countries. He sincerely hoped for the success of the policies of the Argentine authorities.

With respect to the request for a stand-by arrangement, Mr. Kumashiro wished clarification of one point. He had noted that in the Argentine Government's letter to the Fund the statement that, in spite of an expected increase in exports and some decline in imports in 1962, it was estimated that the still high level of interest and capital repayments on the foreign obligations of the Central Bank which would amount to \$172 million in 1962 would weigh heavily on the balance of payments (EBS/61/154, pp. 5-7, para. 2, 11/22/61). He understood from this that one of the main reasons for the request for a stand-by arrangement was the level of payments due on foreign obligations. The consultations report mentioned that the external public debt repayment schedule in 1962 amounted to a total of \$326.6 million, of which direct obligations of the Central Bank were \$161.7 million and obligations of the Government and agencies were \$152.9 million (SM/61/85, Part II, p. 55, Table 33, 11/24/61). Like Mr. Southard, he wished to have further clarification of the relation between these figures and those mentioned in the Minister's letter and, in particular, whether the figure of \$172 million included the scheduled repayment of Argentina's obligation to Japan. The balance on the previous bilateral account of Japan with Argentina was now about \$43.6 million which was scheduled to be paid to Japan during the period 1962-1966. This payment schedule was agreed after two previous postponements granted by Japan in 1957 and 1961 in line with similar agreements made by

the European countries participating in the so-called Paris Club. Japan expected prompt repayment by Argentina in accordance with the above-mentioned schedule, and with this understanding, he supported the present request for a stand-by arrangement with the Fund.

Mr. Bicalho thanked the staff for its report on the Article XIV consultations with Argentina and congratulated Mr. Alemann for his clarifying statement which presented such a frank picture of his country's economy. Argentina had indeed made considerable progress under its stabilization program. Foreign exchange reserves had risen, while production and investments had increased sharply. On the other hand, Mr. Bicalho noted, the paper before the Board showed that credit expansion to the private sector had increased and the balance of payments showed a deficit after two years of surplus. These, and other minor points, were sufficiently justified by both the staff and Mr. Alemann and were the result of special conditions in the Latin American economies. In this connection he had intended to make some remarks about the European Common Market, but after hearing Mr. Alemann's statement, Mr. Bicalho said he would wait for another opportunity to discuss that subject. In conclusion, he was pleased to give his support to the staff's recommendations on both matters before the Board.

Mr. Asgeirsson said it had been a real pleasure to listen to Minister Alemann's excellent and lucid explanation of Argentina's situation, and he was gratified to note the progress made under the stabilization program as reported in the staff paper on the consultations. The economy was now in a period of rapid expansion, stimulated by a large inflow of foreign capital. The Government's policy toward foreign investment seemed good but he wondered if there could not be more coordination as to the use of capital. He had noted in particular the great expansion that had occurred in the automobile industry, which would soon be in a position to produce no less than 20 different makes of foreign cars. It could be questioned whether such a large expansion in one industry was wise and whether it would not be better for the economy in the long run if expanding production were spread over a number of industries.

It was clear, Mr. Asgeirsson said, that despite the progress made, some further measures in the fiscal and monetary field would be necessary. As mentioned by several other speakers, growing inflation was a present threat to the stabilization effort and continued confidence in the currency. The 15 per cent rise in the cost of living index and the increase of about 25 per cent in wages during the first ten months of 1961 undoubtedly were of grave concern to the Government. He was glad to hear from Mr. Alemann that the Government hoped it would be possible in the future to keep wage increases within the limits of productivity gains. Finally, Mr. Asgeirsson said he had noted that the rise in wage costs and the re-emergence of a deficit in the balance of payments had led to concern about the future of the exchange rate but that the staff felt this concern was premature (*ibid.*, Part I, p. 15). The staff further believed that a firm domestic credit policy and increased exports, foreseen as the result of more favorable crop prospects, could remedy the present critical situation. On the basis of the staff's appraisal and the past performance of the Argentine authorities, as well as Minister Alemann's statement, he was prepared to support the request for a new stand-by arrangement.

The representative of the Western Hemisphere Department, in replying to the questions raised on some of the statistics in the staff papers, explained that the statement in Part I of the consultations report (*ibid.*, p. 11) that there would be repayments on foreign

debts amounting to some \$170 million during the coming year referred only to direct Central Bank foreign obligations, while the figure of \$326.6 million used in Table 33 (*ibid.*, Part II, p. 55) represented the total external public debt including Central Bank obligations as well as other debts which came within the government budget and were financed by it. The discrepancy between the figure of \$170 million for direct Central Bank obligations given in Part I (*ibid.*, p. 11) and that of \$161.7 million mentioned in Table 33 (*ibid.*, Part II, p. 55) was due to the fact that the latter figure excluded a scheduled quota payment to the Inter-American Bank.

As regards Mr. Wäitzenegger's inquiry about the losses on exchange rate guarantees, the staff representative stated that the figure of M\$N 1.6 billion for the period October 1960-September 1961 reported in Table 15 (*ibid.*, p. 21) represented the best available estimate of these losses. In view of the fact that the Central Bank's accounts did not yet take into account the adjustment in the exchange rate, it was difficult to ascertain the origin of the losses. The discrepancy between this figure of M\$N 1.6 billion and the reduction of only \$8 million in outstanding exchange insurance contracts (*ibid.*, p. 24, Table 17) was probably due to the fact that some exchange insurance contracts with banks had not been included in the latter figure. The staff did not regard the differences as significant because in any case they were included in the Bank's credit expansion program.

With respect to the nonbank financial intermediaries, the staff representative pointed out that these institutions were now controlled to the extent that their obligations could not be in demand form. They were only permitted to accept one year deposits and were prohibited from making them liquid.

Minister Alemann wished to add some further comments on points made in the discussion. In regard to the nonbank financing companies, which had created a problem for the authorities, he explained that consistent with Argentina's policy not to impose physical controls on the economy, the present regulations were merely directed at a registration of the companies with the Central Bank with a view to further examination of their operations and possible control. It was not the Government's intention to inhibit any of the companies which attracted capital and engaged in banking activities; in fact, it was expected that part of the capital for private industry would have to come from these institutions. In part, the success of these companies could be attributed to the inflationary habits of Argentine businessmen who in time would undoubtedly become more cautious. This related to the question of limiting the movement of capital which came from abroad. The authorities were well aware that the expansion in the automobile industry had been too large, and during the last months measures to control that had been taken. The authorities were prepared to give fiscal incentives to attract capital in certain other areas, but generally they expected competition to take care of the problem of any overexpanded industries.

With respect to the import surcharges, Mr. Alemann said he had already stated the Government's policy and intentions, but he wished to emphasize that they could only be implemented if Argentina's exports could be encouraged and her trading partners removed the existing restrictions against her products. Argentina had a very competitive agricultural industry. Her agricultural products were cheaper than those of Western Europe, whereas the latter was more competitive in industrial production, and for this reason the Argentine authorities felt that they were right in pressing for the removing of Western European restrictions against Argentine agricultural products.

Finally, Mr. Alemann wished to congratulate the staff for the excellent work it had done on the Argentine case and to thank the Fund for its support and assistance during the past year. The Argentine authorities felt that it was important to have this support continue in the next year and for that reason they had requested a new stand-by arrangement. Argentina did not expect to draw on the stand-by but needed it as a secondary line of reserves in order to maintain confidence in the currency. In addition, Argentina had requested the United States to continue its line of credit as a further secondary reserve.

Decisions

a. *1961 Article XIV Consultations.* The discussion turned to the text of the proposed decision on the 1961 Article XIV consultations. The Executive Board accepted the staff's recommendations without change.

The decision was:

1. The Government of Argentina has consulted with the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. In 1961 the Argentine economy achieved a substantial growth of production, and investment rose to record levels. Despite continuing operating deficits of state enterprises, government finances improved, borrowing from the Central Bank fell further, and the floating debt was reduced. But, as bank credit to the private sector, financed principally by releases of commercial bank reserve deposits in the Central Bank, expanded rapidly, wages rose considerably, price increases reappeared, and the balance of payments deteriorated.

3. The Government has indicated that it plans to eliminate government recourse to Central Bank credit for the fiscal year 1961-62. Particular emphasis has been placed on effective action to improve the operating results of state enterprises. The Central Bank plans a substantially more restrictive credit policy for 1962 in order to check the price increases and re-establish balance of payments equilibrium.

4. The Fund welcomes the continued determination of the Argentine authorities to implement an effective stabilization program and to pursue a vigorous development program. The Fund notes the importance of effective action to check the deficits of the state-operated enterprises, of resolute implementation of the credit program, and of avoiding wage increases beyond productivity advances.

5. The Fund welcomes the successful action taken in reducing the number of bilateral payments arrangements, and notes the plan to eliminate the remaining three arrangements. The Fund urges further reduction of import surcharges and the early introduction of a revised tariff schedule designed to eliminate reliance on such surcharges.

6. In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Argentina.

b. *Stand-by Arrangement.* The Directors proceeded to review the text of the proposed stand-by arrangement. No changes were suggested and it was agreed that the arrangement should take effect from December 12, 1961.

The decision was:

Argentina has requested a stand-by arrangement with the Fund. The Fund agrees to the request, approves the stand-by arrangement set forth in EBS/61/154, Sup. 1, and grants the necessary waiver under Article V, Section 4, of the Articles of Agreement.

The Acting Chairman informed the Board that the Fund would coordinate with the Argentine authorities in issuing a press release on the stand-by decision. He then thanked Minister Alemann for attending the meeting and for his helpful participation in the discussion.

5. REPUBLIC OF THE CONGO (BRAZZAVILLE) - APPLICATION FOR MEMBERSHIP

The Acting Chairman noted that the period designated for discussion and preliminary investigation on the application of the Republic of the Congo (Brazzaville) for membership in the Fund had elapsed and that it should be decided whether to proceed with the formal investigation.

In accordance with Rule D-1, the decision was:

The Fund shall proceed as of December 8, 1961 with the formal investigation of the application for membership in the Fund received from the Republic of the Congo (Brazzaville) (EBD/61/131, 11/8/61). The following committee is designated to obtain relevant information, discuss any related matters with the applicant and report to the Executive Board: Mr. Garland, Chairman; Messrs. de Largentaye, Pitblado, Saad, Slamet, and Southard.

6. FEDERAL REPUBLIC OF CAMEROUN - APPLICATION FOR MEMBERSHIP

The Acting Chairman noted that the period designated for discussion and preliminary investigation on the application of the Federal Republic of Cameroun for membership in the Fund had elapsed and that it should be decided whether to proceed with the formal investigation.

In accordance with Rule D-1, the decision was:

The Fund shall proceed as of December 8, 1961 with the formal investigation of the application for membership in the Fund received from the Federal Republic of Cameroun (EBD/61/136, 11/28/61). The following committee is designated to obtain relevant information, discuss any related matters with the applicant and report to the Executive Board: Mr. Bicalho, Chairman; Messrs. de Largentaye, Pitblado, Saad, Slamet, and Southard.

7. CUBA - POSTPONEMENT OF REPURCHASE

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on December 1, 1961 and recorded (EBS/61/156, 11/24/61, and Cor. 1, 11/27/61):

Cuba has requested that the discharge of its repurchase commitment equivalent to \$25,000,000 be scheduled as follows:

\$5,000,000 not later than September 12, 1962;
\$5,000,000 not later than March 12, 1963;
\$5,000,000 not later than September 12, 1963.

Cuba also undertakes to consult and reach agreement with the Fund prior to September 30, 1962 for repurchase of the balance of \$10,000,000.

The proposal of Cuba is agreed.

8. THE REPUBLIC OF THE SUDAN - AGREEMENT ON REPURCHASE

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on December 4, 1961 and recorded (EBS/61/159, 11/29/61):

Sudan has requested that the discharge of its repurchase commitment, equivalent to \$5,000,000 be scheduled as follows:

\$2,500,000, immediately upon receipt of Fund consent to the arrangement;
\$2,500,000, not later than July 31, 1962.

The proposal of Sudan is agreed.

9. EXECUTIVE BOARD TRAVEL

No objection having been expressed in the time specified to travel by an Executive Director as set forth in EBAP/61/132 (12/4/61), the Executive Board's approval is recorded.

10. STAFF TRAVEL

The Executive Board was informed of travel by the Managing Director to Europe (EBAP/61/131, 12/4/61). No objection was expressed.

APPROVED BY THE EXECUTIVE BOARD:

Meeting 62/3, January 19, 1962

PER JACOBSSON
Chairman

ROMAN L. HORNE
Secretary

