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CONFIDENTIAL

LOAN COMMITTEE

LC/M/86-37

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WBG ARCHIVES

November 17, 1986

Minutes of Loan Committee Meeting to Consider
ARGENTINA - Proposed Trade Policy and Export Diversification Loan
Held on November 12, 1986 in Conference Room E-1208

A. Present

Committee:

Others:

Chairman: Mr. Stern
 Finance: Mr. Qureshi
 Legal: Mr. Shihata
 ERS: Mr. Michalopoulos
 OPS: Mr. Husain
 Region: Mr. Knox

Messrs/Mmes. Dubey
 Gue
 Scott
 Pfeffermann
 Collell
 Schultz
 de Souza
 Fox
 Lachman (IMF)

Lysy
 Nissenbaum
 Roger
 Schwedhelm
 Sokol
 Clements
 Donovan
 El Maaroufi

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COMMITTEE
 Senior Vice President, Operations (Chairman)
 Senior Vice President, Finance
 Vice President & General Counsel
 Vice President, Operations Policy
 Regional Vice President concerned*
 Vice President, Energy & Industry (for lending
 in these sectors and SALs)
 Vice President, Economics and Research (for non-
 project lending)

OTHERS
 Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to discuss the proposals in Mr. Knox's memorandum of November 6, 1986 for a Trade Policy and Export Diversification Loan to Argentina. The discussion focussed on the main issues raised in the Country Policy Department's Memorandum of November 11, 1986.

C. Discussion

Macroeconomic Framework

2. The meeting discussed the adequacy of Argentina's present macroeconomic framework. The Region noted that the recent rekindling of inflationary pressures had been mainly caused by expansionary, uncoordinated monetary policy while the fiscal deficit had been kept in check. The IMF Representative agreed and noted that a Fund mission was in the field to initiate negotiations on a new Stand-by. The Fund would press for a reduction of the overall public sector deficit, projected to be 4% of GDP in 1986, to 3% in 1987.

3. Regarding the exchange rate, the Region noted that the Austral had appreciated by about 10% with respect to the July 1985 trade weighted currency basket level. The IMF Representative stated that the Fund mission was considering various options on the exchange rate to promote exports and sustain an agreed level of liberalization, as well as the timing of adjustments. The Chairman indicated that the Bank should coordinate with the Fund and come up with a joint view on the proposed exchange rate and trade liberalization policy.

4. The Region noted that the proposed operation was based on the assumption that agreement on a new Stand-by would be reached by the time of Board presentation. Endorsing this position, the Committee agreed that further major lending to Argentina would be dependent on the removal of the present price controls, and that the Government should be advised accordingly.

Trade Liberalization

5. The meeting reviewed the main elements of the proposed trade liberalization strategy. Given Argentina's prior unsuccessful import liberalization experiences, it was agreed that a gradualist approach was warranted, but without losing sight of the final liberalization objective. The Region said that the Government is committed to this goal, for which important reforms had already been implemented in line with the Bank's recommendations in preparation for this loan. Furthermore, Argentina's tariffs are not excessively high, and, therefore, further efforts should be concentrated on replacing the remaining non-tariff restrictions with an appropriate tariff regime. The meeting agreed with the proposal to reach agreement on a multi-year program of liberalization, coordinated with the Fund, before release of the second tranche.

6. The meeting noted that the proposed loan would provide exporters with a de facto free trade regime for imported inputs. It would thus expose domestic producers of these materials to competition at international prices as a first step towards more general import liberalization. The meeting directed the appraisal mission to quantify the significance of the proposed partial liberalization of imports in terms of its impact on Argentine manufacturing production. The Chairman indicated that, if the production value of the proposed partial liberalization is relatively insignificant, it would be necessary to reach agreement on the phasing out of QRs on the remaining tariff positions within a briefer period than recommended in the Initiating Memorandum. Conversely, if the amount involved in the partial liberalization is relatively significant, a suitably longer period for the phaseout of the remaining QR's would be acceptable.

7. The Committee also instructed the appraisal mission to review existing incentive programs for exporters, some of which reportedly have been the subject of countervailing action by other countries, and to formulate plans for their elimination or modification as appropriate.

8. The meeting discussed the system of import permits for goods entering the country automatically. It was agreed that goods in the automatic list should not require import permits, even if only for statistical purposes, and that the Region should seek a commitment to eliminate these permits before second tranche release.

External Borrowing

9. The meeting discussed the Government's proposal, in order to avoid domestic political difficulties, to use World Bank (in place of its own) balance-of-payments projections in Argentina's medium-term framework paper to be presented to the commercial banks. It was recommended that the paper indicate that these projections are based on data furnished by the Government as a disclaimer, in order to guard against any claim of liability from a third party. The Chairman indicated that it would be more desirable for the Government to present its own projections and that the Region should persuade it to do so.

D. Conclusion

10. Subject to the modifications noted above, the Committee approved the regional proposal to appraise and process the Trade Policy and Export Diversification loan along the lines set out in the Initiating Memorandum, including the proposed US\$400 million loan amount.