Argentina to Receive Over US$3.8 Billion from IMF, World Bank

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/notisur

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiSur by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Argentina to Receive Over US$3.8 Billion from IMF, World Bank

by LADB Staff  
Category/Department: Argentina  
Published: 1987-01-13

At an evening press conference Jan. 12 Economy Minister Juan Sourrouille announced that Argentina will receive over $3.8 billion in foreign loans, consisting of a stand-by credit from the International Monetary Fund (IMF), and $2 billion from the World Bank earmarked for economic development and structural reform projects. Also present at the press conference were Finance Secretary Mario Brodershon, Central Bank president Jose Machinea and Economy Policy Undersecretary Juan Sommer.

The "memorandum of understanding" signed with the IMF late last week in Washington included commitments by the Alfonsin administration to "gradually reduce" price controls and to exercise "flexible management of interest rates" in 1987. The IMF agreed to provide Buenos Aires with additional financing if agricultural prices in the world market fall below specified levels. The memorandum also includes the government's estimate of a "growth rate around 4%" in 1987. The fiscal deficit is expected to reach 3.9% of GDP in the first half of the year and 1.1% in the second half.

In the following, selected items contained in the memorandum of understanding are summarized: Above all else, reform of the state apparatus involves the restructuring of the public productive sector. A "substantial improvement" in the balance sheets of enterprises to remain under government control is expected as a result of the recent real price increases for state companies' goods and lower interest rates obtaining on foreign loans in 1987 vis-a-vis 1986. The transfer of public enterprises to the private sector must not result in the "simple privatization of monopolies."

Public investment planning will be coordinated with macroeconomic plans for reducing the fiscal deficit. Public investments will be directed to economic sectors involving the incorporation of advanced technologies. Competition in world markets is based on new and innovative technologies and low salaries. Argentina, however, is not predisposed to impose substantial salary reductions, since low salaries are not part of the country's "historical experience." Moreover, attempts to impose such measures on the working class would endanger economic growth and "social cohesion."

The Argentine government is committed to promoting stronger linkages to the international economy. A primary objective of the administration's economic growth strategy is the restructuring of short- and long-term capital markets. In principle the IMF agreement pertains to a 15-month period. The fulfillment of goals contained in the memorandum by Buenos Aires, however, covers the October 1986-December 1987 period, while the disbursement of funds by the IMF began Jan. 12, to be finalized in March 1988. Next, as explained by Sourrouille, the World Bank loan approval followed the presentation and discussion of a 23-page project paper delivered by President Raul Alfonsin's economic team. First, after outlining the evolution of the national economy throughout the Alfonsin administration, it was argued that preliminary statistics on last year's economic performance indicate "continued recovery" of the Argentine economy.
The document summarized on-going and future plans for economic recovery, including structural reform of the state apparatus, the revitalization of public investment, incentives for foreign private capital, financial system reform, and a program to expand export and agricultural production. Price and wage freezes were mentioned as the crux of the economic stabilization plan, known as the Plan Austral. The resurgence of inflation in mid-1986 was described as an outcome of certain problems existing since the beginning of the stabilization effort, such as inadequate foodstuff production. It was pointed out that workers' purchasing power was increased with inflation controls.

Argentines' greater purchasing power led to demand growth for both industrial and food products. Industrial output rose accordingly, but food supplies did not keep pace with increased demand. As a result, food shortages exacted serious inflationary pressure. The document mentioned beef prices as a case in point. In another section of the project proposal, Argentine officials emphasized that the outflow of capital constitutes a heavy economic burden and must be reversed. In this regard, "greater foreign financing and investment" combined with adequate time to "eliminate the causes" of Argentine economic problems are considered crucial.

Additional statements pertaining to economic policy orientations contained in the project delivered to the World Bank referred to 1) providing financial incentives to agricultural and export production; 2) export diversification; 3) gradual removal of export taxes; 4) expansion of capital goods production; 5) modernization and expansion of the petrochemical, steel and paper industries; 6) financial system reform; 7) broadening the role performed by private capital in the national economy, and 8) transport sector investments, particularly in the area of infrastructure to facilitate export growth. Having completed negotiations with the IMF and the World Bank, Argentine officials have initiated discussions with foreign commercial bank creditors. Among other things, Buenos Aires will request refinancing of debt payments due in 1986 and 1987. (Basic data from several reports by NOTICIAS ARGENTINAS, 01/12/87)

-- End --