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FM UKDEL IMF/IBRD WASHINGTON 160005Z JUN 84

TO IMMEDIATE FCC

TELEGRAM NUMBER 122 OF 15 JUNE

IMF: ARGENTINA

SUMMARY.

1. THE MANAGING DIRECTOR REPORTED THAT THERE WAS A WIDE GAP BETWEEN THE ARGENTINE AUTHORITIES AND THE FUND MANAGEMENT ON THE FUNDAMENTALS OF AN ECONOMIC ADJUSTMENT PROGRAM. A TECHNICAL MISSION WOULD VISIT WASHINGTON NEXT WEEK. SERIOUS NEGOTIATIONS WERE NOT EXPECTED BUT DOORS HAD NOT BEEN CLOSED FOR FUTURE DISCUSSIONS.

DETAIL.

2. THE MANAGING DIRECTOR WARNED DIRECTORS NOT TO UNDERESTIMATE THE THREE SIGNIFICANT AREAS OF DIFFERENCE BETWEEN THE FUND MANAGEMENT AND THE AUTHORITIES. FIRST, INFLATION HAD TO BE REDUCED FROM ITS PRESENT RATE OF 550 PER CENT A YEAR IF A FIRMLY-BASED ADJUSTMENT PROGRAM WAS TO BE ESTABLISHED. BUT THE MEASURES WHICH THE ARGENTINE AUTHORITIES WERE PROPOSING WOULD NOT REDUCE INFLATION AND MIGHT EVEN EXACERBATE IT. SECOND, A PROGRAM SHOULD AIM TO REDUCE THE BALANCE OF PAYMENTS DEFICIT AND SO MODERATE THE RISE IN INDEBTEDNESS. BUT THE ARGENTINEANS COULD NOT ACCEPT THE NECESSARY POLICIES. THIRD, THERE WAS NO RECOGNITION THAT RELATIVE PRICES NEEDED TO BE ADJUSTED SO AS TO BRING THE ECONOMY INTO THE BETTER BALANCE WHICH COULD GENERATE MORE EXPORTS.

3. SINCE THERE WAS NO AGREEMENT ON THESE THREE FUNDAMENTAL OBJECTIVES

THE FUND COULD NOT DISCUSS DETAILS OF FISCAL, MONETARY, EXCHANGE RATE AND PRICING AND WAGE POLICIES. THE MANAGING DIRECTOR OBSERVED THAT DIFFERENCES WITH MEMBER COUNTRIES ON ADJUSTMENT HAD USUALLY CENTRED ON THE TIMING OF THE IMPLEMENTATION OF THE NECESSARY MEASURES

IN THIS CASE, ALMOST UNIQUELY IN HIS EXPERIENCE, THE DIFFERENCE WAS ABOUT THE BASIC APPROACH. HE HAD TOLD THE ARGENTINE AUTHORITIES THAT WHILE SUCH DIFFERENCES EXISTED, HE COULD NOT PROPOSE A PROGRAM TO THE BOARD.

4. THE MANAGING DIRECTOR SAID THAT ONE FAVOURABLE ELEMENT WAS ARGENTINA'S CLEAR WISH FOR NEGOTIATIONS TO CONTINUE. A TECHNICAL MISSION WOULD THEREFORE VISIT WASHINGTON ON WEDNESDAY, JUNE 20. MINISTER GRINSPUN MIGHT COME AT A LATER STAGE THOUGH NO DATE HAD BEEN ARRANGED. THE MD SAID THAT THE PRESENT PLAN WOULD BE TO CIRCULATE AN ARTICLE IV PAPER NEXT MONTH FOR DISCUSSION IN LATE AUGUST.

5. THE MANAGING DIRECTOR REFERRED QUESTIONS ABOUT THE BANKS' REACTIONS TO THE BANKS.

6. WIESNER (DIRECTOR, WESTERN HEMISPHERE DEPARTMENT), WHO HAD LED THE RECENT IMF MISSION, SAID THAT THERE WAS A WIDE GAP BETWEEN THE FUND STAFF AND THE ARGENTINE AUTHORITIES ON THE OBJECTIVE FOR

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