

# GENERAL AGREEMENT ON TARIFFS AND TRADE

## Committee on Balance-of-Payments Restrictions

### REPORT ON THE 1986 CONSULTATION WITH ARGENTINA UNDER ARTICLE XVIII:12(a)

1. The Committee consulted with Argentina on 22 April 1986, in accordance with its terms of reference, pursuant to Article XVIII:12(a) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the Chairmanship of Ambassador P.-L. Girard (Switzerland). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic document	BOP/261
Secretariat background paper	BOP/W/96
IMF report "Argentina - Recent Economic Developments", dated 20 February 1986	
Notifications by Argentina:	
- Information relating to import régime	L/5643 L/5687 & Corr.1 + 2 & Add.1 + 2
- Import duty increases	L/5941 & Add.1
- Working Party of International Meat Council	IMC/11, IMC/15
- Sub-Committee on Protective Measures	COM.TD/SCPM/W/9, W/20, COM.TD/SCPM/3, 6

#### Introductory Statement by the Representative of Argentina

3. The text of the opening statement by the representative of Argentina is reproduced in Annex I.

#### Statement by the Representative of the International Monetary Fund

4. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the text of which is reproduced in Annex II.

#### Balance-of-payments position and prospects: alternative measures to restore equilibrium

5. The Committee thanked the representative of Argentina for his very full exposition of his country's situation and commended Argentina for the major adjustment efforts being made under the Plan Austral, which should create greater confidence in the stability of the economy.

6. Two members referred to the dramatic fall in investment and productive capacity, and the flight of capital from Argentina, noted between 1982 and 1985. They asked for information on the measures being taken by Argentina to revive investment and encourage the repatriation of capital and new capital inflows. The representative of Argentina stressed that capital inflows were above all a function of confidence in the economy. This depended on the overall success of the economic programme, which in turn, would be influenced in part by the external trading environment. He confirmed that there had been a rapid decline in investment; in 1985 gross investment fell by 16.8 per cent. Although some return of short-term capital had already taken place, some time would be needed before inflows of foreign direct investment would show significant effects on the balance of payments: currently, the industrial sector was working at low capacity. However, the overall growth of the economy was expected to be 4 per cent in 1986, and this would permit some of the slack to be taken up. At present, investment programmes were directed to increasing export capacity, and also towards petroleum development.

7. In reply to questions on exchange rate policy, the representative of Argentina stated that the aim was to keep the real level of the austral stable in relation to main trading currencies. Adjustments would therefore be made as necessary, compatible with the expected rate of inflation; the expected inflation rate for 1986 was 28 per cent. To date, indicators had shown that this policy was succeeding. By late March 1986, the real exchange rate index vis-à-vis the US dollar stood at 119; that against a basket of currencies stood at 123 in January 1986, both from a base of August 1984 = 100.

8. As far as prospects for the balance of payments in 1986 were concerned, the representative of Argentina noted that export prices were expected to fall by some 6 per cent in addition to the decrease which had already occurred in 1985. The volume of exports was also expected to fall, mainly due to a drop in wheat exports caused by intensive floods. However, Argentina was committed to the liberalization of remaining import restrictions on all except a few luxury goods by mid-May 1986 and to the elimination of the emergency increases in import duties, introduced in June 1985, in the course of the year. He referred to the experience of Argentina in the late 1970's, which had been raised by one observer. Argentina had learned that trade liberalization must be related to the economic structure of the country and must be combined with policies which take adequate account of the inflationary consequences of certain actions.

9. Replying to another question, the representative of Argentina recognized that the problem of inflationary pressures could not be solved only through the freezing of wages and prices as at present. In the context of fiscal and monetary policies which had already reduced inflationary expectations, it was intended to move to a system of administered prices which would also be kept under review in line with general economic policy; wage levels would be negotiated among social partners within ceilings related to these overall price trends.

10. The representative of Argentina noted that reductions in international interest rates had some beneficial effects on foreign debt payments. One percentage point cut in interest rates represented a saving of some US\$400

million per year. Nevertheless, Argentina still faced an international market interest rate of 9.22 per cent, which was considered to be exceptionally high. This corresponded to a real rate of interest on Argentina's external debt of some 5 per cent, which implied a minimum annual debt servicing in real terms of some US\$2,000 million. The falling price of oil caused a loss in export earnings from petroleum and petroleum products, export revenue from which was around US\$600 million in 1985.

11. One member asked what plans Argentina had for eliminating the differentials in export taxes between oilseeds and oilseed products. In the view of his authorities, these differentials discouraged exports of oilseeds in favour of oilseed products, thus distorting trade and promoting inefficient use of Argentina's resources. In reply, the representative of Argentina stated that charges on oilseeds were not balance-of-payments measures, but fiscal measures. They would be kept in force for as long as they were found to make a useful contribution to controlling the budget deficit. Some export taxes had recently been reduced. Apart from the budgetary effects of the taxes, the aim of the tax differential was to promote exports of processed oilseed products, in line with the objectives of Article XXXVI of the General Agreement.

#### Systems, methods and effects of the restrictions

12. One member, referring to the complexity of the Argentine import system, asked for confirmation of his understanding that the measures being applied for balance-of-payments reasons were import licensing, prior import deposits, the 10 percentage point emergency tariff increase and measures relating to minimum financing terms for imports. He assumed that other taxes such as the statistical tax, merchant marine levy and so forth were not balance-of-payments measures, and asked whether, in keeping with Article VIII of the General Agreement, such fees were related to the cost of services rendered and what share of total government revenue these represented. Several members referred to the multiplicity of measures applied by Argentina, and welcomed the commitments made by Argentina to liberalize various measures during 1986. It was asked whether Argentina could indicate broadly the criteria for, or trade coverage of, these liberalizations and whether a timetable could be made public according to paragraph 1(c) of the 1979 Declaration. A question was also asked regarding the protective effect of the import deposit scheme.

13. In reply, the representative of Argentina confirmed that the measures applied for balance-of-payments reasons were as understood. The statistical tax was related to services rendered and the merchant marine tax was a promotional measure. It was noted that data on the revenue from such measures were included in the documentation provided by the IMF. The complexity of the import system reflected the economic situation which had been faced by Argentina. Argentina had made firm commitments to liberalize import licensing for all but a limited number of luxury goods, and to remove all restrictions on payments and transfers for service transactions except tourism, by mid-May 1986. The 10 percentage point emergency increase in tariffs would also be eliminated during 1986. He emphasized that these tariff increases did not affect GATT-bound items. He added that while some tariffs might be increased concurrently with the elimination of import restrictions, it was the government's intention to limit such increases so as

not to frustrate the goal of import liberalization that was being sought, and not to raise duties on imports already in the automatic list except to correct anomalies in the tariff schedule. GATT-bound items would again not be affected. The import deposit scheme was not a protective measure, but was rather intended to affect the level of liquidity in the economy.

14. Some members questioned the system of differential foreign financing terms for imports as between imports from LAIA countries and those from other sources and the effects on trade of the exemption of LAIA imports from the import licensing restrictions introduced for balance-of-payments reasons. One member urged Argentina to eliminate the discriminatory element of import financing terms, which placed greater costs on other exporters than on those from LAIA countries. Some members noted that, while part of the increase in Argentina's imports from LAIA could be ascribed to the normal course of greater economic integration, it was felt that the differential treatment applied in the import licensing system had also played a rôle. In reply, the representative of Argentina stated that there had regrettably not been any particularly marked increase in trade with Latin American sources, however desirable this might be, because regional trade flows had been reduced by balance-of-payments problems experienced by most countries in the region. Furthermore, as mentioned in his statement, LAIA trade was covered by the Enabling Clause, and no element of discrimination was involved.

15. The representative of the International Monetary Fund confirmed that several exchange restriction practices subject to Fund jurisdiction had received Fund approval until 15 May or 31 May 1986, the latter being the date of termination of Argentina's current standby arrangement. The suspension of the sale of foreign exchange for payments of profits, dividends, royalties and technical assistance, and the requirement of prior Central Bank approval for sales of exchange to effect certain payments and transfers except those related to imports and interest payment on private external debt, had been approved until 15 May 1986. The restrictions arising from arrears of current payments, the suspension of sales of foreign exchange at the official rate for travel abroad, the restriction on sales of exchange for repayment of foreign loans under certain exchange rate guarantees made during 1981 and 1982, and the minimum foreign financing terms on imports of capital goods valued at over US\$50,000 had been approved until end-May 1986. However, the system of minimum foreign financing items for imports other than capital goods, applied differentially to goods from Latin American and other sources, had not been approved by the IMF because a discriminatory element was involved. Under the adjustment programme in place, the authorities planned to eliminate virtually all external payments arrears by mid-1986, and to remove all restrictions on payments and transfers for service transactions (except tourism) by 15 May 1986.

#### Considerations related to Paragraph 12(c) of the 1979 Declaration

16. The representative of Argentina referred to fundamental external factors influencing the balance of payments, which Argentina was in no position to affect. He recalled that 75 per cent of Argentina's exports were of agricultural or processed agricultural goods. They were highly sensitive to international market conditions, which had deteriorated markedly in recent years. He called attention to declining world prices, particularly for cereals, and to a variety of trade measures taken by other countries which

affected either market access for, or the competitiveness of, Argentina's exports. The former were exemplified by voluntary export restraints imposed on Argentina in sectors such as textiles, meat and steel, and anti-dumping or countervailing measures or investigations on a number of products. He also referred to the negative effects of Spanish and Portuguese entry into the European Communities on access to the markets of these two countries. All these measures, taken together, were estimated to cause an additional trade loss to Argentina of some US\$1,500 million. Competitiveness was affected by unfair competition from subsidized exports of agricultural products from major sources, which reduced world price levels and displaced Argentinian goods in traditional export markets. For example, the fall in world cereal prices between 1980 and 1984 had caused a loss of revenue of approximately US\$2,000 million, while the loss of markets for meat since the end of the 1970s cost Argentina some US\$700 million annually. He was thus particularly concerned with plans by the United States to increase its subsidized exports of meat and grain at the expense of other countries. He called on trading partners to avoid taking any further trade-distortive measures and to renounce actions which were illegal under GATT provisions, in the interests of countries like Argentina.

17. One member expressed her support for the views stated by Argentina. She recalled that her delegation had often stressed the need for respect of GATT provisions by major trading partners. This would make a major contribution to improving access to markets, and in that way improve the international economic environment for countries with balance-of-payments problems.

18. Several members noted that many problems existed in international markets for farm produce. Trade in agriculture was largely marginal to trends in domestic production in major producing countries. It was not easy to treat such questions in the short run and with a view to the interests of one trading partner. Noting that some of the issues raised fell outside the strict purview of the Committee, they said that all aspects of agricultural trade affecting both exports and imports might be considered in an appropriate way in the new round of trade negotiations.

19. Some members said that the overall trade effects of the accession of Spain and Portugal to the Communities were expected to be positive. Directives for Article XXIV:6 negotiations on the enlargement had, however, just been agreed by the Council of Ministers of the European Communities and the question should be discussed in the context of these negotiations.

20. One member noted that in his government's view, anti-dumping and countervailing measures were seen as justified responses to unfair trade practices. However, he would report the Argentine delegation's concerns in this and other areas to his government. All contracting parties shared a common interest in solving difficult areas of trade relations. The ongoing work of GATT groups and the new round of trade negotiations should give a positive impetus to this task.

21. The representative of Argentina noted that his concerns fell within the purview of the Committee. He expressed the view that he was not satisfied with the replies received from other contracting parties with regard to liberalization of trade in agricultural products. For that reason he said that he considered that developing countries were receiving asymmetrical treatment in GATT.

### Conclusions

22. The Committee recognized that Argentina had faced serious economic disequilibria in the period since 1980. These concerned questions of fiscal balance, wage and price inflation and balance of payments. Serious outflows of capital had occurred. At the same time, world market prices and access conditions for Argentina's major exports in certain markets had markedly deteriorated. Despite efforts of the Argentine authorities in that period to reverse the situation, there had been no durable improvement in either internal or external imbalances. The Committee noted that import restrictions had markedly increased and that the import system had become considerably more complex and restrictive between 1982 and 1984, with certain discriminatory elements.

23. The Committee welcomed the adjustment measures taken by Argentina under the Plan Austral. These included the strengthening of fiscal and monetary policy, the freezing and subsequent de-indexation of prices and wages, exchange rate adjustments and measures to liberalize trade policy. The Committee expressed its understanding for the situation confronting Argentina and its support for these policies. It noted that significant positive results had already been achieved in the fields of the budgetary deficit, the level of inflation, the growth of the money supply and the balance of payments. The Committee welcomed the moves made by Argentina from mid-1985 to liberalize its trade and payments systems, in particular the liberalization of import licensing, and the prospects of further liberalization, as well as reductions of export taxes and the planned elimination of the emergency increases in import duties during 1986. The Committee encouraged Argentina to continue and strengthen its adjustment and liberalization policies and looked forward to further positive results being achieved.

ANNEX I

Statement by the Representative of Argentina

The Argentine Republic is here today in full consultation with the Committee on Balance-of-Payments Restrictions, in fulfilment of our obligations under the General Agreement and in response to the particular interest shown by two of our major trading partners.

We have come here in the certain knowledge that the Argentine people and Government have made an extraordinary effort to solve the economic problems which have so long afflicted our country, by setting in motion a strict anti-inflationary policy.

In this connection, I shall make a presentation dealing with the internal monetary and financial situation, the development of the trade situation and liberalization efforts, the results of the Plan Austral and the outlook for 1986, and some final considerations. We shall thus cover the most important events that have occurred since the last time the Argentine Republic had occasion to attend this kind of consultation in 1978.

I. Internal monetary and financial situation: balance of payments

The economic programme implemented towards the end of 1978 combined a reduction in import duties with a scheme for adjustment of the exchange rate that was not consistent with fiscal and monetary policies. This was due to inflation rates that were higher than the planned adjustments in the rate of exchange - which meant a substantial over-valuation of Argentina's currency, and consequentially a growing deficit in the trade balance.

Between 1980 and 1983, this deficit also worsened as a result of an unfavourable international situation in the sphere of world trade and of agricultural products in particular. As a consequence, the balance of payments deteriorated considerably during this period, since the recurring deficit in the current account was aggravated by a rapid worsening in the capital account, caused in turn by the adverse repercussions of the international economic environment in the form of increasing difficulties in gaining access to the international capital market, with a resulting crisis in 1982.

To deal with this situation, a temporary import régime was instituted in 1982, with the object of conserving foreign-exchange availabilities to the utmost.

This process is analyzed in detail in the document we circulated this morning, but I would like to make a comment after reading document BOP7W/96 prepared by the GATT secretariat.

The principal component of the balance-of-payments adjustment process that began with the economic policies implemented as from 1982 was a major

change in relative prices, which led to a decline in the level of economic activity and of demand for imports. For that reason, we must differ as regards the approach of the document, in that it gives prominence to the effects of import restrictions in the adjustment process.

The larger trade surplus resulting from the measures taken made it possible to cover most of the servicing of the external debt.

The balance-of-payments deficits were basically due to the higher real interest rates that had to be paid on foreign indebtedness, deterioration of the terms of trade, and restrictions encountered in obtaining new foreign loans. These factors led to strong pressure on the country's international-reserve assets, making it necessary to fall into arrears on external payments as a supplementary financing mechanism.

When the Constitutional Government took office in December 1983, available reserves stood at only US\$100 million, while arrears totalled US\$3,200 million. Subsequently, at the end of 1984, available reserves were of the order of US\$650 million, while arrears totalled US\$4,163 million, of which 54 per cent was for interest that had fallen due and 30 per cent for commercial debts, as against 36 and 47 per cent respectively at the end of 1983.

Actually, though the Government has placed special emphasis since the beginning of 1984 on the basic problem imposed by limiting international indebtedness and servicing the foreign debt and by the international economic environment, all of the above tendencies simultaneously affect various aspects that are impeding the development of Argentina's economy, as regards both its short-term stability and its potential long-term growth.

The high level of outstanding commitments places a real limit both on the possibilities of both reducing external obligations and simultaneously increasing domestic consumption and investment in the short term.

It is estimated that the external debt rose approximately 4 per cent in 1984 and 3 per cent in 1985. This means that the external debt did not increase in real terms during those years - which is an important improvement in comparison with what happened in the preceding period. It also reflects the adjustment achieved in the external sector in a context of high foreign interest rates and significant losses in the terms of trade.

The agreements reached with the International Monetary Fund, foreign banks, The Club of Paris and other non-bank credit sources made it possible considerably to improve the profile of maturities at the end of 1985. Taking into account the new loans and refundings transacted up to the end of 1985, the new profile of maturities means that 20 per cent of the external debt is due in 1986, approximately 35 per cent in the three following years and the remaining 45 per cent as from 1990, compared with the situation at the end of 1983 when 40 per cent was due in 1984, 10 per cent in 1985 and the remainder as from 1986.

On the other hand, the continuing decline taking place in the prices of our principal export products and the negative impact of the floods that affected much of the country's grain-growing areas will unfortunately result in a decrease in the value of exports in 1986. This will be accompanied by a higher level of imports consistent with a growth target of 4 per cent in GDP.

It is true that the lower trade balance will be partly compensated by lower interest payments resulting from the decline in international rates and from the smaller spreads being paid by Argentina on the basis of the refinancing negotiated with our creditors. Nevertheless, while this process has meant a certain improvement in external accounts, it must be noted that the country is now paying an average rate (including spreads) of more than 9 per cent annually on its indebtedness, and this is bound to greatly limit efforts to cope with balance-of-payments restrictions.

## II. Developments with regard to import restrictions and import liberalization

To deal with the above problems a temporary import régime was instituted as from May 1982 covering various tariff headings, which were duly communicated to GATT. The only exceptions to that régime are the goods negotiated in the framework of the Latin American Integration Association (LAIA).

The régime was designed to preserve the availability of reserves, and to that end it was necessary, as a foreign-trade emergency measure, to introduce close examination of Sworn Declarations of Import Needs (SDIN) to see to what extent the goods being declared were dispensable.

Subsequently, Decree No. 319 established a new import régime applicable until 31 December 1984.

This régime was based on the targets fixed for the development of the external sector of the economy - the targets required to ensure reactivation of the economy while maintaining an appropriate trend in the balance of payments. In addition, as already explained, the economic situation demanded implementation of a cautious import policy.

Under this régime, a temporary prohibition was imposed on products which by their nature and purpose were of a non-essential character, i.e. were not indispensable for the country's economic development and whose purchase abroad had an unfavourable impact on the balance of payments.

There was also a list of goods which were subject to examination as potentially replaceable by domestically produced goods.

The object of this measure was to promote full utilization of the country's human and material resources, while with such restrictions it was possible not to impair industrial development or the adequate supply of the domestic market despite the introduction of a careful administration of

foreign-exchange resources. Special care was taken to ensure smooth administrative procedures and greater fluidity in the supply of imported inputs and capital goods for production activities.

Subsequently, on 28 December 1984, Decree No. 4070 replaced the import régime described above with some modifications in the classification of the products covered by the earlier regulations.

Under the same Decree, the import suspension for the goods on the prohibited list ceased to have effect on 30 June 1985. In other words, by this new enactment, the import prohibition was lifted and the formerly prohibited products were thereafter subject only to prior examination like the other goods previously subject to such treatment.

What is more, in the course of 1985, a process of facilitating imports was initiated through various legal provisions. Many products which required prior examination now come under the system of automatic importation, i.e. without any prior examination.

Meanwhile, a requirement to make a prior bank deposit relating to the goods to be imported had been introduced. As a form of liberalization, that requirement was lifted by Resolution 647 of October 1985 and was eliminated for most products.

At the present time, the bank-deposit requirement applies only to some non-industrial consumer goods that are considered highly dispensable luxury products.

It should be mentioned that throughout the period of application of this régime particular attention was given to the principal of non-discrimination and to the provisions of the General Agreement.

In short, it can be said that starting in May 1985 there began a gradual process of import liberalization and elimination of administrative rules with a view to facilitating import practices. Lastly, there has been substantial liberalization as regards related financial measures.

In accordance with the terms of the agreement signed with the International Monetary Fund, it is expected that by May 1986 all imports, with the exception of a limited list of luxury goods, will be under automatic licensing.

### III. Plan Austral developments and prospects for 1986

The two aspects I have discussed so far, namely balance of payments and import-restriction developments, must be seen in the context of the general economic measures taken as from June 1985, known as the Plan Austral.

I do not think it necessary to reiterate all of the elements included in our country's initial presentation and in the additional document

distributed this morning. Nevertheless, I should like to underline the positive results of that Plan which are producing a highly favourable situation for the external sector.

#### Economic developments since June 1985 (Plan Austral)

With the implementation of the Plan Austral, the Government opened a frontal attack on inflation by reduction of the fiscal deficit along with the undertaking not to have recourse to internal financing of the public sector. The new economic programme also included monetary reform, greater control of monetary and credit policy, and a price and wage freeze in conjunction with the adoption of a stable exchange-rate.

The results achieved have been positive, as can be seen from the trends of economic and financial indicators that we shall briefly describe. In this connection I should like, before continuing, to express our bewilderment with regard to the statement in paragraph 23 of document BOP/W/960 that "The introduction of the Plan Austral is too recent to emit a firm evaluation of its overall effects".

The rise in consumer prices dropped from a monthly average of 28 per cent in the second quarter of 1985 to 3.1 per cent monthly between July and December 1985, while wholesale prices showed an even greater deceleration.

This sharp reduction in inflation was accompanied by a recovery in production, followed in June and early July by a significant contraction reflecting extensive inventory liquidation. Seasonally adjusted GDP figures show a decline of 3.4 per cent during the third quarter from the level of the preceding quarter, but an increase of 4.7 per cent during the fourth quarter over the third.

These developments were influenced by the behaviour of the manufacturing sector which, in seasonally-adjusted terms, showed an expansion of 14.6 per cent over the immediately preceding quarter - a trend which, according to provisional data, seems to have continued in the first quarter of 1986.

This behaviour of the industrial sector served to offset what happened in the agricultural sector, which is suffering the effects of the floods that hampered grain production.

The price and wage freeze, which was an important component of the programme, helped to reverse inflationary expectations by stopping indexation. The price controls were applied flexibly and there was no evidence of any widespread supply shortages.

Another decisive element of the programme was the significant improvement in public finances. The overall deficit of the public sector - the current deficit of the non-financial public sector plus the operating results of the Central Bank - dropped substantially.

As to monetary policy, it too was also generally consistent with the purpose of the programme, in that the Central Bank did not essentially expand credit in net terms. Nevertheless, the rate of currency expansion was significant, once this was rendered possible by the substantial over-fulfilment of the target fixed for the net international reserves of the Central Bank. Given the price stability that had been achieved, the increase in various currency aggregates reflected a greater demand for real monetary assets.

During the second half of 1985, interest rates were in general positive in real terms.

The Government is convinced that lasting reduction in interest rates will be brought about by the combined effects of strengthening of the fiscal situation, greater efficiency in financing operations and the permanent lessening of inflationary expectations.

What is more, the balance-of-payments deficit in 1985 was approximately \$1,000 million lower than the amount programmed for the middle of the year, reflecting a better performance, as regards both the current and the capital account, than was expected at the time the Plan Austral went into effect. This favourable trend was also observed in comparison with the results achieved in 1984.

Lastly, I should like to mention some representative economic variables and how they are expected to behave in 1986.

Under the Plan Austral, the fight against inflation has clearly shown positive results. The rate of inflation has been reduced to a monthly average of 2 to 3 per cent. The anti-inflationary objective will be achieved by contraction of the fiscal deficit and non-recourse to the issue of currency to finance public expenditure.

The targets set for the most important economic variables are as follows:

- The fiscal deficit is not to exceed 2.89 per cent of GDP;
- Costs are to be reduced primarily by decreasing current expenditure and to a lesser extent capital expenditure;
- The average rise in wholesale and retail prices is to be 28 per cent annually;
- Economic activity is to show an average growth of 4 per cent over 1985;
- That growth is to be achieved by a higher percentage of investment than in the last few years, which it is thought will amount to 8.2 per cent of GDP.

Lastly, attention is drawn to two trade and industrial policy aspects, namely:

- Special export programmes that will make possible an increase of between 30 and 40 per cent in exports of manufactured goods;
- The promotion of industrial projects, to which larger resources will be allocated than in 1985.

#### IV. TRADE ENVIRONMENT

Up to now, we have tried to reply with complete transparency to the questions which we assume our trading partners had concerning the financial, monetary and domestic trade situation of the Argentine Republic (and we are quite willing to answer whatever additional questions any delegation may ask us).

The fact is that the Argentine Government and people have made their effort.

However, in a world characterized by interdependence, the situation of a contracting party - in the present case Argentina - cannot and must not be considered in isolation from an international economic context which strongly conditions the recovery-producing capacity of any effort.

In this connection I should like to refer to the trade environment which Argentina has been facing in recent years.

As a developing country which is an efficient temperate-zone agrarian producer, Argentina has been obviously affected by the distortion policies adopted by the developed contracting parties, particularly in the agricultural sector.

There is much that could be said on this issue but I shall confine myself to three points.

The first is that the measures taken by the developed contracting parties in the agricultural sector have brought about the partial or total closure of their markets to our exports.

The second is that that market closure has been accompanied by domestic subsidization of their products and this has generated an extraordinary accumulation of agricultural surpluses, which have driven down international prices, thereby causing enormous losses to our export income due to falling prices.

The third point is that those surpluses have been dumped on the international market by providing, here too, export subsidies including loans at preferential rates and for longer than normal periods.

This situation has obviously displaced Argentine exports from third markets to which there had been a considerable trade-flow from my country.

I have no desire to repeat here what has often been said on other occasions but I shall cite as an example what has happened in the case of our bovine-meat exports, which used to account for an important proportion of our total sales abroad. During the decade of 1960-70 our exports of bovine meat to the European Economic Community varied between US\$300 and US\$400 million, a figure which by 1984 became less than 70 million in the same currency.

The mere statement of this difference in income makes any comment on my part superfluous. Over the same period, the European Economic Community has become the world's largest exporter of bovine meat, marketing an average of 500,000 tons between 1980 and 1983, whereas its average volume between 1970 and 1973 was only a tenth of that quantity, i.e. only 50,000 tons.

It should also be noted that the European Economic Community's total export refunds on this product alone has since 1980 easily exceeded the total value of Argentina's annual exports.

Another extremely serious matter has been the drop of more than 20 per cent in international grain prices which has occurred as part of the marked downtrend in international quotations.

Over the 1980-1984 period alone the Argentine Republic suffered a loss in earnings of the order of US\$2 billion from the fall in grain prices.

Apart from what I have stated concerning the agricultural sector, in which, in order not to go into too much detail, I refrain from mentioning pending measures that could affect exports of the order of US\$1 billion, I should like to stress the negative effects of anti-dumping and countervailing duties, which not only penalize the marketing of our manufactured products but also discourage present exporters.

I must also refer to voluntary restraints and, in short, to a whole panoply of domestic actions and measures at the frontier which have done considerable harm to our exports, producing a loss of income on this score that comes very close to the total cost of servicing our external debt.

If to all this are added the high interest rates that have prevailed in recent years and the growing difficulties encountered in obtaining additional loans, you have a perfect picture of the external economic environment and the balance-of-payments situation of the Argentine Republic.

In this context and with particular reference to the international trade environment, I consider it appropriate to reiterate statements which Argentina has made on numerous occasions.

- We believe it necessary to strengthen the international trading system.
- We believe that that system must be analysed, evaluated and if necessary revised and reformulated.
- We believe that legal equality is not sufficient for overcoming substantive inequalities.
- We believe that the developing countries are called upon to play a leading rôle in international trade, and that the latter generates expansion and growth of the world economy as a whole.
- We believe that agriculture must not be an exception from the GATT rules and that it should be given consideration as matter of priority, in order to remedy time lost and injury caused to international trade in this sector and to naturally efficient producers.
- We believe that subsidies by developed countries or groups of countries on the production and export of agricultural products are a reality ... but not "a necessary evil" ... Accordingly, we believe that such practices must cease.
- We believe in the need for genuine "structural adjustment" so that obsolescencies in some sectors of the developed world do not take advantage of useless protectionist permissibilities which shield them from competition on the part of new efficient producers of the developing world or the relative advantages of their economic geography.

#### V. Final considerations

The balance-of-payments situation of the Argentine Republic is situated in an international macro-economic environment which must be duly taken into account for any fair evaluation.

In this order of ideas, it is appropriate to recall some extracts from the press communiqué of the Interim Committee of the IMF:

"The Committee took particular note of the fact that developing countries continue to face a number of serious problems ... Nevertheless, some progress was made by developing countries in coping with their economic problems ... and a number of developing countries have adopted particularly bold anti-inflationary policies."

The Committee also recognized that "substantial progress had been made by a number of debtor countries despite difficult external circumstances". In this context the Committee emphasized that "it was important for the industrial countries to maintain open markets, liberalize trade, and pursue policies aimed at increasing growth, reducing exchange-rate instability and, in particular, further lowering interest rates".

Similarly, in a recent press communiqué the Development Committee of the World Bank stated that: "the Committee emphasized the need for a rollback in protectionism". It was agreed that: "a solution for the debt problem requires not only adjustment in developing countries, but also industrial country policies which will promote a further decline in real interest rates, expansion in international trade, improvements in commodity prices, greater stability in exchange markets, and increased external capital flows. In this context the Committee urged industrial countries to redouble their efforts in removing these obstacles to a lasting solution to the debt problem".

Lastly, in a press communiqué of 8 April, the Group of 10 agreed on "the need to continue to pursue sound economic policies and to resist protectionist pressures; and urged the debtor countries, the commercial banks, and the international institutions to continue, and where appropriate intensify, the co-operative effort to put into place macro-economic and structural adjustment policies, together with appropriate related financing, necessary to achieve sustained growth and sustainable external payment positions.

"The Ministers and Governors reaffirmed their willingness to ensure that adequate financial resources are available ... to provide rescheduling through the Paris Club to countries undertaking IMF-supported adjustment programmes."

In brief, the fact that the external situation is a decisive factor in the situation of developing countries with heavy foreign debt servicing obligations goes beyond mere rhetoric and has been recognized in communiqués of the IMF Interim Committee, the Development Committee of the World Bank and the communiqué of the Governors and Ministers of the ten industrial countries which define international macro-economic policy, in which the trade variable is a particularly significant element.

It is precisely in connection with international trade matters that I should like in conclusion to comment briefly on the conjunctural situation in which this consultation has been taking place, namely a few months before the launching of a new round of multilateral trade negotiations.

It is our firm belief that the aim of this negotiation process must be a clear improvement of the trade environment that will be facing Argentina and the developing countries in general in the coming years.

For this, and beyond doubt, it is necessary to have the political will of the developed contracting parties which have to take on firm commitments at the very beginning of the new round. Only this will guarantee that the new round can proceed in a climate that is credible and ultimately can generate confidence.

We also believe that priority will have to be given to topics of interest to the developing countries and which will have to be resolved and implemented as rapidly as possible so as to enable those countries to make best use of possibilities for rapid expansion of their exports.

We believe that this position has nothing to do with "charity", since only in this way can the developing countries in general and Argentina in particular obtain genuine resources to finance their development and carry out their external financial commitments to the full.

We should like here to be consistent with our position in the preparatory process, in the sense that institutional strengthening of GATT is necessary and that credibility in the system must be restored through firm commitments on standstill and rollback. It will likewise be necessary in the near future to find a solution to the problem of safeguards and, in the particular case of Argentina - although this concerns a great many contracting parties - an effective solution to the long-deferred problem of trade in agricultural products, while taking into account the need for special and differential treatment for developing countries.

If the process is along these lines, we have no doubt that the urgent balance-of-payments problems of the developing countries will find a structural response highly beneficial to the international community as a whole.

Yesterday, other developing countries came to this Committee to explain their adjustment policies, today this is the case for Argentina, and tomorrow for other developing countries who are being unjustly penalized in their efforts to improve the quality of life of their population because of macro-economic factors that are beyond their power of decision. We are convinced that unless the reasons for that virtually endemic situation are tackled, exercises such as this will not only continue but could even increase dangerously.

In brief, Argentina has made its adjustment and liberalization effort. It is time for the developed contracting parties to make theirs. We have an exceptional opportunity for this, given the hopes and expectations placed in the launching of a new round of multilateral negotiations.

I should like, in conclusion, to reserve the right to intervene again, under paragraph 12 of the 1979 Declaration on balance-of-payments matters.

ANNEX II

Statement by the Representative of  
the International Monetary Fund

After a period of moderate economic growth and declining inflation in the second half of the 1970s--during which there was a rapid accumulation of external debt--Argentina's economic and financial situation weakened markedly in the early 1980s. Output declined by more than 10 percent from 1980 to 1982, while the 12-month rate of inflation more than doubled to over 200 percent. In response to a real depreciation of the currency as well as to an intensification of exchange and trade restrictions, the deficit in the current account of the balance of payments declined from 8 1/2 percent of GDP in 1980 to 4 percent of GDP in 1982; in particular, imports fell from \$10.5 billion in 1980 to \$5.3 billion in 1982. As a result of large capital outflows in the aftermath of the South Atlantic war, however, the overall external deficit widened from 4 1/2 percent of GDP in 1980 to 10 3/4 percent of GDP in 1982, and was financed in part by a buildup of payments arrears.

In late 1982, the Argentine authorities developed a program aimed at correcting the most pressing economic imbalances. Under the program, which was supported by a stand-by arrangement from the Fund, there was a reduction in the overall deficit of the balance of payments to about 4 percent of GDP in 1983, as net capital outflows dwindled. Imports continued to fall but interest payments rose, and the current account deficit remained roughly unchanged. The economy staged a modest recovery in 1983. However, the 12-month rate of inflation rose to over

400 percent by December 1983, as wage policy was relaxed and the fiscal position deteriorated in the second half of the year.

The Government that assumed office in December 1983 initially tried to support demand and output by raising real wages and pursuing an accommodative monetary policy. Output continued to increase in the first half of 1984, but the expansion faltered after mid-year. Notwithstanding a reduction in the fiscal deficit relative to GDP and heavy reliance on price controls, the 12-month rate of inflation increased to almost 700 percent in September 1984. Despite a real appreciation of the currency, the deficit in the current account of the balance of payments remained roughly unchanged in 1984, while the overall deficit declined to about 2 1/2 percent of GDP. The trade and payments system remained highly restrictive.

In September 1984, Argentina embarked on an adjustment program that was supported by a 15-month stand-by arrangement approved by the Fund's Executive Board in December 1984. The program aimed at lowering inflation gradually, correcting relative prices, and further reducing external imbalances. To achieve these aims, the program envisaged a tightening of financial policies, a reversal of the currency's real appreciation that had occurred since 1983, and a liberalization of the trade and payments system. Some progress was made in these areas in the latter part of 1984, but the stabilization effort was not sustained in early 1985. The economy experienced serious difficulties in the second quarter of 1985, as the 12-month rate of inflation rose to over 1,100 percent and output fell to 3 1/2 percent below its level one year earlier.

In June 1985, the authorities adopted a bold program to deal with the problem of inflation. The cornerstone of this new effort was a major tightening of financial policies, including a commitment to reduce the public sector deficit to a level that could be financed with a moderate use of foreign savings. The program also included a monetary reform consisting of a mechanism to facilitate the de-indexation of financial transactions and the introduction of a new currency, the austral; a wage-price freeze to achieve a quick abatement of inflationary expectations, thus limiting the adverse effects of the program on economic activity; and the fixing of the value of the austral in terms of the U.S. dollar at a level that implied a substantial real effective depreciation relative to September 1984.

Inflation was sharply reduced immediately after the program was announced, with the increase in consumer prices coming down to an annual rate of about 40 percent in the period July 1985-February 1986. Also, after an initial sharp decline in June-July 1985 associated with a liquidation of inventories, output began to recover. The combined public sector deficit (including the operating losses of the Central Bank) was reduced from 12 3/4 percent of GDP in the first half of 1985 to 4 1/4 percent of GDP in the second half. This improvement reflected the effect of lower inflation on real tax collections, as well as certain revenue measures, namely, a forced savings scheme, increases in prices of public sector goods and services, higher export taxes, and a 10 percent temporary tax on imports. The monetary aggregates decelerated but continued to grow fairly rapidly after June 1985, as apparently there was an increase in the demand for real cash balances.

Interest rates declined sharply after the new program was introduced, but remained above the observed rate of inflation.

On the external side, the balance of payments strengthened markedly in the second half of 1985, largely reflecting capital inflows to refinance private sector external arrears. For 1985 as a whole, the current account deficit declined to 2 percent of GDP. The trade balance improved further as exports rose 3 1/2 percent to \$8.4 billion and imports declined by 11 1/2 percent to \$4 billion. For the first time in several years, the deficit on services and transfers narrowed, as interest rates declined. The overall balance of payments deficit was reduced to 1 percent of GDP. Although inflation in Argentina since mid-1985 has been higher than in industrial countries, the effective value of the austral in real terms has not changed much, as the austral has depreciated along with the dollar against other major currencies.

Progress has been made since mid-1985 in normalizing the external payments situation and liberalizing the exchange and trade system. Agreements have been concluded with commercial banks and official creditors on a major rescheduling of debt service obligations and a new bank loan of \$4.2 billion. These financing arrangements have facilitated a sizable reduction in external payments arrears. Moreover, in January 1986 the Central Bank took measures to provide foreign exchange automatically for private sector interest payments. On the trade side, the list of goods that can be imported under automatic license has been broadened significantly, in particular through the incorporation of all electronic products in January 1986; this measure was accompanied by steep increases in duty rates, which in part are intended to be temporary.

In 1986, the authorities intend to introduce structural measures to promote economic growth while consolidating the stabilization effort to be consistent with a 28 percent price increase from December 1985 to December 1986. The authorities also have indicated that the objective of the Government is to limit the combined public sector deficit to no more than 3 percent of GDP in 1986. Further action is planned to strengthen the revenue base, but the Government is also expected to take measures to reduce spending and has already announced plans to sell its interest in major steel and petrochemical plants. Central Bank policy is expected to be cautious; no credit is to be extended to the public sector, and rediscount policy is to be tightened with a view to making it possible to reduce reserve requirements in the framework of an overall policy of monetary restraint. The authorities have announced their intention to remove price controls gradually, with the objective of moving to a system of market-determined prices.

The authorities have projected a deterioration in the current account and the overall position of the balance of payments in 1986 (to about 3 1/2 percent and 5 percent of GDP, respectively), reflecting declines in the prices of Argentina's main agricultural exports, damage to crops caused by extensive flooding, and large amortization payments on government-bonded debt. The authorities have indicated that they intend to keep the exchange rate under review with a view to achieving a viable balance of payments position; together with measures in the wage-price area, in early April the austral was depreciated by a little less than 4 percent relative to the U.S. dollar, and it was announced that frequent small adjustments of the exchange rate would be effected in the future to

preserve Argentina's international competitiveness. The authorities plan to approach Argentina's foreign creditors to ensure that the 1986 balance of payments is appropriately financed.

Argentina's trade and payments system is complex and was made more restrictive in the face of the balance of payments pressures of past years. Under the adjustment program now in place, the authorities plan to eliminate virtually all external payments arrears by mid-1986, and to remove all restrictions on payments and transfers for service transactions (except tourism) by May 15, 1986. However, the system of minimum import financing terms would still remain. As regards trade policy, the authorities intend to place all but a limited list of luxury goods on the automatic import list by May 15, 1986. Import duty rates may be increased for some products transferred to the automatic list, but such increases are to be limited so as not to frustrate the goal of import liberalization. Duty rates for goods already on the automatic list are not to be raised, except to correct anomalies in the tariff schedule. The authorities have expressed their intention to continue to reduce export taxes and to eliminate the 10 percent temporary tax on imports during 1986.

In brief, since mid-1985 Argentina has made substantial progress in reducing inflation and strengthening the external sector. Adherence to tight financial policies and measures to reduce market distortions will be essential to support progress toward a sustainable balance of payments position, improve the allocation of resources, and create lasting conditions for economic growth. In particular, consolidation of the adjustment effort requires additional measures to deal with the fiscal

problem and pursuit of a policy of monetary restraint; success in these areas should enable the authorities to follow a flexible price policy without a resurgence of inflation. After a major improvement in the current account of the balance of payments in 1985, some widening of the deficit may be expected in 1986, but the size of the deterioration must be kept within limits imposed by the availability of financing and be consistent with a viable balance of payments in the medium term.

Argentina's comprehensive adjustment program provides the basis for a major liberalization of the restrictive trade and payments system; the Fund has emphasized the need to implement the planned measures on schedule, and has stressed the importance of taking further measures to liberalize the trade and payments system.