

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments  
Restrictions

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## 1975 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH ARGENTINA

### Statement Submitted by Argentina Under the Simplified Procedures for Consultations

#### Addendum

#### I. BALANCE-OF-PAYMENTS POSITION AND PROSPECTS

1. The external factors mentioned in the previous presentation (GATT document BOP/153 of 10 June 1975) have continued adversely to affect the most important items in Argentina's balance of payments, namely exports and imports. These two items and the balance of services together showed a surplus of \$714.9 million for the year 1973 and of \$219.9 million in 1974, against a deficit of \$937.2 million in the period January-June 1975. Similarly, gross official international reserves declined, from approximately \$2,000 million in June 1974 to \$900 million in June 1975, and subsequently to \$700 million by the end of last August.

2. Given below are the balance-of-payments figures for 1973, 1974 and the first six months of 1975, with the projections for the second six months of 1975:

ITEM	1973	1974	1975		
			1st sem.	2nd sem.	Total
	(In million dollars)				
<u>I- Current transactions</u>	<u>714.9</u>	<u>219.9</u>	<u>-937.2</u>	<u>29.6</u>	<u>-907.6</u>
1. Goods	1,030.7	415.0	-691.0	171.0	-520.0
(a) Exports	3,266.0	3,985.0	1,494.0	1,506.0	3,000.0
(b) Imports	-2,235.3	-3,570.0	-2,185.0	-1,335.0	-3,520.0
2. Services and transfers	-315.8	-195.1	-246.2	-141.4	-387.6
<u>II- Non-compensatory capital transactions</u>	<u>20.8</u>	<u>-146.4</u>	<u>246.6</u>	<u>-391.9</u>	<u>-145.3</u>

UNIT	1973	1974	1975		Total
			1st sem.	2nd sem.	
(In million dollars)					
III- <u>Errors and omissions</u>	-4.5	21.2	-21.1	-2.0	-23.1
IV- <u>International payments</u>	731.2	94.7	-711.7	-364.3	-1,076.0
1. Variation in reserves	921.0	-51.3	-694.8	32.1	-662.7
2. Compensatory movements	-208.4	187.8	-7.0	-396.4	-403.4
(a) Central Bank	-163.9	194.4	-40.1	-287.3	-327.4
(b) Government	-44.5	-6.6	33.1	-109.1	-76.0
3. Adjustment for change in parity	37.0	-40.5	-5.6	-	-5.6
4. SDR allocation	-18.4	-1.3	-4.3	-	-4.3

3. The high inflation rates continuing at international level, in particular following a considerable increase in the price of fuel, higher public service tariffs and wage increases confirmed or granted in June 1975, caused a steep rise in the domestic inflation rate to levels never recorded in Argentina, of the order of 240 per cent annually.

4. A few weeks ago the Argentine Government adopted a conjunctural programme for the remainder of 1975 and for 1976, with a view to reversing the above-mentioned deterioration in the balance of payments and having regard to the unavoidable need to maintain - and where possible improve - the general level of economic activity and employment. It is hoped under the programme to cut down the inflation rate drastically in the coming year and to achieve a modest surplus in the trade balance and balance of services. Although the programme is termed "conjunctural", it bears on short-term economic problems and at the same time is intended to correct many of the distortions observed in Argentina's economy which are exercising a negative influence on the country's growth possibilities and on export expansion. In order to achieve these objectives, simultaneous measures have been decided in respect of the external sector, the level of employment, incomes, fiscal policy, monetary policy and the inflationary process.

5. To maintain the level of employment, payment means will be adjusted progressively to price levels, and credit lines will be opened for the financing of wage adjustments. Strict supervision will be exercised to prevent this financial assistance from being used for speculative investment and to regulate the injection of payment means into the economy, so as not to exceed the level of liquidity necessary for sound utilization of production factors, and to prevent any additional inflationary pressure. The objective is to bring down the present 6.3 per cent unemployment rate to less than 4 per cent in 1976. Wages and salaries will be readjusted periodically in order to maintain the real wage, having regard to the trend in other conjunctural variables (employment, inflation, tax deficit, external sector).

6. In order to regulate wage policy, provision has been made for the establishment of an "Institute for Wages and Salaries, Productivity and Participation". As its name indicates, this body will encourage participation by the workers in the decision-making process regarding expansion, modernization and productivity in the various goods and services producing sectors.

7. In the field of monetary policy, the objective of the conjunctural programme is to restore the level of liquidity needed for economic activity as it was before the steep rise in prices in June, July and August 1975, without any excessive expansion of supply. Over the coming fifteen months it is hoped gradually to restore equilibrium in the monetary sector and to expand net internal credit consistently with the planned reduction in the inflation rate. This expansion, estimated at 156 per cent for 1975, will decline to 83 per cent in 1976. Under the programme, a slight increase in the liquidity coefficient is forecast for 1976. The relevant figures are shown below:

<u>Year</u>	<u>Coefficient</u>
1973	17.80
1974	24.50
1975 1st six months	21.62
2nd six months	11.80
1976	14.50

As regards interest rates, the trend will be toward a system that takes the inflationary process into account, so as to avoid any recurrence of the phenomenon of negative real rates. Indexation of deposits and credits, particularly long-term ones, will be developed.

8. The tax programme for 1976 will aim to bring the public sector deficit under control and to reduce by one half its ratio to gross domestic product: from 13 per cent of gross domestic product in 1975, it is expected to fall to around 7 per cent in 1976. This will require the postponement of retroactive payments resulting from wage increases and will be achieved mainly: (a) by increasing the tax burden, which has fallen to 12.2 per cent of GDP as against normal values of around 20 per cent; (b) by amending the tax system in force; (c) by adjusting the tariffs charged for State-supplied services; (d) by cutting non-essential costs; (e) by increasing the efficiency of State undertakings; (f) by re-structuring the provincial tax systems so that they no longer depend on National Treasury assistance; (g) by transferring certain undertakings to the private sector, without prejudice to arrangements through mixed formulas for participation by the State, entrepreneurs and workers; (h) by maintaining a market for government bonds for the partial financing of productive investments.

9. Apart from the fiscal and monetary instruments mentioned, inflation will be attacked through a price policy mutually agreed by the parties concerned, and through price controls on a limited number of essential products. Through a flexible scheme, industrial prices are to be regulated through the major undertakings which will be required to maintain profits at the average level for the past ten years, with the possibility of increasing them when they are linked with a concrete investment plan. Control over the absolute level of prices will be supplemented by a policy of fixed relative prices, with a view to channelling increased resources into the more productive sectors.

10. The external sector, which has frequently been an inhibiting factor for Argentina's economy, as may be seen from the statistics for recent years presented in the context of information on the balance of payments, will receive priority attention and be the subject of a vigorous reactivation policy as follows:

- (a) Application of a mini-devaluations mechanism designed to bring to an end the system of unrealistic exchange rates that has diminished export capacity and encouraged speculative imports.
- (b) Maintenance of the practice of allowing transfers abroad for transactions corresponding to real needs or those that are covered by duly justified commitments, to be financed by the issue of bonds abroad.
- (c) Promotion of exports, by encouraging utilization of resources that are available in Argentina and can readily be exported. The decision to trade with all areas and countries in the world will be implemented and strengthened through the establishment of the Foreign Trade Bank.
- (d) Regulation of public sector imports and conclusion of agreements with the private sector to facilitate and control the utilization of available reserves. Imports will be aligned with foreign exchange availabilities and with an adequate rate of economic activity; incentives to speculative imports will be eliminated; a policy of realistic exchange rates will contribute considerably to this objective. Over-invoicing and under-invoicing in foreign trade transactions will be severely punished; for this purpose, draft criminal and procedural legislation has been framed.
- (e) The pressing difficulties in respect of external financial obligations are attributable not so much to the size of the debt, which is practically no larger than the value of two years' normal exports, as to the peremptory nature of the dates for repayment. Despite abnormal trends in the external sector in 1975, the deficit to be covered is not more than \$700 million and for this recourse will be had to the IMF and other international and regional financial organizations and also to medium-term operations with commercial banks.

11. As regards Argentina's external debt, the situation is briefly as follows:

Callable capital debt<sup>1</sup> (in thousand million dollars)

1. Effectively callable capital	7.0
2. Credit not yet disbursed	<u>1.1</u>
3. External capital debt registered at Central Bank	8.1
4. Interest payable on registered debt until maturity	<u>1.7</u>
5. External debt (capital plus interest) (registered at Central Bank)	<u>9.8</u>

The sequence of payments in respect of public and private external debt, including carry-overs at 30 June 1975, has been as follows:

	<u>Total</u>	<u>Capital</u>	<u>Interest</u>
	(in thousand million dollars)		
July and August 1975 (already paid)	<u>1.2</u>	<u>1.1</u>	<u>0.1</u>
1975 September and December	1.5	1.3	0.2
1976	1.5	1.2	0.3
1977	1.1	0.8	0.3
1978	0.9	0.7	0.2
1979	0.6	0.5	0.1
1980 and later	2.4	1.9	0.5
No fixed maturity	0.6	0.6	-
Total	<u>9.8</u>	<u>8.1</u>	<u>1.7</u>

Exchange rate adjustments

12. In the course of 1975, several exchange rate adjustments were made in order to maintain a realistic rate having regard to the evolution of internal costs and the need to promote exports and discourage speculative imports. In March

<sup>1</sup>The statistics of the Central Bank of the Argentine Republic show the total capital debt at 30 June 1975 as being \$8,034.8 million, including commitments in respect of contracts concluded even where the loans have not yet been effected.

and June 1975, substantial devaluations were made, equivalent to about 50 and 100 per cent respectively of the exchange rates previously prevailing. Later adjustments generally reflect the policy of gradual alignment pursued from mid-1975 onwards. These adjustments are listed below:

	<u>Commercial rate</u> <u>purchase/sale</u>	<u>Financial rate</u> <u>purchase/sale</u>	<u>Special financial</u> <u>rate</u> <sup>1</sup>
1975			
3 March	13.03-13.06	15.05-15.10	--
14 April	--	--	21.00
5 June	26.00	30.00-30.09	41.00
16 July	28.08	35.40-35.50	50.00
11 August	33.50	42.50-42.64	60.00
26 August	34.45	44.20-44.34	63.00-63.18
15 September	35.65	45.75-45.90	65.20-65.39
26 September	36.40	46.70-46.85	66.50-66.69
13 October	37.70	48.30-48.45	68.80-68.99
5 November	39.40	50.50	71.90

<sup>1</sup>In 1975 the exchange charge for travellers was 4 pesos per dollar.

Source: Central Bank of the Argentine Republic.

13. The special financial exchange rate was established in April 1975 in order to discourage non-essential expenditure in foreign exchange, and in that context sales of foreign exchange for travel costs abroad were also covered. The modalities for application of the exchange rates currently in force do not differ substantially from those already explained. Nevertheless, it should be noted that in practice there are two mixed rates.

14. The first of these is applicable to goods included in list A annexed to Central Bank circular No. 519, excluding those in list A/1 annexed to resolution No. 256/75 of the Ministry for Economic Affairs (circular RC No. 563). Up to 75 per cent of the f.o.b. value of these goods may be paid through the commercial exchange market, and the remainder must be transferred through the financial market. This means that the applicable rate is 42.10 pesos per US dollar. The products covered by this system are: tractors and passenger vehicles, electric and steam locomotives and tenders, hydraulic machinery and engines, industrial or laboratory furnaces, agricultural machinery, apparatus and appliances, boilers and man-made textile fibres.

15. The second mixed rate is applicable to goods included in the above-mentioned list A/1 annexed to Resolution No. 256 of the Ministry for Economic Affairs (Circular RC 563); up to 55 per cent of the f.o.b. value of these goods may be paid through the commercial exchange market, while the balance must be transferred through the financial market. This means that the effective exchange rate is 44.39 pesos per US\$. The goods covered include animals for laboratory use, whey, certain products of animal origin, floriculture products, certain vegetables, all cereals, lubricants and oils, certain veterinary products, photographic and cinematographic articles, products of the chemical industry, gunpowder and explosives, mineral fertilizers, rubber, plastic materials and artificial resins, paper and paperboard, wood and charcoal, man-made textiles, cotton and textile fibres, glass, iron and cast-iron, copper, nickel, aluminium, magnesium, zinc powders, tin, motor vehicle parts, and optical instruments.

16. The financial market exchange rate is applicable to lists B and C of Central Bank Circular No. 519, which includes less essential inputs, consumer goods, intermediate products, capital goods and other less essential goods. This exchange rate is also applicable to transfers in connexion with financial loans and interest thereon.

17. Lastly, the special exchange rate applies to incoming or outgoing transfers for travel costs and tourism, other capital movements and other movements of funds.

## II. IMPORT REGIME

### Temporary suspension of certain imports

18. In addition to the goods covered by the temporary import suspension of 1 April 1975 (see information furnished to GATT in document BOP/153 and Add.1), on 4 August 1975 the Ministry for Economic Affairs issued Resolution No. 22, the text of which is annexed hereto, suspending until 31 December 1975 the import of certain goods among which one may mention certain electrical machinery and apparatus, tools and cutlery, manufactures of glass, aluminium, lead, tin, chemical and other products. In addition, the above-mentioned Resolution suspended imports of used goods, with certain exceptions, until 31 December 1977. Under Resolution No. 23 of the same date, Sworn Declarations of Import Needs can be processed under the rules in force only where they concern goods in one of the following categories:

- (a) Those covered by Article 19(a) of Resolution M.E. No. 88/75 concerning the conclusion of sector agreements between the Department of External Trade and importers;

- (b) Imports of goods to be incorporated in the fixed assets of direct users, in accordance with Resolution M.E. No. 88/75;
- (c) Imports of a value not exceeding US\$10,000 per importer, and
- (d) Goods traded within LAFTA.

The Department of External Trade and International Economic Negotiations has authority to amend this Resolution.

#### Financial régime for payment of capital goods imports

19. Under Central Bank circular RC No. 524 of 15 April 1975 concerning the payment of capital goods imports, minimum periods are set for payment of the imports concerned, ranging from six months to six years as from the embarkation date according to the value of the goods concerned. Where this value exceeds \$500,000, the Central Bank must be consulted as regards the period for payment. This system is not applicable to goods used as inputs for the production of other goods under plans approved by the appropriate authorities (circular RC No. 540).

#### Prior import deposits

20. In June 1975 certain goods were exempted from the prior deposit requirement; among these we may mention imports under the programme set forth in the undertaking signed between the Ministry for Economic Affairs and end enterprises of the automobile industry (see circulars RC 529 and 538 of the Central Bank).

#### Half-yearly import programme and Sworn Declaration of Import Needs

21. Under Resolution No. 88/75 of the Ministry for Economic Affairs dated 8 July 1975 (see annex), importers are required to conduct their foreign purchase operations in accordance with half-yearly programmes. The programmes for the first six months of the year are to be presented in November of the preceding year, and those for the second half-year in May of the year concerned, in the form of Sworn Declarations of Import Needs. The programmes must be drawn up by tariff heading or by product. The authorities concerned cannot approve exchange or market clearance operations unless proof is shown that the import programme or programmes concerned have been duly registered with the Department of Foreign Trade and International Economic Negotiations which is the responsible authority. To give advisory assistance on the application of the system an Import Committee has been established, comprising representatives of the Department of State for

Industrial Development, the Department of State for Financial External Trade and International Economic Negotiations, and the Central Bank.

22. This measure is based on the need to ensure: (a) adequate supplies of goods to permit maintenance of the rate of economic activity; (b) import restraint, so that those concerned may contribute to orderly conduct of that activity; (c) observance of international commitments. The implementing provisions were established by Resolution No. 110/75 of the Department of Foreign Trade and International Economic Negotiations, dated 4 August 1975.

#### Compulsory exchange insurance

23. Under circular RC 535 a system of compulsory exchange insurance was established, in the form of deposit equivalent to 100 per cent of the f.o.b. value of goods to be imported, calculated at the rate of exchange applicable on the date of conclusion of the relevant contract. The rate of interest will be the same as in respect of forward foreign exchange sales and the deposit is retained until payment of the goods has been made abroad. There are certain exceptions in respect of capital goods included in the financing régime established by circular RC 524, allocation operations State enterprises, etc. This régime has been supplemented or amended by circulars RC 538 and 554 and Resolutions M.E. No. 88/75 and SCCENEI 65/75 and 69/75 (circular RC 547).