I. Balance-of-payments situation and outlook

In analyzing Argentina's balance of payments since the last consultations in GATT on 23 June 1972 we must consider two distinct periods: that beginning with the second half of 1972 and ending with the first half of 1974, and the period beginning at that point and continuing up to the present.

(a) First period (mid-1972 to mid-1974)

The balance-of-payments protection measures in force at the time of the last consultations began to have the desired effects with the help of a temporary improvement of the terms of trade and a period of sustained international demand for Argentine exports during the brief upsurge immediately preceding the present stage of world crisis. This is reflected clearly in the trend of Argentina's international reserves, which stood as follows (in millions of dollars) at the end of each quarter:

<table>
<thead>
<tr>
<th></th>
<th>1972</th>
<th>1973</th>
<th>1974</th>
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<tbody>
<tr>
<td>III</td>
<td>326.9</td>
<td>541.3</td>
<td>745.6</td>
</tr>
<tr>
<td>IV</td>
<td>541.3</td>
<td>745.6</td>
<td>950.4</td>
</tr>
<tr>
<td>I</td>
<td>950.4</td>
<td>1,351.5</td>
<td>1,462.3</td>
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<tr>
<td>II</td>
<td>1,351.5</td>
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<td>1,694.4</td>
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<tr>
<td>III</td>
<td>1,694.4</td>
<td>2,026.0</td>
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</table>

During this period, as the favourable trend in the balance of payments crystallized, the authorities in Argentina began to adopt a series of measures with a view to greater liberalization of the country's imports. In particular: (1) a special régime was established under which for certain inputs full payment could be made through the commercial exchange market, so as to absorb the increases in the international prices of the products in question; (2) greater flexibility was introduced for the payment abroad of goods in general (payment in not less than 180 days...
from the date of the bill of lading allowing operations (not exceeding $10,000 and operations originating in LAFTA countries) to be combined, as follows: (a) by intermediate financing and (b) by cash payment against shipping documents; (3) the number of products on the list of exemptions from the import deposit, especially raw materials and semi-manufactures, was increased; (4) a ban was placed on the opening of documentary import credits for periods exceeding 180 days, except for capital goods or special operations authorized in each individual case by the Central Bank, particularly important among these being operations motivated by serious difficulties of internal supply in the face of acute world inflation, resulting in preferences being granted for a series of inputs regarded as "basic" and even allowed to be paid for in cash.

The import provisions in force in Argentina are non-discriminatory and are applicable equally to goods coming from any country, with the logical exception of certain goods negotiated within the framework of LAFTA and coming under Article XXIV of the General Agreement, their entry into the country being governed by reciprocal undertakings negotiated with the member States.

(b) Second period (mid-1974 - early 1975)

At the beginning of 1974, Argentina began to note certain symptoms which by the middle of the year had unfortunately become clear and which had the effect of changing the trend of our balance of payments. Among the various factors responsible for the change in trend are three clearly distinguished by their interdependence and subsequent combination: (a) the recrudescence of protectionist policies, overt and/or covert, in our main markets, directly or indirectly affecting certain export products (meat, leather, wool, etc.) in the context of an international recession characterized also by (b) the increase in the price of petroleum and petroleum products; and (c) the high rate of international inflation.

Although the three adverse factors mentioned have grave repercussions on our balance of payments and are likely to continue to be a heavy burden on its evolution, none of them can be solved by any measures we can adopt ourselves, owing to the external underlying causes. Hence in order to maintain a certain level of monetary reserves enabling us to fulfil our financial commitments regularly and continue importing the products essential for the sound operation of our economy and the implementation of high priority investment projects in the economic and social fields, it has been found necessary to maintain and in some cases to strengthen action limiting the purchase of less essential products abroad.
External indebtedness

At the beginning of the current year Argentina's external debt under the heading of capital amounted to some $7,500 million, of which $4,500 million was owed by the public sector. The total amount of external indebtedness was $9,300 million, including $5,800 million in the public sector. The remaining private indebtedness was reckoned on the basis of statements made by those engaged in the sector, and the figures must in general be viewed with some caution, since there is a tendency on the part of private undertakings to boost the volume of their external debts for exchange and/or tax reasons, and also, this indebtedness largely renews itself, so that in normal circumstances only the interest payments have to be met.

With regard to public indebtedness, it should be pointed out that the servicing timetable is unsatisfactory. In the course of 1975, payments amounting to $1,300 million have to be made; about 40 per cent has already been paid in the first quarter, $400 million is payable in the second quarter, and $200 million in each of the remaining two quarters. We shall also have substantial commitments to meet in 1976, although the figures will not be as high as in the current year. In the course of 1974, Argentina increased its external indebtedness in the public sector by nearly $1,000 million, mostly for imports of capital goods.

Currency earnings

Traditionally, Argentina's currency earnings are directly linked with the evolution of exports. Two distinct stages can be noted in this evolution over the period 1972-74. The first, covering the period up to the beginning of 1974, was characterized by increases in world prices for agricultural products and the effect of a sustained external demand. The second was marked by a curb in the upward trend of prices, and the beginning of a downward swing together with a sudden shrinking in international demand. The persistence of these factors, and in many cases their intensification, introduces important elements of uncertainty for 1975. In the matter of exportable balances it should be noted that while the wheat harvest for the present year has not attained the levels hoped for, the final prospects are favourable for maize and sorghum. The sugar crop continues to be good, although it has not been possible to equal the volume of the last harvest; and conditions are excellent for reviving sales of meat, leather and wool. For fresh fruit, wine and oilseeds, the export prospects continue to be good, and in the manufactures and semi-manufactures sector there seems likely to be a consolidation of the trend noted over the last few years.
Nevertheless, there are certain factors which could endanger the upward trend of Argentine exports, such as: (a) the maintenance of import restrictions on meat and meat products by the European Communities; (b) the drop in world prices for grains and oilseeds as compared with the levels recorded in 1974; (c) the slack demand for wool and leather; (d) supply difficulties in regard to certain raw materials (petrochemicals, cellulose, non-ferrous metals, etc.) which have affected industrial production and ultimately the possibility of exporting capital goods, vehicles and manufactures.

As regards exports from this latter sector - manufactures - note should be taken also of the influence of other negative factors resulting from the present international economic situation. Thus the world recession has caused a resurgence of import restrictions together with the reappearance of outbreaks of "trade war", by which many nations try to breach the gap in their balance of payments. At the same time, the rise in the prices of the inputs which Argentina has to import for its industrial production, and the well-known internal inflationary impact of external strangulation on our economy have combined to make it difficult to dispose of manufactures abroad.

In spite of the herculean efforts being made by Argentina to cope with these problems, and by the authorities to pursue the policy of export promotion and diversification at regional and world level, the uncertainty of the international economic and financial trend, especially during the next few months, makes it necessary to take a realistic and cautious look at all decision-making in relation to the external sector.

Mention must also be made of the effect, throughout the period in question, of various factors which have put a stop to the inflow of currency from exports.

In the first place, the growth of imports plays a vital rôle. Two factors have combined to bring about this growth. On the one hand, there is the enormous rise in the prices of all products imported by Argentina. Between 1972 and 1974 the general level of prices of imports has almost doubled. On the other hand, since 1973 Argentina has had in hand an ambitious programme of economic development which has involved a substantial growth in the volume of imports required for expanding its gross domestic product in this way.

It should be borne in mind that this is the main cause of successive reductions in our trade balance, which starting from a record figure in 1973 has been gradually decreasing in spite of the growth in the value of exports.
The second factor which has adversely affected our net currency earnings is the worsening of the already rather unpromising conditions on the international financial market, at any rate that part of it which affects Argentina. Apart from the rise in interest rates we are asked to pay, there has been a reduction in the amounts obtainable and a shortening of the repayment periods.

The latest modification in the exchange rate

As of 3 March 1975, the Argentine Government found itself obliged to alter the exchange rates in the face of the slackening of the export flow and level of inflow of currency, the impact on the importing sector of international economic situation in recession, increased domestic costs and the consequent loss of competitiveness of our industrial production, the continual fall in currency reserves, and the excessive growth of imports, especially in the face of anticipated exchange adjustments.

For exchange operations with the outside world, three exchange rates will be applied as from the date in question instead of the two in force so far:

(a) A commercial rate of 10.00 Argentine pesos per dollar;
(b) A financial rate of 15.05 pesos (buying) and 15.10 (selling) per dollar;
(c) A "mixed" rate (40 per cent commercial rate and 60 per cent financial rate), equivalent to 13.03 pesos (buying) and 13.06 (selling).

In contrast to what used to occur in the past, the recent exchange reform does not include the criterion of preventive devaluation, nor does it have fiscal or extra-economic aims. With regard to payments for imports and other financial operations it was decided to apply:

(a) The commercial rate for raw materials and essential inputs;
(b) The mixed rate for certain consumer goods, intermediate products and capital goods of top priority;
(c) The financial rate for certain less essential goods and financial transfers.

II. System and methods of the restrictions

As already reported in connexion with the consultation held by the Argentine Republic in the Committee on Balance-of-Payments Restrictions on 23 June 1972 (see BOP/122 and Add.1, BOP/127 and Add.1, L/3615 and Add.1, and L/3685), Argentina has in operation a system of temporary suspension of imports of certain
goods which because of their nature or intended utilization are not essential for the country's economic development, while their purchase abroad adversely affects the balance of payments at a time when it would be rash to forecast the future trend, as pointed out in the previous section of this report.

As of the present date, we have suspended until 31 December 1977 (Decree No. 1089/73) imports of the goods included in the list annexed to Decrees Nos. 2118/71, 2867/72, 7275/72 and 405/73, together with the changes (additions and withdrawals) introduced by various decrees and ministerial resolutions. The current list of headings under which imports have been suspended is annexed to the present report.

The Argentine Mission has already stated (BOP/122) that Argentina's import trade is based on the principle of non-discrimination, like products being subject to the same customs duty regardless of their origin and place of consignment except in cases where a special duty has been negotiated within the Latin American Free Trade Association (LAFTA). Furthermore, apart from the régime of temporary and selective suspension of imports with which we are concerned here, the Argentine Republic does not apply any licensing or global quota system or any other non-tariff measures, nor is there any State-trading in the import sector.

The import suspension arrangements laid down in the decrees mentioned above are applied without discrimination as to countries or monetary zones, the sole exception being items negotiated within the Free Trade Association (LAFTA), as already reported by the Argentine Government. Furthermore, the import suspension does not apply to the following:

(a) Imports covered by special régimes or provisions found to be applicable to them and providing for special customs treatment;
(b) Personal luggage and effects;
(c) Personal effects of crew members;
(d) Consignments to private persons, not of a commercial character;
(e) Imports by members of the Diplomatic Corps;
(f) Commercial samples;
(g) Imports of models, patterns and prototypes used in manufacture that have been expressly authorized by the Secretariat for Industrial Development in accordance with orders on the subject issued by the Secretariat;
(h) Goods included in import and export compensation arrangements with undertakings in countries members of LAFTA, involving motor vehicle parts and accessories.
In addition, the Ministry for Economic Affairs is empowered to make appropriate exceptions to the system in the event of the suspension of imports affecting items necessary for industrial development; in order to meet vital requirements of domestic consumption; to generate exports; or in respect of goods included in tariff headings affected side by side with other goods constituting the basic object of the suspension.

In implementation of the exceptions mentioned in the last two paragraphs, in the course of 1973 imports falling within the import suspension headings were made to a value of approximately $37 million, or 1.7 per cent of the value of the total imports recorded in that year (3US2,235 million) - a significant figure if we consider that imports of such products before the suspension was established were approximately 2 per cent of total annual imports.