CONSULTATION UNDER ARTICLE XVIII:12(a) WITH ARGENTINA

Report of the Committee on Balance-of-Payments Restrictions

1. In accordance with its terms of reference and as requested by the Council the Committee has carried out a consultation under the provisions of paragraph 12(a) of Article XVIII with Argentina concerning the quantitative import restrictions which it introduced on 30 June 1971, for the purpose of safeguarding the balance of payments.

2. For this consultation, the Committee had before it the following documentation:

(a) A document supplied by the Government of Argentina to serve as a basis for discussion BOP/122 and Add.1
(b) A notification of subsequent modifications BOP/127 and Add.1
(c) A paper supplied by the IMF on Recent Economic Developments in Argentina, dated 13 March 1972

The Committee also referred to earlier documents, notably:

(i) Original notification by Argentina of the introduction of the measure L/3587
(ii) Memorandum by the Argentine Government on the balance-of-payments position L/3615
(iii) Text of the relevant decrees and regulations L/3615/Add.1
(iv) Minutes of GATT Council C/M/73 and 74

3. The Committee generally followed the established plan for such consultations (L/3388, Annex I). The consultation was held on 23 June 1972. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Argentina. Upon the invitation of
the Committee the representative of the International Monetary Fund made a statement, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the paper on Argentina—Recent Economic Developments, dated March 15, 1972, which has been transmitted to the CONTRACTING PARTIES.

"In 1971 there was a sharp deterioration in both the current and the capital accounts of the balance of payments, and the overall deficit (including the allocation of SDRs) totaled about SDR 570 million, compared with a surplus of about SDR 300 million in 1970. There was a further SDR 180 million deficit in the first four months of 1972. Gross official reserves, which stood at SDR 673 million at the end of 1970, fell to SDR 267 million at the end of 1971 and to SDR 209 million at the end of April 1972.

"Exports declined by almost 4 per cent in 1971 as a result of a bad wheat crop and a decline in shipments of beef and other livestock-related products as farmers retained stock in response to rising prices. Imports rose by 12 per cent in 1971 with particularly substantial gains in imports of capital goods and petroleum. The increase in imports was a response to rising inflationary expectations and to the reactivation of the economy after a brief slowdown late in 1970. During the second half of the year, the authorities took several measures to discourage imports, including a temporary tightening of payments regulations, the imposition of a 15 per cent surcharge between November 1971 and February 1972, and the complete prohibition of imports of certain nonessential goods.

"During the period April-September 1971, the authorities followed a policy of small frequent adjustments of the exchange rate. On September 20, 1971, a dual exchange market was created in which the official rate remained pegged at $a 5.00 per U.S. dollar, while the financial rate moved in response to supply and demand. At the end of 1971, the financial rate was $a 8.25 per U.S. dollar, and in May 1972 it was $a 9.90 per U.S. dollar. Mixing arrangements, whereby specified proportions of exchange relating to trade transactions were to be negotiated in the financial market, were introduced along with the splitting of the market. In October 1971, 20 per cent of exchange for most exports and imports was to be negotiated in the financial market, and this proportion was raised to 30 per cent in December, 43 per cent in February 1972, and 64 per cent in March."
"In the middle of May 1972, the suspension of imports of certain nonessential goods was extended until June 30, 1973, and other less essential imports were shifted entirely into the financial market. At the same time, the Central Bank prohibited the sale of exchange for imports with less than 180-day financing except with the approval of the Central Bank. Argentina also levies a tax on sales of exchange for tourism, and prohibits remittances of profits, dividends, and royalties. However, those who are entitled to make such remittances are permitted to subscribe with pesos to interest-bearing, dollar-denominated bonds which are freely negotiable at home and abroad.

"The Fund believes that at the present time the general level of import restrictions of Argentina which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the representative of Argentina

5. In his opening statement, the head of the Argentine delegation described in considerable detail the balance-of-payments position of Argentina in 1971, the underlying economic factors affecting trends in exports and imports and the capital account, the nature and scope of the import restrictive measures which the Government had adopted in mid-1971 in order to stop the threatened serious decline in foreign exchange reserves, the changes which had since been made in these restrictions in the light of a continuing external deficit, and the prospects for the balance of payments and international reserves during 1972. The complete text of this statement by Mr. Diz is reproduced in the Annex to this report.

Balance-of-payments position and prospects

6. The Committee thanked the representative of Argentina for the very full documentation which had been made available by the Argentine authorities, and for his opening statement which formed a useful basis for the consultation. Members of the Committee expressed sympathy with the Argentine Government for the economic and balance-of-payments difficulties that it faced, and understanding regarding the need for action to safeguard its monetary reserves.

7. In the course of discussion, members of the Committee sought clarification on certain specific aspects of the Argentine balance of payments. Questions were asked, for instance, on the current livestock and wheat supply situation, and the reasons why supply had been so hampered in 1971. The representative of Argentina explained the complex nature of beef production and marketing. An increase in the expected relative price of beef (an expectation that the behaviour of prices in 1971 and 1972 tended to confirm) induces an increase in producers' desired flow of supplies to the market. But in order to increase these flows it was necessary to build up cattle stocks first. Since some of the final products in livestock marketing (cows, heifers and young animals in general) could also at
times be considered as raw materials for more finished products, current supplies were curtailed in order to expand stocks. Since the implicit biological process took time the gap between desired and actual stocks was only gradually closed. These inherent characteristics of the livestock cycle implied that adjustments took time (in fact, years) and that in periods of cattle stock-building (as was the case during 1971 and early part of 1972) current supplies were negatively affected and exports declined. Reduced cattle slaughtering during 1971 also affected exports of other livestock products as hides. In order to minimize the reduction in exports, the Government had taken steps to regulate domestic consumption; every other week was made a meatless week. These measures had been intensified in June 1972, when the meatless period was lengthened to two in every three weeks. At present the authorities were considering the opportunity of conducting a cattle census to ascertain the true size of the cattle stock, but less systematic available information indicated that market supplies would rise during the second half of this year.

8. Members of the Committee enquired whether the Argentine monetary authorities envisaged any plans to phase out or reduce the use of swaps which had incurred substantial losses in pesos for the Central Bank, why the crawling peg system had been abandoned in favour of the more cumbersome two-layer exchange market, whether and when these multiple exchange rates might be unified, and whether, in the view of the Argentine authorities, the increasing use of the "financial rate" for commercial transactions had not placed an additional protective incidence on the imports in question.

9. The Argentine representative replied that swaps had been arranged by the Central Bank at increasing levels of implicit interest rates which currently were at 22 per cent per year. This was part of a more comprehensive policy of adapting the domestic structure of interest rates to the prevailing inflationary conditions so that domestic yields could be sufficiently attractive to retain funds in the country. Central Bank losses on swap operations during 1972 stemmed from the rapid adjustment of the exchange rate. As the devaluation of the peso during 1972 was expected to be lower than that registered in 1971, it was to be expected that such losses would decline. The level of outstanding swaps which had reached $400 million at the end of 1971 was expected to be gradually reduced.

10. The actual operation of the crawling peg system in the early part of 1971 proved to be difficult as it was uncertain to what level of the exchange rate in real terms the system should be geared. The ongoing changes in leads in payments and lags in receipts made things still more difficult. The gradual increase in the proportion of trade payments, channelled through the financial market (at higher rates than those of the commercial market) had placed import costs and export prices on a more realistic basis in view of the growing external deficit, and would eventually also serve the purpose of unifying the rates when all commercial transactions had been transferred to that market. This process had been resorted to for administrative convenience since there are differences between the legal requirements for the modification of exchange rates and for changing the proportion of different exchange rates used. At present foreign exchange related to most commercial transactions was negotiated up to 64 per cent
in the financial market and the upward trend in this proportion would eventually bring about the unification of the two foreign exchange markets. As regard the "protective effect" of the system, the representative of Argentina pointed out that all effective devaluation, no matter what the administrative system chosen to achieve it, naturally increased the cost of imports in terms of local currency. After all, this was the very purpose of the measure.

11. A member referred to the current negotiations by Argentina with foreign banks and expressed the view that if these were successful and the performance of the balance of payments in 1972 was adequate, there should be a moderate increase in the level of reserves. Invited to comment on the scope and prospects of these negotiations, the Argentine representative stated that an agreement had been reached with the International Monetary Fund on the use of the first credit tranche equivalent to SDR 110 million or US$119.4 million. With respect to current negotiations with different groups of banks in twelve different countries, including the United States, Canada, Japan, EEC countries excluding Luxembourg, Spain, Sweden, Switzerland and the United Kingdom, it was expected that these agreements would amount to the equivalent of US$350-400 million approximately.

12. A member noted that direct investment in Argentina had been negative during the past few years and asked if changes were planned in the Argentine foreign investment laws. The representative of Argentina replied that a new law and new regulations governing foreign private investment had been enacted in 1971 and 1972 which, though only of a consolidative nature, should have the effect of encouraging capital inflow by way of clarifying the rules of the game.

13. Members of the Committee, supported the findings of the International Monetary Fund (see paragraph 4 above) and considered that the balance-of-payments position faced by Argentina justified its action in mid-1971, to introduce the import restrictions and agree with the Fund that at the present time the general level of restrictions did not go beyond the extent necessary to stop a serious decline in its monetary reserves. They expressed the hope that the various policies being followed would help to improve the position so as to enable the adoption of a liberalization programme in the near future.

Internal measures to restore equilibrium

14. Members of the Committee noted that the root cause of the external payments difficulties was clearly the rampant inflation which had progressively accelerated since mid-1969 and which seemed to have been given impetus by the credit expansion and other measures taken in 1970 and 1971 to counter the threat of recession. They expressed the hope that the 1972 financial programme to redress the internal and external equilibrium would be successful. In response to questions on various aspects of the internal stabilization policy put by members, the representative of Argentina stated that:
(a) as part of a firm monetary policy, new reserve requirements and more strict control of lending operations had been established. Previous policies on the expansion of short-term credit not been sufficiently restrictive and had the effect of increasing the demand for foreign exchange. Consequently, they had been modified;

(b) important decisions had been taken in the area of interest rates in order to adapt them to the inflationary conditions, to increase the cost of credit, and to afford domestic financial assets a better yield so as to increase their attractiveness relative to foreign assets;

(c) public debt bonds carrying an 8 per cent interest and a scaling clause according to the exchange rate of the dollar in the financial market, had been issued. Long-term public debt and private indebtedness were also being placed under control;

(d) delays in revenue collection, which had caused substantial losses to the State owing to inflation were being remedied. Ways of more prompt collection, such as the "pay-as-you-go" were being considered;

(e) as regards the nature and scope of the economic programme agreed upon with the International Monetary Fund in connexion with the first credit tranche drawing, the main objectives were to reduce the rate of inflation (currently at 55-53 per cent on an annual basis) and the balance-of-payments deficit while maintaining an acceptable level of economic activity and real wages. The main elements concern fiscal policy, with a substantial reduction in the government deficit in real terms, and monetary policy with a deceleration of net domestic credit;

(f) an incomes policy had also been established and price agreements had been reached with practically all of the main industrial firms, destined to increase their absorption of the recent wage increases.

Administration and effects of the restrictions

15. The Committee took note of the information given in the documents before it concerning the import restriction system in Argentina. In response to an enquiry, the Argentine representative stated that the May 1972 additions of the suspensions goods comprised nineteen items, and undertook to supply a detailed list of these additions to the Committee (see BOP/127/Add.1 of 30 June 1972). All items whose imports were suspended were therefore included in the lists in documents L/3615/Add.1 (original items) and BOP/127/Add.1 (new additions). Imports of these products represented the following proportions of total imports in the years 1969 to 1971:
The Argentine representative noted that since these imports were suspended in the second semester of 1971, the $28.3 million of imports for the first six months showed a considerable acceleration with respect to the amounts imported in previous years.

16. In reply to an enquiry on the relative importance of imports by the public sector, the representative of Argentina gave the following figures:

<table>
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<th>Year</th>
<th>US$ Million</th>
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<tr>
<td>1965</td>
<td>273</td>
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<td>1966</td>
<td>263</td>
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<td>1967</td>
<td>252</td>
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<td>1968</td>
<td>237</td>
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<td>1969</td>
<td>428</td>
</tr>
<tr>
<td>1970</td>
<td>351</td>
</tr>
<tr>
<td>1971</td>
<td>444</td>
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During the first five months of application of the law suspending imports by the public sector the value of imports on account of exceptions permitted by the law amounted to $320 million. The value of 1971 total imports being $1,890 million, public sector imports (comprising those by the central authorities, the provinces and municipalities), represented slightly less than one quarter of the total.

17. Members of the Committee pointed out that this technique of import restrictions by totally excluding all imports of the products in question from the domestic market, inevitably afforded incidental protection to domestic industry and that it would be contrary to the long-term interest of the country if uneconomic production were thus stimulated and expanded. They enquired whether the Argentine authorities had taken into account the provisions of Article XVIII:10 of the General Agreement and taken the necessary precautions, so as not to prevent unreasonably the importation of any category of goods in a way that impaired regular channels of trade. The representative of Argentina said that in the grave emergency situation in which it had found itself last year, severe measures of a temporary character were needed to meet the balance-of-payments crises, precisely so as not to endanger the long-term interests of the country. He also said that the exceptions allowed under the different regulations were guided by the idea of not preventing unreasonably the imports of goods in a way that might impair regular channels of trade, particularly in view of the fact that the general trade system in Argentina did not contemplate licensing or other non-tariff barriers.
18. In reply to questions concerning the Argentine import deposit system the Argentine representative stated that these deposits were applied at present to about 20 per cent of total imports and that the scope of their application had been reduced in May 1972 when 364 items were taken off the list. He agreed with members of the Committee that these deposits, by raising costs to importers, certainly had an inhibitive effect on imports. The measure, however, had also liquidity absorbing effects which were important in a period of accelerating inflation.

19. The Committee discussed with the Argentine delegation the need and justification for exempting goods of LAFTA origin from the import deposits and the import prohibition. The representative of Argentina considered that this exemption was necessary in order to avoid disruption of the progress towards regional integration and that it was in accordance with the LAFTA agreement, which had been transmitted to the CONTRACTING PARTIES for examination. He also confirmed that the exemption did not apply to all imports from the other LAFTA countries, but only to products on which Argentina had assumed an obligation in the LAFTA negotiations; the negotiated items comprised some 1,800 tariff items and sub-items, in which imports in 1970 amounted approximately to $300 million or about 15 per cent of Argentina's total imports. Only 110 of these 1,800 items had been affected by the restrictive measures. In the view of the Argentine authorities, the exception had practically no trade diverting effect as this 15 per cent comprised imports not subject to prior deposits even for third countries and the suspension covered only 2 per cent of total imports. Some members of the Committee stated that, while recognizing the necessity and desirability of economic integration in Latin America, they could not see why imports from particular countries should be exempted from restrictions which were applied on balance-of-payments grounds. In their view the exemption of all LAFTA-bound items from the advance deposit and the import prohibition was not consistent with the provisions of Articles I and XIII of the General Agreement. The representative of Argentina stressed that discrimination against non-members was inherent in the nature of free-trade associations provided for in Article XXIV of the General Agreement.

20. A member of the Committee expressed the view that the method of customs valuation used by Argentina did not seem to follow the GATT rules and requested additional information. The representative of Argentina stated that the general system of valuation used in his country followed the Brussels Customs Valuation Convention. Exceptionally, and for a limited range of commodities, the Argentine authorities applied a method of official valuation involving reference to prices of three exporting countries, which did not imply, however, that they were determined on an arbitrary basis. Nor was the method applied in a discriminatory way. The system had been fully examined by the CONTRACTING PARTIES at the time of the Argentine accession to the General Agreement and had not caused concern such as would have called for a special recommendation. Furthermore, Argentina participated in GATT's Working Group on Customs Valuation and would give due consideration to its conclusions.
21. A member of the Committee expressed the view that the full application of the financial rate to imports of books was unjustified and was damaging to his country's exporting interests. The representative of Argentina said that the financial rate was being fully applied to an increasing number of items and that the proportion of financial market exchange had been gradually increased for all imports. Thus, these two processes were considerably reducing through time the relative exchange disadvantage for books.

Conclusions

22. The Committee expressed appreciation for the complete and clear documentation that the Argentine authorities had supplied for this consultation and the highly competent and thorough manner in which the Argentine delegation had responded to the various, sometimes difficult questions. The Committee expressed sympathy for the serious economic and external financial difficulties faced by the Argentine Government and expressed the hope that the current economic policy would be successfully implemented so that improvement in this regard, and the additional credit resources being obtained, would combine to ease the pressures on the balance of payments. The Committee concurred with the findings of the International Monetary Fund quoted in paragraph 4 above, and expressed the expectation that Argentina would work steadily towards the removal of restrictions as its circumstances permitted.
ANNEX

Opening Statement by the Representative of Argentina

A. Balance of payments in 1971


2. All the major elements contributed to this deterioration: the goods heading accounted for 32 per cent of the total, and services and transfers for 5 per cent; so that the current account contributed 37 per cent and intensified outward capital movements, mainly private, for the remaining 63 per cent of the aggregate decline.

3. The trade deterioration, by approximately US$270 million, was the result of a 4 per cent reduction in exports (which diminished foreign exchange earnings by US$63 million) and, more particularly, an increase in imports which were 12 per cent above the level for the preceding year and took up an additional US$205 million. The result was a trade deficit, for the first time since 1962, in the amount of US$180 million.

4. Various factors contributed to this unfavourable evolution of the trade balance. Exports were mainly affected in respect of earnings from livestock products and wheat. In 1971 there was an increase in Argentina's livestock herd, and smaller numbers were marketed for consumption and export. Although, despite the substantial reduction in export volumes, the value of meat exports did not decline (in fact it even increased) because of higher international prices for this product, the decrease in cattle slaughtering seriously affected exports of products such as hides and skins and animal fats. Exports of wool and other natural fibres declined by 25 per cent while those of wheat, which was affected by adverse weather conditions and by a shift to other crops, exports declined to one third of their customary level in recent years.

5. Because of the resulting absolute decline in the value of Argentina's exports for this period, the discrepancy between those figures and medium-term prospects, and the fact that the causes were "largely attributable to circumstances beyond the control of the authorities", in February 1972 the Board of Governors of the International Monetary Fund granted the equivalent of 64 million SDRs in a compensatory financing operation for export fluctuation.

6. Despite the restrictions imposed, the annual value of imports increased by US$205 million, reaching a total of US$1,890 million. More than half of the increase consisted of imports of capital goods, particularly by the private sector; more than one third was in respect of raw materials and intermediate products, while fuels and lubricants accounted for the remainder of the increase.
Imports of consumer goods declined by US$16 million. The 12 per cent increase in the value of imports in 1971, taken in conjunction with the 3.6 per cent increase in gross domestic product, indicates levels well beyond the traditional averages for Argentina. The import expansion was partly the result of increased domestic economic activity, and also deliberate accumulation of private stocks as a result of the speeding-up of domestic inflation, a decline in relative prices of imported products at certain times, and expectations regarding the future evolution of balance of payments and rate of exchange.

7. In addition to the trade deterioration, the decline of the current account reflected a deterioration in respect of services and transfers as a result of increased interest payments abroad by the private sector.

8. As already stated, almost two thirds of the overall deterioration was in respect of the capital account which had shown a net inflow of US$404 million in 1970 but reached a net outflow of US$116 million in 1971. Private transactions accounted for all of this deterioration which included short-term capital movements to the extent of US$650 million. Capital transactions by the public sector increased their net positive balance by 20 per cent, mainly as a result of the placement of public obligations abroad.

9. The massive outflow of short-term private capital was attributable to a number of factors. The rapid inflationary process and the decline in international reserves give rise to expectations of a devaluation. There were pronounced and contradictory "leads and lags" and in addition substantial advance payments in financial transactions with other countries. As a result of the speeding-up in inflation, domestic interest rates became still more negative in real terms and the relationship with external rates of exchange was significantly affected. Domestic financing became clearly preferable to external financing, slowing down capital inflow. Despite the fact that the Central Bank imposed restrictions on transfers by residents and pursued a "swaps" policy with future interest rate support that raised its obligations in the course of the year by US$285 million so as to reach the level of US$442 million, the adverse trend continued.

B. Action taken by the authorities

10. In view of the developments outlined above, certain measures had to be taken in 1971 in order to restrain the deterioration, some of them very stringent. Despite this, net external assets of the monetary authorities declined by US$542 million in the course of 1971, even taking into account the grant of SDRs.

11. On 30 June 1971, a one-year suspension was ordered on imports of goods which, because of their nature and intended utilization, were not considered essential for the country's economic development process. This measure was not discriminatory and was accompanied by exceptions which mitigated its effect. At the same time, the Ministry of Trade and Ministry of Finance were instructed to propose new exceptions in cases where the measure affected products needed for
industrial development, or raw materials or intermediate products that could contribute to generate export trade. Goods negotiated within LAFTA are also exempt from the suspension. Contrary to expectations and in the light of balance-of-payments results during the first quarter of 1972 and prospects for the rest of the year (which will be explained below), the measure had to be extended until 30 June 1973; it is described in document BOP/127.

12. On 17 September, the measure was extended to all imports for the period of one and a half months, ending on 31 October 1971. At the beginning of November the authorities suspended imports for the public sector and established a 15 per cent surcharge which was subsequently abolished, before the scheduled date, in February 1972. Details concerning these measures, which the authorities found themselves obliged to take because of growing deterioration in the balance of payments, are to be found in document BOP/122, point 1.

13. Despite the foregoing, it was no doubt in the exchange rate area that the authorities laid most emphasis in order to avoid the need for more severe restrictions. In the course of 1971, the effective rate of exchange for commercial transactions moved by 50 per cent, and from the beginning of 1972 until now by a further 40 per cent - a total of 90 per cent in eighteen months.

14. Two mechanisms were used in order to modify the effective rates of exchange: in the first nine months of 1971, there were successive devaluations of the "crawling peg" type, and from September onwards the market was divided into two sectors: one for commercial transactions with a fixed rate of exchange (equivalent to 5 pesos per US$) and the other for financial transactions with a variable rate of exchange. As from October and to date, a growing proportion of foreign exchange purchases and sales for commercial transactions has been negotiable in the financial market. The effective rate for commercial transactions has thus varied in relation to two variable elements: the gradual devaluation of the financial rate of exchange, and successive increases in the proportion negotiable in that market. Eventually, for some import categories, the proportion has reached the point where the foreign exchange purchases are being made entirely in the financial market. This mechanism is described in point 4 of document BOP/122 and Add.1 thereto.

15. The authorities are convinced that it is essential to maintain a realistic and flexible rate of exchange in order to be able to reduce the external deficit, and they intend to continue gradually adjusting the effective rate in future, in the light of changes in the internal cost structure and in international reserves. One by-product of this policy which is not without significance, because of the particular mechanism chosen for implementing it, is that eventually it will lead to a unification of the two exchange markets.

C. Balance of payments in the first quarter of 1972

16. During the first quarter of 1972, the balance of payments remained in overall deficit, but in comparison with the first quarter of the preceding year there was an improvement by US$44 million in that the deficit was reduced from
US$60 million to US$15 million. This improvement is attributable to a reduction in the deficit on current account, from US$133 million to US$48 million (a difference of US$85 million), which more than offset the continuing deterioration on capital account (US$41 million), the latter having shown a deficit of US$15 million as against a surplus of US$26 million for the first quarter of last year. During the first quarter of both years the balance of payments showed an inflow of US$47 million in the form of SDRs.

17. The improvement on current account was entirely due to the trade balance: export earnings increased by US$102 million (approximately 28 per cent), exceeding the increase by US$16 million (approximately 4 per cent) in the value of imports. Consequently, the trade balance showed a surplus of US$22 million, as against a deficit of US$65 million in the first quarter of 1971.

18. The increase in the value of exports reflected larger earnings from sales of beef, offals, cereals, wool, hides and skins, and other products. The import increment was mainly in respect of capital goods and fuels.

19. The improvement in the overall balance-of-payments situation should, nevertheless, be viewed with caution in the light of capital account developments. Reference has already been made to the deficit of US$15 million and the deterioration by US$41 million. Nevertheless, these overall figures include an inflow of US$103 million in compensatory capital (IMF compensatory financing - US$69 million, external financing by a consortium of Argentinian banks - US$30 million, the balance comprising net placement of external bonds). The outflow of foreign exchange deriving from non-compensatory capital movements, mainly in the private sector, amounted to US$115 million as against a net inflow of US$11 million in the corresponding period of 1971, representing a deterioration by US$156 million. Preliminary indications are that a large part of this is due to payments due for financing of earlier imports.

D. Prospects for 1972

20. It is difficult in present economic circumstances of Argentina and of the world to make any reliable forecasts in balance-of-payments matters, because of the very substantial difficulties inherent therein. Nevertheless, economic policy administration is, inter alia, a constant exercise in forecasting. Since the beginning of this year, the Central Bank of Argentina has made four projections of the balance of payments for 1972, incorporating factual data as the year progresses. The most recent estimate, made in May, can be said to combine 25 per cent of reality with 75 per cent of technically conditioned imagination.

21. On the basis of the respective figures, in May the Central Bank was hoping for an overall annual deficit on current account of the order of US$435 million, slightly smaller (4 per cent) than that recorded in 1971. The deficit was almost equally distributed between the trade deficit and the net result for services and transfers. On the trade side, the forecast was that exports would be at practically the same level, with a slight increase (1 per cent) on the import side. In the event, the current account pattern is similar to that
recorded in 1971. In the light of some more recent developments in international prices for beef and certain measures imposed at the internal level in order further to reduce consumption of this product, there are grounds for thinking that the final trading results will be slightly more favourable than the projection indicates.

22. It is in respect of capital movements that the working hypotheses and forecasts are much less reliable. Be that as it may, when an agreement was recently concluded with the IMF for using the first credit tranche, both parties agreed that the implementation of the economic programme could reduce the overall deficit to approximately US$300 million in 1972, i.e. a reduction to almost one half of the deficit for 1971.

23. In mentioning the recent agreement with the IMF regarding the first credit tranche, it is difficult to resist the temptation to point out what this implies. In the IMF Annual Report for 1962, the Executive Directors defined the general policies for using the Fund's resources; some of them have since been amended, but what was then said regarding the first tranche is still applicable. The report states: "The Fund's attitude to requests for transactions within the 'first credit tranche' ... is a liberal one, provided that the member itself is making reasonable efforts to solve its problems." In this context, the recent unanimous decision by the Board of Governors of the Fund implies a positive opinion regarding the rationality of Argentina's effort at a particularly difficult juncture.