

The rest of the world has taken notice of the improved investment climate in Argentina. The capital outflow of US\$ 4.3 billion in 1989 was replaced by inflows of US\$ 2.3 billion in 1991 and US\$ 7.8 billion in 1992. Foreign direct investment in 1992 was four times the level of 1989.

STATE REFORM AND THE RE-CREATION OF A MARKET ECONOMY

For several years, but particularly since 1989, the public sector has been the object of a far-reaching reform program including:

- Substantial reductions in spending and in the fiscal deficit.
- Rapid and effective progress in privatizing state companies.
- Price, wage, interest rate and exchange controls were eliminated together with a complex network of subsidies and hidden taxes that distorted the markets.
- A massive deregulation program was undertaken covering regulatory agencies, foreign trade and investment, the capital markets, regional products, and capital intensive industries, as well as the local market for goods and services.
- Liberalization of the regulations on foreign investment.

THE CONVERTIBILITY PROGRAM

On April 1, 1991 the government implemented the Convertibility Act as the cornerstone of a very strict stabilization plan. According to this law:

- The local currency must be fully backed by foreign reserves and gold at a fixed exchange rate of one peso per dollar.
- Indexation was prohibited.
- Contracts can be denominated and legally enforced in foreign currencies.