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EBS/87/17

CONFIDENTIAL

January 29, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Argentina for a purchase equivalent to SDR 388.7 million under the compensatory financing facility. A proposed decision will be circulated later.

This subject, together with Argentina's request for a stand-by arrangement (EBS/87/5, 1/13/87), will be brought to the agenda for discussion on a date to be announced.

Mr. Kaibni (ext. 7721) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ARGENTINA

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research Department and the
Western Hemisphere Department

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Jacob A. Frenkel and E. Wiesner

January 28, 1987

The Managing Director has been informed that the Argentine authorities will shortly request a purchase equivalent to SDR 388.7 million (35 percent of quota) under the decision on compensatory financing of export fluctuations (Decision No. 6224-(79/135)). The request is being made with respect to a shortfall of SDR 731.6 million in merchandise exports estimated for the year ended September 1986. The proposed request is expected to be considered by the Executive Board concurrently with a request for a stand-by arrangement in an amount equivalent to SDR 1,113.0 million. If approved, the proposed purchase would raise Argentina's outstanding purchases under the compensatory financing facility from 48 percent of quota to 83 percent of quota and the Fund's holdings of the member's currency from 292.1 percent of quota to 327.0 percent of quota. 1/ A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement is required and is being proposed.

This paper, which is being circulated in advance of the formal request from Argentina, includes five sections and two annexes. The sections deal with: (1) balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and earnings prospects; (4) repurchase; and (5) staff appraisal. Annex I analyzes the export shortfalls by reference to export developments and prospects for major commodities. Annex II summarizes Argentina's relations with the Fund.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

The external current account deficit rose from less than SDR 1 billion in 1985 to more than SDR 2.2 billion in 1986, and the overall deficit in the balance of payments widened from SDR 548 million to over SDR 1.8 billion

1/ The outstanding amount relates to a CF purchase of SDR 520.1 million made in January 1983 with respect to a shortfall for the 12 months ended September 1982 and a CF purchase of SDR 275 million made in January 1985, with respect to a shortfall for the 12 months ended May 1984.

(Table 1). In 1986, exports fell by 27 percent mainly as a result of the sharp decline in international prices of primary products; in addition, the volumes of wheat and other agricultural exports were adversely affected by widespread flooding in November 1985. At the same time, import payments rose by nearly 7 percent from their 1985 level owing to the substantial pickup in economic activity. The decline in interest payments resulting from lower international interest rates was not sufficient to offset the narrowing of the trade surplus in 1986.

The capital account improved slightly in 1986 despite a decline in private financial inflows from the high levels recorded immediately after adoption of the Government's economic program in June 1985. The improvement recorded in 1986 was due mainly to a marked step-up in net lending from international development agencies. Direct investment declined in 1986 reflecting the fact that a substantial part of the direct investment in 1985 had been associated with the conversion of private debt with official exchange guarantee to equity.

The authorities' economic program aims at lowering the overall balance of payments deficit from SDR 1.8 billion in 1986 to SDR 1.4 billion in 1987. Aided by the recently adopted export promotion programs, manufactured exports are expected to increase sharply in 1987, which would facilitate an 8 percent increase in overall export earnings despite a further projected decline in agricultural export prices. Despite a further increase in imports of about 8 percent, related to continued economic expansion, the improved outlook for exports is expected to result in a slight improvement in the trade surplus. Interest payments are expected to decline slightly in 1987 due to a projected decline in international interest rates, notwithstanding a significant increase in the external debt.

In the capital account, direct investment is projected to show a further sharp reduction on account of lower reinvestment of dividends and earnings that is expected to follow the elimination of restrictions on the transfer of dividends and profits abroad, scheduled for mid-1987. This would, however, be more than offset by the reduction in net outflows relating to trade finance that is expected to result from a tightening of credit policies, increased trade flows, and some decline in the export financing provided by Argentina. There also would be a further rise in net lending from international development agencies.

The program envisages the elimination of external payments arrears, which are estimated to amount to SDR 402 million at the end of 1986. Moreover, the program provides for the replenishment of external reserves in 1987 partly in order to help assure that there is no new buildup of arrears. On this basis, the gross financing needs for 1987 are estimated at about SDR 3.8 billion. The Government expects to cover this financing need from private and official creditors, including the Fund.

Table 1. Argentina: Balance of Payments, 1983-87

(In millions of SDRs)

	1983	1984	1985	Prov. 1986	Est. 1987
			(In millions of SDRs)		
A. Current account	-2,302	-2,333	-939	-2,251	-1,844
Trade balance	3,116	3,437	4,513	1,949	2,058
Export, f.o.b.	(7,330)	(7,909)	(8,269)	(5,956)	(6,406)
Imports, c.i.f.	(-4,214)	(-4,472)	(-3,756)	(-4,006)	(-4,348)
Services and transfers	-5,418	-5,770	-5,451	-4,201	-3,902
Travel	(-56)	(-78)	(-145)	(-262)	(-141)
Financial services	(-5,059)	(-5,573)	(-5,224)	(-3,766)	(-3,661)
Other	(-303)	(-119)	(-83)	(-173)	(-100)
B. Capital account	-104	631	391	440	453
Direct investment	171	261	905	489	83
Banking sector 1/	305	-580	-259	-299	...
Trade financing 2/	-384	489	-800	-623	-53
Other public sector	283	2,206	1,303	1,690	--
Other private sector 3/	-478	-1,745	-758	-817	...
C. Overall balance	-2,406	-1,701	-548	-1,811	-1,391
D. Valuation adjustment 4/	-243	-141	28	229	--
E. Financing	2,649	1,843	520	1,582	1,391
Change in assets	-121	33	-1,843	701	-690
IMF position (net)	1,191	-33	992	124	677
Change in other reserve liabilities	941	925	3,779	1,808	1,805
Change in arrears	638	918	-2,408	-1,051	-402
			(As percent of GDP)		
Memorandum items:					
Current account	-3.5	-3.6	-1.5	-3.8	-3.0
Overall balance	-3.7	-2.7	-0.9	-3.2	-2.2
			(In millions of SDRs)		
Gross official reserves end-of-year	2,551	2,690	4,223	3,132	3,791
Arrears, end-of-year	3,014	4,247	1,564	402	--
			(In months of merchandise imports)		
Gross official reserves end-of-year 5/	7.3	7.2	13.5	9.4	10.5

Sources: Central Bank of Argentina; and Fund staff estimates.

1/ Includes changes in Central Bank foreign assets not considered part of international reserves.
2/ Includes trade-related leads and lags, as well as identified trade credits.
3/ Includes errors and omissions.
4/ Changes in net international reserves due to exchange rate movements.
5/ Differs from data in U.S. dollars shown in the request for stand-by arrangement because of different exchange rates used to convert flow and stock data.

b. Cooperation with the Fund

Since the proposed purchase would raise the Argentine total purchases outstanding under Decision No. 6224-(79/135) beyond 50 percent of quota, the request may be approved only if the Fund is satisfied that Argentina has been cooperating with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties.

A stand-by arrangement was approved by the Fund in 1984 and all available purchases were effected, although at times there were considerable delays in reaching the required understandings on policies. 1/ Under the arrangement, the rate of inflation was brought down substantially starting in mid-1985, and the deficits on both the current account and overall balance of payments were reduced. However, there were also delays in the implementation of structural measures such as a reform of the trade system and the elimination of external payments arrears. Following the end of the program there were further slippages in the implementation of adjustment policies; however, the Government recently has adopted a new economic program that stresses further domestic stabilization and normalization of the external situation in the context of growth based on structural reforms. In support of this program the authorities are requesting, concurrently with the CF request, a 15-month stand-by arrangement for an amount equivalent to SDR 1,113 million (100 percent of quota).

Argentina maintains a complex system of trade and exchange controls that involves exchange restrictions and multiple currency practices that are subject to approval under Article VIII. 2/ The exchange restrictions include those evidenced by payments arrears on current international transactions, the suspension of foreign exchange sales for certain current transactions, and a minimum financing requirement for most imports. Multiple currency practices arise from a system of rebates for exports and the requirement that certain current transfers be made solely through the purchase of marketable bonds of the Government of Argentina, denominated in U.S. dollars. External payments arrears have been reduced in recent years, and the Argentine authorities intend to eliminate them by mid-1987. External restrictions relating to certain service transactions were eliminated in 1986 and the Argentine authorities intend to liberalize, also by mid-1987, the exchange restriction on transfers of certain profits and dividends. In the light of these steps, and the adoption of a broad program of economic measures that should permit further liberalization, the staff report on Argentina's request for a stand-by arrangement proposes approval for the maintenance of the non-discriminatory exchange restrictions and multiple currency practices, until July 31, 1987 or the completion of the 1987 Article IV consultation, whichever is the earlier.

1/ The amount of the arrangement was reduced to reflect the fact that there were no specified policy understandings for a significant period of time.

2/ A summary description of Argentina's exchange practices is provided in Appendix IV of the request for stand-by arrangement.

2. Estimation of the export shortfall

The calculation of an export shortfall supporting the CF purchase by Argentina is based on a shortfall estimated for the twelve months ended September 1986. Actual export data are available through March 1986, and the staff in cooperation with the authorities has estimated the value of exports for the last half of the shortfall year. 1/ The calculation of the shortfall, on the basis of partially estimated data for the shortfall year, is made in accordance with paragraph 5 of the decision on compensatory financing of export fluctuations (Decision No. 6224-(79/135)).

After increasing by nearly 17 percent in 1983/84 and stagnating in 1984/85, the total value of Argentina's exports fell by 22 percent in the shortfall year (1985/86). Export earnings are projected to decline by over 3 percent in the first post-shortfall year and to recover by 13 percent in the second post-shortfall year. On the basis of these annual movements, the export shortfall for the year ended September 1986 is calculated at SDR 731.6 million, which is nearly double the proposed purchase of SDR 388.7 million (Table 2).

Table 2. Argentina: Estimation of the Export Shortfall

(In millions of SDRs)

	Years Ending September				
				Projected 1/	
	1984	1985	1986 2/	1987	1988
Exports	8,159	8,143	6,366	6,138	6,940
Shortfall			731.6		
Proposed purchase			388.7		

1/ Based on judgmental forecast of earnings given in Table 3.
2/ Data for the last six months (April-September) are estimated.

1/ Actual data from September 1985 to March 1986 indicate average monthly exports of SDR 449 million per month compared with SDR 548 million per month in the same period of the previous year; for April through September 1986, exports are estimated at SDR 612 million per month compared with SDR 807 million per month in the corresponding period of 1985.

Argentina's last purchase of SDR 275 million (equivalent to 24.7 percent of quota) in January 1985 was in respect of a shortfall in merchandise export earnings for the 12 months ended May 1984. Ex post calculations based on actual data through March 1986 and preliminary data for the next two months indicate that an excess of SDR 514 million was recorded for the year to May 1984. Earnings in the first and second post-shortfall years were overestimated by 15 percent and 45 percent respectively. Since the 12-month period to May 1986 overlaps the shortfall year for the purchase now being proposed by eight months, the reasons for the overestimation of earnings--primarily the unexpected drop in international commodity prices--are the same as those responsible for the current shortfall, and are discussed in Section 3 below.

3. Causes of the shortfall and export earnings prospects

The total export shortfall for SDR 731.6 million in the year ended September 1986 is dominated by a shortfall of SDR 524.5 million in the agricultural sector (Table 3). There was also a shortfall of SDR 121 million in the residual category of exports, which includes a large component of minor manufactures, and a shortfall of SDR 31.8 million in the manufacturing sector. Within the agricultural sector, the shortfall was concentrated in oilseeds and oilseed products (SDR 217.1 million) and cereals (SDR 173.2 million), particularly wheat. A small excess (SDR 19.4 million) was recorded for petroleum products.

The 22 percent decline in total earnings in the shortfall year was mainly a result of the 29 percent decline in the value of agricultural exports, which accounted for nearly 60 percent of total earnings in the shortfall year; the value of manufactured exports, petroleum exports and other exports also fell. Underlying these movements were falls in unit values in each category, which were particularly important for agricultural products, notably cereals and oilseeds and their derivatives. For commodities, comprising about 73 percent of export earnings, unit values in the shortfall year were some 27 percent below their average level of the previous two years (Table 4). The unit value of cereals exports was 33 percent below the average prevailing in the two preshortfall years with the unit value for oils and oilseeds showing a similar decline; unit values for manufactured exports fell by 22 percent over the same period. For cereals and oilseeds, these movements reflected declines in international prices of similar magnitude in terms of SDRs, brought about mainly by a glut in world supplies of these commodities.

For wheat, which has traditionally been Argentina's most important single export (although not in the shortfall year when it was surpassed by corn), the effect of the decline in unit values was reinforced by a 35 percent drop in export volume from average exports in the two preshortfall years. A volume decline was also an important contributory factor in the outcome for beef products, whereas the volume of exports of oilseeds and oilseed products and manufactured goods picked up in comparison with the average of the previous two years. Oilseeds and oilseed products recorded a volume growth of some 10 percent, and the volume of

Table 3. Argentina: Export Earnings and Shortfalls by Major Commodities, 1981-88

	Years Ending September								Shortfall 1/	
	1981	1982	1983	1984	1985	1986 2/	1987 3/	1988 3/	Geo-metric	Arith-metric
	(In millions of SDRs)									
Total exports	7,903	6,868	7,000	8,159	8,143	6,366	6,138	6,940	731.6	782.8
Agriculture	5,113	3,936	4,735	5,674	5,363	3,801	3,427	3,819	524.5	616.1
Cereals	(2,405)	(1,625)	(2,453)	(2,457)	(2,200)	(1,297)	(910)	(1,076)	(173.2)	(291.2)
Oilseeds 4/	(1,105)	(871)	(1,136)	(2,124)	(2,176)	(1,597)	(1,562)	(1,718)	(217.1)	(234.9)
Beef 4/	(618)	(608)	(476)	(315)	(295)	(255)	(259)	(283)	(25.9)	(26.8)
Other	(986)	(832)	(670)	(779)	(710)	(653)	(696)	(743)	(61.9)	(63.2)
Petroleum products	451	502	366	311	426	265	140	181	-19.4	-0.2
Manufactures	586	767	553	605	669	668	744	835	31.8	36.1
Other products	1,753	1,663	1,347	1,568	1,684	1,633	1,827	2,104	121.0	130.7
	(Percentage changes)									
Total exports		-13.1	1.9	16.6	-0.2	-21.8	-3.6	13.1		
Agriculture		-23.0	20.3	19.8	-5.5	-29.1	-9.8	11.4		
Cereals		(-32.4)	(50.9)	(0.2)	(-10.4)	(-41.1)	(-29.8)	(18.2)		
Oilseeds 4/		(-21.2)	(30.5)	(87.0)	(1.6)	(-26.0)	(-2.2)	(10.0)		
Beef 4/		(-1.6)	(-21.7)	(-33.9)	(-6.2)	(-13.8)	(1.8)	(9.3)		
Other		(-15.6)	(-19.5)	(16.2)	(-8.8)	(-8.1)	(6.6)	(6.7)		
Petroleum products		11.5	-27.1	-14.9	36.9	-37.9	-47.2	29.5		
Manufactures		30.9	-28.0	9.5	10.6	-0.1	11.3	12.3		
Other products		-5.1	-19.0	16.5	7.4	-3.1	11.9	15.2		

1/ Shortfall calculations may be affected by rounding of export data.
2/ Data for the last six months (April-September) are *estimated*.
3/ Projected.
4/ Includes products of relevant categories.

Table 4. Argentina: Value, Volume, and Unit Value by Major Commodities, 1981-88

(1986 = 100; In millions of SDRs)

	Value Share In Total Exports In 1986 (In percent)	Years Ending September								Shortfall In Percent Of Level In Shortfall Year
		1981	1982	1983	1984	1985	1986 1/	1987 2/	1988 2/	
Value	72.6	132	111	120	141	137	100	90	100	11.7
Agriculture	59.8	135	104	125	149	141	100	90	100	13.6
Cereals	(20.4)	(186)	(126)	(189)	(190)	(170)	(100)	(70)	(83)	(13.4)
Oilseeds and oil-seed products	(25.0)	(70)	(55)	(71)	(133)	(135)	(100)	(98)	(108)	(13.7)
Beef and beef products	(4.0)	(243)	(239)	(187)	(124)	(116)	(100)	(102)	(111)	(10.2)
Other	(10.4)	(151)	(127)	(102)	(119)	(109)	(100)	(107)	(114)	(9.6)
Petroleum products	4.1	171	190	139	118	161	100	52	69	7.4
Manufactures 3/	8.7	91	123	80	94	99	100	103	113	1.6
Volume		92	87	98	97	106	100	98	108	1.7
Agriculture		93	84	102	103	109	100	101	110	4.5
Cereals		(113)	(85)	(127)	(121)	(121)	(100)	(90)	(104)	(6.5)
Oilseeds and oil-seed products		(50)	(42)	(59)	(81)	(100)	(100)	(106)	(113)	(-0.6)
Beef and beef products		(199)	(235)	(190)	(120)	(109)	(100)	(104)	(110)	(8.4)
Other		(117)	(123)	(122)	(111)	(106)	(100)	(107)	(114)	(7.5)
Petroleum products		125	131	101	74	116	100	61	76	-16.8
Manufactures 3/		72	86	70	71	79	100	101	107	-9.5
Unit Value		143	128	122	145	129	100	92	93	9.9
Agriculture		145	124	123	145	129	100	89	91	8.7
Cereals		(165)	(148)	(149)	(157)	(140)	(100)	(78)	(80)	(6.5)
Oilseeds and oil-seed products		(140)	(131)	(120)	(164)	(135)	(100)	(92)	(96)	(14.4)
Beef and beef products		(122)	(102)	(98)	(103)	(106)	(100)	(98)	(101)	(1.6)
Other										
Petroleum products		137	145	138	159	139	100	85	91	11.3
Manufactures 3/		126	143	114	132	125	100	102	106	12.3

1/ Data for the last six months (April-September) are estimated.
2/ Projected.
3/ Excluding leather products and electronic products; growth of value of manufactures exports in 1986/87 and 1987/88 is understated by comparison with Table 3.

manufactured exports rose 33 percent. The strong growth in petroleum products exports experienced in 1984/85 was not repeated, with volume declining by about 9 percent in the shortfall year.

The principal factor underlying the sharp fall in the volume of wheat exports was a decline in yields of about 30 percent for the 1985/86 agricultural season resulting from heavy rainfall in November 1985 which flooded part of the crop, affected the maturation of the remainder, and contributed to the emergence of a destructive fungus. As regards the other cereals registering a fall in export volume, sorghum and rice, this outcome was attributable to a diversity of factors. Sorghum has traditionally been a crop sown at the margin and planting has been following a declining trend for a number of years due to the increased availability of corn. The decline in rice export volume reflects a return to more normal yields following a bumper crop in 1984/85; export volume in the shortfall year is still considerably higher than achieved in the 1981/83 period. Beef export volumes have declined since 1984 due to intensified competition from other suppliers, particularly the EC; as a result, a greater proportion of production has been diverted to the home market.

The increase in corn export volume in the shortfall year of 28 percent over the average of the two preshortfall years, although significant, was not sufficient to offset the effect of falling unit values which were down by 34 percent over the same period. The buoyancy of corn exports reflects favorable climatic effects. The major growing region was not affected by the heavy rains in November 1985 and as corn matures later than wheat, the good weather from the end of the year onwards aided maturation and contributed towards a bumper crop. The volume of exports of oilseeds and their derivatives rose by about 11 percent over the average of the two preshortfall years. The decline in exports of unprocessed soybeans was more than offset by sharp increases for both soy oil and soybean meal. This probably reflects the strong upswing in international prices for soy oil in particular that took place in 1984 and was sustained in 1985. In addition, there was a plentiful supply of soybeans which follows a similar cycle to corn and were not affected by the heavy rainfall in late 1985. The volume of peanuts, sunflowerseeds and sunflower oil also performed well in the shortfall year. The effect of this growth in volume was, however, overshadowed by the collapse of prices of oilseeds and oilseed products--the soy oil price alone fell by 51 percent in the shortfall year--with the result that export receipts in this sector declined by 26 percent. 1/

As regards minor agricultural products, an aggregate shortfall of SDR 61.9 million was recorded in the shortfall year. Exports of vegetables and fruits registered an increase mainly on account of improved

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1/ All major agricultural products have for some time been subject to an export tax. In December 1985, the rate of taxation on wheat was lowered from 26 percent of f.o.b. value to 15 percent, with a further reduction to 5 percent in September 1986. Taxes on maize, sorghum, and soybeans were also lowered considerably in 1986.

output, but also reflected higher international prices spread across all products in this category. By contrast, exports of sugar, tea, and cotton were all depressed in comparison with earlier years. Sugar volumes suffered from intensified competition, a reduction in Argentina's export quota to the United States, and falling international prices; although a rundown of stocks enabled the volume of tea exports to increase, depressed international prices lowered receipts; cotton production was severely damaged by floods and exports fell in volume by nearly 70 percent.

In the manufacturing sector, earnings in the shortfall year were little changed from the previous year although they were some 5 percent higher than the average of the two preshortfall years. Overall, the growth of export volume of 27 percent in the shortfall year was almost completely offset by a decline in unit values. The major item in this category, leather and leather products exports, benefited from the rise in cattle slaughtering, and the rise in steel product exports, the second most important component, resulted from an increase in capacity in the steel sector. The residual category of exports ("other" products) also showed a small decline in value in the shortfall year. This category is comprised of about 70 percent manufactured goods (plastics, automobile parts, alumium products, textiles, paper, and machine tools) which have been increasingly directed to the markets of Latin America. An important element in the success of this sector over the recent past has been Argentina's exchange rate policy. Compared with the early years of the present decade, the real effective exchange rate since about 1983 has not been allowed to appreciate, and in the last two years there was a real effective depreciation of about 6 percent in 1984/85 and 7 percent in the shortfall year. Although data are unavailable, it is likely that the volume growth of the manufactures component of other exports was somewhat lower than for major manufactured products in the shortfall year, but still sufficient to enable Argentina to gain market shares in manufacturing (Table 5).

Aggregate earnings are projected to show a further decline of more than 3 percent in the first post-shortfall year before rising by 13 percent in the second post-shortfall year. However, even after this pick-up, exports will still be considerably below the level prevailing in 1983/84 and 1984/85. In the immediate post-shortfall year, further declines are anticipated in both the cereals and oilseed sectors, as international prices for all major cereals and oilseeds are projected to decline further in 1986/87. Despite an expected recovery in wheat production, the lower carry-over of stocks from the shortfall year is also likely to result in a lower volume of exports. The fall in international prices for corn from the high levels prevailing in 1984/85 is expected to have a significant effect on the area sown and yields should return to the lower levels prevailing in earlier years. As a result, with the continued depressed outlook for corn prices, corn exports are anticipated to decline by some 28 percent. As regards oilseeds and their derivatives, the poor outlook for international prices, particularly for oils, is again anticipated to result in lower export receipts. The more favorable outlook for soybeans prices (compared with oils) is expected to reverse

Table 5. Argentina: Growth in Exports and Underlying Factors, 1983-88

(Change in percent)

	Years Ending September				
	1983	1984	1985	1986	Average 1987-88
Export growth 1/					
Value	8	18	-3	-27	-4
Volume	13	-1	9	-6	2
Unit price	-4	19	-11	-22	-6
Agricultural exports					
Value	20	19	-5	-29	-4
Volume	21	1	6	-8	4
Unit price	-1	18	-10	-23	-8
Manufactured exports					
Value	-35	18	5	1	5
Volume	-13	1	11	27	3
Unit price	-20	17	-5	-21	2
Underlying factors					
1. Market growth 2/					
Real GDP in trading partners	2	4	3	3	3
Non-oil import volume of trading partners	2	7	5	3	4
2. Competitiveness indicator					
Changes in real effective exchange rate 3/ (-depreciation)	-31	19	-6	-7	...

1/ Based on the value and volume of exports which account for 73 percent of total export earnings; value and unit price are in SDR terms.
2/ Market growth on a year ending September basis.
3/ Changes in trade-weighted effective exchange rate adjusted for relative price movements, period average.

the development in the shortfall year when oil and meal volumes rose at the expense of unprocessed soybeans; unprocessed soybeans are projected to rise in volume by 19 percent. Most other agricultural products, with the exception of sugar and wool, are expected to show an increase in value, mainly due to volume gains as international prices are not anticipated on average to show any change. A small improvement is expected in the beef and beef products sector, due to an improvement in volume reflecting a greater emphasis on beef product exports.

In the second post-shortfall year, traditional agricultural exports are expected to rebound by nearly 12 percent, a level slightly above that of the shortfall year. With the exception of rice, the value of all cereal exports should increase largely on account of improvements in volume as international prices are not expected to recover. Some further increase in the oilseed sector, especially in soybeans, is also projected, again in response to an anticipated expansion of the area planted, which will be assisted by a marginal increase in unit values. The continued increase in the volume of beef product exports reflects an awareness of the need to increase the share of processed beef, and is in response to a number of incentives recently introduced to promote nontraditional exports. The small projected rise in "other" agricultural exports again reflects high anticipated volume. Petroleum products volume declines in both the two post-shortfall years reflect anticipated increases in domestic consumption.

It is in the manufacturing sector where export growth is expected to be strongest in the two post-shortfall years. In value terms manufactured exports and "other" exports (which mainly comprises minor manufactures) are projected to increase on average by about 12 and 13 percent per year, respectively. In addition to the general approach to ensuring that Argentina's exports remain competitive, the Government has introduced a number of schemes specifically designed to encourage export growth in the nontraditional sector. 1/ As a result of these incentives, the Government is anticipating increases in nontraditional exports, particularly plastics, automobile parts and textiles as well as some capacity increase in the steel and electronics sectors, particularly to Latin American markets, that underpin the projected growth rates of earnings from manufactured and "other" exports noted above.

In view of the foregoing, and particularly the fact that the decline in aggregate export receipts in the shortfall year was clearly attributable to a sharp fall in unit values, the staff is satisfied that the shortfall is of a temporary character and is attributable to factors beyond the control of the member.

1/ A description of these programs is provided in Annex I, Section 3 of this paper, and Section III(5)b of the request for stand-by arrangement.

4. Repurchase

In accordance with paragraph 7 of the compensatory financing decision, the Argentine authorities are expected to represent that they will make a prompt repurchase in respect of any outstanding part of this purchase if the amount purchased on the basis of partly estimated data (i.e., estimates for the 6-month period April-September 1986) exceeds the amount that they would have purchased on the basis of actual data for the entire shortfall year. The amount to be repurchased would be equivalent to the excess of the actual purchase over the amount that could have been purchased on the basis of actual data for the entire shortfall year.

5. Staff appraisal

The Argentine authorities are expected to request a purchase of SDR 388.7 million (35 percent of quota) under the compensatory financing facility in respect of a shortfall calculated at SDR 731.6 million for the twelve months ended in September 1986. Data for the shortfall year are partly estimated and, in accordance with paragraph 7 of the compensatory financing decision, the request is expected to include a representation that Argentina will make a prompt repurchase of the amount, if any, by which the proposed purchase exceeds the amount that could have been purchased on the basis of actual, rather than estimated, data for the entire shortfall year. If approved, the proposed purchase would raise Argentina's total purchases outstanding under the facility to 83 percent of quota.

Argentina's balance of payments situation deteriorated in 1986 with the current account deficit more than doubling on account of the collapse of international commodity prices and a pick-up in the demand for imports. Despite a slight improvement in the capital account reflecting mainly higher net lending by international development agencies, there was a more than threefold increase in the overall balance of payments deficit. In 1987, the surplus on capital account is expected to remain about the same as in 1986, but the overall deficit is expected to decline somewhat largely due to a projected acceleration in exports of manufactures. Argentina's financing needs will, nonetheless, remain high, and the provision of Fund financing should enable external arrears to be eliminated and to replenish international reserves to a level necessary to help prevent the recurrence of arrears. The staff considers that the balance of payments need of Argentina justifies the proposed purchase.

The staff also considers that the requirement of cooperation that applies to purchases in the upper CF tranche is met by the completion of the program supported by the 1984 stand-by arrangement and by the adoption by the Argentine authorities of a new stabilization program in support of which they are requesting a stand-by arrangement from the Fund which is to be considered concurrently with the CF request. The request for a compensatory financing purchase is expected to include a statement that Argentina will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

After increasing by 17 percent in 1983/84, Argentina's export earnings stagnated in 1984/85 and fell by 22 percent in the shortfall year. Aggregate export earnings are projected to fall by a more than 3 percent in 1986/87 before recovering by 13 percent in the following year to a level which is still about 15 percent below that achieved on average in the two preshortfall years. The resulting shortfall of SDR 731.6 million in total earnings comprises shortfalls in exports of agricultural products (SDR 524.5 million), "other" exports (SDR 121.0 million), and manufactures (SDR 31.8 million), partly offset by an excess for petroleum products of SDR 19.4 million. The shortfall in earnings from agricultural exports reflects mainly shortfalls in unit values. The international prices of cereals, oilseeds and oilseed products, beef, and all other major agricultural exports except for fruit and vegetables and tobacco, declined sharply in 1985/86 due to an excess of world supplies. On average, unit values for the cereals group declined by nearly 30 percent and those for the oilseeds sector by 26 percent. Taken together, these two groups accounted for 45 percent of Argentina's export earnings in the shortfall year. The volumes of some agricultural exports--wheat, tea, and cotton--also were affected by adverse weather conditions. The shortfalls in earnings from manufactured goods exports and "other" exports (which consist mainly of minor manufactured products) are attributable entirely to shortfalls in unit values; the volumes of most manufactured exports rose significantly in 1985/86.

The recovery of earnings projected for the two post-shortfall years is based entirely on the expected growth of volume. Aggregate unit values are forecast to decline slightly, as a modest upturn in the prices of manufactured exports is not expected to offset further falls in agricultural prices, particularly for cereals and oilseeds. A return to normal weather conditions is expected to permit a recovery of agricultural output, but low prices associated with excess world supplies in many products is expected to restrain production and limit the growth of export volume. The volume of manufactured exports, however, is projected to rise sharply due to the maintenance of their competitiveness and the recent introduction of special export promotion programs and incentives.

Analysis of Export Shortfalls by Reference to Developments and Prospects for Major Categories 1/

1. Agricultural exports

Agricultural exports accounted for almost 60 percent of total export earnings in the 12 months to September 1986. A shortfall of SDR 524.5 million is calculated for the group as a whole, reflecting largely a shortfall in unit values; the index of unit values in the shortfall year was 9 percent below its medium-term trend, while the index of volume was less than 5 percent below (Tables 6 and 7). Shortfalls are estimated for all major categories of agricultural exports: cereals (SDR 173.2 million), oilseeds and oilseed products (SDR 217.1 million), beef and beef products (SDR 25.9 million), and "other" agricultural products (SDR 61.9 million).

a. Cereals

Argentina's main cereals exports consist of wheat and bran, corn, sorghum, and rice. Wheat has traditionally been the largest export item, but earnings from corn exceeded those from wheat in the shortfall year. Price and volume developments contributed equally to the cereals shortfall of SDR 173.2 million.

(1) Wheat and bran

Wheat, which is exported mainly to the Soviet Union and Iran, accounts for over 90 percent of earnings from this category; thus, fluctuations in wheat exports are mainly responsible for the shortfall estimated at SDR 143.1 million. Under the influence of declining international prices, the area sown to wheat declined by 1.4 million hectares (18 percent) between 1982/83 and 1984/85, but with improving yields reflecting increased fertilizer application, 2/ production fell by only 8 percent. The area sown for the 1985/86 crop fell by a further 5 percent owing both to declining in international prices and a change in the rates of export taxation in favor of corn, 3/ but due to flooding caused by heavy rainfall in November 1985 in Buenos Aires province, the main wheat-growing area, there was a larger decline (9 percent) in the area

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1/ It should be noted that references to value, volume, and unit value movements in the shortfall year are estimates; data for April-September 1986 have been estimated by the staff in cooperation with the authorities.

2/ Farmers could pay for fertilizer with wheat under a program introduced for the 1984/85 crop.

3/ The rate of export tax on wheat in effect at the time planting decisions are made (mid-year) was raised from 18 percent in 1984 to 26.5 percent in 1985. The rate on corn at the equivalent time (the third quarter) was lowered from 31 percent in 1984 to 29 percent in 1985; this provided an incentive for higher corn production (see subsection (2)). Prior to the 1985/86 harvest, the rates were lowered to 15 percent for wheat and 21 percent for corn.

Table 6. Argentina: Export Earnings and Shortfalls By Major Commodities, 1981-88

	Years Ending September								Shortfall 1/	
	1981	1982	1983	1984	1985	1986 2/	1987 3/	1988 3/	Geometric	Arithmetric
	(In millions of SDRs)									
Total exports	7,903	6,868	7,000	8,159	8,143	6,366	6,138	6,940	731.6	782.8
Agriculture	5,113	3,936	4,735	5,674	5,363	3,801	3,427	3,819	524.5	616.1
Cereals	2,405	1,625	2,453	2,457	2,200	1,297	910	1,076	173.2	291.2
Wheat and bran	779	683	1,233	1,161	1,071	492	358	471	143.1	218.8
Wheat	(709)	(617)	(1,170)	(1,096)	(1,037)	(460)	(327)	(435)	(134.9)	(211.3)
Bran	(70)	(66)	(63)	(65)	(35)	(32)	(31)	(36)	(6.0)	(7.6)
Corn	1,080	506	719	765	782	640	460	507	-23.2	-9.2
Sorghum	529	422	481	506	309	138	71	82	28.1	83.3
Rice	16	15	20	25	38	27	20	16	-2.8	-1.7
Oilseeds 4/	1,105	871	1,136	2,124	2,158	1,597	1,562	1,718	217.1	234.9
Soybeans	595	342	300	781	659	432	473	518	127.0	140.9
Soy oil and meal	111	175	367	657	724	627	548	628	7.2	9.7
Peanuts	49	15	29	34	45	47	63	78	4.6	6.8
Sunflower oil and seeds	194	216	314	514	578	404	375	389	41.2	47.9
Linseed oil and meal	157	123	126	138	153	88	104	104	27.2	29.6
Beef 4/	618	608	476	315	295	255	259	283	25.9	26.8
Other agriculture	986	832	670	779	710	653	696	743	61.9	63.2
Fruit and vegetables	235	238	189	172	208	252	269	283	-19.2	-15.4
Beans	(48)	(62)	(50)	(57)	(76)	(99)	(103)	(111)	(-12.7)	(-10.2)
Apples and apple juice	(152)	(135)	(101)	(84)	(79)	(96)	(103)	(101)	(-4.0)	(-3.5)
Pears	(24)	(30)	(26)	(19)	(25)	(30)	(32)	(37)	(-1.8)	(-1.1)
Citrus fruits	(11)	(12)	(12)	(12)	(28)	(27)	(32)	(35)	(-2.2)	(-0.6)
Wool	241	190	130	166	132	118	121	124	13.2	14.2
Sugar	337	102	109	125	55	25	16	15	8.4	22.3
Marine products	97	164	162	159	156	162	189	204	11.0	12.0
Tea	23	24	31	58	36	25	24	29	7.8	9.7
Cotton	30	63	9	50	73	19	26	33	16.8	21.1
Tobacco	23	51	40	50	50	52	51	54	-0.8	-0.8
Petroleum products	451	502	366	311	426	265	140	181	-19.4	-0.2
Fuel oil	257	248	232	186	227	133	53	103	-7.4	7.9
Gas oil	126	182	68	42	95	79	58	53	-16.2	-13.5
Hydrocarbons	68	72	66	83	104	53	28	26	-2.7	5.4
Manufactures	586	767	553	605	669	668	744	835	31.8	36.1
Leather 4/	284	327	249	301	269	290	312	356	14.1	15.4
Tanned leather	(262)	(308)	(229)	(283)	(255)	(269)	(246)	(271)	(-4.3)	(-3.9)
Leather products	(21)	(19)	(20)	(18)	(14)	(22)	(66)	(85)	(9.8)	(19.3)
Tannin	39	55	53	39	36	36	35	35	0.4	0.4
Aluminum ingots	76	65	40	77	92	61	58	58	7.0	8.1
Electronic products	66	73	94	66	110	95	108	125	3.7	5.9
Steel pipes and plates	116	234	103	113	145	169	217	250	2.9	9.9
Synthetic rubber	6	13	13	10	18	17	13	10	-4.0	-3.5
Other products	1,753	1,663	1,347	1,568	1,684	1,633	1,827	2,104	121.0	130.7

Table 6 (concluded). Argentina: Export Earnings and Shortfalls by Major Commodities, 1981-88

	Years Ending September						
	1982	1983	1984	1985	1986 2/	1987 3/	1988 3/
	(Percentage changes)						
Total exports	-13.1	1.9	16.6	-0.2	-21.8	-3.6	13.1
Agriculture	-23.0	20.3	19.8	-5.5	-29.1	-9.8	11.4
Cereals	-32.4	50.9	0.2	-10.4	-41.1	-29.8	18.2
Wheat and bran	-12.3	80.5	-5.8	-7.8	-54.1	-27.1	31.4
Wheat	(-13.0)	(89.7)	(-6.3)	(-5.5)	(-55.7)	(-28.8)	(32.9)
Bran	(-5.4)	(-4.7)	(3.0)	(-46.9)	(-6.4)	(-3.1)	(15.6)
Corn	-53.2	42.2	6.4	2.2	-18.1	-28.1	10.1
Sorghum	-20.3	13.9	5.2	-38.8	-55.4	-48.5	15.9
Rice	-5.7	33.6	27.1	50.2	-29.2	-24.5	-23.2
Oilseeds 3/	-21.2	30.5	87.0	1.6	-26.0	-2.2	10.0
Soybeans	-42.6	-12.3	160.6	-15.6	-34.5	9.5	9.7
Soy oil and meal	58.2	110.1	78.9	10.1	-13.4	-12.6	14.6
Peanuts	-69.4	95.3	18.2	29.7	4.5	35.4	23.9
Sunflower oil and seeds	11.7	45.3	63.4	12.5	-30.1	-7.2	3.8
Linseed oil and meal	-21.6	2.3	9.7	10.7	-42.6	18.3	0.6
Beef 3/	-1.6	-21.7	-33.9	-6.2	-13.8	1.8	9.3
Other agriculture	-15.6	-19.5	16.2	-8.8	-8.1	6.6	6.7
Fruit and vegetables	1.5	-20.8	-8.9	21.1	21.2	6.5	5.4
Beans	(29.9)	(-20.4)	(15.2)	(33.9)	(30.3)	(3.3)	(7.6)
Apples and apple juice	(-11.3)	(-24.7)	(-17.3)	(-5.8)	(21.4)	(7.2)	(-2.2)
Pears	(25.0)	(-13.2)	(-26.6)	(34.0)	(17.1)	(6.8)	(17.8)
Citrus fruits	(4.4)	(1.7)	(--)	(127.3)	(-0.4)	(15.7)	(11.0)
Wool	-20.9	-31.6	27.2	-20.1	-10.8	2.5	2.8
Sugar	-69.9	7.3	14.8	-55.8	-55.0	-35.7	-6.9
Marine products	68.5	-1.3	-2.1	-1.6	3.8	16.7	8.1
Tea	4.9	33.1	85.7	-38.9	-30.3	-2.4	21.5
Cotton	105.9	-85.3	442.4	46.7	-74.2	36.0	26.5
Tobacco	125.4	-23.0	25.0	0.8	4.4	-1.3	4.7
Petroleum products	11.5	-27.1	-14.9	36.9	-37.9	-47.2	29.5
Fuel oil	-3.4	-6.4	-19.7	21.9	-41.7	-59.8	93.0
Gas oil	44.1	-62.8	-38.1	127.2	-17.1	-26.0	-9.9
Hydrocarbons	6.7	-8.2	25.2	25.1	-48.5	-47.0	-8.5
Manufactures	30.9	-28.0	9.5	10.6	-0.1	11.3	12.3
Leather 3/	15.2	-23.9	21.1	-10.7	7.9	7.4	14.3
Tanned leather	(17.4)	(-25.8)	(23.9)	(-10.0)	(5.4)	(-8.5)	(10.3)
Leather products	(-12.2)	(7.5)	(-11.4)	(-21.9)	(54.7)	(206.5)	(29.1)
Tannin	41.0	-4.2	-26.6	-8.5	--	-2.0	—
Aluminum ingots	-14.0	-37.8	89.4	19.7	-33.3	-4.4	--
Electronic products	10.0	29.0	-29.8	66.9	-13.6	14.1	15.5
Steel pipes and plates	102.3	-55.9	9.1	28.4	16.7	28.4	15.5
Synthetic rubber	128.1	0.8	-26.0	86.6	-5.0	-22.7	-24.8
Other products	-5.1	-19.0	16.5	7.4	-3.1	11.9	15.2

1/ Shortfall calculations may be affected by rounding of export data.
2/ Data for the last six months (April-September) are estimated.
3/ Projected.
4/ Includes products of relevant categories.

Table 7. Argentina: Value, Volume, and Unit Value by Major Commodities, 1981-88

(1986 = 100; In terms of SDRs)

	Value Share In Total Exports In 1986 (In percent)	Years Ending September 1981	1982	1983	1984	1985	1986 1/	1987 2/	1988 2/	Shortfall In Percent Of Level In Shortfall Year
Value	72.6	132	111	120	141	137	100	90	100	11.7
Agriculture	59.8	135	104	125	149	141	100	90	100	13.6
Cereals	20.4	186	126	189	190	170	100	70	83	13.4
Wheat and bran	7.7	158	139	251	237	218	100	73	96	29.3
Wheat	(7.2)	(154)	(134)	(255)	(239)	(226)	(100)	(71)	(95)	(29.5)
Bran	(0.5)	(216)	(205)	(195)	(201)	(107)	(100)	(97)	(112)	(18.5)
Corn	10.1	169	79	112	119	122	100	72	79	-3.8 (excess)
Sorghum	2.2	384	306	348	366	224	100	52	60	20.7
Rice	0.4	59	55	74	94	141	100	75	58	10.4
Oilseeds and oils	25.0	70	55	71	133	135	100	98	108	13.7
Soybeans	6.8	138	79	69	181	153	100	110	120	29.6
Soy oil and meal	9.8	17	28	59	105	115	100	88	100	1.2
Peanuts	0.7	105	32	62	74	96	100	135	168	10.0
Sunflower oil and seeds	6.3	48	54	78	127	143	100	93	96	10.1
Linseed oil and meal	1.4	179	140	144	157	175	100	118	119	31.0
Beef and beef products	4.0	243	239	187	124	116	100	102	111	10.2
Other agriculture	10.4	151	127	102	119	109	100	107	114	9.6
Fruit and vegetables	4.1	92	94	74	67	83	100	107	113	-7.6 (excess)
Beans	(1.6)	(48)	(63)	(50)	(57)	(77)	(100)	(103)	(111)	(12.9)
Apples and apple juice	(1.5)	(158)	(141)	(106)	(88)	(83)	(100)	(107)	(105)	(-3.9) (excess)
Pears	(0.5)	(80)	(100)	(87)	(64)	(85)	(100)	(107)	(126)	(-6.0) (excess)
Citrus fruit	(0.5)	(43)	(43)	(44)	(44)	(102)	(100)	(116)	(128)	(-7.8) (excess)
Wool	1.9	204	161	110	140	112	100	102	105	10.9
Sugar	0.4	1354	408	437	502	222	100	64	60	33.7
Marine products	2.5	60	101	100	98	96	100	117	126	6.8
Tea	0.4	91	95	127	235	144	100	98	119	31.6
Cotton	0.3	161	331	49	264	387	100	136	172	88.7
Tobacco	0.8	44	99	76	95	96	100	99	103	-1.4 (excess)
Petroleum products	4.1	171	190	139	118	161	100	52	69	-7.4 excess
Fuel oil	2.1	194	187	175	141	171	100	40	78	-5.5 (excess)
Gas oil	1.2	160	231	86	53	121	100	74	67	20.5
Hydrocarbons	0.8	127	135	124	155	194	100	53	49	-4.8 (excess)
Manufactures 3/	8.7	91	123	80	94	99	100	103	113	1.6
Tanned leather	4.2	98	115	85	105	95	100	91	101	-1.7 (excess)
Tannin	0.6	110	155	149	109	100	100	98	98	0.9
Aluminum ingots	1.0	124	106	66	125	150	100	96	96	11.6
Steel pipes and plates	2.6	69	139	61	67	85	100	128	148	1.5
Synthetic rubber	0.3	33	76	76	56	105	100	77	58	-23.5

Table 7 (continued). Argentina: Value, Volume, and Unit Value by Major Commodities, 1981-88

(1986 = 100; In terms of SDRs)

	Years Ending September								Shortfall In Percent Of Level In Shortfall Year	
	1981	1982	1983	1984	1985	1986 1/	1987 2/	1988 2/		
Volume	92	87	98	97	106	100	98	108	1.7	
Agriculture	93	84	102	103	109	100	101	110	4.5	
Cereals	113	85	127	121	121	100	90	104	6.5	
Wheat and bran	81	74	156	155	153	100	90	117	20.1	
Wheat	(79)	(72)	(160)	(158)	(157)	(100)	(90)	(117)	(21.2)	
Bran	(103)	(104)	(105)	(106)	(92)	(100)	(92)	(110)	(-0.3)	(excess)
Corn	110	60	79	71	86	100	94	101	-10.3	(excess)
Sorghum	246	246	254	243	168	100	71	80	18.3	
Rice	71	55	87	83	127	100	104	87	-0.9	(excess)
Oilseeds and oils	50	42	59	81	100	100	106	113	-0.6	(excess)
Soybeans	108	65	58	114	128	100	119	127	17.1	
Soy oil and meal	13	22	49	66	91	100	95	105	-9.7	(excess)
Peanuts	51	30	70	63	94	100	119	133	-1.3	(excess)
Sunflower oil and seeds	28	33	56	59	79	100	101	101	-13.8	(excess)
Linseed oil and meal	129	108	139	125	134	100	136	139	25.9	
Beef and beef products	199	235	190	120	109	100	104	110	8.4	
Other agriculture	117	123	122	111	106	100	107	114	7.5	
Fruit and vegetables	80	86	92	80	98	100	107	116	-0.5	(excess)
Beans	(43)	(69)	(75)	(66)	(88)	(100)	(102)	(105)	(-9.1)	(excess)
Apples and apple juice	(142)	(119)	(120)	(105)	(104)	(100)	(109)	(120)	(7.4)	
Pears	(53)	(77)	(90)	(70)	(91)	(100)	(112)	(130)	(-1.5)	(excess)
Citrus fruits	(43)	(53)	(63)	(59)	(121)	(100)	(114)	(125)	(0.3)	
Wool	139	111	90	109	88	100	109	109	2.6	
Sugar	721	452	652	506	278	100	78	74	52.0	
Marine products	87	140	133	96	84	100	108	118	0.5	
Tea	72	74	103	131	87	100	103	115	6.2	
Cotton	121	261	57	150	307	100	136	150	56.5	
Tobacco	61	89	89	104	100	100	104	107	3.0	
Petroleum products	125	131	101	74	116	100	61	76	-16.8	excess
Fuel oil	139	127	127	85	113	100	46	85	-17.8	(excess)
Gas oil	133	166	65	39	106	100	90	79	-21.7	(excess)
Hydrocarbons	74	88	85	100	140	100	56	50	-17.1	(excess)
Manufactures 3/	72	86	70	71	79	100	101	107	-9.5	excess
Tanned leather	75	80	68	75	73	100	95	105	-11.4	excess
Tannin	167	177	152	102	90	100	104	104	-0.1	(excess)
Aluminum ingots	94	94	57	78	119	100	82	82	-9.0	(excess)
Steel pipes and plates	42	73	60	55	69	100	117	126	-11.0	(excess)
Synthetic rubber	32	76	80	56	104	100	88	64	-20.0	(excess)

Table 7 (concluded). Argentina: Value, Volume, and Unit Value by Major Commodities, 1981-88

(1986 = 100; In terms of SDRs)

	Years Ending September								Shortfall In Percent Of Level In Shortfall Year	
	1981	1982	1983	1984	1985	1986 1/	1987 2/	1988 2/		
Unit value	143	128	122	145	129	100	92	93	9.9	
Agriculture	145	124	123	145	129	100	89	91	8.7	
Cereals	165	148	149	157	140	100	78	80	6.5	
Wheat and bran	195	188	161	153	142	100	81	82	7.6	
Wheat	(195)	(186)	(159)	(151)	(144)	(100)	(79)	(81)	(6.8)	
Bran	(210)	(197)	(186)	(190)	(116)	(100)	(105)	(102)	(18.7)	
Corn	154	132	142	168	142	100	77	78	7.5	
Sorghum	156	124	137	151	133	100	73	75	1.9	
Rice	83	100	85	113	111	100	72	67	-9.6	(excess)
Oilseeds and oils	140	131	120	164	135	100	92	96	14.4	
Soybeans	128	122	119	159	120	100	92	94	10.5	
Soy oil and meal	131	127	120	159	126	100	93	95	12.1	
Peanuts	206	107	89	117	102	100	113	126	11.2	
Sunflower oil and seeds	171	164	139	215	181	100	92	95	27.7	
Linseed oil and meal	139	130	104	126	131	100	87	86	4.3	
Beef and beef products	122	102	98	103	106	100	98	101	1.6	
Other agriculture	129	103	84	107	103	100	100	100	2.0	
Fruit and vegetables	115	109	80	84	85	100	100	97	-7.1	(excess)
Beans	(112)	(91)	(67)	(86)	(88)	(100)	(101)	(106)	(-4.1)	(excess)
Apples and apple juice	(111)	(118)	(88)	(84)	(80)	(100)	(98)	(88)	(-10.3)	(excess)
Pears	(151)	(130)	(97)	(91)	(93)	(100)	(96)	(97)	(-4.7)	(excess)
Citrus fruits	(100)	(81)	(70)	(75)	(84)	(100)	(102)	(102)	(-8.1)	(excess)
Wool	147	145	122	128	127	100	94	96	8.0	
Sugar	188	90	67	99	80	100	82	81	-12.1	(excess)
Marine products	69	72	75	102	114	100	108	107	6.1	
Tea	126	128	123	179	166	100	95	103	23.8	
Cotton	133	127	86	176	126	100	100	115	20.6	
Tobacco	72	111	85	91	96	100	95	96	-4.4	(excess)
Petroleum products	137	145	138	159	139	100	85	91	11.3	
Fuel oil	140	147	138	166	151	100	87	92	14.9	
Gas oil	120	139	132	136	114	100	82	85	1.6	
Hydrocarbons	172	153	146	155	139	100	95	98	14.9	
Manufactures 3/	126	143	114	132	125	100	102	106	12.3	
Tanned leather	131	144	125	140	130	100	96	96	10.9	
Tannin	66	88	98	107	111	100	94	94	1.0	
Aluminum ingots	132	113	116	160	126	100	117	117	22.5	
Steel pipes and plates	164	190	102	122	123	100	109	117	13.9	
Synthetic rubber	103	100	95	100	101	100	88	91	-4.2	(excess)

1/ Data for the last six months (April-September) are estimated.
2/ Projected.
3/ Excluding leather products and electronic products; growth of value of manufactures exports in 1986/87 and 1987/88 is understated by comparison with Table 6.

harvested. 1/ Moreover, the yield of the remaining crop was reduced by almost 30 percent due to the spread of fungus under conditions of high humidity. Production fell by 4.9 million tons (36 percent) but with a high carry-over of stocks from 1984/85, exports declined by only 3.1 million tons to 5.4 million tons, a level sufficient to reduce end-period stocks to less than 1 million tons, their lowest level during the 1980s. Under the influence of an excess of supply over-utilization on the world market for the fourth successive year and increased competition stemming from attempts by the United States to recapture market share, the international price of wheat fell by 26 percent in SDR terms in 1985/86 on average. Argentina's unit value declined more sharply, by 30 percent, and earnings from wheat fell by 56 percent.

Despite a reduction on the rate of export tax on wheat from 26.5 percent to 15 percent in December 1985, and to 5 percent in September 1986, reductions somewhat greater than those for corn, the wheat area planted and sown for the 1986/87 crop is expected to decline further, and then to remain unchanged for the 1987/88 crop. Assuming a return to normal weather conditions, yields are expected to recover sufficiently to permit output to rise from 8.7 million tons in 1985/86 to an average of 9.9 million tons in the two post-shortfall years. Nonetheless, the available supply of wheat will be limited in 1986/87 by the low carry-over of stocks from the shortfall year and export volume is projected to decline further to 5.2 million tons. Only in 1987/88 are shipments expected to rise (to 6.3 million tons), which would permit export volume to grow at an annual average rate of 2 percent over the two-year period. World market prices are expected to decline by 17 percent in 1986/87 due to continued competition among major exporters, and only to recover slightly in 1987/88. As a result, Argentina's wheat export unit values and earnings are projected to decline at annual average rates of 13 percent and 12 percent, respectively. A shortfall of SDR 134.9 million is estimated for wheat.

The volume of bran exported from 1983/84 to 1985/86 and expected to be shipped in 1986/87 and 1987/88 is about 0.7 million tons per year. Similar actual and projected price developments to those for wheat are, therefore, entirely responsible for a shortfall of SDR 6.0 million estimated for bran.

(2) Corn

As the main producing areas for both wheat and corn in Argentina are the same, reductions in the area sown to wheat have been reflected in a larger area planted with corn. With international prices supported in 1984 by a low level of free stocks in the United States, the dominant producer, and by drought in Southern Africa, the area planted in Argentina for the 1984/85 crop rose by 8 percent. Planting decisions for the 1985/86 crop were influenced by changes in the rates of export taxation which provided an incentive for the production of corn relative to wheat, and the area sown to corn in the shortfall year increased by a further

1/ Rainfall received in Buenos Aires province was up to 150 percent above normal in November 1985.

2 percent. Part of the planting was washed out by the floods of November 1985 in Buenos Aires province, and the area harvested fell by 4 percent. However, extremely favorable weather conditions prevailing from mid-December onward boosted the yield sharply, and production rose by 11 percent following an 18 percent increase in 1984/85. With available supply at almost a record level, the volume of exports in the shortfall year increased by 17 percent to 8.2 million tons and stocks carried over to 1986/87 rose marginally to 1.6 million tons, the average level over the previous five years. In the same conditions of excess supply and intense competition among exporters that affected world wheat prices, the international price of corn fell by 26 percent in SDR terms in 1985/86, and Argentina's unit value declined by 29 percent. As a result, earnings from corn exports in 1985/86 were 18 percent lower than in the previous year.

International prices for corn are expected to decline further in 1986/87 and to recover only slightly in 1987/88. This outlook has probably had some influence on planting decisions for 1986/87 along with changes in the rates of export taxes in December 1985 and February 1986 which provided a disincentive for the planting of corn relative to wheat. 1/ Consequently, the area planted to corn fell by 3 percent for the 1986/87 crop and with a forecast reduction in yield, output is expected to fall by 5 percent. A small increase in production due to steady improvements in the quality of seed is expected for 1987/88. Export volume in the two post-shortfall years is expected to be slightly lower, on average, than in 1985/86, but unit values are expected to fall sharply, in line with the movement of international prices, so that average earnings are projected to be 25 percent lower than in 1985/86. An excess of SDR 23.2 million is estimated for corn.

(3) Sorghum

Sorghum is grown in the same provinces as wheat and corn, but the area planted is much smaller, about one quarter and two fifths the size of wheat and corn, respectively. The major export market is Japan. Sorghum is used almost exclusively for animal feed and with livestock numbers rising from 1982-85, domestic consumption has increased somewhat in recent years. However, with excess supplies of wheat and corn on world markets spilling over to feed use as prices declined, the export market for sorghum has diminished and production cut back. In the shortfall year, the area planted and harvested fell by almost 30 percent and the yield also declined slightly, not due to adverse weather (the maturation stage is later than for wheat) but because the lack of export markets made foraging by livestock the only alternative. Output fell by one third, and the volume of exports declined by 40 percent. Influenced by the drop in prices of other grains, unit values fell by 25 percent in SDR terms, and earnings were more than halved.

1/ The rate of tax on wheat exports was reduced by 11.5 percentage points to 15 percent and the rate on corn exports was lowered by 8 percentage points to 21 percent.

Production is expected to decline further in 1986/87, partly influenced by a change in the rate of export tax in March 1986 which provided a discentive to both corn and sorghum relative to wheat, and is expected to stabilize in 1987/88. Despite lower domestic consumption as corn is substituted for feed use, the volume of exports is projected to decline at an annual average rate of 17 percent in the two post-shortfall years. Since unit values are forecast to follow closely the downward movement of corn prices, export earnings are projected to fall, on average, by 33 percent per year. This decline, however, is slower than that experienced in the shortfall year so that a shortfall of SDR 28.1 million is estimated for sorghum.

(4) Rice

The area suitable for rice production in Argentina is limited to one northeastern province; the area planted is less than 5 percent of the area sown with wheat. Argentina exports rice in both milled and packaged form, consequently, unit values do not follow closely the international price of milled rice. The volume of rice exports rose sharply to 124 thousand tons in 1984/85 following a 20 percent increase in area planted in 1983/84. Although export volume declined by 20 percent to 98 thousand tons in the shortfall year, reflecting a reduction of area planted in 1984/85, this level was only marginally below the average volume exported in the two preceding years. Shipments in the two post-shortfall years are expected to fall to an average of 93 thousand tons, as land is taken out of production in response to the declining trend of international prices. As a result, a small volume excess is estimated for rice. An excess is also estimated for unit values reflecting a sharper decline projected for the two post-shortfall years in comparison with the 10 percent reduction recorded in 1985/86. A small excess in earnings of SDR 2.8 million is estimated for rice.

b. Oilseeds and oilseed products

Oilseeds and oilseed products, as a group, represented 25 percent of the value of merchandise exports and 42 percent of agricultural export earnings in the shortfall year, exceeding cereal exports for the first time. A shortfall of SDR 217.1 million is calculated for the group. Soybeans alone accounted for over half of the shortfall (SDR 127.0 million), although shortfalls also were calculated for soybean oil (SDR 7.2 million), peanuts (SDR 4.6 million), sunflowerseed oil (SDR 41.6 million), linseed oil (SDR 13.6 million), and linseed meal (SDR 12.0 million). These shortfalls were partly offset by excesses calculated for soybean meal (SDR 14.7 million) and sunflowerseed (SDR 5.1 million).

Argentina is the world's fourth largest producer of soybeans, after the United States, China, and Brazil, and the second largest producer of sunflowerseed, after the U.S.S.R. Argentina's production and export of these oilseeds and their derivatives expanded rapidly during the 1970s, when world oilseed production also recorded rapid growth in response to strong demand for vegetable oils and protein meals used in animal feeds.

Prompted by favorable world soybean prices, producers in Argentina increased the area under soybean cultivation from an average annual level of 0.2 million hectares during the period 1970-75 to 1.2 million hectares during the period 1976-80. 1/ As a result, total area under oilseed cultivation rose from an average level of 2.7 million hectares during 1971-75 to 4.3 million hectares during 1976-80. The expansion in area was accompanied by substantial improvements in average crop yields. 2/ Reflecting these developments, total oilseed production rose from an average of 2.3 million tons annually during 1971-75 to 5.0 million tons during 1976-80.

The rise in Argentina's oilseed production also has been accompanied by rapid increases in the production and exports of oilseed products, partly reflecting the establishment since mid-1982 of lower export taxes on oils and meal than on beans. In view of recent sharp declines in world prices for oilseeds and oilseed products, however, these taxes have been lowered. 3/ Crushing capacity has expanded sharply in recent years, reaching 9 million tons annually in 1986. In 1985/86 Argentina was the third largest exporter of soybean oil and the fourth largest exporter of soybean meal, accounting for 17 percent and 14 percent of world exports, respectively. Furthermore, since 1979/80, Argentina has been the world's single most important exporter of sunflowerseed oil, accounting for an estimated 47 percent of world exports in 1985/86, compared to only 21 percent in 1976/77.

(1) Soybeans and soybean products

In 1984/85, earnings from soybean exports declined by 16 percent reflecting entirely a 24 percent decline in unit values. The volume of soybean exports, after almost doubling in 1983/84, increased by an additional 12 percent in 1984/85. The higher volume of soybean exports, despite diversion of an increasing proportion of soybeans to domestic crushing, 4/ was due to record levels of production; soybean production reached 7.0 and 6.5 million tons in 1983/84 and 1984/85 respectively,

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1/ Area under sunflowerseed and flaxseed cultivation also expanded in those years from over 1.5 million hectares to 1.8 million hectares and from 0.6 million hectares to 0.8 million hectares, respectively.

2/ The average yield for soybeans increased from 1,394 kilos per hectare during 1970-74 to 1,915 kilos per hectare during 1975-79, while that for sunflowerseed and linseed increased from 719 to 808 kilos per hectare and 767 to 834 kilos per hectare, respectively.

3/ The export tax on soybeans was lowered from 32.5 percent to 27 percent in March 1986, and 15 percent in December 1986; export taxes on soybean oil and meal exports, which are levied at the same rate, were lowered from 19 percent to 15 percent in March 1986 and further reduced to only 3 percent in December 1986. Similarly, the export tax on sunflowerseed oil was reduced from 23 percent to 15 percent and 6 percent in March and December 1986, respectively.

4/ In 1984/85, 59 percent of soybean production was crushed, compared to an average level of 48 percent in the two preceding years.

compared to about 4.0 million tons annually in the two preceding years. Export receipts from soybean products (soybean oil and meal), which had risen by 79 percent in 1983/84, increased by 10 percent in 1984/85. In contrast to 1983/84, when the rise in earnings was attributable about equally to higher volume and unit values, the growth in earnings in 1984/85 was due entirely to a 38 percent increase in volume as export prices declined; the individual unit values of soybean oil and meal declined by 1 percent and 30 percent, respectively. These declines reflected movements in world market prices for vegetable oils and meals; vegetable oil prices had reached record levels in 1984 mainly as a result of tighter supplies stemming from a considerable reduction in soybean production in the United States, reduced palm oil and palm kernel oil production in Malaysia, and reduced copra production in the Philippines. World prices for soybean meal declined sharply under the influence of weak meal demand stemming mainly from greater use of other feeds, such as fishmeal and corn.

In the shortfall year, earnings from soybean exports declined by 35 percent to SDR 432 million. Unit values declined by 17 percent, and in contrast to the two previous years, the volume of soybean exports fell by 22 percent. The reduction in export volume, despite a rise in soybean production to 7.2 million tons, reflected a further substantial rise in the proportion of soybeans diverted to domestic crushing. 1/ Reflecting this, the volume of soybean oil and meal exports rose by 23 percent and 5 percent, respectively. Nevertheless, the combined value of soybean product exports fell by 13 percent. This reflected the steep drop in earnings from soybean oil by 40 percent, as a result of a 51 percent decline in unit values, which was only partly offset by an 8 percent increase in the value of meal exports. The major factor underlying the decline in soybean oil as well as other vegetable oil prices over the past two years is the strong recovery of production and the accumulation of world stocks to unprecedented levels.

Earnings from soybean exports in the two post-shortfall years are projected to average SDR 495 million annually, 15 percent higher than in the shortfall year. Based on a projected production level of 7.4 million tons in 1986/87 and 1987/88 and, because of recent and projected movements in world market prices, a forecast decline in the share of production diverted to crushing during the post-shortfall years, the volume of soybean exports is projected at an average level of 3.2 million tons in the post-shortfall period, 23 percent higher than in the shortfall year. Soybean unit values are projected to decline by 8 percent in 1986/87 before recovering by 2 percent in the following year. The average volume of soybean meal exports is expected to remain at about the same level as in the shortfall year, while the average volume of soybean oil exports is projected to decline by 15 percent. Export unit values for soybean oil and meal are expected on average to be 18 percent and 1 percent lower, respectively, than in the shortfall year. As a result of these movements, the average combined value of soybean and soybean product exports in the

1/ In 1985/86, 61 percent of soybean production was crushed.

two post-shortfall years is projected to be only 2 percent higher than in the shortfall year, and 23 percent lower than the average level in the two preshortfall years.

(2) Peanuts

Argentina is the world's third largest exporter of peanuts, after the United States and China, accounting for about 11 percent of world exports. Over 95 percent of Argentina's peanut production takes place in a small area in south-central Cordoba province. Most of Argentina's peanuts were grown for their oil content until recent years, when producers began shifting to production of confectionary nuts. The area planted to peanuts increased from 145 thousand hectares in 1984/85 to 173 thousand hectares in 1985/86 and an estimated 185 thousand hectares 1986/87. Average yields also have increased from 1.10 tons per hectare in 1984/85 to an estimated 1.39 tons per hectare in 1985/86, as a result of the introduction of the new peanut varieties.

Export earnings from peanuts have increased steadily since 1982. In 1984/85, earnings rose by 30 percent due entirely to higher volume, but the growth of earnings slowed to 5 percent in the shortfall year, reflecting a 6 percent increase in volume and a 2 percent decline in unit value in SDR terms. In U.S. dollar terms, however, the average unit value of peanut exports increased by 14 percent, partly reflecting the sharp rise in international prices for edible grade peanuts in response to a reduced peanut crop forecast for the United States.

Earnings from peanuts are projected to increase at an annual average rate of 31 percent in the post-shortfall period, owing mainly to an increase in volume averaging 15 percent per year. Reflecting further shifting of peanut production into confectionary nuts, export unit values are projected to rise by about 13 percent annually in the two post-shortfall years.

(3) Sunflowerseed and oil

Argentina is the world's second largest producer of sunflowerseed, after the U.S.S.R., accounting for about one fourth of world output. During this decade, sunflowerseed producers in Argentina have steadily increased the use of hybrid seed, which has been reflected in substantially higher average yields. While a substantial portion of Argentina's soybean and peanut crops are exported as seed, the volume of sunflowerseed exports generally has been small; only about 11 percent of production has been exported as seed in recent years. In the shortfall year, three fourths of Argentina's export earnings from this crop were derived from sunflowerseed oil and the remainder from sunflowerseed.

Sunflowerseed oil export earnings rose by 84 percent in 1983/84 and by an additional 25 percent in 1984/85. While the former increase reflected both substantially higher unit values and higher volume, the latter was entirely attributable to a 32 percent increase in volume, as unit values declined by 5 percent. The rise in volume in 1984/85 was facilitated by a 55 percent increase in production to 3.4 million tons as a result of a 19 percent increase in area harvested and record average yields.

Earnings from exports of sunflowerseed oil in the shortfall year declined by 40 percent, to SDR 302 million. The decline was due entirely to a 55 percent reduction in export unit values, reflecting the downward trend in world market prices. Export volume increased by 27 percent, as production reached another record level of 4.1 million tons. Earnings from sunflowerseed oil in the post-shortfall period are projected to average SDR 278.3 million, 8 percent lower than in the shortfall year. Export volume is expected to remain at about the level exported in the shortfall year, but the average level of unit values is projected to decline by about 9 percent in the post-shortfall period reflecting the continuation of abundant supplies of vegetable oils, worldwide.

Earnings from exports of sunflowerseed increased by 44 percent in the shortfall year to SDR 102 million or 2 percent of total earnings. The increase is attributable to expanding volumes and a recovery in unit values owing to a sharp decline in the United States' production and exports. Earnings in the post-shortfall period are projected to be about 4 percent higher than in the shortfall year on average, reflecting further increases in volume which are expected to more than offset a projected slight decline in unit value.

(4) Linseed oil and meal

Argentina produces about 500-600 thousand tons of flaxseed annually, which is largely crushed and exported as linseed oil or linseed meal. In the shortfall year, the combined value of these products amounted to SDR 88 million, or 1 percent of total exports, compared to SDR 153 million in the preceding year.

Nearly 90 percent of the drop in combined earnings is attributable to linseed oil. Earnings from linseed oil declined by 54 percent in the shortfall year, reflecting a 37 percent decline in unit value and a 26 percent decline in volume. Linseed oil production was relatively low in the shortfall year and in 1984/85 (156 thousand tons, on average, compared to an average level of 189 thousand tons in 1982-83/1983-84). In 1984/85, however, the volume of exports rose by 34 percent reflecting a sharp drawdown of previously accumulated stocks. In the post-shortfall period, the value of linseed oil exports is expected to average only 1 percent higher than in the shortfall year, reflecting rising export volume along with projected increases in production.

Earnings from linseed meal exports declined by 16 percent to SDR 38 million in the shortfall year, reflecting a 24 percent decline in volume. In the post-shortfall period, the value of linseed meal exports is projected to be 40 percent higher than in the shortfall year on average, as a result of a projected rise in export volume facilitated by an expected recovery in flaxseed production and some further expected improvement in export prices for linseed meal.

c. Beef and beef products

Argentina exports fresh (chilled or frozen) and processed (cooked and frozen or tinned) beef. Because of the incidence of hoof and mouth disease, the U.S. and Canadian markets are closed to Argentine exports of fresh beef; the major markets for fresh meat are other Latin American, Middle Eastern, and African countries. Processed products are exported to a large number of countries.

The rebuilding phase of the cattle cycle which began in 1982 was interrupted in 1984 by a rise in slaughterings in response to low returns in the export and domestic markets. Export prices were depressed by strong competition from EC exports of fresh beef in Argentina's traditional markets, and export volume, which had fallen sharply in 1983/84 due to herd rebuilding, declined by an additional 9 percent in 1984/85. Marketing difficulties continued in the shortfall year, and with unit values falling by 6 percent, earnings declined by 14 percent. The loss of export markets permitted domestic consumption to increase sharply, from 67 kg per capita in 1983 to 82 kg per capita in 1986.

Earnings from beef exports are projected to recover at an annual average rate of 4 percent in the two post-shortfall years. The recovery is based on projections of steady growth in the volume (averaging 5 percent per year) and a modest increase in the unit values (averaging 2 percent per year) of processed products; earnings from fresh beef exports are expected to decline further in both years. The share of processed products (carcass weight equivalent) in the total volume of beef exports is forecast to rise from 57 percent in 1985/86 to 65 percent in 1986/87. The projections for processed product exports may be conservative in view of the good response to the Special Program for Exports implemented in 1986. 1/ By end-1986, firms had signed agreements with the Government to increase processed meat exports in 1987 by about SDR 25 million, or two thirds of the SDR 40 million increase projected between 1985/86 and 1987/88. On the basis of these actual and projected movements, a shortfall in beef exports of SDR 25.9 million is estimated for the year to September 1986.

d. Other agricultural products

Exports of other agricultural products consisting of fruit and vegetables, wool, sugar, and minor agricultural exports are estimated to have accounted for 10 percent of total export earnings in the shortfall year. Despite a 21 percent in earnings from fruit and vegetables, earnings

1/ See Section 3 below.

from the group as a whole are estimated to have declined by 8 percent in the shortfall year partly because of weather-related reductions in the export volume of other commodities in the group and partly because of adverse movements in world market prices. A return to normal weather conditions and the effects of the Special Program for Exports are expected to contribute to a recovery in the volume of other agricultural exports during the two post-shortfall years. Export unit values, however, are expected to remain unchanged and on the basis of these movements a shortfall of SDR 61.9 million is estimated for this group.

(1) Fruit and vegetables

The major fruit and vegetable exports consist of apples and apple juice, pears, citrus fruit, and beans which are exported largely to the Middle East and to a lesser extent to Brazil and Western Europe. Earnings from these products accounted for about 4 percent of total export earnings in the shortfall year. Earnings increased by 21 percent in the shortfall year largely because of an estimated 18 percent increase in export unit value. In the two post-shortfall years, the growth of earnings is expected to decelerate to 7 percent per year because of a continuing increase in export volume; unit values are projected to remain unchanged. An excess of SDR 19.2 million is estimated for fruit and vegetables.

Despite a sharp fall in Argentine apple production due to the effects of late frosts, most of the reduction in production was absorbed by a reduction in domestic consumption. Consequently, apple and apple juice export volume declined by only 4 percent in the shortfall year. The late frost also affected apple production in Chile and Brazil causing export unit values to increase by 25 percent in the shortfall year. As production recovers in the two post-shortfall years, export volume is expected to increase at an annual average rate of 9 percent. Export unit values are projected to decline at an annual average rate of 5 percent as apple production recovers in Argentina, Chile, and Brazil. An excess of SDR 4 million is estimated for apple and apple juice exports.

Earnings from pears, which increased by 17 percent in the shortfall year due to an increase in both export volume and unit value, are expected to continue to increase in the post-shortfall period due to volume increases resulting from orchard renovation and additional immature acreage coming into production. Export unit values are projected to decline at an annual average rate of 2 percent in the two post-shortfall years. An excess of SDR 1.8 million is estimated for pear exports.

After increasing by 127 percent in the year ended September 1985, earnings from citrus exports remained virtually unchanged in the shortfall year. A 17 percent decline in export volume due to unseasonal rains at the fruit maturation stage and an increase in domestic consumption was offset by 19 percent increase in export unit value which was caused by tight supplies resulting from adverse weather in a number of major citrus exporting countries. More young trees are expected to come into production in the two post-shortfall years when export volume is projected to increase at an annual average rate of 13 percent. World supplies of citrus fruit are expected to continue to remain tight and export unit values are expected to increase slightly. On the basis of these movements an excess of SDR 2.2 million is estimated for citrus exports.

Earnings from bean exports increased by 30 percent in the shortfall year because of a 14 percent increase in both volume and unit value. The volumes of bean production and exports are expected to continue to increase in the post-shortfall period as land is opened up in the northwestern provinces where most of the beans are produced. Both export volume and unit value are projected to increase at an annual rate of 2 percent in the two post-shortfall years. An excess of SDR 12.7 million is estimated for exports of beans.

(2) Wool

Wool exports accounted for about 2 percent of total export earnings in the shortfall year. Argentina is a relatively small producer of fine quality merino and fine cross bred wool. Australia is the world's largest producer of these types of wool. Following a weather related reduction in wool production and exports in the year ended September 1985, a recovery in wool production contributed to a 14 percent increase in export volume in the shortfall year. However, an increase in wool production in Australia caused world market prices for fine wool to decline in the shortfall year and Argentina's wool export unit value fell by 21 percent. As a result, earnings from wool exports declined by 11 percent in the shortfall year. Wool production in Australia is expected to remain at a high level and unit values are expected to fall at an annual average rate of 3 percent in the two post-shortfall years. However, as export volume is projected to increase at an annual rate of 6 percent due to increasing flock size, earnings are expected to rise by 2 percent per year on average. Based on these movements, a shortfall of SDR 13.2 million is estimated for wool exports.

(3) Sugar

Argentina's earnings from sugar exports declined from SDR 125 million in 1983/84 to SDR 55 million in 1984/85. Earnings fell further in the shortfall year to SDR 25 million. Both price and volume factors were responsible for the sharp fall in export receipts from sugar in recent years. World sugar production has exceeded world sugar consumption in four of the last five crop years. The resulting rapid rise in world sugar stocks caused prices for sugar in the free market to fall sharply. At the same time Argentina's access to the higher-priced United States' sugar market has been lowered progressively by successive reductions in the United States' sugar import quota. The production and export of sugar from Argentina has fallen in lagged response to these developments. During the two post-shortfall years, earnings from sugar exports are expected to decline at an annual average rate of 27 percent due to a continuing decline in volume. A shortfall of SDR 8.4 million is estimated for sugar.

(4) Marine products

Marine product exports, consisting largely of fish and shrimp, are sent mainly to the EC, the United States, and Japan, and accounted for 2.5 percent of total exports in the shortfall year. The volume of marine product exports declined by 28 percent in 1983/84 and by a further 13 percent in 1984/85 because of an intensification in the activities of foreign fishing fleets operating off the coast of Argentina, a consequence of the hostilities in the South Atlantic in 1982. In the shortfall year, controls in foreign fleets were intensified through increased patrols and diplomatic action. A resulting reduction in unauthorized fishing by foreign fleets and an increase in Argentina's catch in the shortfall year contributed to a 19 percent recovery in the volume of marine product exports. Export unit value, however, declined by 12 percent in the shortfall year because of a reduction in the proportion of shrimp in total marine product exports. The size of the Argentine catch is expected to continue to increase in the two post-shortfall years and export volume is expected to rise at an annual rate of 8 percent because of tax and financing incentives granted to marine product exporters under the Special Program for Exports. Export unit values are expected to increase in line with world market prices at an annual rate of 5 percent. On the basis of these volume and unit value movements, earnings from marine products are expected to increase at an annual average rate of 14 percent in the two post-shortfall years. A shortfall of SDR 11.0 million is estimated for exports of marine products.

(5) Tea

Despite a 15 percent increase in export volume, earnings from tea exports declined by 30 percent in the shortfall year because of a sharp drop in export unit value. The fall in unit value was in line with the collapse of world tea prices; world tea production responded strongly to the high tea prices which prevailed in 1984 and the first quarter of 1985, and caused world tea prices to fall by 33 percent in the shortfall year. Earnings from tea are expected to increase at an annual average rate of 4 percent in the two post-shortfall years wholly because of a 6 percent increase in export volume; export unit values are expected to remain depressed. A shortfall of SDR 7.8 million is estimated for tea exports.

(6) Cotton

Cotton production and exports during the shortfall year were severely affected by torrential rains and extensive flooding, especially in the principal cotton producing province of Chaco. These adverse weather conditions, which occurred at the height of the harvesting season (April), resulted in some unpicked cotton being abandoned completely and in a reduction in the overall quality of the harvested crop. As a result, the volume of cotton exports declined from a level of 86 thousand tons in the year ended September 1985 to 28 thousand tons in the shortfall year shortfall year. Unit values declined by 21 percent due both to a deterioration of the quality of exports and falling international prices. Assuming normal weather conditions prevail, the volume of cotton exports is expected to recover by 36 percent in the first shortfall year and by a further 10 percent in the second. As quality returns to normal levels, unit values are expected to recover at an annual rate of 5 percent. Based on these volume and price movements a shortfall of SDR 16.8 million is estimated for cotton exports.

(7) Tobacco

Brazil and France are the principal markets for Argentina's tobacco exports which consist mainly of black tobacco. The volume of tobacco exports in the shortfall year, at 28 thousand tons, was unchanged from the previous year but earnings from tobacco exports increased by 4 percent because of an increase in unit value. In the post-shortfall period, earnings from tobacco exports are expected to remain virtually the same as the shortfall year reflecting largely offsetting higher volume and lower unit value projections. An excess of SDR 0.8 million is estimated for tobacco exports.

2. Petroleum products

Argentina accounts for approximately 0.8 percent of world crude oil production and 0.3 percent of reserves. Crude oil reserves, at present about thirteen times the level of annual production, have been declining since 1981 which is a trend that is contrary to the trend in the rest of Latin America. However, production has declined by relatively less as the utilization of reserves has increased. Argentina's level of reserves utilization is similar to that of the rest of the non-OPEC oil exporters.

Petroleum product exports account for approximately 4 percent of total exports in the shortfall year. The major petroleum products included in this group are fuel oil, gas oil, and hydrocarbons (mainly ethylene). Earnings from petroleum product exports were SDR 265 million in the shortfall year, or 27 percent below the average level in the two pre-shortfall years. The downtrend in petroleum product exports is projected to continue in the two post-shortfall years with average earnings of SDR 159 million being 40 percent less than in 1985/86. An excess of SDR 19 million is estimated for the group as a whole. The excess in the value of exports reflects a large excess in volume partly offset by a shortfall in unit value; a declining volume trend through the shortfall year is projected to accelerate in the post-shortfall period while the rate of decline in unit values is expected to moderate.

a. Fuel oil

Fuel oil accounts for approximately one half of Argentina's energy export earnings. The production of fuel oil has been declining since 1980, but is projected to stabilize at a low level in the post-shortfall period. The decline in production of fuel oil is due mainly to the restructuring of refineries to produce more light fuels in response to a shift in domestic demand. Fuel oil production is more than sufficient to meet domestic consumption needs.

The volume of exports of fuel oil fell sharply in 1983/84 owing to lower refinery output. Despite a continued fall in production in 1984/85, exports rose as domestic consumption declined in response to domestic recession. In the shortfall year, export volume declined by 12 percent as domestic consumption picked up somewhat and the decline in refinery output continued. Export unit values for fuel oil have followed world prices which weakened in 1984/85 and declined sharply in 1985/86. In the post-shortfall period, unit value is projected to decline further in SDR terms in line with world prices, while volume is projected to fall sharply due to an upturn in domestic consumption. Earnings from fuel oil exports were SDR 133 million in the shortfall year which was 35 percent below average earnings in the two preshortfall years, and 80 percent higher than average earnings projected for the two post-shortfall years. An excess of SDR 7.4 million is estimated for fuel oil exports.

b. Gas oil

In contrast to fuel oil, the production of gas oil has been rising in recent years due to changes in refinery operations, but the volume available for export is again a residual after taking account of domestic needs. Export volume rose sharply in 1984/85 as recessionary conditions constrained domestic consumption and fell by 6 percent in the shortfall year as domestic consumption recovered. Unit values also declined in the shortfall year (by 12 percent), but the decline was considerably less than the fall in international prices (35 percent) due to the concentration of sales at the end of 1985 which was before the major drop in oil prices. In the post-shortfall period, the volume of gas oil exports is expected to decline as domestic consumption increases somewhat. The value of gas oil exports will also decline as unit values are not projected to increase on a year-to-year basis until 1987/88. An excess of SDR 16.2 million is estimated for gas oil exports.

c. Hydrocarbons

Hydrocarbon exports account for approximately 20 percent of petroleum export earnings. Hydrocarbons are petrochemicals that are used mainly in the production of plastics and pharmaceuticals and include ethylene, benzene, toluene, and xylene. The value of exports for this category declined by 49 percent in the shortfall year reflecting both declining volume (due to a recovery of domestic consumption) and falling international prices. Earnings are projected to decline further in the post-shortfall years to an average level 49 percent below that estimated for the shortfall year. This drop reflects almost entirely declining volume; domestic consumption is expected to rise sharply in response to a planned increase in the production and export of domestically produced plastics products (included in "other" exports) assisted by the Special Program for Exports. An excess of SDR 2.7 million is estimated for exports of hydrocarbons.

3. Manufactures

Manufactured products for which volume data are available accounted for 8.7 percent of total export earnings in the shortfall year. Earnings from two other items--leather products and electronics products--are expected to grow rapidly in the post-shortfall period, and their inclusion in the group raises the value share of manufactures to 10.5 percent (Table 6). A shortfall for manufactures is estimated at SDR 31.8 million, consisting of shortfalls of SDR 14.1 million for leather and leather products and SDR 7.0 million for aluminum ingots. Smaller shortfalls are estimated for tannin, electronics products, and steel pipes and plates, while a small excess is estimated for synthetic rubber.

The volume of all manufactured exports with the exception of aluminum ingots and synthetic rubber rose strongly in the shortfall year, and for the two excepted products, their export volume in 1985/86 exceeded the average volume exported in the two preshortfall years. 1/ One factor contributing to the growth of export volume was the maintenance of a competitive exchange rate--the real effective exchange rate depreciated by 6 percent in 1984/85 and by a further 7 percent in 1985/86 on a year-on-year basis. In addition, there was a readily available supply of primary raw materials, especially hides for the leather and leather processing industries, and ample productive capacity--despite growing by 9 percent in 1985/86, industrial production was still 10 percent below the level of activity in 1979/80. Certain industries--steel pipes for oil and gas transportation and electronics products, where production of calculating machines was replaced by production of IBM computer peripherals (mainly printers)--also experienced significant additions to capacity.

Price developments in the shortfall year were, however, the reverse of volume developments. The unit values of aluminum ingots and steel plates declined sharply reflecting higher world production and sluggish economic growth in the industrial countries. The slump in worldwide oil and gas exploration also affected the price of steel pipes. Moreover, lower prices for primary raw materials influenced the unit values of leather product exports. As a result of offsetting price and volume movements, the value of manufactured product exports stagnated in the shortfall year, but was 5 percent above average earnings in the two preshortfall years.

Earnings from manufactured exports are projected to increase by 11 percent in 1986/87 and by a further 12 percent in 1987/88 owing mainly to the growth of volume. Capacity is not expected to be a constraining factor as modernization programs in the early 1980's raised industrial

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1/ The capacity of the aluminum smelting and synthetic rubber industries is fixed, and exports in the two industries are a residual from domestic consumption needs. In both industries, exports in 1984/85 were above normal due to the deep recession in the domestic housing and automobile industries in 1985. The fall in export volume in 1985/86 reflects the recovery of domestic demand.

capacity significantly. Only the textile industry is presently working at full capacity, but investment in textile machinery was high in 1986, accounting for over 20 percent of capital goods imports, and a bottleneck in this section is not anticipated.

The growth of export volume will be boosted by a number of recently introduced government promotion programs and incentives. The major scheme is the Special Program for Exports (PEEX). In February 1986, the Government invited small- to medium-sized firms with a good export record to enter into agreements to raise exports by at least US$2 million per year for five years or by at least US$10 million at the end of five years. In return, the firms will receive special payments from the Treasury (denominated in U.S. dollars) equivalent to up to 15 percent of the realized increase in exports. At least 50 percent of the planned increase in exports must be achieved for the incentive payment to be granted. By end-1986, 140 out of 180 applications had been accepted by the Government, with 20 applications rejected; additional applications are expected. For the most part, firms have agreed to complete their program within one or two years of the five-year period. Specific manufactures expected to benefit from the PEEX include leather products, where earnings are projected to increase by over 300 percent in the post-shortfall period. Contracts have been signed for the export of high-quality leather goods to the United States and Europe. The volume of rolled steel exports, including steel plates, is also projected to increase sharply following the modernization of production facilities. 1/

Unit values in manufacturing are expected to rise moderately, on average, in the two post-shortfall years, although declining prices are forecast for tanned leather, tannin, and synthetic rubber. The price of aluminum ingots is expected to increase at an annual average rate of 11 percent in line with a recovery of world market prices and a forecast 9 percent per year increase in unit values for steel pipes and plates reflects mainly a change in the composition of steel pipe exports from oil pipelines to higher-priced gas pipelines.

4. "Other" exports

"Other" exports accounted for 26 percent of export earnings in the shortfall year. A disaggregation of the individual products in "other" products is shown in Table 8; in the shortfall year, manufactures

1/ Other export promotion and incentives include a low-interest export financing scheme for certain nontraditional products (at an annual rate of 1 percent in U.S. dollar terms is provided); a rebate of import duty on inputs used in the production of promoted exports; a scheme under which payments equivalent to 10 to 15 percent of the f.o.b. value of exports are made to exporters of specified products as an approximate refund of indirect taxes incurred in the production process; and a fund to assist medium-sized firms in marketing their products, financed by a tax of 0.5 percent on imports.

Table 8. Argentina: Disaggregation of "Other" Exports, 1983-88

	Years Ending September						Shortfall
	1983	1984	1985	1986 1/	1987 2/	1988 2/	Geometric
	(In millions of SDRs)						
Total "other" exports	1,347	1,568	1,684	1,633	1,827	2,104	121.0
Agricultural products	536	659	481	417	412	471	63.5
Cereals	64	124	66	44	32	42	10.4
Oilseeds and derivatives	146	302	167	163	145	153	15.7
Seeds and beans	(11)	(62)	(98)	(83)	(66)	(72)	(-8.3)
Oils	(76)	(169)	(57)	(63)	(56)	(55)	(8.8)
Meals	(59)	(70)	(12)	(17)	(23)	(26)	(7.6)
Dairy products	49	16	15	9	19	19	6.2
Mutton, hare, and venison	105	70	60	50	42	43	2.1
Processed vegetables	6	6	6	--	13	36	...
Other unprocessed products 3/	83	70	76	91	76	81	-12.6
Other processed products 4/	83	70	91	60	85	96	19.5
Petroleum products	101	90	204	44	67	49	32.8
Manufactures	709	820	999	1,171	1,348	1,584	-16.8
Steel wire	37	47	56	69	67	69	-7.8
Aluminum and steel products	86	73	138	196	227	260	-32.5
Chemicals 5/	230	246	234	274	304	361	6.3
Machinery	106	128	143	206	295	321	-1.6
Ships	23	75	131	93	25	74	-23.0
Automobile parts	70	96	91	113	173	199	14.8
Textiles	71	66	101	103	126	147	2.0
Other manufactures	85	89	105	117	131	152	-0.2
Paper	(42)	(44)	(50)	(59)	(72)	(82)	(0.8)
Ceramics	(9)	(10)	(11)	(14)	(17)	(19)	(0.1)
Glass	(22)	(17)	(22)	(25)	(22)	(26)	(-2.5)
Scientific instruments	(6)	(9)	(9)	(10)	(10)	(12)	(0.3)
Others	(6)	(8)	(12)	(10)	(11)	(12)	(0.7)
	(Percentage changes)						
Total "other" exports		16.5	7.4	-3.1	12.0	15.1	
Agricultural Products		22.9	-27.0	-13.4	-1.3	14.3	
Petroleum products		-11.6	128.0	-78.4	52.5	-26.6	
Manufactures		15.7	21.8	17.2	15.2	17.4	

1/ *Data for the last six months (April-September) are estimated.*
2/ Projected.
3/ Including live animals, honey, medicinal plants and flowers, bones, internal organs and skins.
4/ Including dried fruit, flours, herbal teas, spices, canned fish, seafood and fowl, and confectionary.
5/ Including plastics, pharmaceutical drugs, and photographic materials.

accounted for 72 percent of the value of "other" exports, agricultural products (including some processed products) 26 percent, and petroleum products 2 percent.

The shortfall in "other" products, estimated at SDR 121.0 million reflects shortfalls in agricultural products (SDR 63.5 million), and petroleum products (SDR 32.8 million), partly offset by an excess for manufactures (SDR 16.8 million). The overall shortfall is attributable mainly to the 13 percent annual average rate of growth of earnings projected for the two post-shortfall years; although earnings declined by 3 percent in the shortfall year to SDR 1,633 million, this level is marginally higher than average earnings in the two preshortfall years (SDR 1,961 million).

The reduction in total earnings from other exports in the shortfall year was due to a 17 percent rise in earnings from other manufactured exports being offset by falls in earnings from agricultural products and petroleum products of 13 percent and 78 percent, respectively. The causes of these declines are largely the same as the factors responsible for the shortfalls in the major agricultural and petroleum exports discussed above, primarily the drop in international primary commodity and petroleum prices. It is probable that earnings from manufactures exports rose owing to both higher volumes and prices, 1/ with volume growth being influenced by the maintenance of a competitive exchange rate.

The rapid growth of total earnings projected for the two post-shortfall years reflects mainly the expectation of an annual average rate of growth of earnings from manufactured products of 16 percent. This projection is underpinned by agreements already signed under the Special Program for Exports. The increased profitability of firms under this and other incentive programs is expected to assist, in particular, the export of aluminum window and door frames; plastics (for which two new plants have recently been opened); machine tools (to Latin America); sheets and towels (to the United States); paper; and ceramics. In addition, the export of capital goods (including valves, electric motors, and agricultural machinery) will be facilitated by the removal of import tariffs on a common list of 500 products under the Accord signed in mid-1986 between Argentina and Brazil, and a sizable increase in the export of automobile parts to Brazil in 1986/87 has been arranged under a separate agreement.

1/ On the assumption that unit values for other manufactured exports moved in line with the UN index of prices of manufactures exported by industrial countries, the 17 percent growth of earnings from other manufactures in 1985/86 would reflect volume and unit value increase of 14 percent and 3 percent, respectively.

ARGENTINA - Fund Relations
(As of December 31, 1986)

I. Membership Status

(a) Date of membership: September 1959
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 1,113.0 million

	Millions of SDRs	Percent of Quota
(b) Total Fund holdings of australes:	3,353.9	301.3
(c) Total credit	2,240.9	201.3
Of which: credit tranches (ordinary resources)	818.8	73.6
enlarged access resources	822.0	73.9
compensatory financing facility	600.1	53.9
(d) Reserve tranche position:	--	--

(e) Current operational budget: Not applicable
(f) Lending to the Fund: Not applicable

III. Stand-By or Extended Arrangements and Special Facilities

(a) Stand-by arrangements:

Type of Arrangement	Amount (In millions of SDRs)	Duration	Amount Drawn (In millions of SDRs)	Status
SBA	1,419.0	Dec. 28, 1984-June 30, 1986	1,182.5	Expired
SBA	1,500.0	Jan. 24, 1983-Apr. 24, 1984	600.5	Canceled Jan. 23, 1984
SBA	159.5	Sept. 16, 1977-Sept. 15, 1978	--	Expired
SBA	260.0	Aug. 6, 1976-Aug. 5, 1977	159.5	Expired

(b) Special facilities: CFF

Year Approved	Amount (SDR million)
1984	275.0
1983	520.1
1984	220.0

IV. SDR Department

(a) Net cumulative allocation: SDR 318.37 million
(b) Holdings: SDR 1,294, or less than 0.1 percent of net cumulative allocation
(c) Current Designation Plan: Not applicable

B. Nonfinancial Relations

V. Exchange Rate

On June 14, 1985, the austral (symbol: ₳) replaced the peso argentino at a rate of one austral per 1,000 pesos argentinos. From June 14, 1985 to April 8, 1986, the rate of exchange of the new currency was kept at a fixed rate of ₳ 0.800 per U.S. dollar (buying) and ₳ 0.801 per U.S. dollar (selling). Since that time, the exchange rate has been subject to frequent, small adjustments. The exchange rate for the austral on December 31, 1986 was ₳ 1.255 per U.S. dollar (buying) and ₳ 1.259 U.S. dollar (selling).

VI. Last Article IV Consultation

The 1985 Article IV consultation was concluded on March 10, 1986 (EBM/86/42).

VII. Technical Assistance

A mission from the Fiscal Affairs Department visited Argentina in September 1985 and prepared a report on ways of improving reporting of data in the Treasury and other parts of the public sector; a Fund panel expert has been assigned to Argentina since June 1986, initially for a period of one year, to implement the recommendations of the report. Three Fiscal Affairs Department missions visited Argentina in 1986. One mission reviewed the costs and effectiveness of the system of tax incentives; the second mission examined the tax system in the light of recent tax changes; the third mission studied the organizational structure of tax administration with a view to providing advice on a possible reorganization of the tax office.