THE WEEK AT A GLANCE

ECONVIEWS

ECONOMÍA Y FINANZAS

March 4th 2024

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Editorial: The Costs of Fiscal Consolidation Must Be Shared

The national government is embarked on the mission of improving national accounts by 5 points of GDP. We are not so optimistic, but we believe that it is very likely that at least a primary balance will be achieved, which would be very commendable to achieve in a recessive year. Furthermore, we believe that if primary balance is achieved, the country's risk could fall to half of what it is today and drop to around 800 points by early 2025.

Making an adjustment of this size implies a great political cost and above all a general review of how taxpayers' money is spent (state reform). Society perceives that the state is not efficient with the use of money and Javier Milei politically capitalized very well on that reality. Public opinion has done well so far, in part because Milei continues to show how badly the state was spending.

Logically, making a fiscal adjustment is not easy. It has macroeconomic impacts, but it also requires a lot of experience in managing the public sector and the relationship with interest groups that benefit from public spending. These groups almost always have a justification with some consistent argument to be able to defend themselves, or at least make the defeat costly.

Argentina today needs this adjustment to reach everywhere. And in this context appears the fight with Chubut, which ended up involving half of the governors. The facts are known: the province had a debt that was guaranteed by co-participation and in the absence of payment the nation did what was signed on the contract. Here one must wonder if there was not inexperience on both sides to achieve a refinancing that avoids this noise. Clearly there was on the side of the province, but we are not sure if the national government should have been proactive with this. On the one hand, the government will not want to signal that it will refinance the debt of all the provinces, because that is the recipe for no one to adjust. On the other hand, Milei needs to show that most governors are not very efficient when it comes to using public money.

Until 2022, the provinces had a fiscal surplus. 23 of the 24 had a primary surplus and 20 had a financial surplus in that year. This is due to the fact that inflation reduced part of the payroll (50% of the typical provincial budget is salaries) and because the fiscal pact that the governors agreed with Macri in 2018 gave them more resources. But in 2023 they had two mortal sins. In several places they applied a stimulus package. Understandable in political terms as long as it is a one-time event. The second sin is much more serious: they voted to lower the income tax proposed by Massa and that completely defunded them. And now they have been without that resource for several months, to which is added the recession, and many governors panicked. This urgency seems to be the best time to also undertake a reform of the provincial administrations and think about 2025 with a lighter state in all its phases.

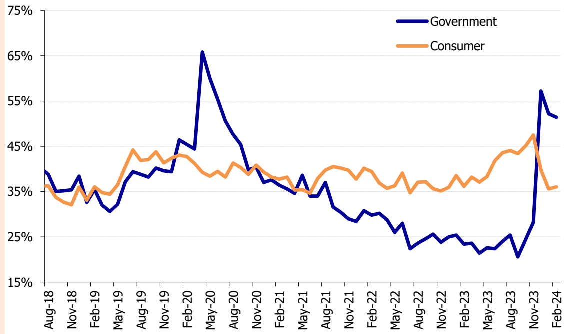
LAST WEEK IN REVIEW

Consumer confidence rebounds. After monthly falls of 16 and 11% in December and January, consumer confidence cut the negative streak with +1.2% in the month of February.

Trust in the government decreases, but remains strong. After an abrupt jump of 102.8% in December and a first drop of 8.7% in January, February marks another milder decrease of 1.5%.

The confidence index in the government is 10 p.p. lower than the measurement in February 2016, at the beginning of Mauricio Macri's government, and **7 p.p. higher than that of February 2020**, the

Consumer confidence and Goverment confidence
In %

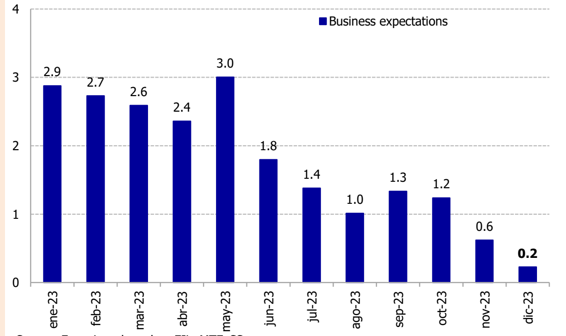


Source: Econviews based on UTDT

In November, formal employment in the private sector registered a decrease of 0.13% without considering seasonal effects, thus marking the third consecutive decline. Within the main employer sectors, retail exhibited growth of 0.14%, while manufacturing industry contracted 0.1%. On the other hand, the construction sector continues to face a discouraging outlook, with six consecutive months of decline.

The trend for the coming months is not encouraging. With the economy cooling, net expectations for staff gains are lower every month.

Expected hiring of personnel
In %, for the next three months



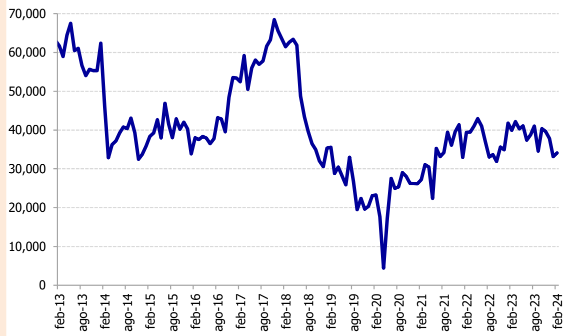
Source: Econviews based on EIL, MTEySS

Motorcycle registration increased by 2.9% m/m in February. With this result, the three-month streak of decline is ended.

In annual terms they remain in negative territory, with a variation of -14.5% compared to February 2022.

It is a first sign of improvement in activity in February, along with consumer confidence.

Motorcycle patenting
Seasonally adjusted series



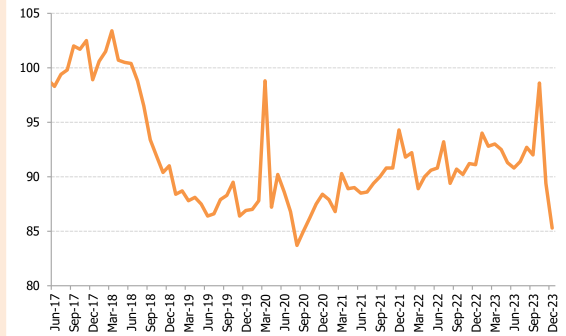
Source: Econviews based on CAFAM

Supermarket sales fell 4.6% in December. It is the second consecutive month of decline, after -9.3% in November. Even so, **they close 2023 with a slightly positive result**: Sales grew by 0.9% compared to 2022.

Wholesalers fared worse, with a 9.2% decline in their December sales. **2023 was a good year for wholesalers**: their total sales increased by 4.7%.

The shopping malls are not recovering. Total sales in large shopping centers varied -15.3% in December. They have been down for three consecutive months. Its result for the whole of 2023 is also positive: Sales rose 12.7% compared to 2022.

Supermarket sales index
Sales index at constant prices, seasonally adjusted series

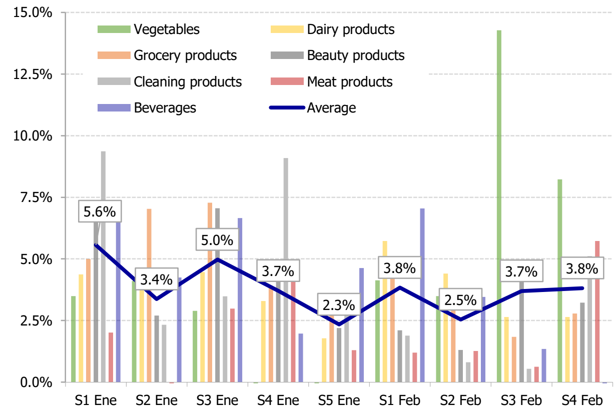


Source: Econviews based on INDEC

WEEKLY INFLATION

Inflation rate - high frequency data

Weekly price variation in major supermarkets in Great Buenos Aires



Note: The variations are based on the average price per week, from Friday to Thursday.
Source: Econviews based on own estimates

NEXT WEEK'S HIGHLIGHTS

√ On **Tuesday 5**, the INDEC **industrial fishing production index** for the month of January will be known.

√ On **Tuesday 5**, INDEC will also release the **international tourism statistics** for January.

√ On **Tuesday 5**, INDEC will publish the report on **export complexes** corresponding to 2023.

√ On **Wednesday 6**, the INDEC **manufacturing industrial production index** (manufacturing IPI) for January will be published.

√ On **Wednesday 6**, INDEC will also publish **construction activity indicators** for January.

√ On **Thursday 7**, the BCRA will publish the monthly **monetary report** for February.

√ On **Thursday 7**, the **inflation rate for Buenos Aires City** (IPCBA) corresponding to February will be known.

√ On **Thursday 7**, the INDEC **mining industrial production index** for January will be released.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	842.8	0.5%	1.9%	326.6%	↑
MEP	1053.2	-1.5%	-15.1%	193.3%	↓
Blue Chip Swap	1088.3	-2.9%	-15.5%	197.2%	↓
Parallel	1030.0	-3.3%	-12.3%	177.6%	↓
Official exchange rate BRL/USD	5.0	-0.7%	0.9%	-4.3%	↓
CB reserves (USD million)	27,328	-157	+256	-11,394	↓
Policy rate (Leliq)	100.0%	0 p.p.	0 p.p.	+25.00 p.p	=
Badlar rate (private banks)	109.1%	-0.19 p.p.	+1.13 p.p	+38.75 p.p	↓
Private Deposits (trillion ARS)	39.1	2.0%	2.6%	129.6%	↑
Private Loans (trillion ARS)	17.9	4.2%	12.2%	143.5%	↑
Merval (in ARS)	1,054	-4.7%	-19.1%	322.3%	↓
Merval (in USD)	969	-1.9%	-4.3%	42.1%	↓
Country Risk (spread in %)	1,635	-3.0%	-16.3%	-19.6%	↓
Soybean (USD/tn)	420.0	0.9%	-5.0%	-24.0%	↑
Corn (USD/tn)	162.3	3.1%	-7.8%	-35.6%	↑
Wheat (USD/tn)	205.7	-2.4%	-6.9%	-19.7%	↓
Oil - Brent (USD/barrel)	86.5	0.1%	2.0%	4.0%	↑
Oil - WTI (USD/barrel)	80.9	4.3%	8.8%	4.3%	↑
LNG (USD/MMBTU)	8.3	0.0%	-13.5%	-42.8%	=
Gold (USD/oz.)	2,083.8	2.4%	1.4%	13.4%	↑

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Dec-23*	-5.5%	-3.5%	-6.5%
Automobile production	*Jan-24*	3.0%	-12.6%	-6.2%
Steel production	*Jan-24*	31.2%	-7.7%	14.0%
Poultry production	*Dec-23*	-3.9%	-0.3%	-3.7%
Dairy production	*Jan-24*	-4.3%	-5.9%	-6.4%
Beef production	*Jan-24*	12.7%	-2.6%	2.8%
Real Estate transactions (CABA)	*Jan-24*	-3.8%	-12.7%	-11.8%
Flour Production	*Jan-24*	1.5%	-0.8%	-3.4%
Oil production	*Jan-24*	2.3%	4.9%	4.0%
Gas production	*Jan-24*	-9.8%	-8.6%	-10.6%
Cement production	*Jan-24*	0.6%	-13.1%	-6.1%
Construction activity	*Dec-23*	-8.8%	-4.9%	-10.1%
Gas sales	*Jan-24*	-0.1%	-4.8%	-5.0%
Motorcycle licenses	*Feb-24*	2.9%	-8.3%	-7.5%
Use of electricity	*Jan-24*	0.6%	-3.3%	-1.4%
Subway rides (CABA)	*Dec-23*	-8.0%	-17.5%	-12.2%
Imports CIF	*Jan-24*	-1.7%	-10.9%	-7.2%
Exports FOB	*Jan-24*	9.4%	2.8%	12.5%
Loans in ARS to private sector	*Jan-24*	-11.5%	-19.7%	-24.9%
VAT-DGI Revenues	*Jan-24*	-5.9%	-10.1%	-10.1%
Formal private jobs (SIPA)	*Nov-23*	-0.7%	0.3%	-0.5%
Formal private jobs (EIL)	*Dec-23*	-0.4%	-0.1%	-0.5%
Consumer confidence	*Feb-24*	1.2%	-18.1%	-12.0%
Government confidence	*Feb-24*	-1.5%	119.7%	12.1%

Note: stoplight color depends on last month vs previous quarter variation

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With a Competitive Exchange Rate, 2024 Could Be a Good Year for the Balance of Payments

- *International reserves have been rising since Milei took office. The main reason is that import payments are meager.*
- *We estimate a trade surplus of USD 24 billion for this year due to the recovery of agricultural exports.*
- *With a positive balance in the current and financial accounts, reserves would grow by USD 14 billion throughout the year.*

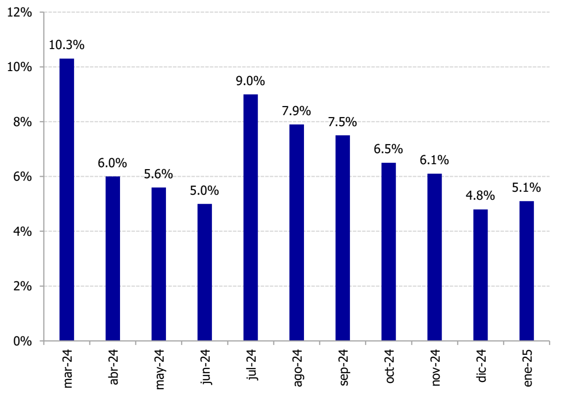
Last week ended in turmoil in the exchange market. On Friday 1st, the future contract of dollars for March rose by 5.5% and the April contract by 4.6%. With these movements, the implicit devaluation rate in March remained at 10.3%. Until a few weeks ago, our vision was in this direction, and we thought of a strong acceleration of crawling peg, although recently we changed it seeing that the government is confident in 2% monthly. For parallel exchange rates, the calm is also over. The BCS, MEP, and Blue rose 2% last Friday after falling all week. Despite all of this, the scenario is still fluid, and it is premature to know if this is a rumor or if there will be announcements.

The Central Bank had to sell reserves on Thursday and Friday it bought again, but a smaller amount compared to the previous days. From all this, we analyze what has been happening in the exchange market and how it can continue for the remainder of the year.

Since Milei took office, gross reserves have increased by USD 6,119 million and net reserves by USD 6,863 million. Behind this rise, we see three factors. The first is the improvement in the real exchange rate because of the December devaluation. This logically helped to settle exports retained after the end of the previous government. In addition, the mix between the official exchange rate and the Blue-Chip Swap went from 50/50 to 80/20, which increased the supply in the exchange market. In February, the oilseed and grain complex settled USD 1.5 billion. This figure is barely higher than that of January, adjusting the series by prices.

The second factor, and perhaps the most important, is that import payments until now have been meager. To begin regularizing the situation, the government established a scheme through which almost all imports are paid within 30/60/90/120 days, and only some products are paid immediately (see chart 1). This made the demand in the market very low, leaving that place to the Central Bank. The problem is that commercial debt continued to accumulate. Comparing paid imports with accrued imports, we estimate that in the December-January period, the debt for imports rose by USD 7 billion. For February there is still no official data, but we project that it grew another USD 2.5 billion (see graph 2).

Graph 1. Implicit devaluation in Futures market



Source: Econviews based on MATBA-ROFEX

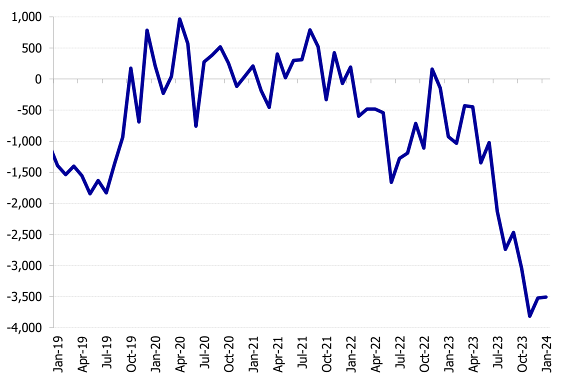
Chart 1.New import payment scheme

Payment Deadline	Product		Other goods
Inmediate	Petroleum derivatives and electrical energy		25% of the value within 30 days
30 days	Pharmaceutical products and supplies		
	Food for human consumption		25% of the value within 60 days
	Fertilizers, phytosanitary products and supplies		
180 days	Cars, motorcycles, aircraft and boats		25% of the value within 90 days
	Drinks		
	Cryptocurrency mining machines		25% of the value within 120 days
	Vehicles for transportation of goods		
	Watches and video game consoles		

Source: Econviews based on BCRA

Graph 2. Difference between imports paid and accrued

In million USD , CIF



Source: Econviews based on BCRA & INDEC

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The third point that helped rebuild reserves is the fall in economic activity. The recession leads to lower demand for imported goods.

How long can this situation last? According to our base scenario, import payments will be practically normalized between April and May. We also estimate that the economic activity will reach its lowest level in the second quarter. All this makes us think that the help we have been seeing on the demand side will no longer be present in a few months. **We estimate imports of USD 58.3 billion for this year.**

On the export side, we believe we will have a good year, totaling USD 82.5 billion. That leaves a trade surplus of USD 24.2 billion (see chart 3). After the rains in the second half of February, the condition of soybean and corn crops stopped worsening and stabilized. According to estimates from the Buenos Aires Grain Exchange, this could be the second-best campaign in history in terms of quantities produced. However, the risk is posed by the prices. Comparing the current quotes against the average of the months of April-May-June of last year (the period when settlements are highest), soybeans are down 21.4% and corn is down 33.6% (see graph 4). From this, we can deduce that just due to prices this year we will have about USD 10.6 billion less adding the two crops. Logically, this is compensated by the improvement in quantities compared to last year.

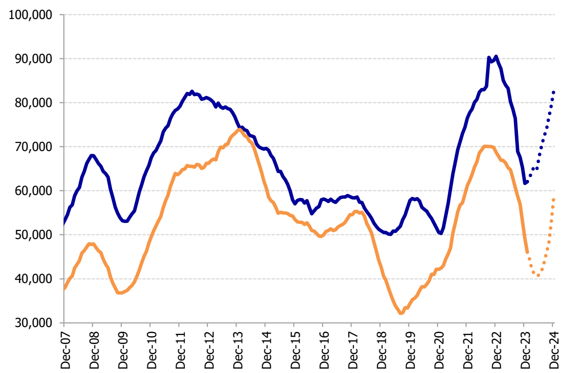
The main assumption behind import and export projections is that the real exchange rate remains competitive, and the market will be unified at about the middle of the year. The importance of a high RER does not come only from the idea of encouraging exports. It also lies in discouraging imports. That is, imports growing above what is necessary just because the RER is low does not help and can cause problems later. Something like this is what happened in 2017 and 2018.

This same reasoning applies not only to the goods account but also to the services account. Taking the annual accumulated, from 2010 to 2023 the balance of services was in deficit. In 2024 it started with a small surplus, something that had not happened in 140 months. **However, we estimate that it will end up with a negative balance of USD 2.2 billion.**

Tourism, which is the item with the greatest weight within services, moved over time according to how expensive or cheap the dollar was. **Between 2003 and 2010 it had surpluses and from then on, the sign became negative. When we cross these data with the evolution of the real exchange rate, we can see that the relation is direct.** In a situation like the current one where the Central Bank needs to accumulate reserves, it does not seem like a good idea that going on holidays abroad could be cheap, generating a drain on reserves that way. The exchange rate for tourism is indeed somewhat higher than the official due to taxes, but if the idea is to unify the exchange market, all these distortions will surely disappear, and a high official exchange rate will be needed.

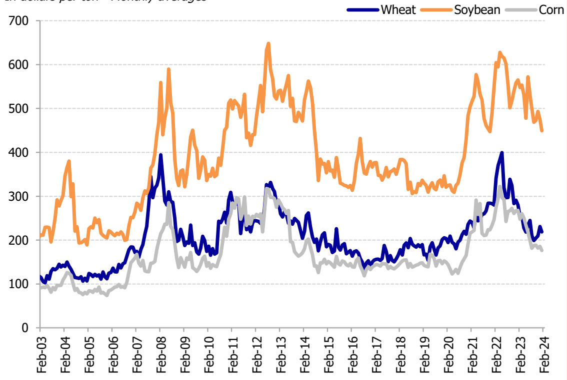
Like the current account, we estimate that the financial account will also return to surplus in 2024. Although rumors circulated again about possible extra funds from the IMF, we work on the assumption that only the agreed

Graph 3. Goods balance
In million USD - Accum. 12 months



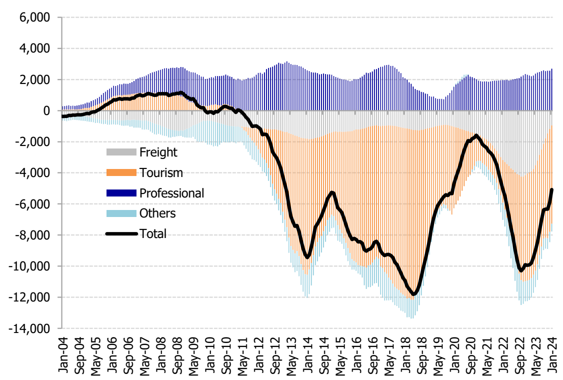
Source: Econviews based on BCRA

Graph 4. Global prices for soybean, wheat and corn
In dollars per ton - Monthly averages



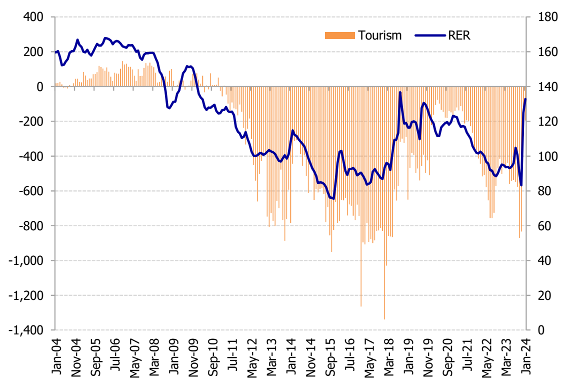
Source: Econviews based on Reuters

Graph 5. Services Balance
In million USD - 12 months accumulated



Source: Econviews based on BCRA

Graph 6. Tourism balance & real exchange rate
In million USD - RER base 100 = 17/12/2015



Source: Econviews based on BCRA

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disbursements will arrive and the payments that are already established will be made. That gives a net income of USD 2 billion. Added to this are USD 1.3 billion that other multilateral organizations would disburse.

A more business-friendly context would lead to an income of about USD 3 billion between foreign direct investment and portfolio investment. In addition, companies can begin to bring in dollars from loans abroad. For hoarding, we estimate just over USD 4 billion. This number is lower than in years when there were no restrictions because we assume that they can only be lifted towards the middle of the year. Furthermore, the decline in real incomes will not leave much room for saving.

Based on all this, we project an increase of USD 14 billion in gross reserves throughout the year, which would make them close to USD 36.9 billion. Net reserves could see the light again by the end of May. **By the end of the year, we estimate that the stock will be USD 3.7 billion.**

As we said, all this is subject to the real exchange rate not appreciating much. In that case, we should think about a scenario with fewer incentives to liquidate exports and more to import. The deficit in services would also be greater and fewer reserves would end up accumulating. The risk is that it becomes unsustainable, and the exchange rate adjustment ends up being decided by the market in a more disorderly manner.

Chart 2. Projected cash flow with the IMF

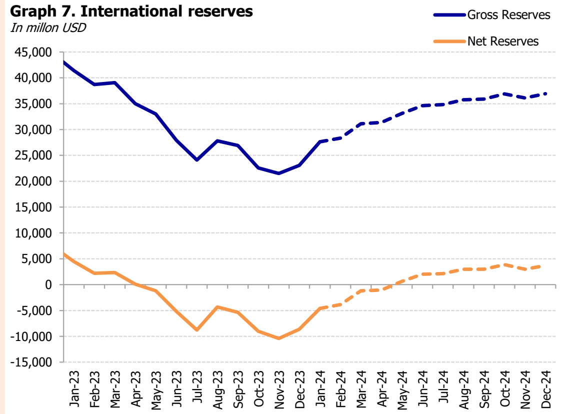
In million USD

	Disbursements	Repurchases	Charges
Jan-24	4,661	-1,952	
Feb-24			-849
Mar-24			
Apr-24		-1,945	
May-24	798		-830
Jun-24			
Jul-24		-648	
Aug-24	532		-815
Sep-24			
Oct-24			
Nov-24	551		-805
Dec-24			
Total 2024	6,541	-4,545	-3,299

Source: Econviews based on IMF

Graph 7. International reserves

In millon USD



Source: Econviews based on BCRA and own estimates

Chart 3. Balance of Payments

In million USD - Cash basis

	2022	2023	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	2024
Current Account	**4,779**	**-3,581**	**1,964**	**1,928**	**2,635**	**2,055**	**800**	**1,243**	**657**	**191**	**-155**	**810**	**-1,516**	**637**	**11,248**
Balance of goods	21,817	12,486	3,879	3,197	3,369	2,618	2,235	1,785	2,453	1,582	669	1,395	-122	1,149	24,207
Exports of goods	90,533	61,663	4,947	5,260	6,983	7,174	7,641	8,253	7,906	7,470	6,959	6,405	6,192	7,398	82,588
Imports of goods	68,715	49,178	1,068	2,063	3,614	4,556	5,406	6,469	5,453	5,889	6,290	5,011	6,314	6,249	58,381
Balance of services	-10,106	-6,195	84	-141	-217	-202	-223	-211	-263	-272	-288	-188	-170	-149	-2,240
Interests	-6,749	-9,534	-1,989	-1,118	-507	-341	-1,192	-310	-1,493	-1,078	-496	-337	-1,164	-303	-10,328
Profits	-153	-300	-17	-20	-20	-30	-30	-30	-50	-50	-50	-70	-70	-70	-507
Transfers	-30	-38	6	10	10	10	10	10	10	10	10	10	10	10	116
Capital Account	**32**	**12**	**20**	**5**	**5**	**5**	**5**	**5**	**5**	**5**	**5**	**5**	**5**	**5**	**75**
Financial Account	**2,106**	**-18,105**	**2,751**	**-1,216**	**110**	**-1,795**	**948**	**250**	**-446**	**732**	**275**	**175**	**726**	**175**	**2,685**
Foreign Investment	570	913	45	50	100	100	100	100	200	200	200	200	200	200	1,695
Portfolio	24	6	4	10	10	50	50	150	150	150	200	200	200	200	1,374
Net Loans	-5,207	-5,373	145	50	50	50	50	50	200	200	200	200	200	200	1,595
IMF	6,867	-5,078	2,710	0	0	-1,945	798	0	-646	532	0	0	551	0	2,000
Multilaterals	1,349	1,134	-450	150	150	150	150	150	150	150	175	175	175	175	1,300
Hoarding	-779	-725	-20	-200	-200	-200	-200	-200	-500	-500	-500	-600	-600	-600	-4,320
Others	-719	-8,982	317	-1,276	0	0	0	0	0	0	0	0	0	0	-959
Reserves accumulation by transactions	**6,918**	**-21,674**	**4,735**	**717**	**2,750**	**265**	**1,753**	**1,498**	**216**	**928**	**125**	**990**	**-785**	**817**	**14,008**

Source: Econviews based on BCRA & own estimates

When Will Real Wages Begin to Recover?

- *Formal private sector workers' purchasing power shrunk 20% between November and January, but the fall stabilized in February and March.*
- *After 36 months of continuous expansion, formal private employment fell 0.4% between August and November 2023.*
- *Salaries in dollars have risen 40% since August while basic staples have almost doubled in price.*

Purchasing power fell 20% between November and January. Workers had already lost around 8% (depending on the index taken) in the first eleven months of 2023, a process that accelerated after the August devaluation. Since the beginning of the balance of payments crisis in 2018, formal private sector real wages have lost 40% of their value, even worse than the 2002 crisis, which entailed a 33% drop compared to the peak of the 1990s.

The first question is if they can fall further. There is official data up to December: the INDEC reports a nominal increase of 11% in formal private sector wages and the Secretary of Labor's RIPTE index has 8.3%. At Econviews we surveyed wage negotiations in Retail, Construction, Healthcare and 7 other unions that together make up two-thirds of registered private employment. Taking the weighted average, our index gives increases of 23.3% in January and 12.7% in February, although for the first month the range goes from 43% for food industry workers to 0 for restaurant and hotel workers. The February number is not final, since many unions have been signing retroactive increases.

Chart 1. Nominal wages in the formal private sector

Monthly variation

	RIPTE	SIPA	INDEC	Econviews*	CPI
Aug-23	5.9%	9.6%	8.3%	8.6%	12.4%
Sep-23	9.5%	9.3%	13.2%	9.0%	12.7%
Oct-23	11.7%	10.8%	8.7%	12.8%	8.3%
Nov-23	6.3%	11.0%	9.9%	12.3%	12.8%
Dec-23	8.3%	-	11.0%	12.4%	25.5%
Jan-24	-	-	-	23.3%	20.6%
Feb-24	-	-	-	12.7%	15.0%

*average of 10 most important unions

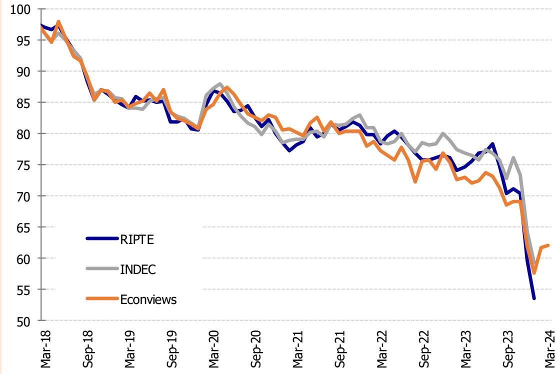
Source: Econviews based on several sources

Unions are on the move. The January increase (which affects wages paid at the end of the month) helped stabilize purchasing power in February. With our forecast inflation of 15% for that month and 12% in March, real wages would recover 8.2% in two months, but would still be 10% below November.

Recent experience shows that defensive strategies such as quarterly wage adjustments (in 2023 many workers had a different pay every month) or

Graph 1. Real wages in the formal private sector

Jan-18=100, without bonuses



Source: Econviews based on INDEC, Sec. of Labor and own estimates

Chart 2. Loss of purchasing power

Between November and March

	Variation
Retail	-3%
Bank clerks	-4%
Healthcare	-5%
Doormen	-6%
Truckers	-14%
Sports club employees	-15%
Steelworkers	-23%
Construction workers	-24%
Restaurants	-34%

Source: Econviews based on several sources indexation to the CPI (for now a luxury reserved for bank clerks) give workers some hedge against high inflation, but against a sudden devaluation of the official exchange rate like in December. And RER appreciation doesn't translate into immediate improvements in wages.

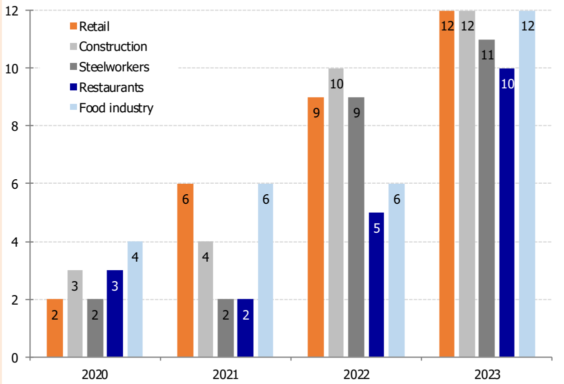
In our base scenario, real wages will have a slow recovery in the second quarter, but they will suffer a new blow if the government seeks to close the exchange rate spread that is around 30% after the harvest, unifying closer to the informal rate than the official one.

Just as the fall in real wages was much worse than in 2001-02, the destruction of employment has been less. The adjustment of the labor market occurred more by prices than by quantities (something that would be difficult with dollarization). However, after 36 months of continuous expansion, **registered private employment fell 0.4% between August and November 2023**. 26,000 jobs were lost, 94% in construction. The decline in December and January will surely be worse. In the third quarter of 2023, unemployment was 5.7%. We believe it can rise to 9.4% in the second quarter of 2024, averaging 8.7% over the year.

Salaries (and everything else) in dollars are shooting up. The RIPTE index average salary divided by the Blue Chip Swap rate went from 440 dollars in August to 500 in December. With our wage survey and the BCS at 1,090 pesos, February's average salary is already 617 dollars, a cumulative increase of 40%. Except for those who travel abroad, it is little consolation considering that basic staples rose almost 94% in dollars.

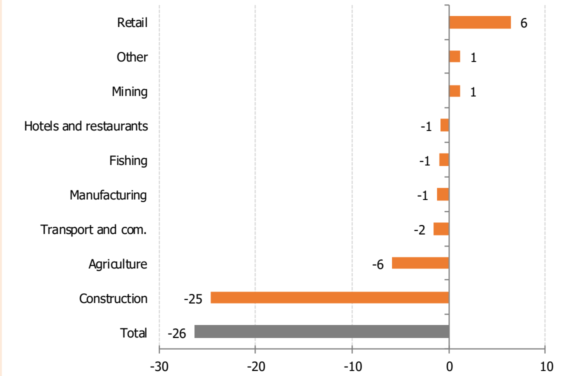
However, RER appreciation may also bring some oxygen to rents. Between October 2022 and October 2023, the real rental price of a 2-room apartment in CABA had increased 61%, reaching a historical maximum for the series that begins in 2010. By January 2024 it had already fallen 26%. Though the obvious reason was the change in regulations, a stronger Peso also helps recover the real estate's dollar yields.

Graph 2. Number of monthly increases per year
Wage negotiations as of Feb-24



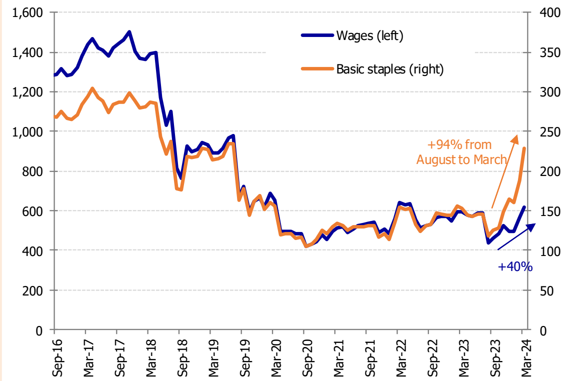
Source: Econviews based on several sources

Graph 3. Variation between August and November 2023
In thousands of jobs, seasonally adjusted



Source: Econviews based on SIPA

Graph 4. Wages and prices in dollars
RIPTE wage index and INDEC basic staples, divided by BCS



Source: Econviews based on INDEC and Sec. of Labor