THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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Editorial: The Art of Plumbing and Monetary Issuance

The government is focused on turning off the money-issuance faucets. As for that one corresponding to the government financing, there is not any opposition, quite the opposite. The IMF and the entire community of economists and businessmen celebrate that the government has a surplus and that the faucet is not only closed but practically prohibited.

The second faucet that is closed is that of the interests on the Central Bank remunerated liabilities. For many, including us, this was not a priority, but the truth is that it is not bad to transfer that debt to the Treasury either. It must be clear that the Central Bank (using Treasury deposits) may be expansive when the money demand increases, that is when the banking sector does not want to have the new Lefis because it prefers to give the money to other uses, such as lending to its clients.

The third channel of money issuance that has been ended is that of puts, that is, the options to sell bonds that financial entities had against the Central Bank. 78% of the puts were canceled, meaning very few remain in banks property. We were not so concerned either because with FX market restrictions the exercise of a put causes the banks to have more Repos or Lefis. By the time the restrictions were lifted, it would not be that serious either, given that the banks are regulated entities, and this additional issuance could be resolved without major problems. But the government's concern is understood. In addition, the puts were resolved with a market mechanism, which is important considering how the electricity generation issue was resolved where the firms had to assume a loss. Caputo's statement about the "dignity of the bankers who prioritized the country over the interests of their institutions" is not ideal because it ends up being related to "I spoke to them with my heart, and they answered me with their pockets" by the former minister Juan Carlos Pugliese. The market always answers with the pocket.

The fourth faucet is more problematic. It aims to sterilize the pesos that are issued to buy dollars. The correct point that the economic team has is that, with FX restrictions, the exporters do not necessarily increase the money demand when they sell dollars. Hence the need to sterilize. But this should change once restrictions are lifted because that would be ignoring the demand for pesos. The problem was that the market did not like it or in the words of some members of the economic team "they do not understand us." Actually, the objective was reducing the FX spread and it fell somewhat: from 55 to 43%. But at a cost of greater country risk and nervousness in the bond market.

Finally, and leaving plumbing aside, the minister insists that, in the currency competition, the strong currency will be the peso, because without issuance the pesos will be scarce, and people will have to sell dollars to pay their bills.

That statement raises doubts. First, it is not true that there will not be more issuance of pesos, because the faucet remains open for the banks that can increase the amount of money by selling the Lefis they have in their portfolio to the Central Bank. The announcement of zero money issuance refers to the **broad monetary base,** which includes remunerated liabilities of the Central Bank (today the Lefis) that are generally not considered money. Using current numbers, the Central Bank could more than double the conventional monetary base without increasing the broad monetary base.

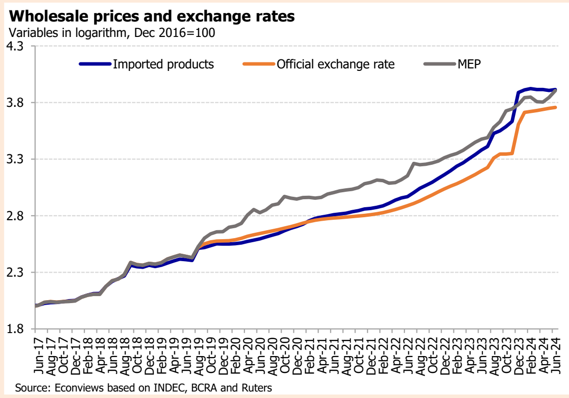
Making the peso scarce also implies raising the interest rate. There is no magic there. Raising the interest rate in the short term generates additional pressure for the Treasury on the Lefis side. In the medium term, a very high interest rate can not only have consequences for the economy but can induce a lot of "carry trade", and more exchange rate appreciation and that is bread for today, hunger for tomorrow. We were never exchange rate fundamentalists nor will we be now, but the overvalued exchange rate is a necessary evil when you are doing very well. If in the future we carry out all the micro and institutional reforms, productivity increases, and investment flourishes, we will deserve a cheap dollar. Until that happens, the effects and risks of an overvalued exchange rate for employment and the external sector are important.

LAST WEEK IN REVIEW

✓ **Wholesale prices continue to slow.** The Wholesale Price Index rose 2.7% m/m in June. This year's cumulative figure is 50.5% and the interannual variation reached 284.4%.

✓ **Imported products rose 2.2% monthly**, in line with the pace of devaluation of the official dollar. For their part, domestic products increased 2.7%, the lowest figure since December 2021.

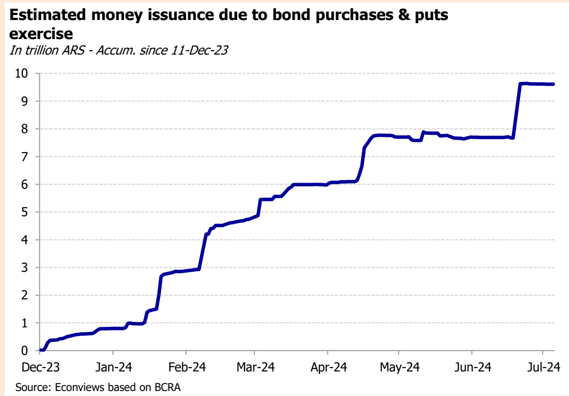
✓ **The Construction Cost Index increased by 3.3% m/m and 255.3% y/y.** The accumulated increase for the year is 59.6%. The component that rose the most this month was labor with 5.4% m/m.



✓ **This Thursday the BCRA announced that it accepted put rescission offers worth ARS 13.17 trillion.** Of this amount, ARS 10.89 trillion were American options (immediate execution) and ARS 2.28 trillion were European options (execution 30 days before the expiration of the security).

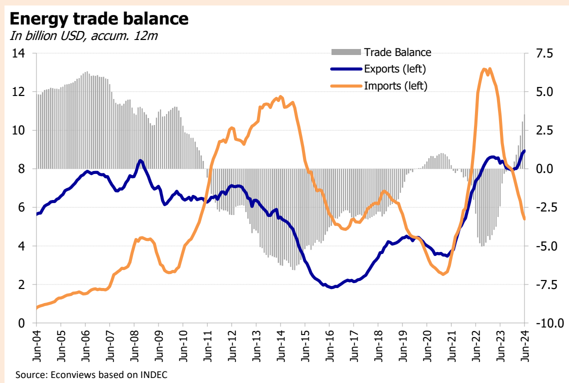
✓ For this repurchase, the BCRA paid the banks ARS 90,000 million.

✓ 22% of the puts were left without entering the rescission process, which implies a potential issuance of ARS 3.71 trillion.



✓ **The Commercial Balance showed a positive balance of USD 1,911 million in June.** Exports totaled USD 6,590 million and imports USD 4,679 million.

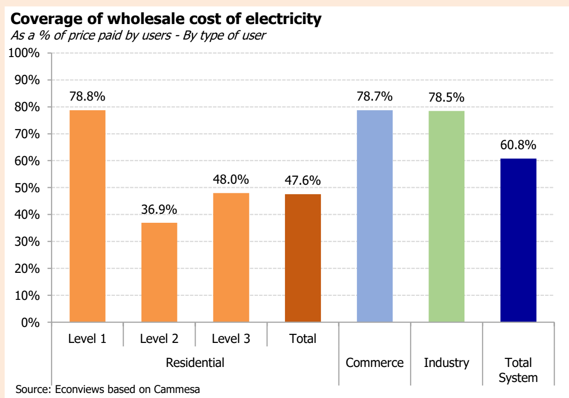
✓ The Energy Balance was negative for June by USD 132 million, a seasonally bad month. **The accumulated 12 months show a surplus of USD 3,533 million, this being the best figure in the last 14 years.**



✓ **In June, the coverage of the electricity rate reached 60.8% of the costs,** 21 points above the figure for May.

✓ **The most relevant data of the month is that users in level 2 (low income) and level 3 (middle income) began to pay 36.9% and 48.0% of the cost respectively.** The previous month these ratios were 4.3% and 15.5%.

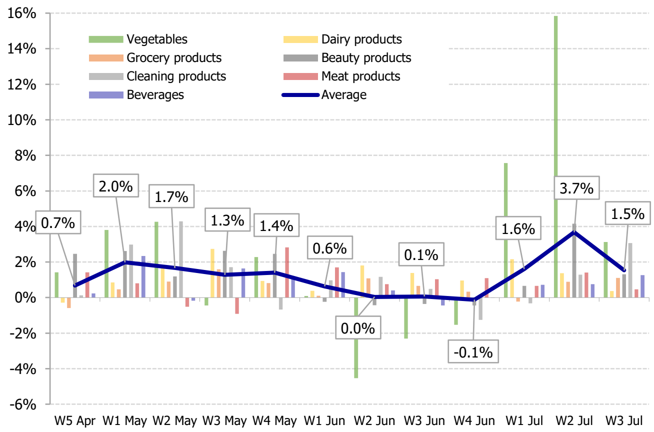
✓ For level 1 users, along with businesses and industries, the coverage reached 79%.



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 23**, INDEC will publish **the Hotel Occupancy Survey** for May.
- On **Wednesday 24**, INDEC will release **the national survey of purchasing centers** for May.
- On **Wednesday 24**, INDEC will report on **the May Supermarket Survey** for May.
- On **Wednesday 24**, INDEC will publish **the Wholesale Self-Service Survey** for May.
- On **Thursday 25**, the INDEC will report on **the May Wage Index**.
- On **Thursday 25**, the BCRA will release **the report on Private Foreign Debt** for the first quarter 2024.
- On **Thursday 25**, Argentine Steel will probably report on **steel production** for June.
- On **Friday 26**, the BCRA will release **the Report on the Evolution of the Foreign Exchange Market and Exchange Balance** for June.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	926.8	0.5%	2.3%	245.5%	↑
MEP	1330.3	-6.0%	4.4%	170.4%	↓
Blue Chip Swap	1312.0	-6.9%	4.0%	154.2%	↓
Parallel	1425.0	-3.7%	11.3%	174.0%	↓
Official exchange rate BRL/USD	5.6	3.3%	3.1%	17.0%	↑
CB reserves (USD million)	27,566	-716	-2,380	+2,065	↓
Policy rate (Leliq)	40.0%	0 p.p.	0 p.p.	-57.00 p.p.	=
Badlar rate (private banks)	37.5%	+0.44 p.p	+3.00 p.p	-54.50 p.p.	↑
Private Deposits (trillion ARS)	56.0	-3.2%	7.0%	143.2%	↓
Private Loans (trillion ARS)	29.4	4.7%	16.9%	195.4%	↑
Merval (in ARS)	1,566	-8.7%	-0.7%	245.5%	↓
Merval (in USD)	1,194	-1.9%	-4.4%	35.9%	↓
Country Risk (spread in %)	1,583	5.1%	14.9%	-23.0%	↑
Soybean (USD/tn)	403.2	-3.3%	-6.5%	-26.4%	↓
Corn (USD/tn)	153.7	-2.4%	-13.2%	-28.4%	↓
Wheat (USD/tn)	199.4	0.9%	-6.7%	-25.4%	↑
Oil - Brent (USD/barrel)	86.7	-2.4%	-0.1%	7.5%	↓
Oil - WTI (USD/barrel)	81.4	-2.5%	-1.5%	8.0%	↓
LNG (USD/MMBTU)	12.2	0.8%	-3.2%	13.0%	↑
Gold (USD/oz.)	2,398.3	-0.5%	3.0%	21.3%	↓

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*May-24*	-0.2%	-3.9%	-1.3%
Automobile production	*Jun-24*	-16.0%	-8.1%	-19.2%
Steel production	*May-24*	-10.4%	-21.0%	-4.7%
Poultry production	*May-24*	1.0%	-0.1%	2.0%
Dairy production	*May-24*	2.2%	-3.0%	2.4%
Beef production	*Jun-24*	-9.1%	-3.6%	-6.5%
Real Estate transactions (CABA)	*May-24*	12.5%	22.0%	19.4%
Flour Production	*May-24*	5.0%	1.8%	5.9%
Oil production	*May-24*	0.5%	0.4%	0.3%
Gas production	*May-24*	3.7%	10.6%	3.7%
Cement production	*Jun-24*	-11.2%	-4.9%	-0.7%
Construction activity	*May-24*	6.2%	-18.4%	1.2%
Gas sales	*May-24*	4.7%	-0.4%	4.1%
Motorcycle licenses	*Jun-24*	-2.4%	14.6%	9.2%
Use of electricity	*Jun-24*	-2.5%	-5.2%	-3.4%
Train rides (AMBA)	*May-24*	-6.0%	6.3%	2.0%
Imports CIF	*Jun-24*	-2.0%	-6.1%	-5.1%
Exports FOB	*Jun-24*	-2.9%	5.5%	0.8%
Loans in ARS to private sector	*Jun-24*	9.9%	3.9%	13.1%
VAT-DGI Revenues	*Jun-24*	4.5%	2.8%	4.9%
Formal private jobs (SIPA)	*Apr-24*	-0.2%	-0.3%	-0.4%
Formal private jobs (EIL)	*May-24*	-0.3%	-1.2%	-0.6%
Consumer confidence	*Jun-24*	-2.8%	4.0%	-0.4%
Government confidence	*Jun-24*	-2.0%	-4.1%	-1.9%

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

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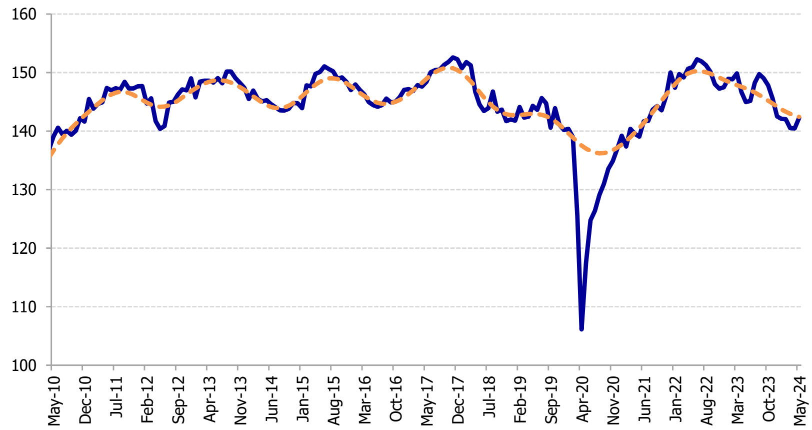
At Last, Some Good News for the Activity

- *Economic activity recovered 1.3% in May versus April and was 5 points below August 2023.*
- *We have doubts about June, but we believe that activity will rebound in the following months. It will fall 3.6% or even slightly less this year.*
- *There was year-on-year growth of 2.3%, but it is purely the effect of the drought of 2023. Agricultural activity grew 103%.*

Among Argentine economists it is well known that there are phrases that, because they have failed before, cannot be used now. Green shoots and the second semester are two of them. So we are going to call it, first good news in terms of activity. Moreover, this phrase is appropriate because we are not 100% sure that growth will continue in all the next months, although in our base scenario the premise is that the economy recovers (slowly).

May's GDP numbers, technically the "monthly economic activity estimator" improved 1.3% versus April. March and April were the floor months according to what INDEC published. Activity today is 5% below August 2023, the last relative peak. If we take April's record, the recession implied a 6.2% peak-to-trough decline. Unless June is a tragedy or May is corrected way down, the second quarter of the economy will show growth. Assuming a small drop in activity in June, the second quarter will still be 1% better than the first quarter.

Graph 3. Economic Activity
INDEC -EMAE, seasonally adjusted series 2004=100

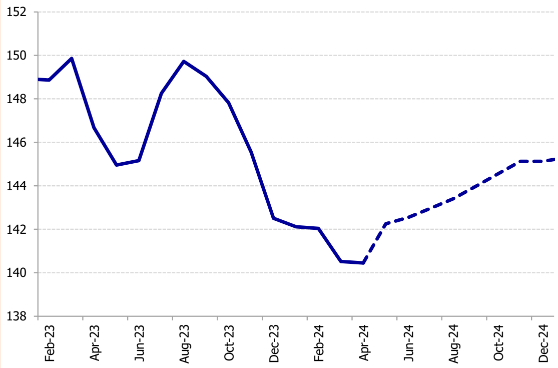


Source: Econviews based on INDEC

The 1.3% month-on-month growth implied that 11 of the 15 sectors into which the EMAE is divided have grown month-on-month. The exceptions were fishing, which had had an exceptional April, health services and mining and hydrocarbons, which fell slightly in May, although it is clearly one of the winning sectors these days. 'Other social services' also fell.

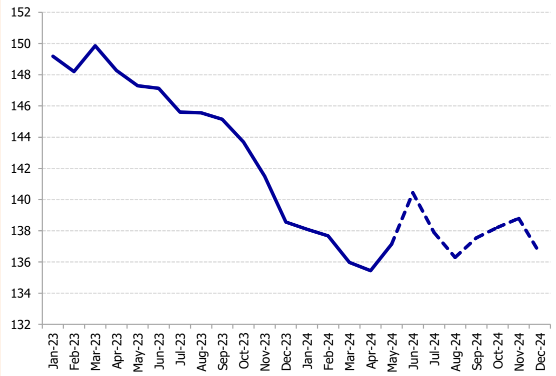
On the positive side, there was a recovery in construction (+2.6%), the hardest hit sector during these months. Commerce (+0.85%), hotels and

Graph 1. Economic Activity - Base scenario
Base 2004 = 100



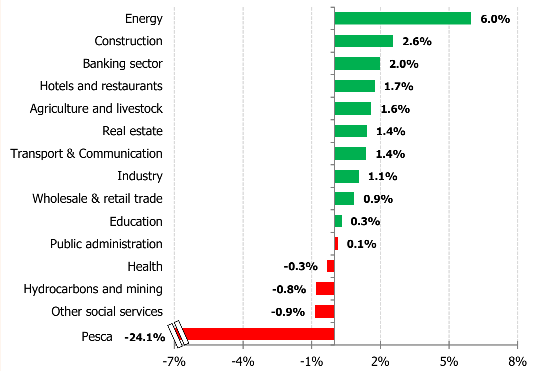
Source: Econviews based on INDEC & own estimates

Graph 2. Economic Activity without agricultural sector
Base 2004 = 100



Source: Econviews based on INDEC and own estimates

Graph 4. Sectors of the economy in May
Monthly variation - seasonally adjusted



Source: Econviews based on INDEC

restaurants (+1.7%), financial intermediation (2%), agriculture (+1.6%) and transportation (1.4%) also improved. We will hardly see these numbers again because they compare against the April floor.

On a year-over-year comparison, the economy improved 2.3% versus last year. But this is an easy comparison because it is against the worst of the drought. Sector A, which represents agriculture, livestock and forestry, grew more than 100% year-on-year, which means that if we were to take this sector out, the economy would be 5 points lower than last year. Logically, in the large urban centers what is most felt is a weak economy beyond the upturn in May. For people to feel the improvement, we should have 3 or 4 good months, which would also improve the labor market, which is a lagging variable.

The million-dollar question is whether and how much it will improve. There are good vibes, but it won't necessarily be a straight line. In June it is not clear to us that activity has continued to improve. We have problems with the numbers because this June was different from other Junes in terms of the number of holidays and the software does not capture that subtlety. If we compare it to how they come out of the computer, June was quite weak (see Table 2 at the end of the note). The feeling on the street is that there is not another jump like May. We are inclined to think that June was slightly negative.

With the data we have seen so far and the optimistic forecasts (which by no chance will even make a "V" recovery) we see that the economy may fall even a few tenths of a percent less than in our base scenario of 3.6%. With this we say that unless there is some extreme event, the fall in activity will start with 3. Forecasts of more than 4 need more political and exchange rate turbulence to materialize.

With the limitations of seasonal adjustments, we see that in June the DGI VAT, dairy production and little else did well. Car production, energy use in industry, exports, imports, cement dispatches were all down. But beyond the numbers that will be normalized in a month, there are conceptual issues.

In the case of cars, today there is a stock problem. Some terminals lowered their production 3 months ago with pessimistic projections in mind, and today they find themselves with a higher demand than expected. The same can be observed in automotive registrations. Much has to do with the FX spread, since there is a correlation between the increase in the spread and the purchase of durable goods. The increase in the latter leads to savings being temporarily worth more.

Wages have been recovering from the fifth basement, but they are finally recovering. The May Ripte calculated by the Ministry of Labor was very good (+3% m/m) and presents the third consecutive increase in real terms. It overestimates the true value given the sample it takes, but the SIPA of April had already shown good data (+6.5% in the private sector) and that salary was paid in May.

Secondly, the increase in credit (also from the underground) has to help. In the last 90 days, the stock of credit in pesos to the private sector increased by

Chart 1. Interannual evolution in May

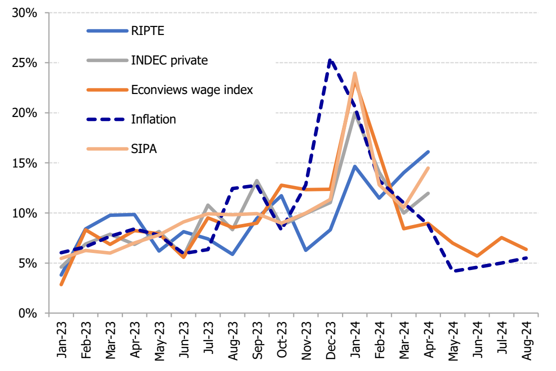
% variation

	May-24
Agriculture and livestock	103.3%
Fishing	-10.5%
Mining	7.6%
Industry	-14.2%
Electricity, gas and water	11.0%
Construction	-22.1%
Commerce and repair	-11.4%
Hotels and restaurants	-7.2%
Transport and communication	2.6%
Banking	-8.2%
Real estate, corporate and rental a	-0.6%
Public administration	-0.5%
Education	0.9%
Health	0.2%
Other social services	-5.4%
Taxes net of subsidies	-3.6%
Activity index	2.3%

Source: Econviews based on INDEC

Graph 5. Salaries are beginning to outpace inflation

Monthly variation in salaries and inflation



Source: Econviews based on INDEC, RIPTE and own estimates

51% in nominal terms, that is, approximately 32% in real terms. It rose for consumers and for firms. In the last few weeks, banks started to offer interest-free installments, which will surely help to boost credit. The increase in the FX spread is bad news in general for the economy, but it may help the purchase of durable goods because these are situations where people take the opportunity to buy a refrigerator, car, motorcycle or make small home repairs.

Some sectors such as hydrocarbons are doing very well. This week TGS issued a bond for 500 million, Perez Companc is producing crude oil again, PAE announced a deal to export gas and investments are being heard from all the big companies. There is also a generation of small companies willing to take over the mature fields of the big players, which will also imply investments. We all know that this has relatively little multiplier effect as it is capital intensive. But this may be a simplification. If we look at employment in Neuquén, it increased 58% in 15 years against a national total of 11%. It is true that in absolute numbers they are only 50 thousand people, but they are genuine jobs.

Agribusiness is also doing well, and not only in the year-on-year comparison. The agricultural sector managed to recover and expand its grain production by 55%, bringing it to a total of 128.5 Mt for 2023/24, according to the Rosario Stock Exchange. As a result, shipments of agro-industrial products from Argentine ports totaled 45.9 Mt in the year to June, an increase of 75% over the same period of 2023. But this volume even exceeds the average of the last three years. The bad news for agriculture is that prices are backward. However, fertilizer sales augur well for a good sowing season.

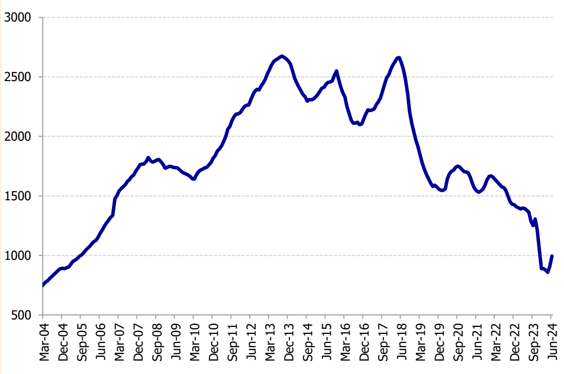
On the other side, we see that fiscal policy remains contractionary, Milei's trademark. This is good for stability, but bad for activity. One example, the June surplus included less subsidy payments which, for example, slows down maintenance and construction works done by utility providers. Macri's idea in 2016 was to return profitability to them so that they would invest. Today they are paid later and firms operate accordingly. Pensions and public salaries also suffer and that has to have some effect on consumption.

The exchange rate does not help either. We believe that the dollar is cheap. However, it is true that wages are not expensive in dollars and that preserves business margins. But this makes less likely the generation of investments in tradable sectors that do not have to do with natural resources, typically construction and manufacturing. Nor does it help inbound tourism. It is known that the government has a plan of microeconomic reforms that should have a favorable impact, but like any reform, we will see the impact later and not in the activity of the coming months.

The labor market is not going to help for a few months either. As we pointed out earlier, as it is a lagging variable, it is possible that we will still see a drop in employment in the coming months and the market will stabilize around September.

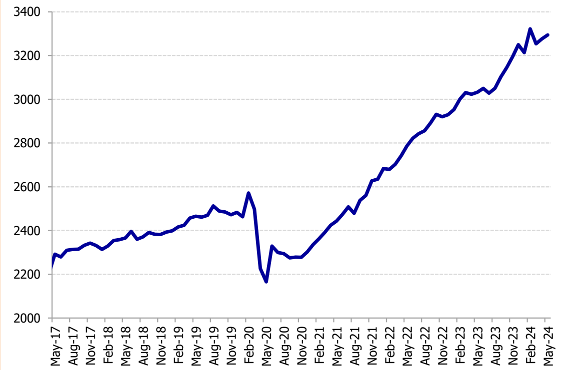
In summary, the situation of economic activity in Argentina is still very precarious. May brought good news, but we want to see more to be optimistic. We have a constructive version and we think that there will be a

Graph 5. Loans in pesos to the private sector
Seasonally adjusted series



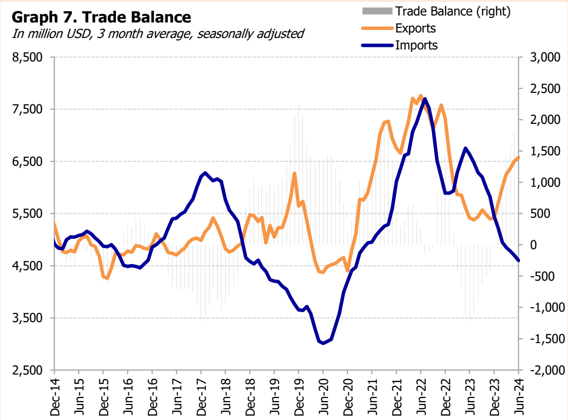
Source: Econviews based on BCRA

Graph 6. Crude oil production
In volume - seasonally adjusted series



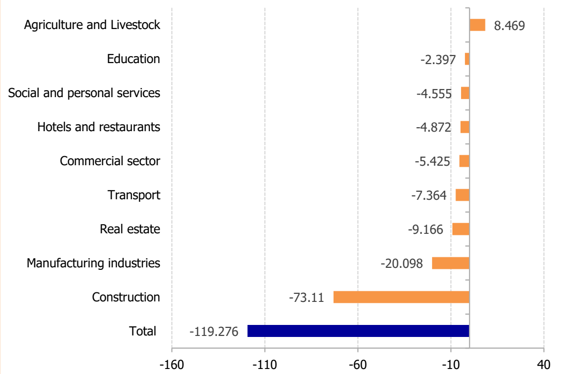
Source: Econviews based on the Ministry of Economy

Graph 7. Trade Balance
In million USD, 3 month average, seasonally adjusted



Source: Econviews based on INDEC

Graph 8. Loss of formal employment by sector
In thousands of positions, accumulated from Oct-2023-Apr-2024



Source: Econviews based on SIPA

kind of U. In the second quarter the drop in activity will end. For the whole year we see -3.6% with a bias towards improvement.

Chart 2. Economic activity by sector

Monthly variations by sector

		Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Activity and employment	**EMAE (INDEC)**	-1.8%	-0.6%	0.1%	-1.0%	-0.1%		
	Leading Index (UTDT)	-5.3%	-1.2%	-4.2%	-5.2%	1.1%	5.1%	
	VAT-DGI (AFIP)	-7.3%	-7.2%	7.3%	-4.1%	2.0%	-0.4%	4.5%
	Credits and Debits tax (AFIP)	-13.3%	-5.1%	14.5%	-3.6%	-7.8%	-3.4%	23.7%
Wholesale, retail and repairs	**EMAE - Wholesale and Retail (INDEC)**	-7.1%	4.8%	0.2%	-6.7%	0.4%	0.9%	
	INDEC supermarket sales	-9.5%	-1.4%	0.5%	-0.2%	-3.3%		
	INDEC wholesale	-6.2%	-2.7%	-2.2%	-2.3%	-2.4%		
	INDEC shopping malls	-15.4%	-10.2%	6.7%	8.4%	4.5%		
	Di Tella Consumer Confidence	-16.2%	-10.6%	1.2%	1.8%	1.3%	3.1%	-2.8%
	Retail Sales (CAME)	-6.8%	-17.0%	7.2%	11.0%	3.7%	-0.3%	-15.2%
	Motorcycle registration (CAFAM)	-4.2%	-13.3%	1.1%	-28.1%	44.3%	0.8%	-2.4%
Industry	**EMAE - Industry (INDEC)**	-7.4%	1.6%	2.2%	-8.5%	3.7%	1.1%	
	Manufacturing IPI (INDEC)	-6.4%	-1.9%	0.3%	-3.4%	0.0%	-0.2%	
	IPI (FIEL)	-3.2%	-0.6%	-4.0%	1.5%	-2.3%	1.0%	
	Mining IPI (INDEC)	3.6%	1.7%	1.7%	-2.7%	0.5%	-0.2%	
	Fishing IPI (INDEC)	23.4%	5.4%	-7.6%	-6.0%	2.0%		
	Use of installed capacity (INDEC)	-11.50	-0.30	3.00	-4.20	3.20	0.20	
	Steel production (CAA)	-15.3%	33.4%	-9.8%	-37.2%	42.3%	-10.4%	
	Electricity demand (CAMMESA)	-3.9%	0.2%	1.6%	-9.6%	1.8%	-2.2%	-2.9%
	Car production (ADEFA)	-12.5%	-11.7%	-12.5%	-11.3%	-9.0%	-6.4%	-8.1%
Construction	**EMAE - Construction (INDEC)**	-5.8%	-6.8%	-3.4%	-6.5%	0.5%	2.6%	
	ISAC (INDEC)	-10.2%	-11.3%	-2.8%	-16.2%	2.0%	6.2%	
	Cement shipments (AFCP)	-5.9%	0.4%	-7.4%	-20.5%	9.2%	14.0%	-11.2%
	Construya Index (Construya Group)	-12.6%	-14.8%	8.0%	-13.2%	4.9%	5.8%	-3.4%
Energy	**EMAE - Mining and extraction (INDEC)**	0.7%	1.1%	4.0%	-4.3%	2.4%	-0.8%	
	Oil production (Mecon)	1.7%	-1.1%	3.4%	-2.1%	0.7%	0.5%	
	Gas production (Mecon)	-9.9%	7.8%	13.0%	-2.2%	1.2%	3.7%	
Agriculture and Livestock	**EMAE - Agriculture and Livestock (INDEC)**	-2.2%	0.5%	3.7%	1.2%	4.4%	1.6%	
	Employment in the agricultural sector (SIPA)	0.6%	0.8%	0.6%	-0.5%			
	Oilseed grinding	4.9%	22.8%	2.9%	12.3%	-2.9%	2.1%	
	Vaccine slaughter (Mecon)	-5.2%	-2.7%	-4.4%	-2.0%	-3.6%	-4.0%	-3.6%
	Chicken production (Mecon)	-3.7%	4.3%	3.1%	-7.1%	5.2%	1.0%	
	Pork production (Mecon)	-4.7%	2.1%	-1.0%	-8.2%	17.6%	-1.7%	
	Dairy production (Mecon)	-2.9%	-3.8%	-3.2%	-1.0%	1.7%	1.3%	5.2%
Real estate and business activities	**EMAE - Real Estate and Bussines (INDEC)**	-1.2%	-0.2%	0.2%	-1.4%	1.1%		
	CABA Deeds (Colegio Escribanos CABA)	-4.9%	-2.7%	16.0%	1.2%	8.8%	12.5%	
Hotels and Restaurants	**EMAE - Hotels and Restaurants (INDEC)**	-0.7%	-8.2%	-0.9%	0.4%	-4.7%	1.7%	
	Incoming tourism by air (ETI-INDEC)	6.1%	13.4%	-3.4%	-1.2%	-13.4%	-8.2%	
	Activity in restaurants (CABA)	-5.9%	-11.4%	-7.7%	-1.8%	-4.8%	0.0%	

Source: Econviews based on various sources

Milei Did It: Half a Year of Fiscal Surplus

- *The government achieved a primary surplus of 488 billion in June and almost 7 trillion in the first semester, 1.2% of GDP.*
- *We raised our primary result forecast for the full year from 0.5 to 1% of GDP.*
- *June's surplus was achieved by lowering some expenses, but the discussion on sustainability loses points because the government has this as a priority.*

Surplus, surplus, surplus. The government had 2.6 trillion pesos left over in the first half of the year, almost 7 trillion before paying debt interests, which gives 1.2% of GDP. The image (chart 1) is the inverted mirror of the first six months of 2022 or 2023, when it accumulated primary deficits of one point of GDP that ended the year closer to three.

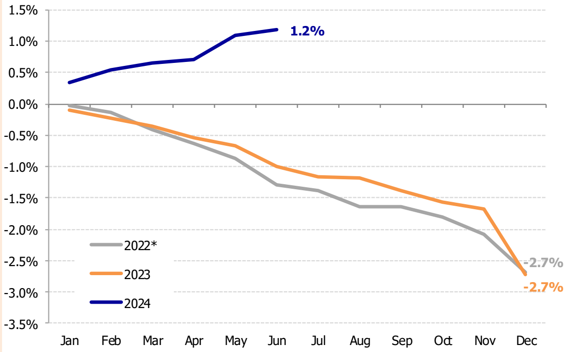
So far, the reversal was achieved by increasing revenue by 0.9 points (half of which was via the PAIS tax on dollar purchases) and cutting expenses by 1.3 points (a shared podium between public works, economic subsidies and pensions). With this starting point and considering the unfavourable seasonality of the second half of the year, **we raised our primary result forecast from 0.5 to 1% of GDP for 2024.**

In addition to the government's conviction to reduce spending, there are factors that we had not foreseen that increase revenues. These are a "windfall" for corporate income tax from the December devaluation's effect on dollar-link assets of banks and companies that was received in May, the delay in lifting FX controls (initially we thought it would be in June or that there would be a total elimination of the PAIS tax by September) and the tax amnesty. With these aces, the government allows itself a laxer policy towards adjustments that may impact the CPI, such as utilities or fuel taxes.

The government does not miss an opportunity to show its commitment to orderly accounts. It achieved a fiscal surplus of 238 billion in June, a month traditionally in deficit due to the payment of bonuses, by deferring bonuses to some public employees and universities until July (retirements were paid). The 75% drop in energy subsidies, beyond the adjustment of rates, suggests that debts with generation companies were incurred again. **The country risk at almost 1,600 shows that the market does not reward this commitment as before. With dollar bonds maturities and interest equalling 1.5% of GDP in 2025, there is no fiscal signal that shifts the focus from the accumulation of reserves.**

As graph 2 shows, the focus of the adjustment is moving from pensions, which fell 27% year-on-year in real terms in the semester, but "only" 18% in June, to other areas. Economic subsidies (energy, transportation, etc.) take the lead.

Graph 1. Primary result
Accumulated as a % of GDP - National government, cash basis



2022* excludes rents from CER bond issuance
Source: Econviews based on Min. of Economy and INDEC

Chart 1. Fiscal consolidation in 1H-2024
Main changes in revenues and spending as a % of GDP

	1H-2023	1H-2024	Var. in p.p.
Revenues	**6.2%**	**7.1%**	**0.9%**
PAIS tax on dollar purchases	0.1%	0.6%	0.5%
Other	-	0.4%	0.4%
Expenses	**7.2%**	**5.9%**	**-1.3%**
Social security	4.0%	3.8%	-0.2%
Transfers to provinces	0.2%	0.1%	-0.1%
Energy and transport subsidies	0.9%	0.6%	-0.3%
CAPEX	0.6%	0.1%	-0.5%
OPEX, universities, etc.	1.5%	1.3%	-0.2%
Primary result	**-1.0%**	**1.2%**	**2.2%**

Source: Econviews based on Min. of Economy and own forecasts

Chart 2. 2024 fiscal program
Main changes in revenues and spending as a % of GDP

	2023	2024E	Var. in p.p.
Revenues	**17.0%**	**17.6%**	**0.5%**
PAIS tax on dollar purchases	0.8%	1.3%	0.5%
Fuel taxes	0.3%	0.5%	0.2%
Tax amnesty	-	0.1%	0.1%
Other factors*	-	-0.3%	-0.3%
Expenses	**19.8%**	**16.6%**	**-3.2%**
Social security	10.7%	10.2%	-0.5%
Transfers to provinces	0.8%	0.2%	-0.6%
Energy and transport subsidies	2.1%	1.4%	-0.7%
CAPEX	1.6%	0.6%	-1.0%
OPEX (inc. wages)	3.3%	2.9%	-0.4%
Primary result	**-2.7%**	**1.0%**	
Net interest	-3.3%	-1.5%	
Fiscal result	**-6.0%**	**-0.5%**	

*includes 5G tender, 2023 drought's effect on export duties and recession
Source: Econviews based on Min. of Economy and own forecasts

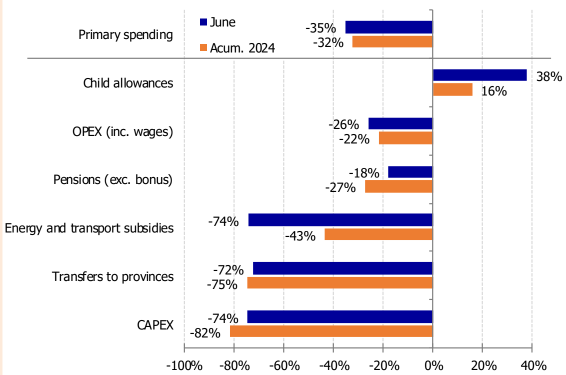
The adjustment in public works barely eased and remains 74% below June 2023. The same is true for transfers to provinces.

- **Pensions and social security.** We expect social spending to fall from 10.7 to 10.2% of GDP this year. After the shock of the first half of the year, in which the average SIPA pension fell 24% year-on-year in real terms, we expect that in the second half it will only be 2% below 2023, thanks to indexation to a slowing inflation. Other social spending items such as the child allowance (+38%) or pensioneers' healthcare benefits (+7.6%) are growing in real terms. The comparison against a smaller GDP also "helps". The opposition's project for pensions does not imply major changes this year but would raise the average pension by 20% in real terms in 2025, **at a cost greater than one point of GDP**. At constant prices, it would rise from the current ARS 357,000 to almost 440,000, although it would still be below late 2021 values, when pensions were close to ARS 500,000.

- **Economic subsidies.** After the June adjustment, the percentage of costs covered by the state for electricity (not the final rate, which includes taxes) fell from 60 to 39%. It is a level close to that of 2019, when energy subsidies (including gas) were 1% of GDP. In the first six months of 2024, the government spent 0.4% of GDP on this item. The number hides the debt that CAMMESA incurred with energy companies and an unusually cold July and August are still pending. But if it stops deferring utility rate adjustments, it is possible that spending on energy subsidies will fall from 1.5 to 0.9% of GDP this year, and adding transportation and other items, from 2.1 to 1.4%. The question is whether it will avoid a new deferral or prioritize the effect on CPI.

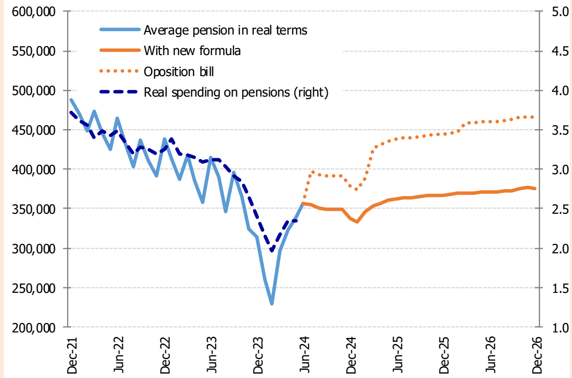
- **Fuel tax.** It was supposed to increase 115% in June, this was delayed until July and now until August. The IMF staff report shows that the government expects the tax to collect 0.6% of GDP this year, but the current rates are consistent with values closer to 0.4%.

Graph 2. Year-on-year variation in spending, real terms
Accumulated first half of 2024 and only June



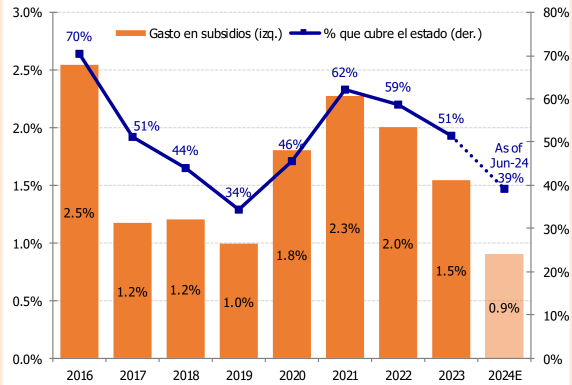
Source: Econviews based on Min. of Economy

Graph 3. Pensions: adjust. formula and real spending
Average SIPA pension at Jun-24 constant prices



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

Graph 4. Energy subsidies and % of cost covered by govt
Energy subsidies' weight in GDP (left), % of cost covered by govt (right)



Source: Econviews based on Min. of Economy and CAMMESA

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