MONTHLY REPORT

ECONVIEWS
ECONOMÍA Y FINANZAS

February 2022
Issue #212

A **mild IMF agreement** that serves a purpose

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Special analysis on the **Fintech Industry in Argentina**

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THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- Russia invaded Ukraine. Markets plunged after the attack, while Biden and the European Union plan to announce further economic sanctions.
- US inflation rose further to 7.5% year-on-year in January, surpassing forecasts, with a 1.8 point contribution from gasoline and energy. Euro Area CPI remains at an historical high of 5.1%, with energy prices at 29% year-on-year. Brazilian inflation started out 2022 at 10.4%, and the Selic rate was raised to 10.75%.
- On January 28th, the Government announced it had reached a deal with the IMF. The primary deficit goals were set at 2.5% for 2022, 1.9% in 2023 and converges to net zero by 2025. The CB is allowed to finance the Treasury by up to 1 point of GDP. No figures were given on FX rates, only that they must allow for an annual build-up of USD 5.8 billion in international reserves in 2022.
- Market reaction to the IMF deal was initially positive, with the Merval index up by 7% and Global sovereign bonds falling to a 20% average yield. However, this was soured by a fraction of the Government's hostility towards the deal.
- Monthly inflation reached 3.9% in January. Gasoline, wages, and schools will keep prices hot in February and March, above 4%. Q1's inflation will add up to 13.2%. We have lowered our forecast for 2022 to 56%.

FIGURE OF THE MONTH

The price of soybeans hit

620 US$

per ton, their highest since 2012. Wheat and corn are also rallying.

TO BE ALERT

If oil prices return to 2014 levels in real terms, USD 130 per barrel, the impact on US inflation would be

+2.9 p.p.

In year-on-year terms.

WHAT'S COMING NEXT?

- With US inflation at its highest since 1982, the Fed is poised to raise rates 25 basis points on March 16th, the first of three hikes this year. Some analysts are betting on more hikes, or a 50 basis point single adjustment, unseen since the year 2000. ECB authorities are also considering a rate hike this year, which was previously off the table.
- Brent oil shot above USD 110 per barrel, its highest since 2014. OPEC+ has warned there is little room to adjust production short-term. The conflict in Ukraine could impact both oil and natural gas, of which Russia is a main supplier, with further inflationary effects.
- Next week, the Government will present the "fine print" of the new arrangement with the IMF. Sensible points to look out for are energy subsidies, inflation and FX rate forecasts and the calendar for SDR disbursements, which will define the Fund's control of the program.
- After hiking its policy rate 450 basis points since January, we believe the BCRA will take it from 42.5% today to 45% by June, achieving a neutral, if not positive, real policy rate.
- With soybeans above USD 600 per ton, less volatility after the IMF deal and an accelerated crawling peg, we believe the official FX rate could close 2022 around ARS 164, while our BCS forecast is ARS 279.4, an 70% spread.

SUMMARY OF MAIN INDICATORS

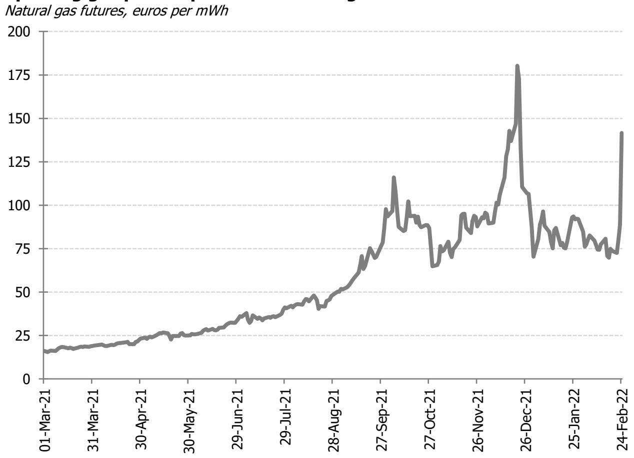
	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	0.9%	1.3%	Inflation (monthly)	3.9%	3.8%
Consumer confidence (MoM)	-1.8%	-0.9%	FX spread (21day avg.)	103.6%	101.9%
Industrial activity (MoM s.a.)	0.6%	4.1%	Country risk (bps 21day avg.)	1,779	1,803
International accounts			**External data**		
Current Account (USD BN)	3.29	2.44	Soybean price (per ton, 21day avg.)	571.7	504.4
CB Reserves (USD BN 21day avg.)	37.71	39.33	Brazilian activity (MoM s.a.)	0.3%	0.5%
Primary balance (ARS BN)	-16.70	-496.34	Financial Conditions Index	31.7	30.7

Source: Econviews base on multiple sources - Based on working days only

GRAPH OF THE MONTH:

Spiraling gas prices spell trouble for Argentina

Natural gas futures, euros per mWh



Source: Econviews based on Refinitiv

RECENT ECONOMIC DEVELOPMENTS

JAN	JAN	JAN	FEB	FEB	FEB	FEB
26th	28th	31st	2nd	8th	24th	24th
Econviews Monthly #211: A critical moment with the IMF + special analysis on climate change and its impact	**Fernández announces deal with IMF,** compromises to reach net zero deficit by 2025, dismisses FX rate jump.	Government Lower House leader **Máximo Kirchner resigns as deputy**, in protest over conditions in the IMF deal.	State oil company YPF applies a **9% hike to gasoline prices**, the first since May 2021. Other firms follow suit.	Secretary of Energy shows its **segmentation map**, defining neighborhoods which will **no longer receive subsidies.**	**Russia launches invasion of Ukraine**, with attacks on Kyiv, other cities. Commodities rally and stocks plunge.	**Econviews Monthly #212**

POLITICS

The IMF deal moved fault lines across the political spectrum, even before the fine print was disclosed. The full document will likely be presented in Congress next week. While the faction of the Government closer to Alberto Fernández celebrated the deal, VP Cristina Kirchner's side kept silence, and on January 31st her son resigned as leader of the ruling coalition in the Lower House. This move cast doubt on the bill's chances in Congress, as opposition figures are also divided on supporting the deal. The public audiences on gas and electricity tariffs are also setting the stage for a contested adjustment in energy subsidies. The Minister of Labor set a 40% benchmark for wage increases in 2022, well below most inflation forecasts.

PANDEMIC

After the Omicron wave brought cases to a 140,000 daily record in mid-January, contagion fell quickly to 12,140 this month. Deaths are back under 100 per day, and hospitalizations are also dwindling. With 89% of the population having received at least one dose, and 36% boosted, Covid appears to be shifting into an "endemic phase". Schools and universities will be fully presential this year, and many venues are dropping masking rules. While vaccine passports are still required for concerts, sports venues and other large activities, high uptake will probably lead to enforcement fading out. Clinical trials of a locally produced Covid vaccine are underway, with mid-term perspectives towards exportation.

ECONOMIC ACTIVITY

Finally, the economy grew 10.3% last year, leaving a 4.1% statistical carryover for 2022. The post-pandemic recovery piggybacked on Construction (27.5%), Industry (15.7%) and retail (13%). Hotels and restaurants bounced back 21.5% after a terrible 2020. Agriculture (-0.3%) was the only sector to contract in 2021. In January 2022, the staff shortages caused by the Omicron wave will weight on activity. We believe there will be a slight downturn during Q1-2022, due to Covid and the aftershocks of the IMF deal, but from then on activity will resume its upward trend. Our GDP estimate for 2022 is 3.5%, with scarce real growth, but favoured by the comparison with a pandemic year.

INFLATION

Consumer prices crept 3.88% in January, slightly above December's monthly record. Seasonal prices shot up a whopping 9%, partly due to hotels and restaurants (5.7%), which enjoyed a strong summer season, and partly due to fruits and vegetables. Overall food costs rose 4.9%, one point above headline inflation. High price dispersion is also evident in foodstuffs, with 60% differences in some goods. Communication services (7.5%) also rose sharply due to adjustments in internet and telephone bills. Given gas prices, 10% wage increases for retail employees and a 15% rise in private education costs, we expect February and March's inflation to beat 4%. Year-on-year, inflation hit 50.7%. We lowered our forecast for 2022 to 56%.

MONETARY SECTOR

The Central Bank hiked its Leliq rate another 250 basis points to 42.5%, and introduced the new 180-day Liquidity Notes, or "Notaliqs". A higher policy rate responds to the IMF demand for positive real rates but can also work towards lowering the FX spread, currently at 96% with an ARS 210 BCS. However, BCRA liabilities, which amounted to ARS 4.8 billion (or 8.1% of GDP) in late 2021, will also grow under higher rates. With market inflation expectations at 57.4% for December, more hikes are on the way. The Central Bank's "orthodox shift" also includes accelerating the official Peso's depreciation to 2.5% monthly, or 42% annualized, up from 15% six months ago. We have changed our 2022 FX rate forecast to ARS 164.4 e.o.p.

FISCAL ACCOUNTS

Argentina struck an ARS 17 billion primary deficit in January, with expenses (56.8%) growing well above revenues (47.8%) in year-on-year terms. Energy subsidies jumped 75.9% against January 2021 and made up 7% of total expenditures, at ARS 61 billion. The IMF is pushing for a sharp adjustment in this sector, but the Government wants to make good on its 20% benchmark increase for 2022. Even with a real hike in energy bills, spiraling natural gas prices will weight on fiscal accounts. Pensions grew 63.6% year-on-year. There is little room to change their formula, which indexes them to wages and tax revenues' evolution, but raising retirement ages and the elimination of some special regimes is on the table.

I. A mild IMF agreement that serves a purpose

There will not be a default with the IMF and the agreement seems to be around the corner. Despite some political noise from the "Campora" and other radicalized sectors of the government coalition, it seems that there will be a program and that the worst possible scenarios will be avoided. However, this will be a sui generis program that will stop short of what Argentina needs to turnaround the large economic imbalances that the country faces. **The program is unlikely to make a dent on inflation, on the FX spread, on the country risk nor is likely to significantly increase international reserves or restore investment and growth to desired levels.**

At the same time, the mild conditionality attached to this program, which is limited to a gradual reduction in the fiscal deficit, a modest target for increases in international reserves, reductions in energy subsidies that require a hike in utility rates and some limited increase in interest rates appear to be challenging enough to manage for a government that does not want to be associated with any policy that has a taste of adjustment. **There are already loud complaints and signs of disapproval from Cristina Kirchner and her inner circle.**

It seems that in the in the end the IMF was willing to compromise and that it preferred to a have program, even if it is a mild one, rather than preside over a default from a G20 member. It seems that the priority was to keep Argentina engaged in a policy dialogue, even if it stops short of what it generally requires to other countries. In contrast to most IMF programs, it seems that there will not be a devaluation even though Argentina has very low reserves and there is a large spread between the official and parallel exchange rates.

In Ilan Goldfajn's words, "he wants a program that is realistic, pragmatic and credible", which in fact means the Fund is willing to make a big compromise, probably because it perceives that the alternative is a big deterioration in economic conditions. **The objective seems to be to adopt a muddle through approach until next year's presidential election, expecting to negotiate a more comprehensive program with the next administration.**

Despite the mild conditionality embedded in the program, some sectors of the government coalition strongly oppose it, and although we expect that Congress will approve it, Alberto Fernandez and Martín Guzmán will not have an easy time with their partners in the government coalition.

The memorandum of understanding will be known shortly, and its approval will require favourable votes in the Argentine Congress and in the IMF Board. Everything must be achieved by March 22nd, when Argentina has to pay 2.8 billion dollars to the IMF. While time is short, the votes at the IMF are all but certain, despite the softness of the program and the questions that will certainly arise about debt and external sustainability, where Argentina's vulnerabilities are apparent.

The Argentine Congress will almost certainly also approve the program, though there are doubts about the positions that the more radical sectors (namely the Kirchnerists and the "Campora") will take, because they

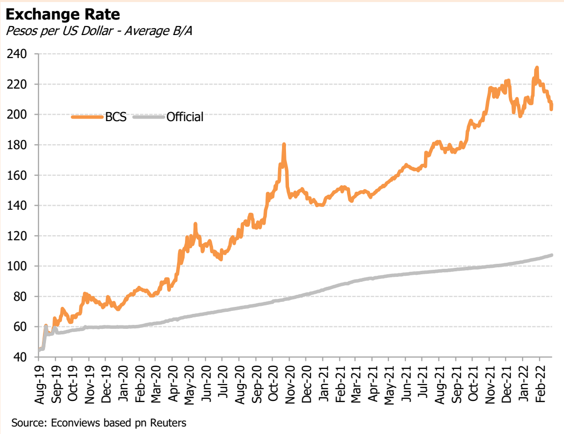
Net and Liquid International Reserves

In billion USD

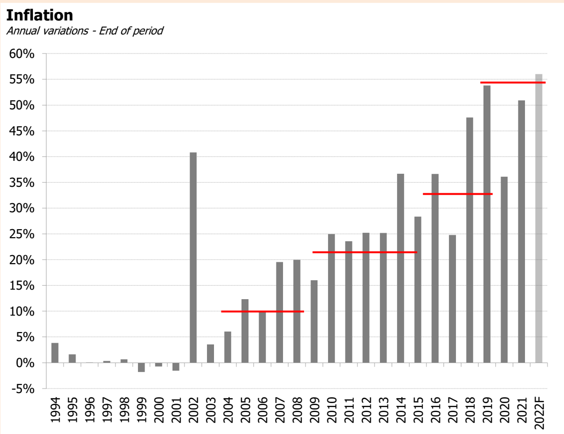
Gross reserves	**37.2**
Reserve requirements in USD	11.9
Swap with China	22.2
BIS & Repos	3.0
Net reserves	**0.1**
Gold	3.6
SDRs position	0.0
Liquid net reserves	**-3.5**

Source: Own estimates based on BCRA and IMF

Up to Feb-23



Source: Econviews based pn Reuters



probably will want to distance themselves from an IMF program. The opposition has differences with the program because it does not address the economic problems and hence it does not want to be associated with it, but in the end, they will support it. In the end, however, the government will get the votes it needs to get the program approved, and hence Argentina will avoid a default with the IMF as well as with the Paris Club.

The near-term outlook: not much change

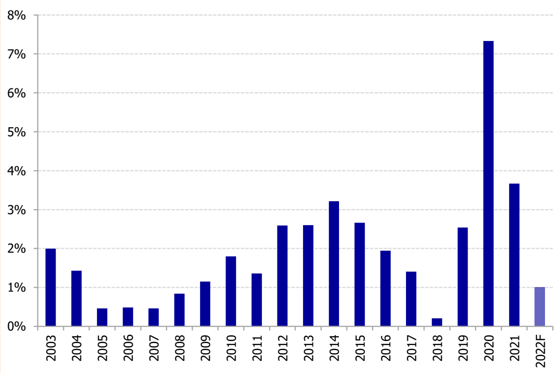
While the program will avoid a default with the official institutions, which would be an international embarrassment, it is unlikely to turnaround the poor economic performance. The expected adjustments in policies, even if they are mild, will avoid a further deterioration, though it is unlikely to lead to macroeconomic stability, to improve the business climate or to stimulate growth.

The most likely scenario is characterized by moderate changes in policies and in outcomes. Inflation will continue to hover in the mid-fifties despite the promise that the Central Bank will limit the financing to the Treasury to 1% of GDP, compared with 3.7% in 2021. The main problem is that this year utility rates are expected to increase more than inflation (after increasing by around 9% last year), while the exchange rate by around 60/65 percent (following only 22% last year) to facilitate the accumulation of international reserves and a reduction in the spread between the official and the parallel exchange rates. The government might avoid a step depreciation (which is long overdue) at the cost of continuing to ration international reserves as there is no cushion there. This might be possible during the soybean export season but will be difficult in the second half of the year, especially if the IMF sets a target of an increase of 5.8 billion dollars in net reserves during 2022.

A rise in interest rates will be part of the program, with the promise of moving them above the rate of inflation (towards positive real interest rates). This is one of the few areas where the government had yielded to the IMF requests which has the double objective of helping to control inflation as well as the parallel exchange rates. The hike in interest rates was instrumental in reducing the parallel exchange rates in October 2020, when the repo rate was increased from 18 to 32 percent. It remains to be seen whether the increases this time will be large enough to significantly reduce the spread, as the hike in the repo rate has been only 1.5 percentage points and in the 28 days leliq of 4.5 percentage points. The effects of interest rates on inflation are less clear, mainly because the transmission mechanism is not well understood and does not seem very strong. For instance, interest rates did not appear to have been effective to deal with inflation during the Macri administration.

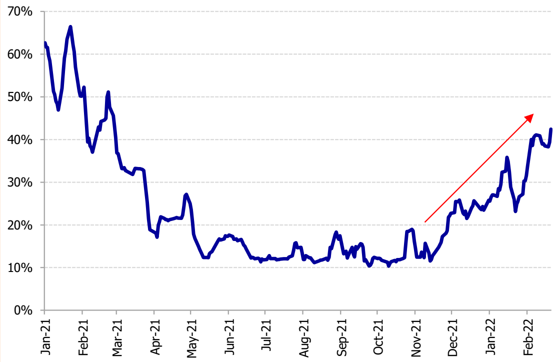
It is also doubtful that the program will succeed to significantly reduce Argentina's country risk. The credit spread, measured by the EMBI, has recently been at astronomical levels equivalent to those of a country that is at the verge of default. Following the victory of the opposition in the November elections, Argentina's EMBI had dropped to around 1500 points. However, as the negotiations with the IMF started to enter the decisive period back in December and the concerns of a new Argentine

Central Bank assistance to the Treasury
As % of GDP



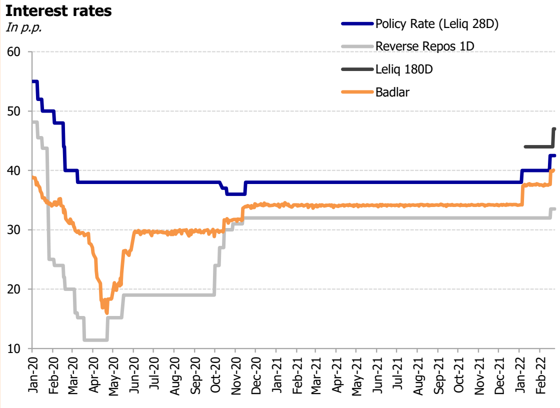
Source: Econviews based on BCRA & INDEC

Rate of depreciation
5 days annualized variation- Official exchange rate, Com. "A" 3500



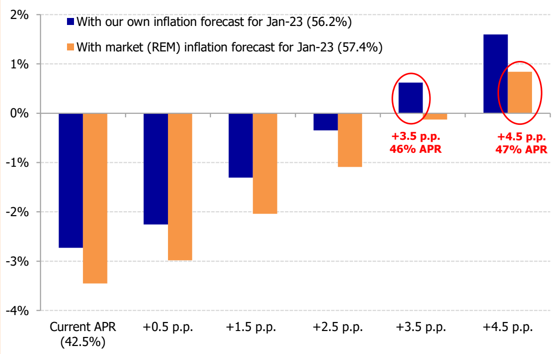
Source: Econviews based on BCRA

Interest rates
In p.p.



Source: Econviews based on BCRA

How much should the Leliq rate rise to be positive in real terms?
Effective real ex-ante rate supposing nominal hikes



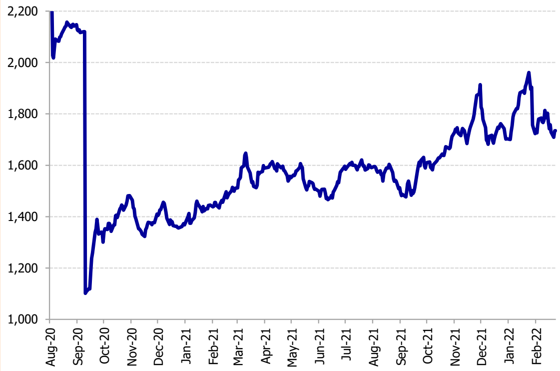
Source: Econviews based on BCRA

default due to disagreements within the government coalition became apparent, the EMBI increased to the 1800 range. We do expect a reduction in Argentine spreads and some improvement in bond prices, though there is no evidence that investors feel that the IMF program will improve Argentina’s capacity and willingness to pay, and they are concerned a new restructuring. **Hence, we also expect little improvement in this front.**

So far, based on the documents that have been leaked, there is no reference to the structural reforms, which are a central part of an EFF program with the Fund. Argentina clearly needs reforms to improve the business climate, have a more flexible labor market, a smaller public sector, and a sustainable fiscal balance. It is thus surprising the absence of structural reforms. This confirms that this is a mild program, where the main objective is to keep Argentina engaged in a dialogue and to leave the difficult policy measures to the next administration that will take over in 2023.

Under these circumstances, the best possible scenario for the next two years is one in which the economy muddles through, basically more of the same. The base case is that inflation, the FX spread do not get out of control, that international reserves remain under pressure and are preserved mainly through controls (the cepo), where economy wide regulations remain in place, where the country does not regain access to the capital markets, and where growth is at best mediocre. The good news is that in 2023 there will be another chance for a change.

Argentina Risk Premium
In basis points

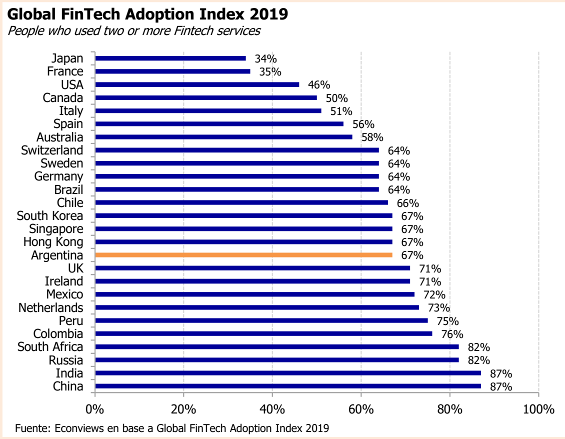


Source: Econviews based on JP Morgan

II. The rise of "fintechs" & the financial revolution

The fintech universe has gained relevance during the last couple of years and showed that it has a lot of ground to cover yet. Especially with the outbreak of the COVID-19, it became clear that in many cases it is easier to make financial transactions, such as payments or borrowing money, through these new companies rather than traditional institutions. As a result, fintech services have become an important tool to promote financial inclusion, reduce evasion and turn around the banking business.

The low level of financial development is an opportunity to catch up through fintechs, which take advantage of big data, AI and modern tools to reach unbanked customers. But these new instruments cannot replace financial stability as a prior to develop the system. If this eventually occurs, the fintech world can create jobs, attract investment, revolutionize the market, but it will also bring the need to modernize regulations. From KYC policies, to securing an open market in terms of payments. Probably cash management and lending to people and SMEs as we knew it will cease to exist very soon. Argentina is quite active in this change.



I. Industry Map

The term fintech is originated from the union of the words finance and technology and refers to a kind of company that offers financial solutions only in a digital way. To do that they take advantage of technological innovations and apply them to improve their methods or processes, giving the user a more friendly experience compared to traditional financial institutions. **A rapidly expanding industry, the number of Argentine fintechs climbed from 173 in October 2019 to 282 two years later**. Only between August and October 2021, almost 50 new fintechs were registered according to finnovating.com.

Argentine Fintech Industry Map

	August-19	October-19	December-19	June-20	August-21	October-21
Payments	47	53	54	55	64	73
Lending	38	43	45	48	56	63
Financial infrastrucure	15	19	19	19	21	35
Insurtech	5	8	19	20	24	30
Investment	12	13	14	15	20	26
Tax and accounting solution	18	18	18	19	19	20
Currencies	3	4	6	9	12	14
Regtech	2	3	3	3	5	7
Personal finance tools	3	4	4	4	5	5
Neobanks	3	3	3	3	3	4
Financial products distributions	3	3	3	3	4	4
Others	2	2	2	2	0	1
Total	**151**	**173**	**190**	**200**	**233**	**282**

Source: Econviews based on Finnovating

ECONVIEWS
ECONOMÍA Y FINANZAS

In the fintech ecosystem, financial services are segmented into "verticals" where we can find "paytech" (payment services), "insurtech" (insurance), "regtech" (regulatory solutions), and the list goes on.

Apps linked to payments and lending services are the spearhead for fintechs across Latin America, accounting for 50% of the sector's startups in Argentina. Other areas like investment or crypto currencies have gained traction and Argentina as well. Other segments that are developing are regulatory solutions, or *regtech*, neobanks or tax and accounting solutions. This last tier is also present in the more dynamic fintech ecosystems within the region. Branches where Argentina has seen less fintech growth are personal finance tools and equity finance, possibly due to the weak domestic capital market. This has increased the competition in the banking sector with traditional banks in urgent need to upgrade their digital platforms.

The typical user of fintechs are youngsters and informal workers who would not qualify for having checking accounts. However, gradually more traditional bank clients have opened an account in one or more fintechs. Also, we have seen some cross fertilization. For instance, UALA has recently bought a stake in Wilo Bank, an online licensed bank. Wilo, jointly with Banco del Sol and Brubank, have been born in the last 5 years and are "only digital". In Brazil Nubank raised USD 2.6 billion in an IPO in 2021 and reached a market capitalization of USD 52 billion, more than the entire Argentine financial market put together. Warren Buffet's Berkshire Hathaway invested USD 500 million before the company went public.

And yet, **in the fintech universe Argentina stands out in LATAM together with Mexico, Brazil, and Colombia**. Brazil is the biggest market in the region, with over 1,000 startups. As of April 2021, Mexico counted close to 450 fintechs, with a third located in the payments branch and a strong presence in lending, taxing, *regtech* and real estate (*proptech*). Colombia's startups numbered 233, with a similar structure oriented towards payments and lending and branching into investment and neobanks as well. **Argentine-based fintechs such as Ualá or MercadoPago have set up operations within these countries**. In Peru and Chile, the fintech industry concentrates on lending and payment tools, which make up the bulk of these startups.

Who are the main local players? Mercado Pago is by far the largest company in the paytech ecosystem. Outside Mercado Libre (its parent e-commerce platform), in Q4-2021 Mercado Pago had a volume of payments of over USD 16 billion around the region. In the digital banking sector, **Uala stands out: as of December 2021, it attracted investments for 544 million dollars**. **Brubank** is another major player, with accumulated funding of USD 12.4 million. In the digital solutions segment. Ank, Tap, Yacare, Pomelo, Todopago are some other names recognized in the market. In Uruguay Dlocal became the first Uruguayan firm to be listed in the Nasdaq market and its success generated a surge in entrepreneurism.

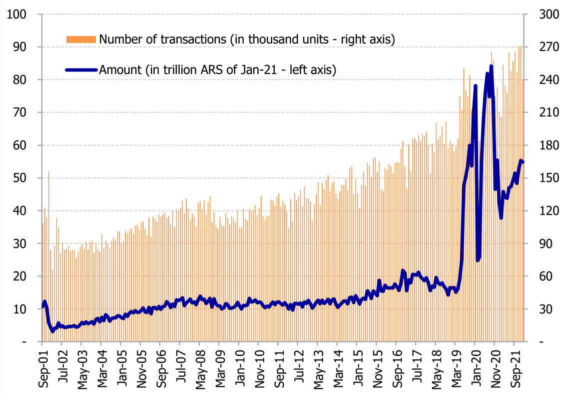
II. Verticals: Payments

The companies that provide payment services, known as *paytechs*, are the ones that represent the largest part of the fintech market. Like the industry in general, this vertical has seen strong growth over the last few years. Some estimates indicate that there are 43.7 million users of these services in the country, which means that there are many people who have more than one account. According to data from BCRA, the number of transactions made with electronic means of payments was ARS 55 trillion in January, while during the lockdown this number reached ARS 84 trillion. Although the number of transactions and the amount in pesos was increasing before the COVID outbreak, clearly the pandemic led the people to carry out more transactions through this method and discouraged the use of cash and in this issue, fintech companies have had an important role.

Virtual wallets represent a novel way of making payments in a simple and contactless way since the only thing a user must do is scan a QR code from an application installed on the mobile phone. **The range of products that can be paid through these applications is very wide,** covering electricity and gas bills, taxes, cell phone recharges, purchases in supermarkets or shops of all kinds. They also allow you to transfer money, free of charge. The funds to carry out these operations can be deposited in an account created in the application or can be associated with a credit card, debit card, or bank account where the money would come from.

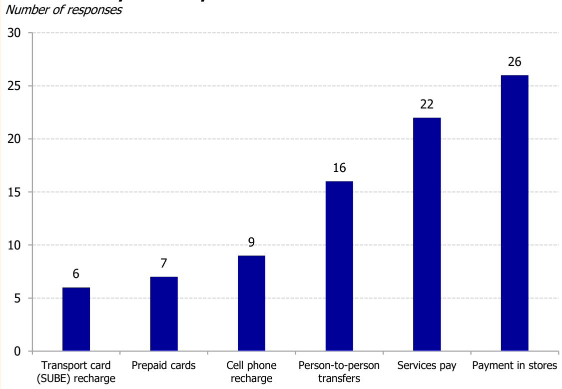
This type of payment system strongly contributes to reducing the use of cash, an important issue in an economy with a high level of informality like Argentina's. Recently, a report by the firm Fiserv revealed that in the last year 7 out of 10 people changed the way they buy or pay. Among the most incorporated means to carry out transactions, QR codes and virtual wallets appear at the top, while cash receded. Among the main advantages, the survey highlighted security, agility, comfort, as well as the immediate crediting of funds for businesses, and the possibility of avoiding physical contact. The same report highlights that between January and December 2021, operations carried out with QR grew by

Transactions made with electronic means of payment



Source: Econviews based on BCRA

Services mostly chosen by users
Number of responses



Source: Econviews based on Estudio Fintech 2020 - BID

24,600% in the case of card payments and 170% with transfers. Clearly the low base of comparison also helped these numbers.

At the end of last year, the Central Bank launched the 3.0 transfer system. The monetary authority highlighted that this new technology allows progress towards a new payment model that simplifies operations and contributes to financial inclusion. The benefit is that now you can make payments from bank accounts or payment provider accounts simply by having a virtual or bank wallet application on your mobile phone. In this way, since **QR codes became interoperable, any application can read them regardless of which company issued them.** Now, this 3.0 transfer ecosystem is made up of 60 companies, of which 16 are payment providers. Additionally, more than 40 companies are processing their incorporation.

In addition to the benefits for the user (mainly simplicity and free-of-charge operations), the 3.0 transfer system is also very positive for businesses. In the first place, **funds are credited immediately and irrevocably, something very different from traditional electronic payment methods** such as debit or credit cards, both with much longer crediting periods (24 hours in the former case or 8 to 18 working days in the latter). In an inflation environment this is not trivial. Another advantage is that sellers will pay a commission for these payments that is much lower than that of other instruments since they are capped at 0.8%. Finally, considering that currently 8 out of 10 transactions are settled with cash, this mechanism is very useful to compete against this form of payment and contributes to the security of those who carry out the operation.

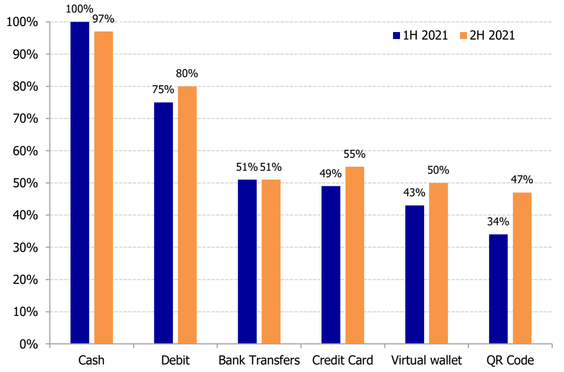
How does the business work for the companies that provide these services? Mainly what companies do is take the money that users have in their payment accounts and deposit it in remunerated bank accounts. With the profit they get from the interest paid by the bank, the payment service providers finance the services they offer for free. **However, recently this scheme changed completely.** On December 30, 2021, the Central Bank established that financial entities must keep 100% of the funds deposited by virtual wallets immobilized. In this way, companies lose the opportunity to obtain remuneration for deposits, which significantly harms them and forces them to reformulate the business model.

There seems to be an ambiguity in the government. On the one hand both Central Bank and Ministry of Finance have a positive agenda on financial inclusion with strategies, public reports on financial inclusion and its benefits and a few steps in this direction such as the Transfers 3.0 implementation. On the other hand, regulations often go back and forth making the life of financial entrepreneurs difficult.

__Cryptocurrencies__

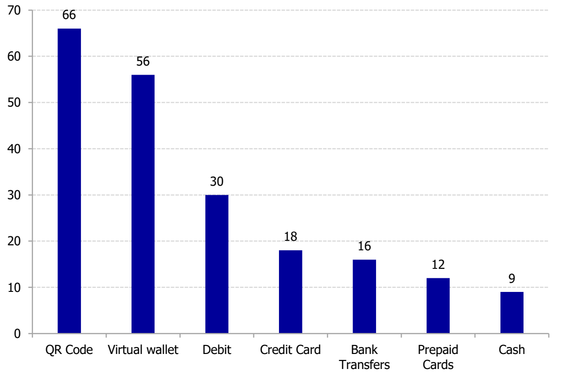
On top of the rise of fintechs, the payment and investment worlds are going through the emergence of crypto currencies. Blockchain, decentralized finance, smart contracts are no longer words or phrases reserved for a selected few. **More and more people from different backgrounds are turning their heads towards this world.**

Commonly used means of payment
Based on 400 cases



Source: Econviews based on Fiserv

Most adopted means of payment in 2021
Based on 100 cases



Source: Econviews based on Fiserv

Cryptocurrencies have been in expansion ever since their appearance, but undoubtedly the last two years of pandemic seem to have acted as the necessary push for a speed increase in the adoption of these means of payment, but especially as an investment asset in a world with low returns.

According to the Global Crypto Adoption Index, at the end of Q2-2021, the global adoption of cryptocurrencies has grown by over 2,300% since Q3 2019 and over 881% in the last year. Cryptocurrencies have had a very good 2021, and despite setbacks in their valuation, **2022 will show greater acceptance from various companies around the world.**

The crypto sector could be said to be quite recent, considering that only in 2008 Bitcoin, the first crypto currency, presented its white paper, followed by Ethereum in 2013. Many more players, such as Binance Coin, Tether, Cardano, among others, began to appear in a market that is being transformed daily and beginning to be part of everyday transactions.

Apart from these platforms, through the years**, other products related to the blockchain sector were developed such as smart contracts, utility or transactions tokens, and digital currencies.** The latter one is leading this technology and is fundamental for financial inclusion by allowing people worldwide to access through their cellphones to a virtual wallet and be able to do payments (even international ones) in a matter of seconds.

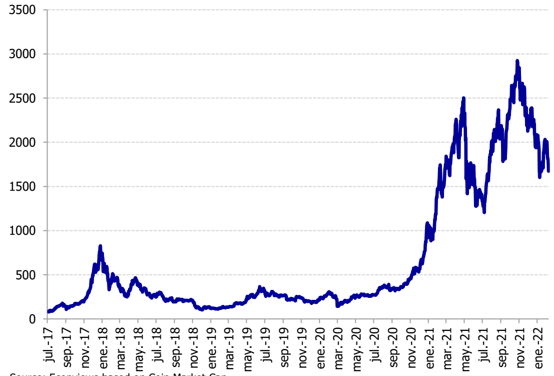
Argentina does not stay behind when it comes to blockchain and cryptocurrency. Though there is a clear path of development ahead, the sector has its players and interesting facts. Being a relatively new sector, regulations are not fully developed. But considering Argentina´s economic context, the crypto market becomes of great appeal to many who might want to explore more alternatives to preserve the value of their money. **And with stringent capital controls, many people who export services are turning to crypto to receive payments abroad and avoid surrendering foreign currency at the official rate.**

The growth and consolidation of the sector in the country is steady but seems to be on a hike since 2019. According to the Global Crypto Adoption Index, in 2021 Argentina was ranked 10 as one of the countries with the major adoption of cryptocurrencies; the top 10 was led by Vietnam, while the only developed country on the top was the USA. Bitcoin, followed by Ethereum, are the most popular cryptocurrencies in the country.

In Argentina, fintech companies in the crypto market particularly offer services linked to payment transactions, exchanges, and virtual wallets, among others. Such is the case of the main local players**: Ripio, Bitex, Belo, Copter, Bitso, Buenvit, Satoshi Tango lead crypto transactions in the country.** There are even cases of national start-ups sold to bigger companies, such as the case of Sesocio sold to Blockchain.com for USD 100 million, last November.

Lately, more companies have begun to offer their employees the possibility of receiving their salaries through cryptocurrencies, especially those who work remotely for foreign companies not based in Argentina. As mentioned above, this allows to bypass the obligation of service exporters to surrender earnings to the unfavorable official rate. But this is

Total of All Cryptocurrencies Sector- Market Cap
World, Billions USD



Source: Econviews based on Coin Market Cap

Global Crypto Adoption Index
2021, Top 15 World Rank

Country	Index Score
Vietnam	1
India	0.37
Pakistan	0.36
Ukraine	0.29
Kenya	0.28
Nigeria	0.26
Venezuela	0.25
United Sates	0.22
Togo	0.29
Argentina	0.29
Colombia	0.29
Thailand	0.17
China	0.16
Brazil	0.16
Philippines	0.16

Source: Econviews based on Global Crypto Adoption Index not cost-free, as cryptocurrencies can suffer from strong variations in their value. And novel ways of attracting customers have shown up: for example, the Argentine virtual wallet Lemon Card, which combines pesos with cryptocurrencies, recently announced the possibility of paying with Bitcoins and Ethereum via a VISA Card with a refund in crypto of 2%.

In terms of agribusiness, **Argentina was one of the leading countries at the hour of linking cryptocurrencies with agribusiness.** Soybeans, corn and wheat, three of the main exportable commodities in Argentina, already have their counterpart in the world of cryptocurrencies through tokenization technology. The operations are managed by Agrotoken, a national company that transforms each ton of grain into a crypto soybean token (SOYA), crypto corn (CORA) or crypto wheat (WHEA) token, which is uniquely identified on the blockchain and can be sold at the current price in the port of Rosario Norte, the main export port of the country. The company is mounted on three main blockchain platforms: Ethereum, Matic and Algorand.

II. Verticals: Lending

The other great vertical of the fintech sector in Argentina is that of loans. In an economy like Argentina's, where bank credit is equivalent to less than 10% of GDP, this type of service represents a great opportunity to obtain financing for workers or enterprises that cannot be financed through traditional providers.

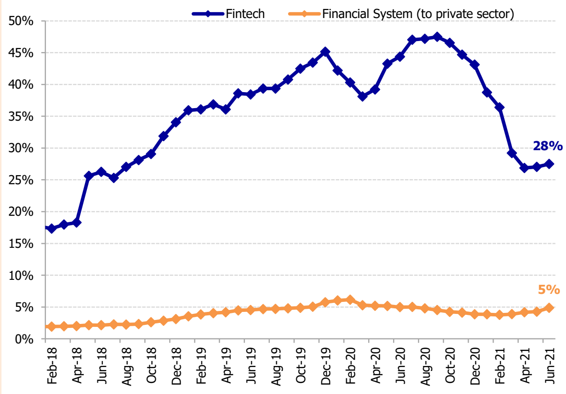
This is partly possible thanks to the fact that **the requirements to obtain a loan are usually lighter in this type of company than in banking entities.** It is for this reason that the debtor rating process is very important. For this task, Fintechs of this sector are mainly based on the use of technological advances such as machine learning and make use of data such as the history of payments in companies of the same group (for example, Mercado Pago and Mercado Crédito), the prior compliance in case it is not the first loan requested, the mobile phone model, the location from where the credit is being requested, etc. In addition, they make use of traditional debtor records, although this information represents a small percentage of the data used when evaluation the approval of a loan.

Despite these techniques to filter out potential delinquent debtors, **since borrowers generally have informal jobs or come from low-income sectors, delinquency is high.** According to the Report of Other Non-Financial Credit Providers prepared by the BCRA, in June 2021 NPL ratio reached 28%, while in traditional financial entities it was 4.9%.

The high risk of these loans is one of the two factors that explain the high levels of lending rates for these companies. The previously cited report indicates that the weighted average interest rate for fintech companies was 132% in mid-2021, more than double the 53% charged by banks for granting personal loans.

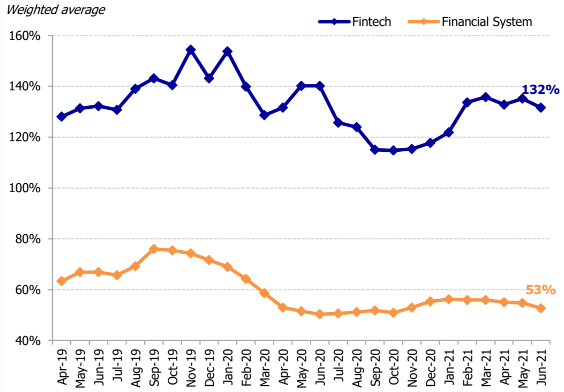
The other factor that adds pressure on interest rates is the cost of funding that companies have, despite their usually cost-efficient operations**.** Since they cannot carry out financial intermediation, that is,

Non performing loans ratio



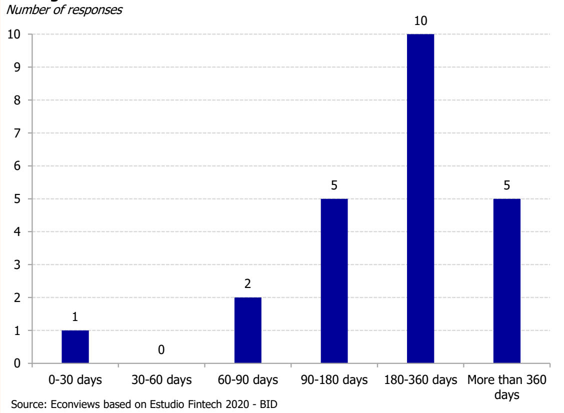
Source: Econviews based on BCRA

Loans interest rates
Weighted average



Source: Econviews based on BCRA

Average duration of loans
Number of responses



Source: Econviews based on Estudio Fintech 2020 - BID they are prohibited from lending deposits, fintech companies in this category must seek alternative ways to obtain the funds to lend. Here, the options are varied. They can use their capital, take loans from banking institutions, or obtain financing in the capital market. Another innovative alternative is the P2P (peer-to-peer) modality through which the company only contacts the lender and the debtor without generating movements on its balance.

In general, the loans granted are for small amounts and with short terms. According to a study prepared by the IDB, in most cases, the duration of the loan is less than one year. This is related to the destination for which the funds are taken. According to the same survey, the three most mentioned destinations are payment of obligations, home shopping, and emergencies. As can be seen, in all cases they respond to issues that the borrower must resolve in a short time and not to investment projects with a long maturity period or purchases of real estate.

III. Benefits

The advent of fintech companies has implied several benefits and advantages over those traditional financial companies that have lagged in the adoption of new technologies.

As Fintech companies heavily rely on telecommunications, their development has been facilitated by them and in turn they provide greater accessibility for the general population, but especially for younger adults who have grown up in the telecom revolution. **Anyone with internet access can open an account in a matter of minutes.**

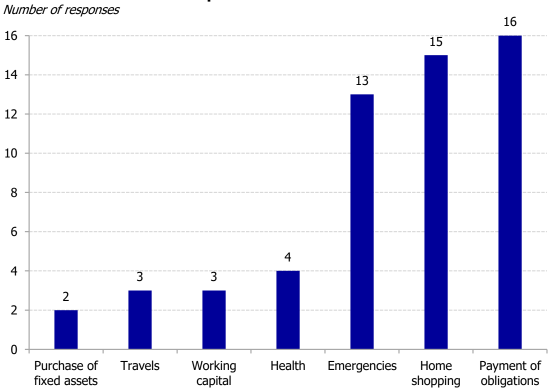
In this sense, the internet-based nature of Fintech companies allows for greater **efficiency in operations**: customers need not go to a physical place to either open an account, apply for a loan or request an insurance. Most traditional banks have adapted and nowadays offer the possibility to do such this online as well, but Fintech companies are built upon this and designed to operate virtually.

As a result, **fintech companies are usually cost-efficient:** they do not have the burden of physical branches and can operate with fewer employees, and the adoption of technologies allow them to reduce operational costs in general. In result, most fintech companies offer lower commissions than traditional banks.

Arguably the main benefit that fintech companies have brought about is greater financial inclusion. Financial inclusion is defined as the access to formal and quality financial services -credit, saving, insurance, payment systems and transfer- and its use by homes and companies.

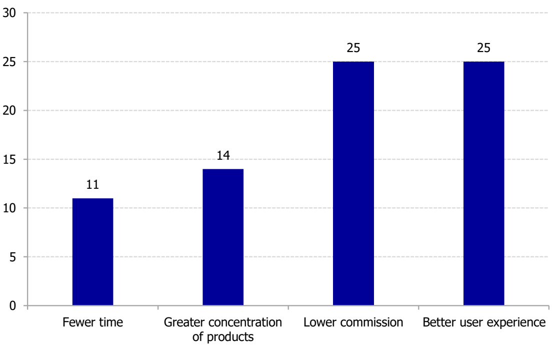
As informality is rampant in Latin American countries, financial inclusion has been a major point of discussion in recent years. Naturally, lower-income families with informal employment or self-employment are more financially excluded than those who are formally employed and possess a stable income. In fact, as of 2016, only 37% of adults in the bottom 40% distribution of income reported that they had an account at a financial institution in Argentina, like Bolivia (38%), while in Chile's financially developed market this figure was as high 67%. In contrast, within the

Main destination of the requested loans
Number of responses



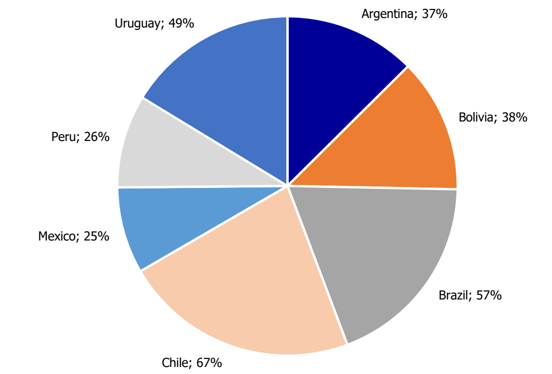
Source: Econviews based on Estudio Fintech 2020 - BID

Benefits provided by payment apps as opposed to traditional systems
Number of responses



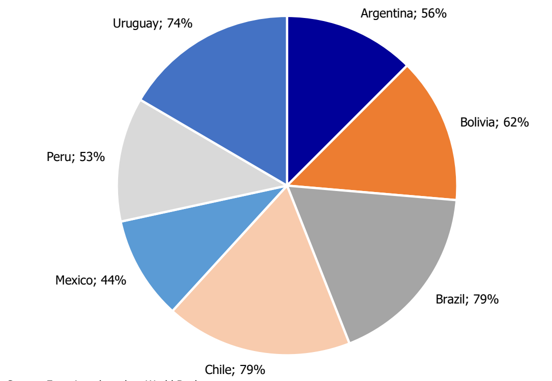
Source: Econviews based on Estudio Fintech 2020 - BID

Financial institution account - Poorest 40%
Income poorest 40% (% age 15+) - 2016



Source: Econviews based on World Bank

Financial institution account - Richest 60%
Income richest 60% (% age 15+) - 2016



Source: Econviews based on World Bank

richer 60% of adults, 56% reported they had an account in Argentina and in 79% in Chile.

In general, the most important reason for the lack of an account was the cost of financial services (43% of those without an account in Argentina), followed by the lack of necessary documentation (30% in Argentina). **The reduction of costs brought about by fintech companies as well as the** lower **need of documentations plays an important role in the increase of financial inclusion.**

However, these figures represent the respondents' answers and could differ from reality, particularly in Argentina. The access to deposit accounts has been largely increased thanks to the opening of accounts for the transfer of social benefits and as of 2018 some 80% of adults possessed at least one bank account with a debit card, yet only 48% reported to have one: **this striking difference is mostly attributable to the lack of financial education.** Many people use debit cards only to withdraw government's transfers and make no further use, and in many cases plainly believe they do not have a bank account.

An important factor that explains the difference across countries is financial development. Chile leads the region, with important capital and insurance markets that reach a great portion of the population. In Argentina, the financial market is very small, and the elimination of the private pension system meant a further reduction. **Financial depth, measured as private sector loans as share of GDP, is the lowest in the region.**

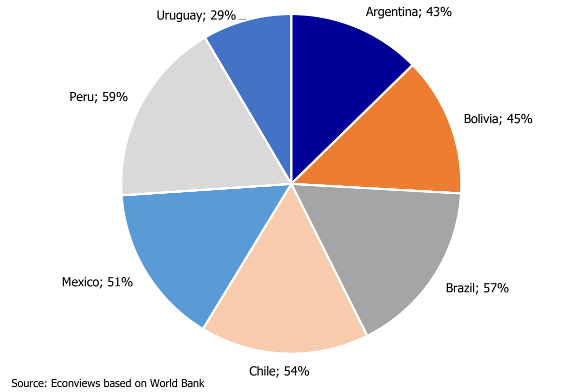
Yet the impressive growth of fintech companies that we have witnessed in the last years could help close the gap between countries and within, allowing more people to access financial services. **But for this to happen, countries need to provide proper infrastructure** -especially internet access in rural areas-, **a regulatory framework that permits a financially stable environment and greater financial education.**

The pandemic accelerated the growth and expansion of the fintech ecosystem. According to Finnavista, 10.8 million Latin-American users made an online purchase for the first time during the lockdowns. As a result, 68% of paytech companies reported that the impact of the pandemic on the sector had been positive. For 2022, it is expected that throughout Latin American countries 18% of e-commerce payments and 9% in points of sale will be made through wallets. These are important figures for a region where cash usage is still very high due to informality.

The expansion of fintechs has also meant more quality jobs. The extraordinary pace of expansion of the fintech industry has meant thousands of new high-paying jobs: from 2017, nearly 15,000 new jobs have been created.

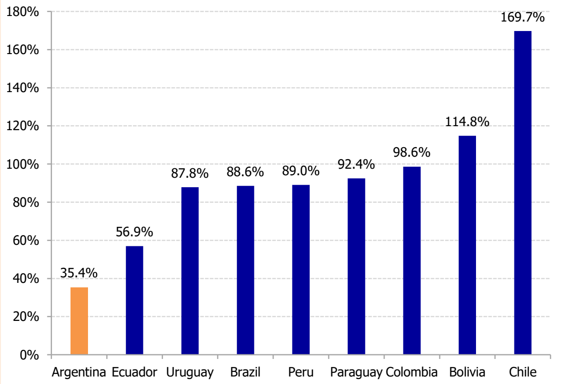
According to the Argentine Fintech Chamber, as of May 2021 there were 14,728 people employed by fintech companies, with more than half in the IT and Digital Product areas -known to pay high wages. And the figure was expected to reach nearly 20,000 by the end of the year. In addition, **68.2% of fintechs surveyed have reported that they plan to expand their staff in 2022.**

No account because of cost of financial services
% without a financial institution account, age 15+ - 2016



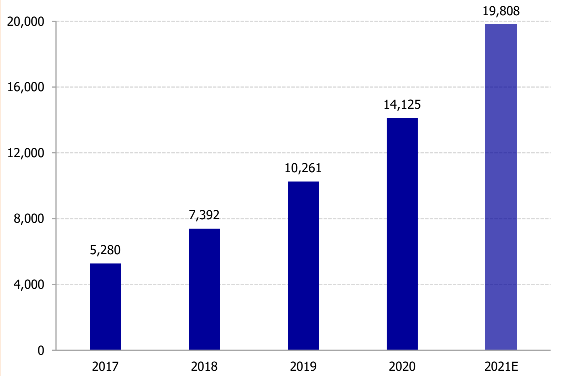
Source: Econviews based on World Bank

Argentine financial depth is very low
Private sector loans as % of GDP - 2020 or latest



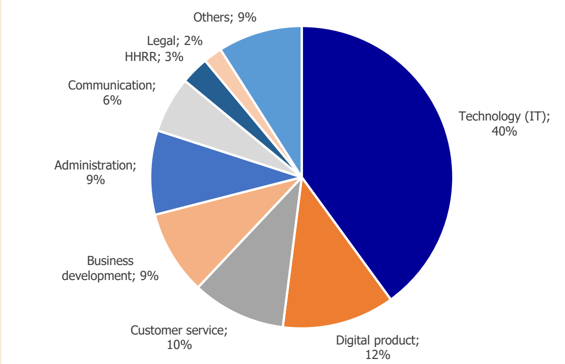
Source: Econviews based on IMF

Employment in fintech companies
Number of employees



Source: Econviews based on Argentine Fintech Chamber

Employment in fintech companies by area
May 2021



Source: Econviews based on Argentine Fintech Chamber

In a nutshell, the system the fintech industry has grown rapidly, but has a lot more to give. New players will show up, other traditional players will put a foot in the sector and eventually there will be a consolidation process. In parallel, big data, AI and machine learning will improve the quality of service and help the companies to customize processes and products. Regulation will also need to be modernize, possibly at a faster pace. The best is yet to come in financial transactions.

Base Scenario

	2019	2020	2021 F	2022 F	2023 F
Inflation (eop)	53.8%	36.1%	50.9%	56.0%	38.0%
Exchange rate ARS/USD (eop)	59.90	84.15	102.75	164.35	225.16
Real exchange rate ARS/USD (eop, Dec-01=100)	150.8	158.3	137.1	146.8	151.5
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	279.4	349.0
Spread with official exchange rate (eop)	24.6%	66.8%	97.7%	70.0%	55.0%
Gross reserves (USD billion, eop)	44.8	39.4	39.5	45.5	48.5
Policy rate (eop)	55.0%	38.0%	38.0%	44.0%	33.0%
GDP (YoY)	-2.0%	-9.9%	10.1%	2.5%	3.0%
Private consumption (YoY)	-7.3%	-13.8%	9.8%	3.5%	3.0%
Primary surplus (% GDP)	-0.4%	-6.5%	-3.2%	-2.5%	-1.5%
EMBI Argentina (spread in bps, eop)	1744	1368	1703	950	750
Public net debt (% GDP)	43.6%	53.3%	42.0%	42.0%	42.9%
Exports of goods (USD billion)	65.1	54.9	77.9	82.6	87.2
Imports of goods (USD billion)	49.1	42.4	63.2	67.8	73.2
Trade balance (USD billion)	16.0	12.5	14.7	14.8	14.0
Current account (% GDP)	-0.8%	0.9%	0.7%	0.6%	0.5%

Source: EconViews

*Includes SDRs in 2021

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