MONTHLY REPORT

ECONVIEWS
ECONOMÍA Y FINANZAS

April 2022
Issue #214

Three shocks threaten the **fragile economy**

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An **RX** of the **agribusiness**

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THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- As world commodity markets are still stressed from the Russian invasion of Ukraine, a new shock is unfolding in China. Shanghai's Covid-19 lockdown will hit supply chains worldwide. Oil prices are up 38% YTD, natural gas 87%, while wheat shot up 39% in 2022 and soybeans 32%. The IMF acknowledged this in its April WEO, cutting its world growth forecast by 0.8 points to 3.6% in 2022. Its Euro Area forecast dropped 1.1 points to 2.8%, while the US is expected to grow 3.7% (-0.3 points).
- US inflation crawled up to 8.5% in March and Euro Area CPI hit an all-time high of 7.5%. After hiking rates 25 basis points in March, Powell's Fed has begun with quantitative tightening. The ECB is rolling back its asset purchases to €20 billion by June but kept is reference rate unchanged at 0%.
- Argentine inflation rocketed to 6.7% monthly in March, or 55.1% year-on-year. Sharp increases in bread (+25%), eggs (+22%) or coffee (+19%) hit consumers. The BCRA responded by hiking its Leliq policy rate 250 basis points to 47% last April 13th, the fourth increase so far in 2022.
- Once the IMF deal was signed, the Central Bank received a net disbursement of USD 6.7 billion (after the pending capital payment), allowing net reserves to close March 1.5 billion above Q4-2021's level, in line with the Fund's targets.

FIGURE OF THE MONTH

Monthly inflation hit

6.7%

in March, the highest record since April 2002

TO BE ALERT

CER (inflation-adjusted) nominated debt makes up

61.2%

of all peso debt, doubling its weight over the last two years.

WHAT'S COMING NEXT?

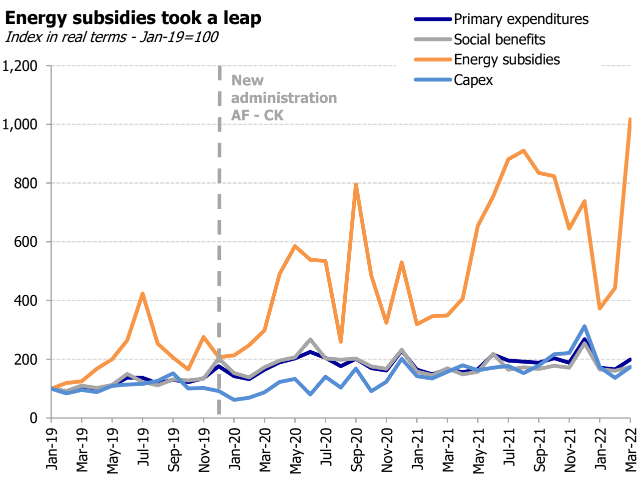
- The Fed's next FOMC is scheduled for May 4th. Markets are already discounting a 50-basis point hike, the first since the year 2000, and while this meeting won't offer projections or a dot-plot chart, minutes may shed information on whether the Fed is still targeting a 1.75-2% range policy rate for 2022, or a more hawkish stance.
- So far in 2022 the BCRA has purchased a net USD 109 million in the spot market, against 3.5 billion for the same period in 2021. Despite the gross harvest, daily reserve purchases have averaged 12 million in April, raising doubts about the IMF's +4.1 billion target for Q2-2022.
- Soybeans are trading at USD 642 per ton, up 8% in April. Aside from the direct effect on exports, Argentina also benefits from RER appreciation in Brazil following the commodity boom. The BRL/USD rate stands at 4.61, gaining 21% YTD. As Brazil's October presidential election draws nearer, this stability may founder.
- The BCRA has taken its crawling peg to nearly 4% monthly, or a 62.5% annualized rate, up from 45% in March. However, dollar futures' pricing implies the market expects devaluation to speed up a bit more: the contract for May stands at ARS 121.4, a 5% monthly jump, and the annualized rate implicit in 12-month contracts hovers around 62%.

SUMMARY OF MAIN INDICATORS

	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	1.8%	-0.7%	Inflation (monthly)	6.7%	4.7%
Consumer confidence (MoM)	-6.4%	-1.8%	FX spread (21day avg.)	73.0%	86.0%
Industrial activity (MoM s.a.)	4.0%	-6.4%	Country risk (bps 21day avg.)	1,729	1,821
International accounts			**External data**		
Current Account (USD BN)	0.37	3.44	Soybean price (per ton, 21day avg.)	613.5	616.0
CB Reserves (USD BN 21day avg.)	41.45	37.23	Brazilian activity (MoM s.a.)	-1.0%	0.3%
Primary balance (ARS BN)	-99.75	-76.28	Financial Conditions Index	-20.0	20.7

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

GRAPH OF THE MONTH:



Source: Econviews based on MECON

RECENT ECONOMIC DEVELOPMENTS

MAR 25th	MAR 31st	APR 4th	APR 7th	APR 13th	APR 18th	APR 21st
Econviews Monthly #213: a necessary but unpopular IMF agreement + special analysis on debt sustainability	Senators close to VP Kirchner **propose a new tax amnesty** on undeclared foreign assets, to "pay off the IMF debt".	President Fernández approves April **ARS 6,000 bonus for pensioners**, to compensate inflation costs.	Argentina struck a deal with Bolivia to **receive a daily 14 million m3 of LNG this winter**, at an average 10 USD per BTU.	**March's CPI reported at 6.7% by INDEC,** highest monthly inflation in 20 years, sends shockwaves across govt.	Minister Guzmán announces **ARS 18,000 bonus for informal workers**, extra ARS 12,000 for pensioners.	**Econviews Monthly #214**

POLITICS

Although tensions within the Government remain high, both factions relaxed slightly after March, when a split over the IMF deal appeared likely. The coalition was formally divided in the Senate in order to gain more seats in a Judicial Council, but it is unclear if this will have long-lasting effects. President Fernandez publicly supported Minister of Economy Guzmán after March's record 6.7% monthly inflation, with voices close to VP Cristina Kirchner asking for his resignation. Guzmán scored a political victory over the Secretary of Energy, controlled by the Kirchnerist faction, by securing public audiences on electricity and gas tariffs on May 10-12th, the first formal step towards a hike in utility rates.

IMF

Argentina is on track to achieve the IMF program's targets for Q1-2022, although the international context will severely complicate this objective further on. The accumulated primary deficit for the first quarter was ARS 192.7 billion, comfortably below the ARS 222.3 billion target. The monetary target of accumulating USD 1.2 billion in reserves over the quarter was also met, thanks to March's SDR 7 billion disbursements, of which USD 6.8 billion entered the BCRA's coffers. Central Bank assistance to the Treasury amounted to ARS 122 billion, in a quarter with low seasonality. Mounting energy subsidies will trouble the Q2-2022 fiscal targets. IMF boss Kristalina Georgieva recently declared the highest risk to the program was rising inflation.

ECONOMIC ACTIVITY

As expected, activity rebounded 1.8% between January and February, after slumping 0.7% in the first month of the year due to the Omicron outbreak. The year-on-year variation was 9.1%, led by hotels and restaurants (31.9%) and transport (14.5%). The manufacturing IPI grew 4% monthly in February s.a., not enough to recover from the previous month's 6.2% contraction. Year-on-year, cars (32%) and apparel (23%) stood out. The auto industry stayed strong in March, with a 12.9% monthly advance. Construction's 7.2% rise in February made up for January's 4.2% slide. However, inflation's effect on real wages is hurting retail, down 26% between March and February. We maintain our 3.5% GDP growth forecast for 2022.

INFLATION

March's 6.7% monthly record was the highest since the 2001-02 crisis, giving both the Government and opposition a lot to talk about. Education costs were up 24% against February due to the beginning of the school year, but seasonality doesn't fully explain apparel's 11% rise. The Ukraine War's impact was more evident in housing & basic services (7.7%) and food and beverages (7.2%), with bread +25% and flour +13%. Core CPI rose to 6.4% monthly, the most since the September 2018 devaluation. With the upcoming adjustment in gas and electricity prices, a faster crawling peg and greater inertia, we have revised our YoY inflation forecast from 61% to 66% for 2022, although March's monthly peak is unlikely to repeat itself.

MONETARY SECTOR

The BCRA reacted to March's shocking inflation record by hiking the Leliq policy rate 250 basis points to 47%, the fourth hike of the year, which started out with a 38% rate. The 28-day Leliq effective rate rises to 58.7%, but inflation expectations have also increased, and a further 600 basis points would be necessary to achieve real neutral rates. However, we do not believe the Leliq rate will exceed 48% in 2022, as the BCRA must also keep an eye on its interest-bearing liabilities, which stand at ARS 5.25 trillion. Accelerated depreciation is helping to keep the parallel FX rates in check: the BCS trades at ARS 204.32, an 79.1% spread, down from 121% in late January. The informal dollar hit ARS 200.5, a 75.7% spread against the official rate.

FISCAL ACCOUNTS

Argentina's primary deficit stood at ARS 99.7 billion in March, thus meeting the IMF's first quarterly goal. Export taxes jumped 113% against 2021, making up 14% of all revenues at ARS 146 billion. ARS 176 billion were raised through VAT, which also increased above inflation at 59% year-on-year. On the expenditure side, social spending grew by 58% and represented half of all expenditures, at ARS 605 billion. Energy subsidies more than quadrupled (+348%) against last year, at ARS 186 billion, and will keep dragging on fiscal accounts in the coming months, due to high international prices and the delayed public audiences on gas and electricity. We expect the primary deficit to GDP ratio will close 2022 at 2.9%.

I. Three shocks threaten the fragile economy

The IMF agreed to a light program with Argentina that could easily be criticized for its lack of scope and depth. It seems that it was a set of policies that represented the minimum common denominator between the demands of the IMF and what the Government offered. Fortunately, it was not an empty set, though not far from it. One could defend the program because, while it required few policy measures, at least it aimed to transit the next year and half without suffering a major deterioration in macro-performance waiting until the next administration takes over. And perhaps then, and only then, a real program might be put together.

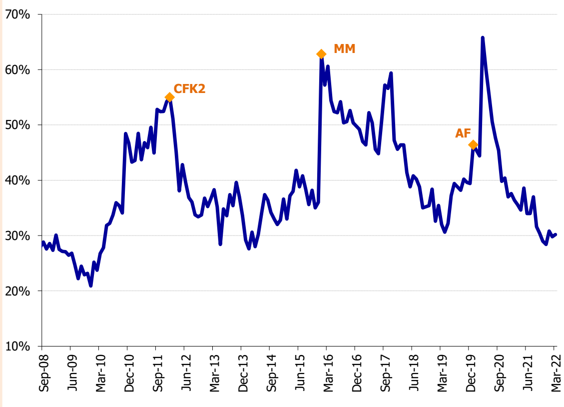
In less than a month, things have changed for the worse and even the light targets set in this agreement have become non-viable. Domestic and international events have challenged the goals for the fiscal accounts and for the accumulation of reserves as well as created new uncertainties regarding inflation, the exchange rate and interest rates.

On the domestic front the problems were twofold: politics and inflation. On the political side, the main challenges came from within the government coalition, as Cristina Kirchner and the "Cámpora" became vocal opponents of the agreement, to the point where they voted against it in Congress. They are pressing for Minister Guzman to resign and are even questioning Alberto Fernández's "independence" from Cristina. It seems that governability is at stake, because if the government coalition broke up, the president would be a in a minority in Congress. This is a scenario that nobody had envisioned, least of all the IMF who asked for broad political support for the program.

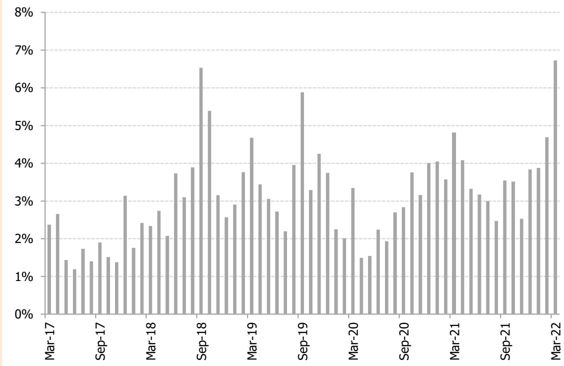
The second domestic shock was March's inflation, which reached 6.7%, the highest rate in 20 years and well above consensus expectations. This is a significant problem, which if not addressed in time, it could spiralize and haunt the administration. So far, the government lacks a strategy to deal with it, and any policy that that tries to bring it down is bound to be considered unacceptable for Cristina and the Cámpora and will be labeled as a "adjustment".

The external shock was also relevant and worrisome: commodity prices have gone-up because of the War in Ukraine, which is a blessing for agricultural exports and a curse for energy imports. This shock only in part helps to explain the March inflation figure, which in fact has affected to a much lesser extent inflation worldwide. **The shock has an ambiguous, though most likely slightly negative effect on the targets for accumulation of international reserves, and an unambiguous negative effect on the fiscal accounts.**

Confidence in the Government
In %- UTDT



Monthly inflation
In %



Source: Econviews based on INDEC

The fiscal adjustment has become a headache

The combination of higher inflation, higher international energy prices and the political threat to increases in utility rates have made the fiscal adjustment a nightmare. The IMF agreement put the weight of the reduction of the primary fiscal deficit to 2.5% of GDP on slamming subsidies by 0.6% of GDP. That, in turn, required a hike in utility rates that on average was supposed to be 80%. This was supposed to be achieved with increases of around 20% to the most vulnerable, 40% to the middle class, and over 100% to industries and the 10% wealthiest of the population. But something went wrong. Inflation, which was assumed to be 43% in the program is now likely to be around 65% this year. The opposition within the government coalition is adamantly opposed to hikes in utility rates as a principle, it opposed the original plans when inflation was supposed to be 43%, we can’t imagine what their reaction would be with 65% inflation.

On top of the inflation problem the government needs to finance roughly 6.0 billion additional dollars (around 1.0% of GDP) due to the higher costs of imports of LNG whose price spiked from 8 dollars the million of BTU last year to almost 40 dollars in 2022. Part of it will be offset by higher tax revenues on agricultural exports, though the bill will still stand at 0.7% of GDP. The bottom line is that the reduction in subsides is nowhere to be found now, nor the one in the fiscal deficit.

Politics complicate the adjustment. A weak president and a questioned minister need to find additional ways to deal with the deficit. Cutting transfers to provinces? It is an option, though the President needs the support of the governors more than ever. Reductions in public investment? That is almost a given, though is now expected to be 2.0% of GDP and part of it needs to be done. Social plans probably will get a hit, and pensions too. And some additional revenues will come from a hike in utility rates. It is doubtful whether these measures will be enough, but if they are not implemented, we’ll have a problem. Meanwhile the government has announced a one-off bonus to pensioners for as much as 0.3% of GDP to compensate for the inflation losses for these groups.

One option is to increase taxes, though they are already too high, and the opposition is determined to stop any initiative on this front in Congress and they seem to have the votes.

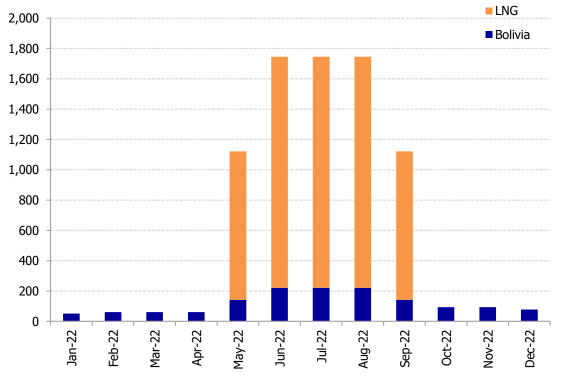
International reserves another headache

On the reserve front the situation also looks tight. The Central Bank must accumulate 5.8 billion dollars in net reserves this year. The initial assumption was that it would accumulate most of them during the export season in the second quarter which would generate a cushion to use at the end of the year. But the external shocks and the big rise in imports are haunting the strategy. So far, the Central Bank is behind the targets, and we doubt it can it make them up in time to recover. In the last couple of days things have looked a little better, but the money would go out when the government starts paying for the LNG in May. In any event, this target still has a chance.

Where will interest rates go?

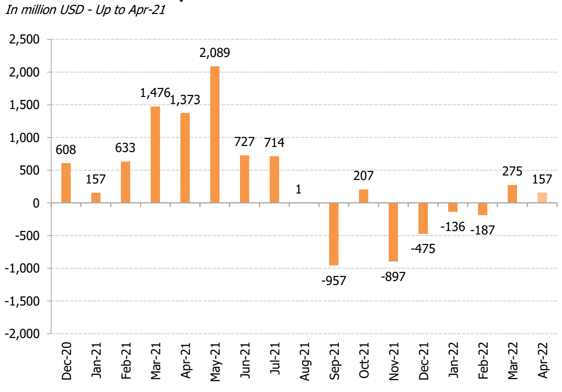
One objective that was stated in the program was that the Central Bank would aim for positive real interest rates, or nominal interest rates above inflation. Since January, the policy rate has gone up from 38 to 47%, which is a big hike, though not enough to ensure positive real interest rates. In most countries we are observing that Central Banks are running behind the curve and have not caught up with inflation, though in Latin America Central Banks were faster to adjust.

USD demand for gas imports
In million - 11.6 USD/MMBTU avg. for Bolivian gas and 40 USD/MMBTU for LNG



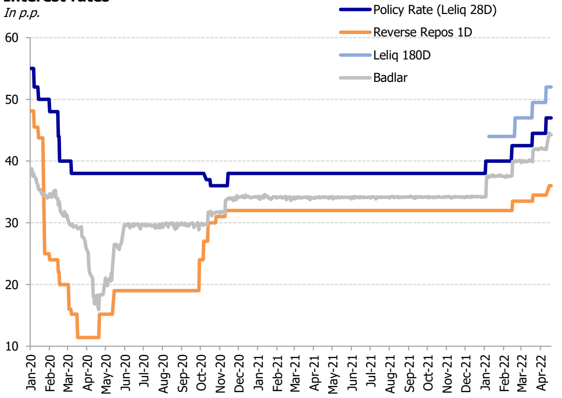
Source: Econviews based on own estimates

Central Bank reserves purchases
In million USD - Up to Apr-21



Soure: Econviews based on BCRA

Interest rates
In p.p.

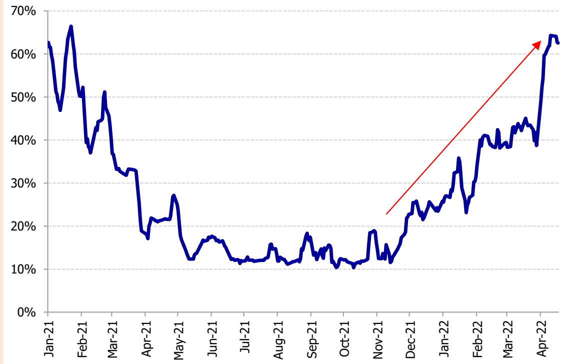


Source: Econviews based on BCRA

Argentina is clearly running from behind. Annual inflation in March was 55.1%, while the consensus figure is now probably closer to 60% on year-to-year basis. This is above an effective yield of 57% (equivalent to 47% of the policy rate for 28-day paper).

Rate of depreciation

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



Source: Econviews based on BCRA

Inflation is worrisome and needs help

Inflation is now at the center of policy problems. According to some polls, this issue is the most worrisome one for 80% of the population. The main problem is that the government does not seem to have strategy to deal with it, and in the absence of a comprehensive plan that is announced properly and changes expectations, inflation is likely to continue to move along in a random walk with an upward trend.

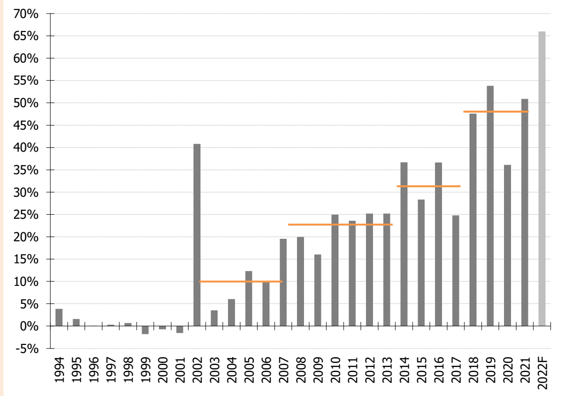
The first problem is that the IMF program does not include clear measures to bring down inflation. It does propose a reduction in the fiscal deficit, but as we already argued it remains to be seen how it will be done. It also has a target for Central Bank financing of the deficit, but if the deficit is larger, it will be difficult to find an alternative source to finance it. In short, the fundamentals do not seem to be there to expect a reduction in inflation.

The second problem is that there is no nominal anchor to guide expectations. The exchange rate is expected to depreciate roughly in line with inflation to maintain the real exchange rate at last December's level. Likewise, utility rates need to rise to reduce the fiscal deficit. There is no monetary anchor as there is no target for the growth of money supply. And of course, inflation targeting is out of the question. There is nothing to anchor expectations.

The third problem is that interest rates are still not used as a policy against inflation. True, there was a large increase, and it did help to stabilize the parallel FX rates, but the Central Bank is not expected to use it in an aggressive way to bring down inflation. Besides, on their own, they are more effective on the exchange rate than on inflation.

Inflation

Annual variation - eop



Finally, there is a risk that if inflation remains at these levels, indexation will become more extensive and most contracts will be adjusted more frequently, which in other countries has led to an acceleration of inflation. It is well known that in Brazil each time that the frequency of indexation halved (first from yearly to semestral, and then to quarterly) the inflation rate doubled. It is not clear that in Argentina the same would happen, but it is almost certain that a shortening of the indexation period will result in higher inflation.

The bottom line is that the IMF program does not have specific policies to deal with inflation and that there are risks that widespread and more frequent indexation and negative shocks will move inflation up.

II. An RX of the agribusiness: the most productive sector, but with worrying signs of stagnation

The agribusiness market, understood as the value chain that includes agriculture, livestock, and food processing, has been the jewel in the crown in Argentine economic history. Argentina has enjoyed fertile land, good weather, facilities close to ports and a good dose of animal spirits that leveraged innovation, which in turn made it possible to multiply production by 6 in one generation or two. Food prices are high, above and beyond the war in Ukraine and the prospects for global demand continue to be promising. Yet, productivity has stagnated over the last few years. Macro factors, an awkward export tax system, the lack of a good legislation for seeds are some of the reasons behind a less optimistic landscape for one of Argentina's key sectors. It is true, though, that agribusiness has managed to thrive in the past despite Argentina's poor institutions and hostile attitudes from the government, but the situation is somewhat more worrying now. **In this report we aim to understand the potentiality and the limits of an iconic sector of the Argentine economy.**

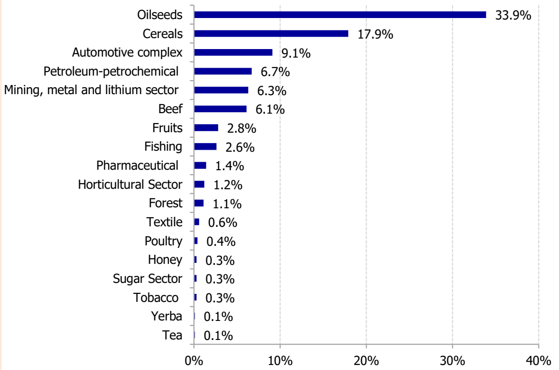
Agriculture, livestock, and forestry is one of the 16 sectors in which Argentina divides its GDP from a supply point of view. It represents almost 9% of total value added and bit more than 7% of GDP. Looked from the outside, people would be surprised with such apparently little impact. However, once we consider the industrialization of food and the multiplier effect, we see that that value generation is far greater, as it happens for instance in the transport market. Food is the sector that weighs the most in the manufacturing sector, which accounts for 20% of value added. Argentina also produces fertilizers (not enough for avoiding import dependence) and agriculture machinery. There is a vibrant agriculture technology sector that goes from grains to forestry to everything related to improving the genes in livestock. Cites, GridX, Bioceres are some of the many names behind innovation outside Buenos Aires.

The ecosystem of agriculture and livestock is made of roughly 60,000 firms including servicing companies. The number of outsourcers has been steadily increasing. There are around 1.6 million jobs but with a high degree of informality. Agriculture has become a very capital-intensive sector.

If we talk about exports, over 50% of them are made up of food. This also includes fisheries. In the last 12 months processed and raw food accounted for 65% of export proceeds on cash basis. Hence, agribusiness may look small in terms of GDP, but it becomes essential in terms of harvesting USD, essential to import everything from cars to key industrial inputs. Yet, the agriculture sector does not have a strong lobby as other sectors and often ends up amid heavy politically artillery.

In the late seventies Argentina would harvest less than 20 million metric tons considering the six main crops (wheat, corn, soybeans, sunflower, barley, and sorghum). For the current harvest that number is 124.4 million, having peaked at 135.7 million mt in 2019. This has been the Argentine branch of the "green revolution". In the case of Argentina, the multiplication of output has been driven by a combination of more

Main exporting sectors
Percentage of total exports- 2021



Source: Econviews based on INDEC

workable area with a boom in productivity. Argentina harvests today around 33 million hectares compared to around 20 million in the late seventies and early eighties. This was done by simply moving the agriculture frontier and by displacing livestock to less productive land.

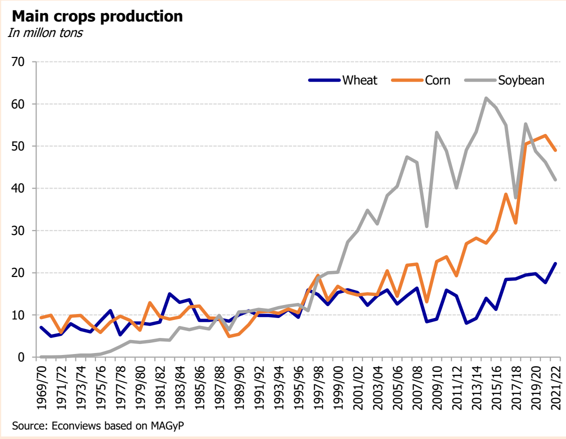
Numbers show that productivity is by far the greatest impulse and there are many avenues to explore this jump. Firstly, Argentina was an early adopter of GM seeds. Secondly Argentina was a pioneer in no-till farming. Thirdly, the land market in Argentina has been such that more than half of the harvest happens in rented land. So, landlords find it profitable to lease land to those with the know-how and technology to make the most of an acre of land, leading to a more efficient market. The Argentine farmer excels in crop management and with high precision understands exactly when the best time for sowing and harvesting is. There is also good practice in rotating crops and sharing capital goods among farmers and other efficient practices. Ag-tech in Argentina has been flourishing for some time.

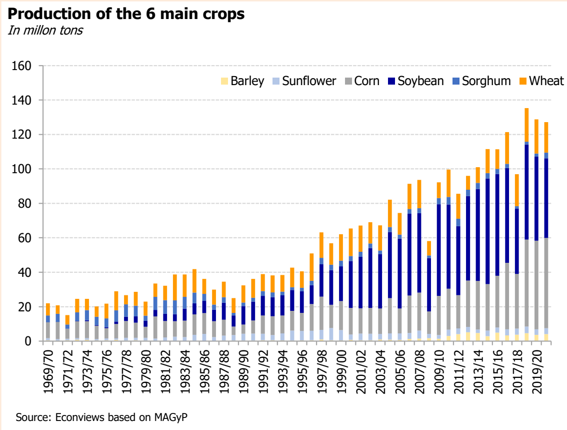
Another part of the revolution was the introduction of soybeans. In 1979 only 3.5 million tons of soybeans were harvested while at the peak of 2015 farmers produced 61.4 million. Since then, they reallocated the portfolio to corn, which is going to be the most important crop (in tons) this year at close to 50 million against 42 million of soybeans.

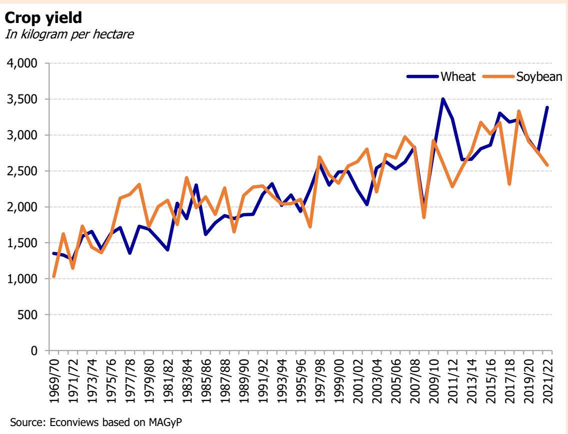
Productivity has jumped from 2.1 in 1990 to 3.1 mt per hectare in soybeans, from 1.82 to 2.9 in wheat and from 1.39 to 1.91 in sunflower to mention some of the crops. **The proliferation of soybeans has also enabled the crushing business, to the point that Argentina has become the biggest soybean oil and soybean meal global exporter**. With more than 50 industrial plants, most of them meters away from ports, Argentina has become the exporter of choice. Not only do these plants crush 90% of Argentina's harvest, but also Argentina imports soybeans from Paraguay and other neighboring countries to process locally. Anecdotally, during the drought of 2018 Argentina even imported grains from the USA to supply its idle factories. In the last 12 months Argentina imported oilseeds for USD 4.4 billion, 7% of total imports, roughly 8 million mt of soybeans at an average price of USD 500. Argentina has a capacity to crush soybeans and sunflower for around 70 million tons a year.

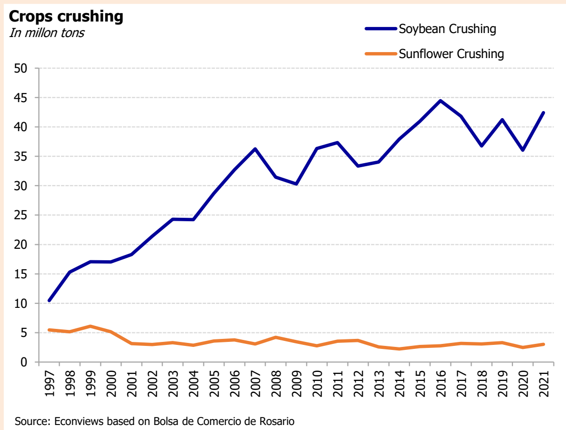
Argentina is also an important producer of biofuels, although its output has been volatile on account of anti-dumping measures and other regulations in the USA and EU. Argentina produces 1.7 million cubic meters of biodiesel and 1 million of ethanol. In the good old days, biodiesel output reached almost 2.5 million. There has been a decrease in both local sales and exports. For ethanol, the increase in the share of biofuel in local sales has been the driver of higher output, although we are still below 2018's tally.

Naturally, there is more than cereals and oilseeds. Argentina is a decent producer of other products such as pears and apples, olives, rice, peanuts, lemons (1st in the world), grapes, grapefruits, sugar, tobacco, and many others. Some regional economies depend on those products. Such is the case of Rio Negro, the hub of apples and pears and Tucumán, where most lemon trees grow. These crops drive important industries such as wine or sugar to name just a couple of them.



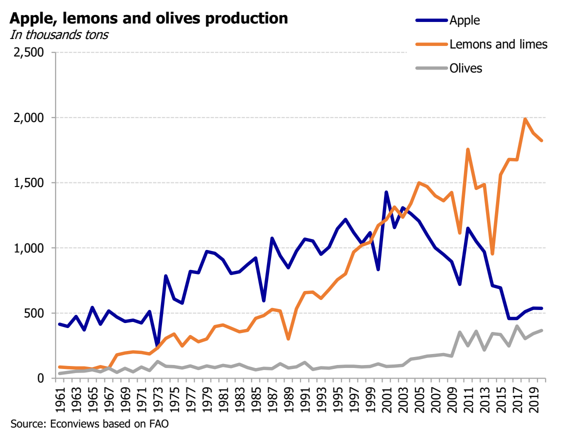


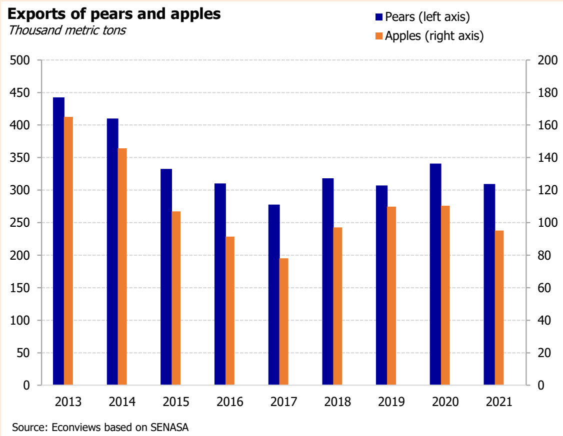




In the case of lemons, production was less than 500,000 tons in the eighties, and it is now somewhere between 1.5 and 2 million mts. Production of peanuts jumped from less than 300,000 tons at the beginning of this century to over 1 million mt every year since 2012/3.

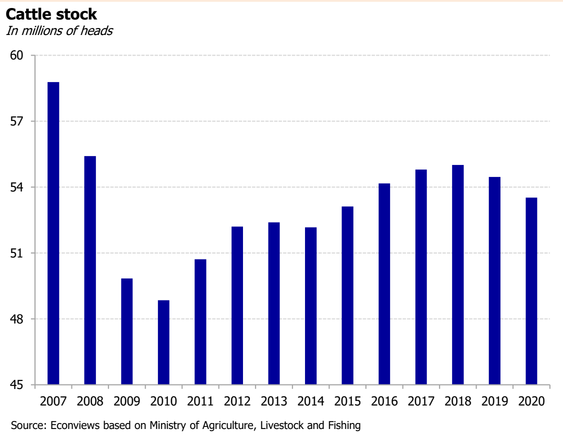
Pears and apples also stand out. Argentina is the main exporter of pears in the Southern Hemisphere (and first globally of fresh pears) and stands fifth on world apple exports. Opportunities abound, as there is significant demand from the Northern Hemisphere at competitive prices, and there is room for the activity to become more efficient. But volumes of production and exports have fallen. In 2021 some 309,285 tons of pears were exported, while in 2013 exports had amounted to 442,617 tn. In the case of apples, 95,110 tons were exported last year compared to 165,001 in 2013. Costs have also increased, and important investments are needed which demand great production volumes. They include transport (the nearest port, San Antonio Este, is located 440 km from production hotspots), R+D and plague control. But sector leaders claim that boosting production and exports requires modern labor legislation, tax stability and long-term financing. Some competitors enjoy all these features, but Argentina is going uphill.



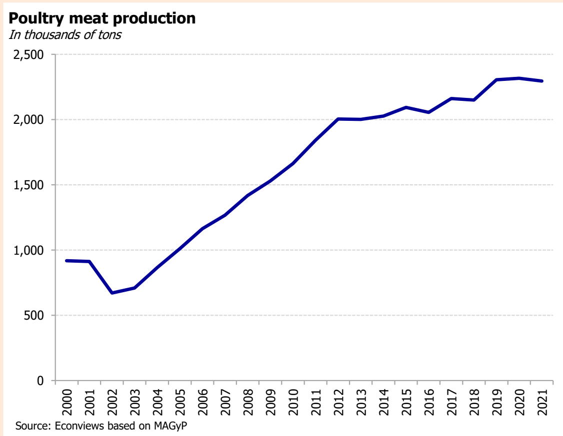


Livestock: silently adding value

Beef is another flagship product for Argentina. Its quality is globally recognized, as a good chunk of its production is grass-fed. In 2021 Argentina slaughtered 12.99 million of cows, the worst year since 2017. The market had been improving steadily since the low of 2016, but a new round of export bans conspired against the development of the market. Beef consumption in the local market reached a new low. Exports in 2021 were 803,544 tons as compared to 903,917 in 2020 and 845,877 tons in 2019.



The poultry market also shrank in 2021 with 741 million chickens processed compared to 757 million both in 2020 and in 2019. Still 2021's production number was the third highest on record. The pork industry is the only one steadily growing. In 2021, the industry slaughtered 7.4 million animals compared to 3.2 million only in 2010. Both chicken and pork take advantage of cheap inputs, as the export tax cheapens the animal feed price, which is based on export parity, or international price less taxes.



Milk is another important product which has great potential due to availability of water throughout most of the country. But milk production has stagnated -as has cattle stock- due to poor economic policy and is subject to price controls. In 2021, 11.55 billion liters of milk were produced, slightly above the levels from twenty years ago. According to FADA, primary producers only receive 35% of the price paid by consumers, but on average producers have been operating at a loss. While in February average primary producers received ARS 37.69 per liter, average costs amounted to ARS 40.7 after tax.

Risk of stagnation

Not long ago, estimates for 2030 were marking 180 to 200 million tons in the harvest of the main 6 crops. That number, while still possible, looks unlikely as productivity seems to have stagnated. There are several factors that conspire against the potentiality of the agribusiness in Argentina.

There is clearly a macro factor. **The country has not grown in a decade**. Argentina has defaulted and with country risk hovering around 1,700 basis points, the cost of capital is astronomically expensive. Cross border financing is scarce and local financing almost inexistent beyond short-term working capital. This has an impact, for instance, in the use of machinery. Argentine producers tend to use harvesters and tractors beyond their efficiency level, experts point out. The existence of multiple exchange rates is another example. With the current spread between official and market-based dollars, producers only receive 60% of the value of their exports.

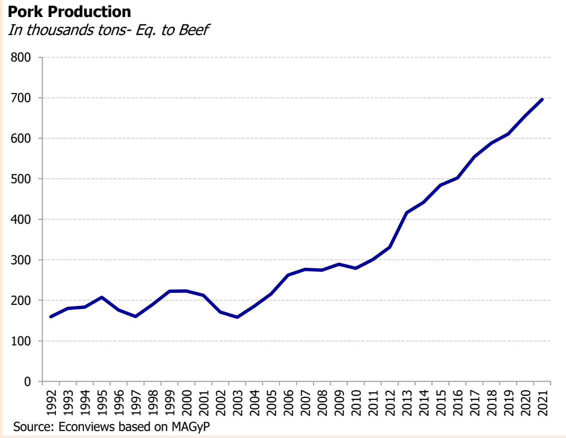
If we add to the equation the fact that the soybean value chain pays a 33% export tax (often over a value set by the government that is higher than market transactions making it effective at almost 35%), the burden on the producer is much higher. Wheat and corn pay a 12% export tax, but unlike soybeans they are often subject to export quotas in such way that local supply becomes cheaper. If we add freight and insurance, the Argentine producers hardly receive 30% of the price a Chinese or and Indian company pay for the goods. The implication of this is that under these conditions it looks quite unlikely that the agriculture frontier can be expanded using less fertile land, which requires more fertilizers.

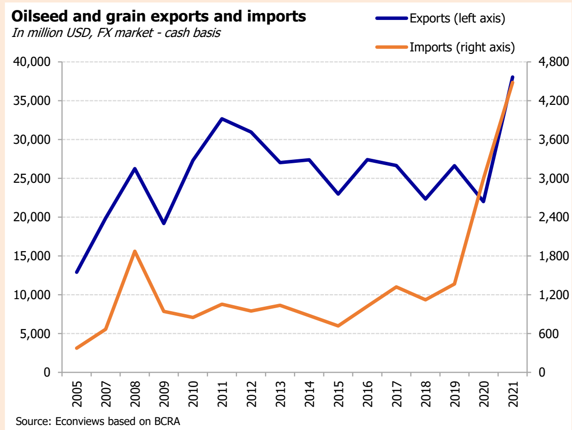
Agriculture goods are not the only ones with export taxes, but they are by far the worst affected. In 2021 Argentina collected over 2.06% of GDP, the highest number since 2012. Over 90% of such revenue came from the agriculture sector.

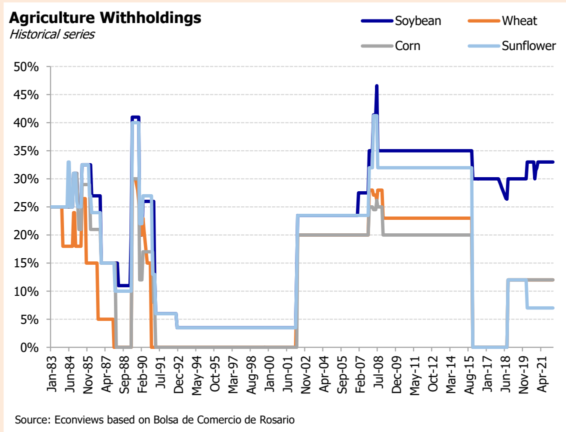
In the microeconomic landscape there are many elements to enumerate. Firstly, the lack of a "seed law" means that no new technology has hit the market, while other competitors are starting to be ahead of Argentine producers. Governments have consistently avoided taking decisions, producers (even modern ones) have advocated for not paying royalties. Companies are no saints and often try to push for technologies Argentina does not need, forcing an overpayment. It is all in a bad equilibrium, which is hard to improve.

A second big problem is logistics. Unlike in the USA or Brazil (the other big producers of corn and soybeans) Argentina relies on trucks for moving grains. In Argentine 84% of the grain goes by truck compared to 60% in Brazil and 16% in the USA, where barges and railways are far more important for this sector. On top of this, Argentina has a severe infrastructure problem with rural roads, which means that on rainy days trucks would not get into the farms to collect the grains. Truck drivers' labor costs in Argentina are unrivalled in the region. Gold medal for being the highest in Latin America.

Environmental issues are starting to become a problem. Regulations for the use of agrochemicals are chaotic. Some municipalities have started to legislate, which means that standardizing technologies may not be







possible for someone with farms in different locations, something that from a risk point of view would make perfect sense.

The leadership of the sector is mentioned as part of the problem. There are multiple associations grouping producers and often they fail to have a joint position against the government and the broader society, which mainly does not know the agriculture business and tends to see it as it was 100 years ago.

The lack of an insurance market beyond hail is another constraint. Producers are at the mercy of weather, there is no irrigation even in the dryer parts of the country. All this generates very unstable income.

In a nutshell, the agribusiness sector is one of the most (if not the most) efficient sectors in Argentina. Productivity will not jump again as it did in the early years of this century but could do much better. It does not require much. Macro stability to have a single exchange rate, less tax pressure, and some improvement in infrastructure. The rest needs to come from the sector itself: better internal organization for lobbying, better communication with the rest of the society and leveraging the animal spirits that has characterized the firms in the last 20-30 years. The risk is that some of the entrepreneurs continue to invest somewhere else, as Argentines are partly responsible for the improvement in agriculture in neighboring countries.

Base Scenario

	2019	2020	2021	2022 F	2023 F
Inflation (eop)	53.8%	36.1%	50.9%	66.0%	57.0%
Inflation (aop)	53.5%	42.0%	48.4%	59.7%	59.1%
Exchange rate ARS/USD (eop)	59.9	84.1	102.8	160.2	237.2
Real exchange rate ARS/USD (eop, Dec-01=100)	150.8	158.3	137.1	140.3	139.6
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	272.4	367.7
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	49.1	51.5
Policy rate (eop)	55.0%	38.0%	38.0%	48.0%	44.0%
GDP (YoY)	-2.0%	-9.9%	10.3%	3.5%	2.5%
Formal wages in real terms (aop, YoY)	-6.0%	-1.9%	0.4%	-2.0%	0.0%
Primary surplus (% GDP)	-0.4%	-6.5%	-3.0%	-2.9%	-2.0%
EMBI Argentina (spread in bps, eop)	1,744	1,350	1,600	1,400	1,000
Public net debt (% GDP)	43.6%	53.3%	41.5%	39.3%	41.8%
Current account (% GDP)	-0.8%	0.9%	0.7%	0.6%	0.5%

Source: EconViews

*Includes SDRs in 2021

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