MONTHLY REPORT

ECONVIEWS
ECONOMÍA Y FINANZAS

May 2022
Issue #215

THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- On May 4th, the Federal Reserve lifted rates by 50 basis points for the first time in 22 years, to a 0.75-1% range. Chairman Powell has suggested similar hikes could take place at the June 15th and July 27th meetings. The median forecast of 1.75-2% rates by December from March's dot-plot is starting to feel like old news. The market is also betting on an ECB rate hike in July.
- After the Fed Funds hike, the S&P 500 crashed 9.3%, although it has since recovered 1.02%. YTD, the index is down 17%. The NASDAQ 100 has plunged 29% since December. Cryptos such as Bitcoin (-24%) or Ethereum (-30%) have fared even worse this month. Argentine stocks advanced 1.5% in May.
- US CPI's year-on-year print lowered slightly to 8.3% in April, but monthly core inflation accelerated from 0.32 to 0.57%. After March's 2.4% shocker, Eurozone prices were up 0.6% monthly in April, taking the year-on-year variation to 7.5%. Energy prices dropped 3.7% against March, but are still up 38% yearly.
- Argentina's inflation barely slowed to 6% monthly in April, after March's record 6.7%. Year-on-year, the 58% mark was the highest since 1992. Bread (+11.1%), flour (+16%) and sugar (+12%) were some of the basic food staples with sharp increases. The Central Bank responded by hiking its Leliq policy rate 200 basis points to 49% on May 12th, the year's fifth increase.

FIGURE OF THE MONTH

Year-on-year inflation hit

58%

in April, the highest record since the early 90s

TO BE ALERT

The spread between yields on the TX23 and TX24 CER inflation-adjusted bonds stands at

4.96%

reflecting fears of a possible default after the 2023 elections.

WHAT'S COMING NEXT?

- Oil prices are up 7.6% so far in May and will add pressure to global inflation. The Fed's hawkish stance, China's slow growth –partly due to its strict zero Covid policy- and the war in Ukraine are feeding into fears of a new world recession.
- Argentina is undergoing negotiations to join the BRICS (Brazil, Russia, India, China and South Africa), initially as a member country of the block's new development bank, together with Indonesia, Nigeria and Kazakhstan.
- April's exports added up to USD 8.3 billion, a record for the month, but sales to China sunk 21.1% year-on-year due to Covid lockdowns. Imports totaled USD 6.9 billion, up 1.8% s.a. in the month and led by electrical parts and appliances. The BCRA has accumulated only USD 1 billion reserves this year, and the recovery could hit a plateau due to lack of inputs.
- The Treasury raised ARS 784 billion at its last auction, enough to rollover May's peso debt maturities. To do so, it had to reopen a dollar-linked bond dated April 2024, and increase nominal rates on shorter Discount Bills to 51%. The spread between yields on CER (inflation-adjusted) bonds which mature in 2023 and 2024 stands at 4.96 points, reflecting fears of a new "reprofiling" of indexed peso debt after the elections.

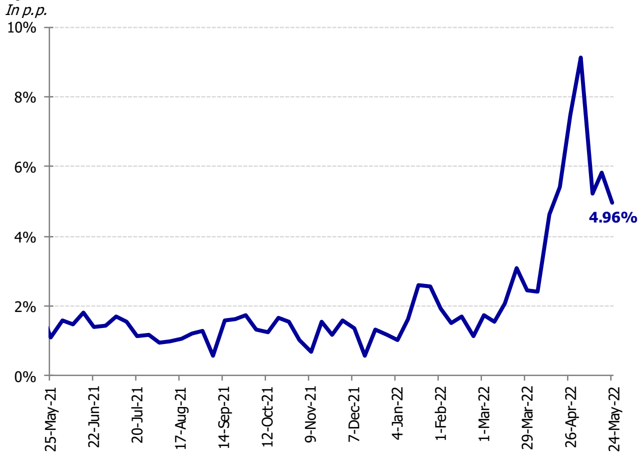
SUMMARY OF MAIN INDICATORS

	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	-0.7%	1.2%	Inflation (monthly)	6.0%	6.7%
Consumer confidence (MoM)	-3.2%	-6.4%	FX spread (21day avg.)	78.9%	72.7%
Industrial activity (MoM s.a.)	-1.9%	5.0%	Country risk (bps 21day avg.)	1,848	1,723
International accounts			**External data**		
Current Account (USD BN)	0.37	3.44	Soybean price (per ton, 21day avg.)	616.6	613.6
CB Reserves (USD BN 21day avg.)	41.91	42.32	Brazilian activity (MoM s.a.)	0.3%	-0.7%
Primary balance (ARS BN)	-79.18	-99.75	Financial Conditions Index	2.8	-23.6

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

GRAPH OF THE MONTH:

Spread between TX24-TX23 CER bonds
In p.p.



Source: Econviews based on IAMC

RECENT ECONOMIC DEVELOPMENTS

APR 21st — **Econviews Monthly #214:** Three shocks to a fragile economy + special analysis on agriculture in Argentina

APR 22nd — **Retail workers**, Argentina's largest union with 1.2 million members, **sign a 59.5% wage increase** over April 2022-23.

APR 27th — Main opposition party **Juntos por el Cambio dismisses alliance with Javier Milei**, far-right politician growing in polls.

MAY 4th — **US Federal Reserve hikes policy rate by 50 basis points**, triggering 7.2% S&P 500 slump. Argentine debt sinks 3.6%.

MAY 11th — **Government proposes +16% electricity hike, +20% for gas prices**, in June. Industrial tariffs for electricity to rise up to 73%.

MAY 20th — **Secretary of Commerce now under the orbit of Ministry of Economy**, a shift in favor of Guzmán and Fernández.

MAY 24th — **Econviews Monthly #215**

POLITICS

With March and April's hot inflation figures as a backdrop, tension sparked between President Fernández and his VP Cristina Kirchner again. The vice-president charged against Fernandez's key ministers: Guzmán in Economy and Kulfas in Production, accusing them of a "low-wage program". However, the leaders of main unions and social movements are supporting Fernandez, while the Economy is pushing ahead with its adjustment of energy subsidies. Lines are also being drawn within the opposition, with ex-president Macri and the Mayor of Buenos Aires Larreta, among others, competing for top spots in the 2023 election. Recent polls suggest low approval ratings and high social discontent across the board.

IMF

As expected, the Government achieved the IMF program's targets for Q1-2022, albeit a small controversy on accounting the difference between inflation-adjusted bonds' effective and nominal value as income. Guzman is said to be negotiating a "recalibration" of the program's targets and assumptions with the IMF staff: both the 48% inflation forecast and the 2.5% primary deficit goal seem hard to reach, given the rise in international energy prices and the delayed adjustment in utility bills. The Government is expected to pass an amended version of the 2022 Budget by decree in the next days, to stand in for the original bill, which was rejected in Congress last December.

ECONOMIC ACTIVITY

Activity slumped 0.7% between February and March, and closed Q1-2022 with 0.9% quarterly variation. In year-on-year terms, the economy grew 6.1% in the first quarter, and 4.8% in March. The manufacturing IPI fell 1.9% monthly, hampered by import restrictions. Apparel and auto industry stood out as the strongest branches. Construction dropped 4.1% in March, although formal jobs in the sector topped 400,000 for the first time since November 2019. Despite biting inflation, retail sales were up 12.8% between February and March, led by home decoration and apparel. Agriculture was 5.5% below its level in March 2021, taking a toll from the lack of rain. We hold our estimate for GDP growth in 2022 at 3.5%.

INFLATION

After March's uncomfortable 6.7% figure, monthly inflation decelerated less than expected to 6% in April. The 58% year-on-year variation was the highest since the early 90s hyperinflation. Clothing and apparel, which had already jumped 11% in March, soared a further 9% monthly. They were followed by hotels and restaurants (7.3%) and healthcare (6.3%). Food and beverage prices rose 5.9%. Shelter and utilities (4.6%) is an item to keep an eye on, as common expenses adjusted 20% in May, and electricity and gas bills will rise in that order next month. Core inflation struck 6.7% monthly, its highest record since September 2018. In light of the strong inertia and several upside risks, we have raised our 2022 inflation forecast to 70%.

MONETARY SECTOR

After April's hot CPI release, the BCRA cranked its Leliq policy rate up 200 basis points to 49%, the fifth hike in 2022. This leaves the effective yearly rate around 61.8%, slightly above inflation. High liabilities, which have already cost the Central Bank ARS 570 billion in interests this year, restrain further increases, although we believe there is one more Leliq hike in store for 2022, to 51%. In order to increase its reserves holdings, the BCRA has accelerated the official FX rate's depreciation to 60.6% annualized. At ARS 119, the spread with the ARS 207 parallel dollar has fallen to 73.4%. However, high inflation means the RER has appreciated 4.6% against December 2021, the IMF's intended target level.

FISCAL ACCOUNTS

Argentina's primary deficit stood at ARS 79.2 billion in April, slightly below March's record. Revenues were up 78% year-on-year, led by income tax (+91%). Export taxes grew only 14% and totaled ARS 89.3 billion, 8% of all tax revenues. Primary expenditures increased 87% against April 2021. Spending on social security grew 82%, adding up to ARS 639 billion, or 55% of total expenditures. The ARS 18,000 bonus for pensioners assigned in May will impact on this month's accounts. Economic subsidies soared 148% year-on-year, with energy (+133%) accounting for ARS 117 billion and transport (+210%) for the other 44 billion. For now, our primary deficit forecast for 2022 stands at 3% of GDP.

I. Politics Complicate an Already Complex Economic Situation

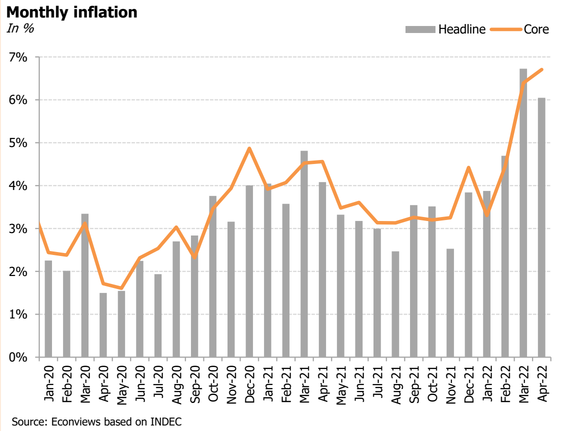
The IMF program triggered a conflict within the government coalition between the populist and more "orthodox" sectors. The key differences are the importance that each of then attach to the targets set in the IMF program. Targets require tighter monetary and fiscal policy, and the difference in the approach to deal with inflation, where the most radicalized sectors put the priority on price controls and on limiting the increases in utility rates while others put more emphasis on the fiscal imbalance, on reducing energy subsidies and on a more prudent monetary policy.

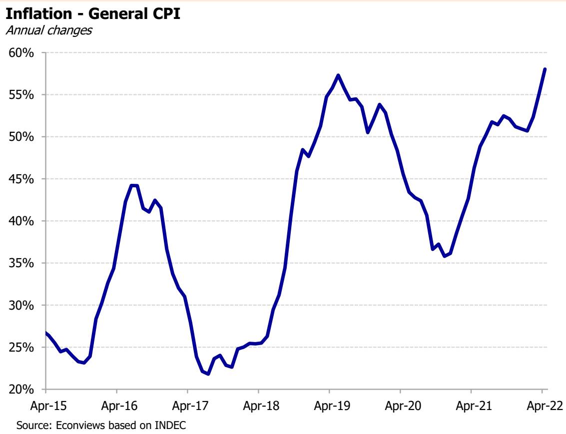
The political infight has paralyzed many decisions and has increased the uncertainty regarding economic policies. Martin Guzman is under attack from Cristina Kirchner and the Campora, and suddenly, he has become an "orthodox" economist, emphasizing the importance of fiscal balance, the need to increase reserves, or to restraint the growth of money supply. It is difficult to understand the shift in Guzman´s views, and it probably reflects the months of negotiations with the Fund and a better understanding of the macroeconomic risks of maintaining the previous policies.

Alberto Fernandez is strongly supporting Guzman, in part because he realizes that these attacks are aimed at him, though he is still on the defensive and is not ready to break the coalition. Cristina Kirchner, on the other hand, is continuously criticizing and eroding Fernandez's power, and has withdrawn her support in Congress, which was clear in the case of the IMF program that had to be approved with the support of the opposition. This means that the government has structural political weakness, and it is unclear how long this situation will last, as there does not seem to be an easy way to reconcile positions.

In the meantime, the government is zigzagging. On the one hand it tries to mend fences with Cristina and the Cámpora (e.g., by increasing the minimum wage and the tax exemption as requested by them) and on the other to impose some rationality in economic policies in line with what was agreed in the IMF program (e.g. mainly by maintaining fiscal and monetary prudence). The risk is that the administration becomes paralyzed at a time where there are big challenges that need urgent attention.

Inflation is clearly the most pressing issue. The unexpected rise that took place in March and April, when it reached 6.7 and 6.0 percent respectively, is extremely disturbing because it did not have a clear cause nor there is a strategy to bring it down. True, inflation typically goes up in March plus the fact that international prices provided an additional push. However, these factors do not explain the full story, especially because the jump in prices is broad-based (not just imported goods) and was in part a response to concerns about the possible introduction of price controls when the government announced "a war against inflation", which for most people meant a strengthening of the controls.





The magnitude of the March figure, and the fact that was largely unexpected, had a significant effect on expectations and inflation dynamics. Out of the blue, larger increases in prices became acceptable and expectations got out of control. More worrisome, the current inflation has no anchor; it is not the exchange rate, because in the IMF program is supposed be adjusted roughly in line with inflation (because the exchange rate is it is already overvalued), nor are the utility rates. The bottom line is that the two main anchors that helped to somewhat tame inflation last year are not there anymore.

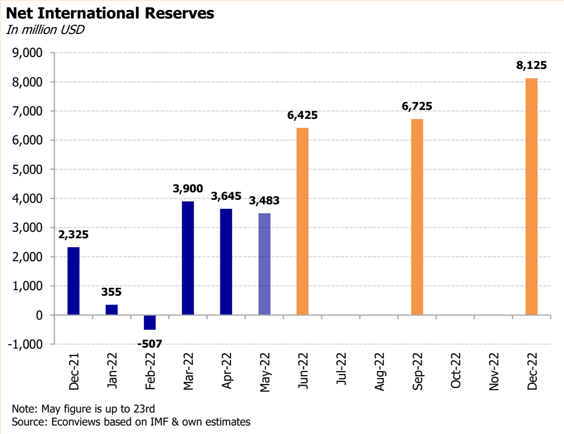
The most worrisome aspect is that the rapid and substantial increase in inflation might have raised the inertia level one step up and reinforce indexation which in the end is likely to increase the instability of the inflation process. The concern is that a one-off devaluation or a large hike in utility rates might destabilize inflation and move it one step higher (to say 75 or 80 per cent). Those shocks could happen because the government needs a weaker currency to boost international reserves and higher utility rates to reduce energy subsidies.

One of the worse elements is that there is no plan to deal with the problem. Why would one think that inflation is going to come down? There is still no nominal anchor. Real interest rates are still negative, despite the hikes in the policy rates. And many prices are misaligned in need of change. Many perceive as a positive move that the Secretary of Commerce that now reports directly to Guzman. However, the truth is that the fight against inflation is primarily based on monetary and fiscal policies, not on price controls, that can at best do a secondary job if only if there is program in place, which there is not.

Reserves and exchange rate policy is a second area of concern. So far, and not surprisingly the Central Bank has not been able to accumulate reserves at the rhythm that was agreed in the IMF program, which is particularly worrisome because March, April, May, and June are the months when the Central Bank typically accumulates the bulk of the reserves for the year. So far, it has bought less than a one billion dollars, compared with over four billion dollars in a typical year, and the outlook for coming months is not bright, to say the least. The Central bank is far from meeting the target set in the IMF program, as international reserves are just 3.5 billion dollars, when the program requires them to reach 6.5 billion dollars by the end of June. An impossible task.

This weak performance on the external front is raising questions about the sustainability of the current exchange rate policy. It seems clear that the Central Bank is trying to avoid a devaluation, if it is at all possible. Most of the evidence indicates that the currency is overvalued, and the spread between the official and the parallel exchange rates is just one indicator of the situation. To make things worse, the real exchange rate, which in the IMF program was agreed to remain at the December's level, is now roughly six percentage points below that level. And the Central Bank continues to depreciate the currency well below the rate of inflation, which makes matters worse.

The reluctance to depreciate faster or to devalue is based on the concerns about its potential impact on inflation, at a time that it is reaching the highest rates in forty years. Those concerns are understandable, but the cost of avoiding the adjustment in the exchange



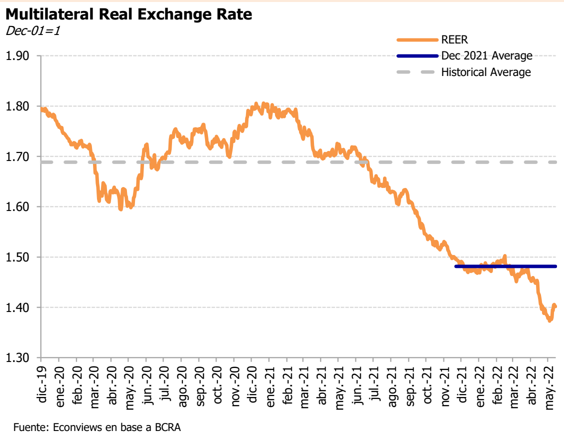
Net and Liquid International Reserves

In billion USD

Gross reserves	**41.6**
Reserve requirements in USD	12.1
Swaps (incl. China)	21.4
SDRs	1.6
BIS	3.0
Net reserves	**3.5**
Gold	3.6
Liquid net reserves	**-0.1**

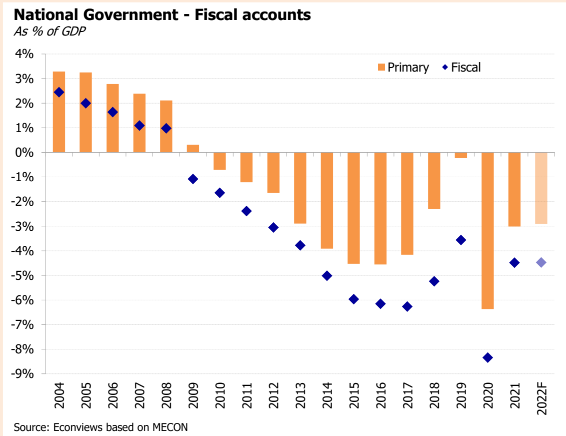
Source: Own estimates based on BCRA and IMF

Up to May-23

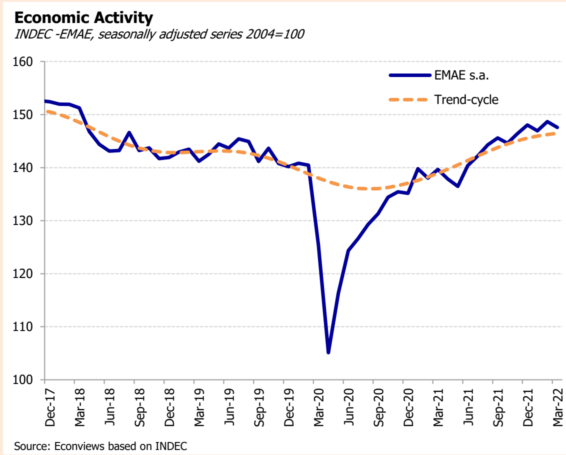


rate is that the external situation is getting worse and worse, and it might end with a reversal in policies, including a step devaluation. The economy is moving in a slippery territory in this area, because the Central Bank needs reserves and does not have many instruments to increase them.

While the main challenges on the economic front are inflation, international reserves and exchange rate policy, the fiscal front continues to be a problem while the recovery is already losing steam. **Fiscal numbers are worrying. Accounts deteriorated in the first four months of the year, a period in which the Treasury has traditionally been a comfortable period**. And this happened even though tax revenues increased by 69% in nominal terms. The problems been that primary expenditures increased much more (75%), including an increase in energy subsidies that went up 165%. As a result, the fiscal deficit is two and a half times larger than last year and it is not larger because the government is using an accounting trick as it includes phony capital gains in some of the bonds that it has been issuing.



It seems that the government will also have difficulties to meet the fiscal targets, even in the second quarter. Our estimate is that the fiscal deficit for 2022 will be 3.0% of GDP, which is 0.5% larger than the target. Minister Guzman, despite all the criticism from the Campora, has not been as tough on expenditures as it looks.



March's GDP shows that activity dropped 0.7% m/m, and that the rate of growth continues to decelerate. The figures for construction and manufacturing were also in negative territory, indicating that the rebound after the pandemic is coming to an end. This deceleration was largely expected, not only because investment continues to be at very low levels, but also because the very tight import controls complicate production. **Our estimate is that the economy will grow 3.5% this year, mainly explained by a statistical carry-over effect from last year**.

The bottom line is that the economy is under pressure, that the IMF program helps to avoid a chaotic scenario, but that inflation, the exchange rate, international reserves, and the fiscal accounts will keep the government on its toes for the rest of year…and probably next year as well.

II. How Is Real Income Doing?

Real incomes have fallen in the last few years, as the economy has stagnated, and inflation has consistently increased. While the decline has been widespread, not everybody has been affected in the same way. **Our new "Econviews Disposable Income Index" is 22% below 2017's average. This new index encompasses all sorts of household income, from salaries to pensions to government handouts.**

Informal, unregistered, and non-unionized workers as well as recipients of social security benefits are the first victims of a rising inflation. High-earning self-employed workers and formal employees, on the other hand, have more tools to protect themselves from inflation. But their incomes have eroded, nonetheless. **Real wages of registered employees are still 11% down compared to early 2017.**

In this report we will propose a new measure of disposable income. We will also analyze the structure and recent evolution of real incomes, and to better understand disposable income, we will also provide some analysis into inelastic expenditures. The last section will provide the methodology of our disposable income index.

I. Assessing disposable income

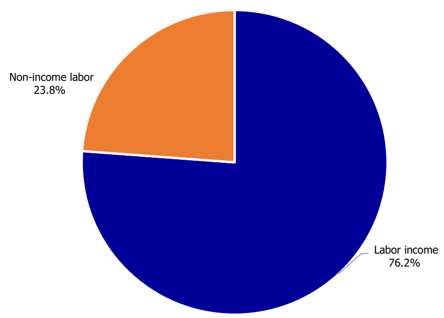
People do not consume their entire income. They must pay taxes, pay water, gas, electricity bills and, in general, must also incur into expenditures they cannot easily avoid. **These expenditures are made of what economists call "inelastic" goods and services. Whatever income is left after these expenditures is what we called disposable income.**

Peronist politicians have traditionally attempted to increase disposable income by reducing the load of these inelastic expenditures. The flagship case has been energy subsidies. By increasing subsidies to electricity and gas, utility bills are smaller, and people can enjoy a higher disposable income. **But there's no free lunch in economics, and the bill ultimately comes either through higher taxes or higher inflation. Today over 13% of primary spending goes to cover utility or transport subsidies.** And when rates are updated, the impact on incomes can be rough as seen during the first years of the Macri government.

Disposable income and consumption rose throughout 2017, but the 2018 crisis hit both hard. Yet consumption did not fall as much, aided by an increase in personal loans, which rose 7.7% in real terms on average (but they fell by the end of the year). Credit card usage, in contrast, remained stable. **In 2018, the formal payroll** (private & public sector employees)**, which makes the bulk of families' income, fell on average by 72.4 billion pesos at last April's prices, but credit to consumption added 132.9 billion pesos.**

In 2019, as the crisis continued, both consumption and disposable income moved downwards in tandem. This time there was no help from credit to consumption, as it sank in real terms. The stock of personal loans and credit card loans fell on average by 898.7 billion pesos (at April

Where does family income come from?
2017-2018



Source: Econviews based on INDEC

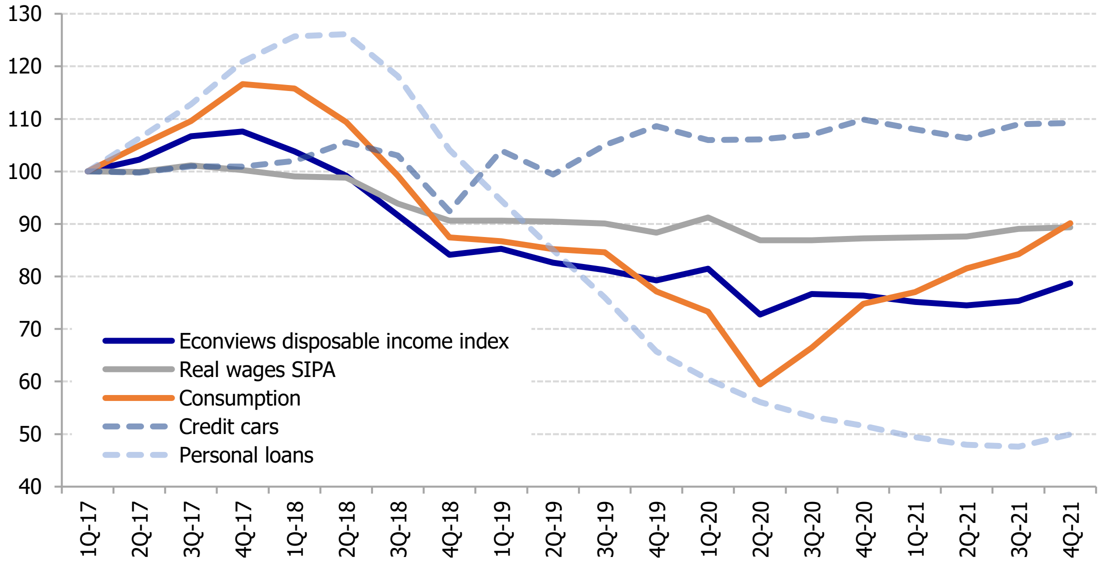
Formal payroll and credit to consumption*
Avg. variation in ARS bn at Apr-22 prices

	Formal payroll	Credit
2017 vs 2016	20.0	163.8
2018 vs 2017	-72.4	132.9
2019 vs 2018	-104.6	-898.7
2020 vs 2019	-65.3	-299.3
2021 vs 2020	-11.6	-64.1

Source: Econviews based on multiple sources
*Credit cards and personal loans

2022’s prices) compared to 2018, while the formal payroll contracted by 104.6 billion pesos.

Disposable income & consumption
Indexed to 1Q-2017=100, seasonally adjusted



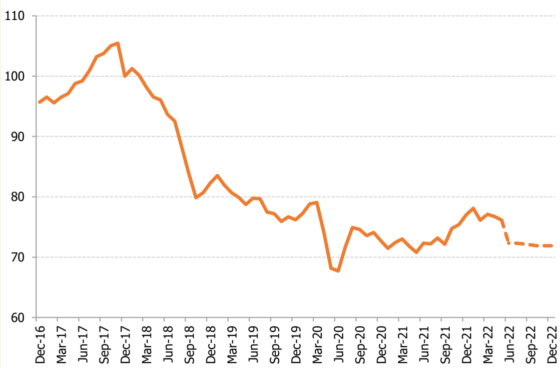
Source: Econviews based on multiple sources

The pandemic brought down disposable income and consumption, but the latter fell even more because of mobility restrictions. And families reduced their consumption debt stock by an average of 299.3 billion pesos

The recovery in consumption in the second half of 2021 was fueled by a recovery of disposable income in the second half of the year and was also aided by the relative un-indebtedness of households. The acceleration of inflation and the high FX spread also meant an increase in consumption of durable goods which do not fall into the investment category.

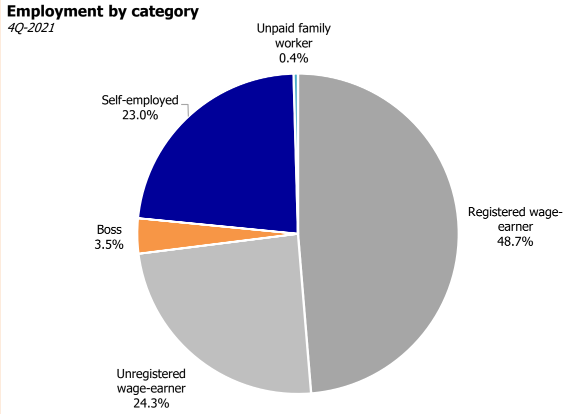
What do we expect for 2022? The statistiscal carryover left by 2021 leaves an important floor for disposable income. **But the acceleration of inflation and the upcoming utility rate adjustments means further deterioration**. Formal salaried workers will increase their demands and can better protect their real incomes. But informal workers cannnot count on it. Social security recipients will also likely see their purchasing power decrease, despite probable handout increases. **We estimate our disposable index will be 1.4% higher than 2021 on average due to the strong carryover effect, but will display a large drop of over 6% measured Decembre to December.**

Econviews disposable income index
Dec-17=100, seasonally adjusted, estimated after Feb-22



Source: Econviews

Employment by category
4Q-2021



Source: Econviews based on INDEC

II. The structure of incomes and expenditures of households

Like in most countries, the bulk of the income of households comes from labor. In fact, according to the latest National Survey of Household Expenditures carried out during 2017 and 2018, some 76.2% of families’

incomes were generated through labor. And this relationship has remained stable, as evidenced by the latest Permanent Household Survey

Yet this labor income is not always stable, as a third of wage-earners were not registered as of late 2021. This also means less future income: formal employees are subject to retirement deductions. Conversely, unregistered workers need to plan for retirement and in most cases will depend on state aid typically under the form of non-contributory pension, which in Argentina is 20% lower than the minimum pension.

Unregistered work, by definition, is much more flexible than formal employment as it is not subject to labor laws and is basically a spoken agreement between two parties. It is also an important source of labor for seasonal activities (like agriculture) and those that are heavily influenced by the macroeconomic context (i.e., construction). **And as such, it is much less stable than formal employment.** In the second quarter of 2020, when a stringent lockdown was put in place, registered employment fell 4.8% year-on-year according to INDEC, while unregistered labor sank 34.7%.

Labor income also comes through self-employment, and its stability largely depends on the position and industry of the worker. Self-employment encompasses *monotributistas* (single-tax payers) whose gross income can vary from ARS 466.2 thousand a year in the lowest category to ARS 4.66 million. There is even a special category for workers who make less than the standard minimum (called *social monotributo*). As higher incomes are linked to greater individual skills and education, they are also more stable, and the opposite is also true.

Non-labor income makes up nearly a quarter of families' incomes. About 85% of it is made up by social security benefits, mostly by pensions but also of direct government transfers such as non-contributory pensions and programs such as the child allowance, Argentina's flagship handout.

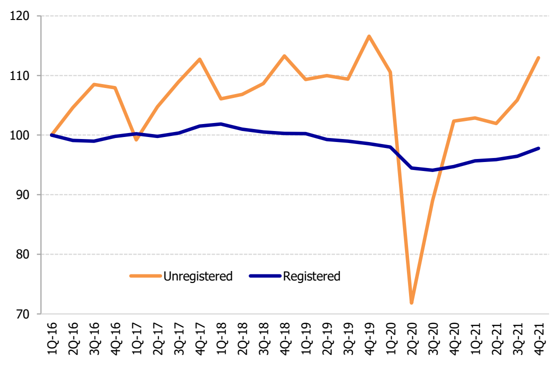
This type of non-labor income is an important source for impoverished households and the elderly. In fact, according to the ENGHO, in 2017 & 2019 more than 45% of households in the poorest 20% quintile received either childhood or pregnancy allowances. On the contrary, only 17.5% of those on the lowest 20% of income distribution received contributory pensions compared to 36.7% of those in the richest 20%. This is an example of the importance of formal employment.

A significant amount of poor households received non-contributory pensions (13.1% for the poorest quintile), which contrasts with the very low share received by relatively rich households. This social security benefit is destined for poor people with disabilities, mothers of 7 or more children and people older than 70 without retirement contributions.

Non-labor income includes rents too, which are typically obtained by upper-middle and upper-income households, but they make up only 6% of it.

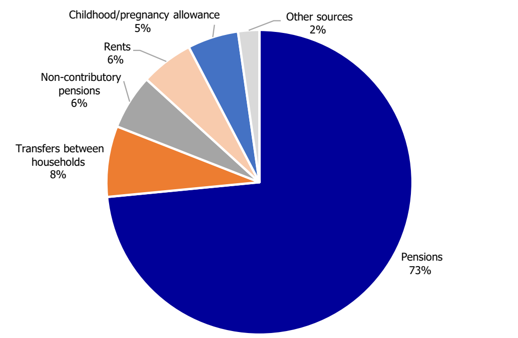
To make a comprehensive assessment, we must also cover expenditures. As we mentioned before, families will assign their income to various goods and services after they make unavoidable expenditures. Families who rent cannot just stop paying or else they would lose their residence. The same goes for basic services. One can only reduce their

Registered and unregistered employment
1Q-2016=100, non-seasonally adjusted



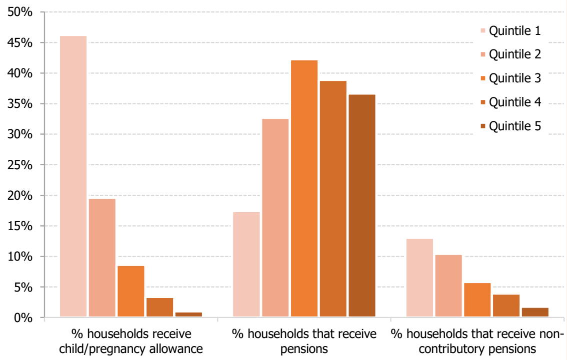
Source: Econviews based on INDEC

Distribution of non-labor income
2017-2018



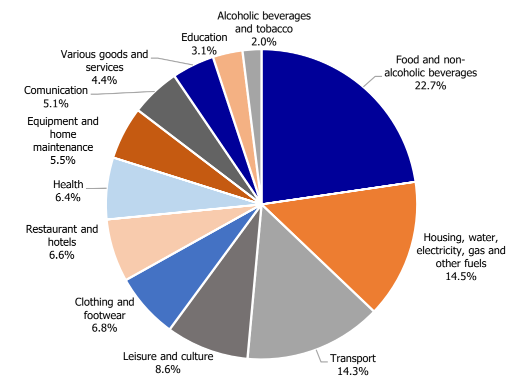
Source: Econviews based on INDEC

Social security recipients by quintile
Pensions, child/pregnancy allowance, non-cont pensions - 2017-18



Source: Econviews based on INDEC

How do families spend their money?
2017-2018



Source: Econviews based on INDEC

energy consumption so much if its price rises, but at a point this becomes a totally inelastic product -meaning a fixed amount will be consumed regardless of its price.

How families spend their money is also an important issue because it determines how inflation is measured. In fact, starting next year Argentina's CPI will be based on expenditures surveyed by the 2017-18 ENGHO. Let us examine them.

Food and non-alcoholic drinks are the most important expenditure, explaining 22.7% of total expenditures, but their share has fallen significantly in the last decades: in 2004 they amounted to 33.4%. On the contrary, after the adjustment of utility rates under former president Macri's administration, **the load of housing, water, electricity, gas & other fuels rose to 14% compared to 10.8%.**

Leisure-related expenditures have also grown in share. The latest survey indicated that "leisure and culture", "restaurants and hotels" and "alcoholic beverages and tobacco" -very elastic products- made up 17.1% of total expenditures, roughly 3 p.p. above 2004's levels.

We will focus now on inelastic expenditures and how disposable income is affected. Food and beverages are an expenditure that of course cannot be avoided, but not all possess the same elasticity. While a person must eat to survive, if the price of an item goes up it can be replaced by another one relatively easily. An example of that is meat consumption, which has sharply dropped as its price has increased and has been replaced by poultry and pork.

Assuming that all income is spent, we can subtract the most unavoidable expenditures and have a good idea of what share of incomes can be destined to more elastic items, including massive consumption products. **Housing expenses, utility bills, transport, education, and health, besides food, are arguably the hardest to avoid expenditures.**

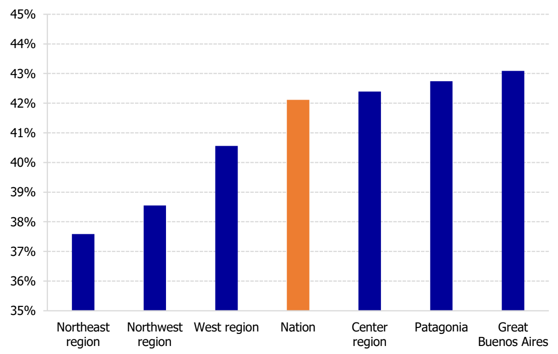
Poorer regions tend to have a lower disposable income. In the northeast region, less than 38% of total incomes could be considered as disposable income, as per the 2017-2018 ENGHO. In contrast, in Patagonia and the Great Buenos Aires, disposable income after inelastic expenditures rises to around 43%.

The same is true at the household level. Those in the lower 20% of income distribution could deem about 35% of their incomes as disposable, while for families on the richest quintile's disposable income rose to over 42% of their incomes. Of course, the relative weight of inelastic expenditures is not the same for everyone.

Poorer households tend to spend much more on food than rich ones; in contrast richer families spend more on health and education as well as transport. The weight of housing and basic services was rather evenly distributed across all quintiles of income distribution. But that is because richer households spend more on rent. In contrast, the weight of basic services is much higher for those on the lower end of income distribution.

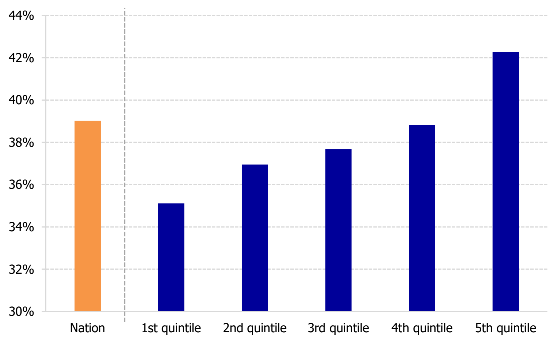
The latest data prepared by the Secretary of Energy for the public hearings where utility rate increases where discussed show that the weight of gas

Disposable income after inelastic expenditures*
As % of income



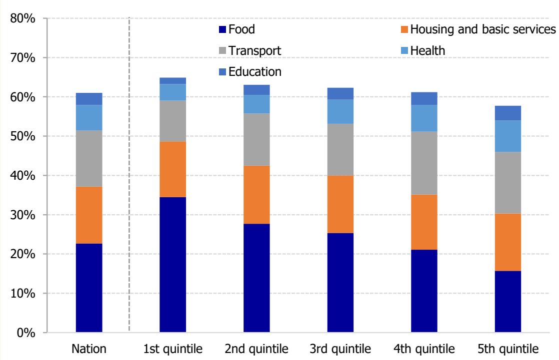
Source: Econviews based on INDEC
*Main divisions: food, housing & basic services, transport, education and health, under assumption of no savings

Disposable income after inelastic expenditures*
As % of income



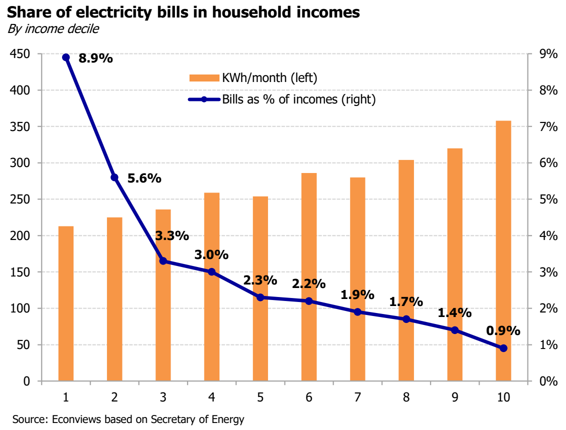
Source: Econviews based on INDEC
*Main divisions: food, housing & basic services, transport, education and health, under assumption of no savings

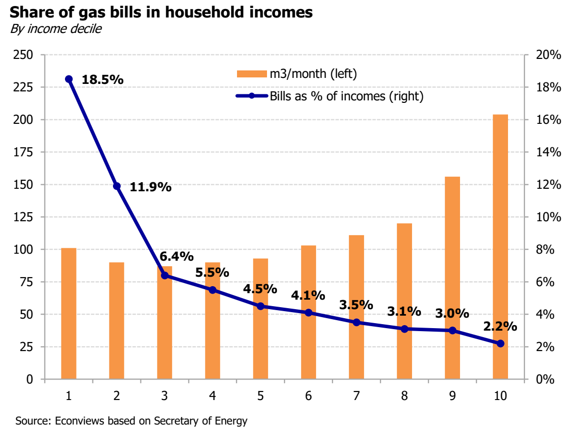
Inelastic expenditures by quintile
Main divisions, as share of total expenditures - 2017-18



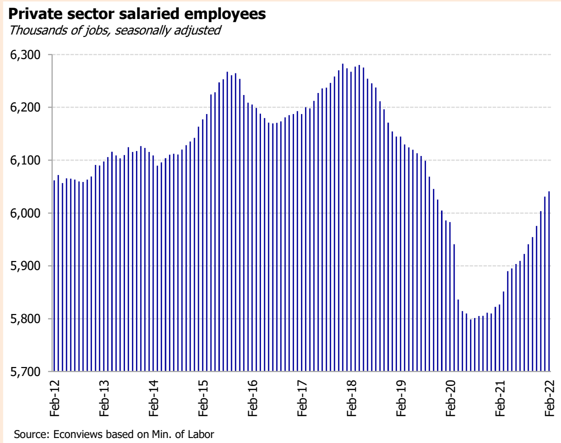
Source: Econviews based on INDEC

and electricity bills for the 10% poorer households amounts to 27.5% of their incomes, while this figure sinks to 3.1% for the richest 10%.



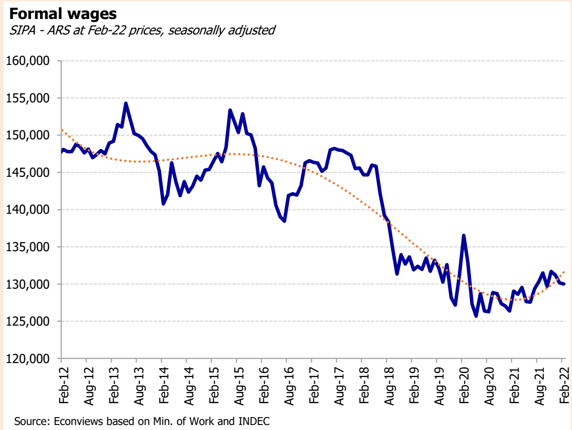


Payrolls have been in decline for the last decade, as the economy has stagnated. **Private employment not only stagnated, but it took a sharp drop after the 2018 crisis.** And with the 2020 stringent lockdowns, private employment sank: nearly half a million jobs were lost compared to the peak reached in December 2017.



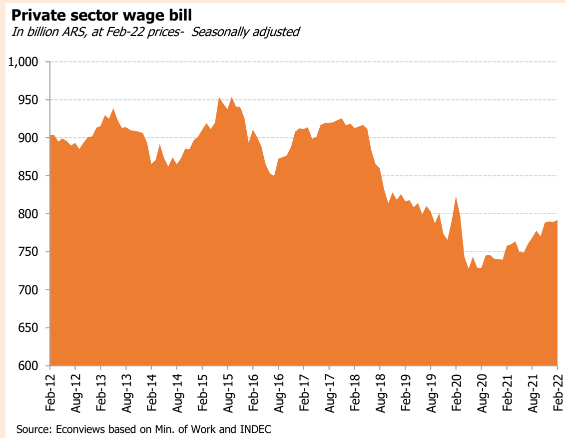
But the recent evolution has been more promising, with an important recovery in labor-intensive industries. In February, private employment reached the highest level since October 2019. There is still a long way to go though and sustaining this path in the current macro environment will prove more than challenging.

Real wages of the private have also steadily fallen in the last decade. Measured in pesos of last February, the average gross salary for the registered employee -adjusting for seasonality- reached ARS 130,023. While higher than the bottom reached in May 2020 (ARS 125,688), it stands way below the peak of ARS 154,287 of May 2013.



Their combined effect shows that the real wage bill of the private sector stagnated through 2012 to 2017 (with increases that coincide with election years) and strongly declined with the 2018 crisis, when inflation shot up and real output contracted. There was a short-lived increase in the first quarter of 2020, after a wage increase dictated by decree. But the pandemic quickly eroded it.

In recent months the real wage bill has shown an increase, mostly because of higher employment. With the revisions of wage agreements in the second half of 2021, real wages also contributed to a higher wage bill. **But a continued growth looks unlikely. In the short run, we can be confident that levels of employment will remain stable as the formal market is very inflexible -unless a deep crisis is unleashed, but we don't see that as very likely. Wages beating inflation will prove more difficult, and we don't believe that will happen this year**. They shouldn't stay too far either, as unions are turning more demanding, and the government is encouraging high increases.



The public sector payroll also recovered in recent months. For years, public employment has been gaining ground over private employment. In 2012, some 4.3 public sector jobs were registered for every 10 private ones. In 2018 they already represented more than half. The number of state employees skyrocketed after the pandemic and there are already about 124,000 more registered than in February 2020.

From 2017 to mid-2021, the contraction in the public sector wage bill was due to falling salaries. While numbers of public employees continued to grow, public wages lost the battle against inflation and bottomed out in May last year. **As it represents a government expenditure, the adjustment in recent years was not done through quantities but rather prices.** But the recovery of activity in recent months allowed the trend to be reversed and this was reflected in the wage bill: in December it was 2.3% higher than February 2020, before the pandemic. And though in the first two months of the year the public sector real wage bill contracted due to falling salaries, in March it rebounded in tandem with wages, although we do not yet have the actual figure of public employment and we have assumed it remained constant.

The story of unregistered work is different. From late 2017, real wages of unregistered employees have been steadily falling. In fact, by September last year they had shrunk by 35% compared to the peak reached in August 2017. The trend was apparently beginning to reverse with the recovery of economic activity and overall wages in the economy. But after peaking in December, wages of this sector began to contract in real terms. And everything indicates that they could shrink even further.

By transforming quarterly data into monthly data, we can have a more thorough picture of the evolution of unregistered employment, and we can also eliminate the seasonal effect, although with some volatility. Like formal employment, informal employment shrank because of the lockdowns since March 2020, but the effect was much stronger on the latter. There was a quick rebound, but it did not go back to pre-pandemic levels. **And neither did the real wage bill of the unregistered private sector: by December it was around 6% below its levels two years before. And if unregistered employment moved in tandem with registered employment in the first quarter, the real wage bill of the informal sector has also declined in the last few months.**

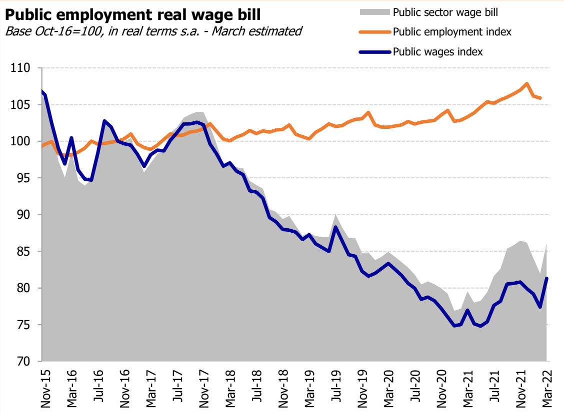
For the self-employed, assessing the evolution of incomes is not feasible, as data on their billing is not published by AFIP. Yet, even as lower category *monotributistas* may not have the same bargaining power as unionized workers, the recent evolution of total self-employment clearly indicates that aggregate incomes for this groups have been growing, if only by a quantities effect. In fact, the number of *monotributistas* reached a maximum of 2.25 million in February.

As for non-labor income, we will focus on pensions and other social security programs, which make the bulk of it.

Government expenditure in pensions, including non-contributory ones, reached a maximum in October 2017 and started to contract onwards in real, seasonally adjusted terms. Despite the presidential promise of a recovery of pensions, throughout 2020 and until the first half of 2021 they continued to shrink.

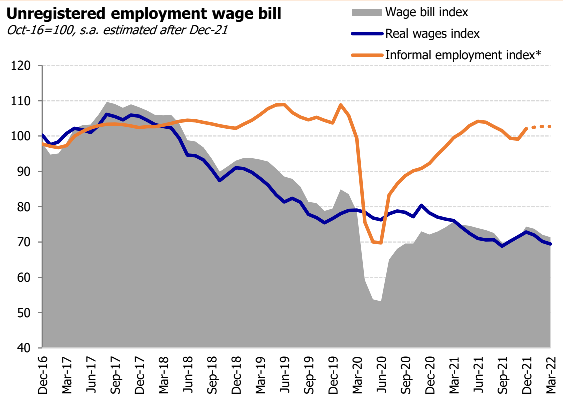
Yet after bottoming in May last year, pensions started to recover until they reached a peak in the first month 2022 and took a dive with the

Public employment real wage bill
Base Oct-16=100, in real terms s.a. - March estimated



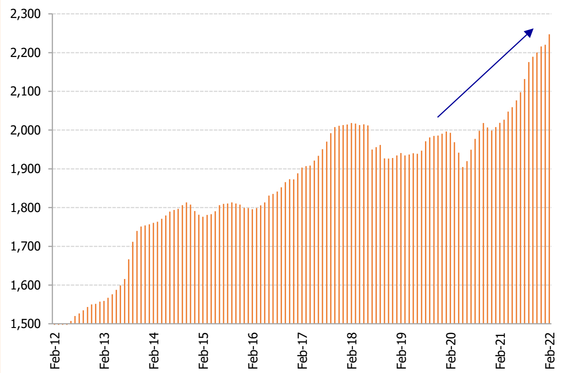
Source: Econviews based on INDEC and Min. of Labor

Unregistered employment wage bill
Oct-16=100, s.a. estimated after Dec-21



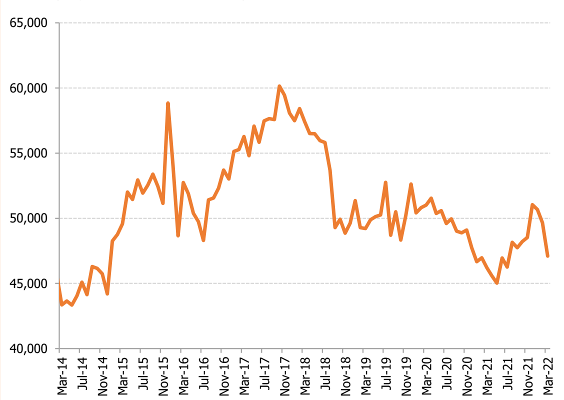
*Quadratic conversion of quarterly data
Source: Econviews based on INDEC & Eviews

Monotributistas (single-tax payers)
Thousands of workers, seasonally adjusted



Source: Econviews based on Min. of Labor

Pensions in real terms
Seasonally adjusted, ARS million at Jan-16 prices

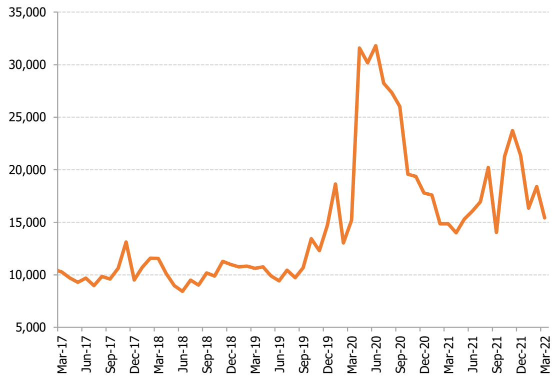


Source: Econviews based on Min. of Economy acceleration of inflation. The recovery of the second half of 2021, which was accompanied by a recovery in labor income -at least of formal employees- contributed to the improvement of consumption of the population as a whole. But rising inflation will continue to erode incomes of the retired population, and the 15% increase set for June according to the new indexing formula will prove insufficient. As a result, bonus payments by decree are likely to happen in coming months.

As for other social security benefits, their recent evolution varies depending on what we include. If we include all social programs, we can observe there was an upshot in mid-2020, as the government made transfers to private employers in order to pay for wages and provided a widespread allowance called "emergency family income" (IFE). Including the former in families' incomes would imply a double accounting. Conversely, expenditures on the IFE program were an income received by families.

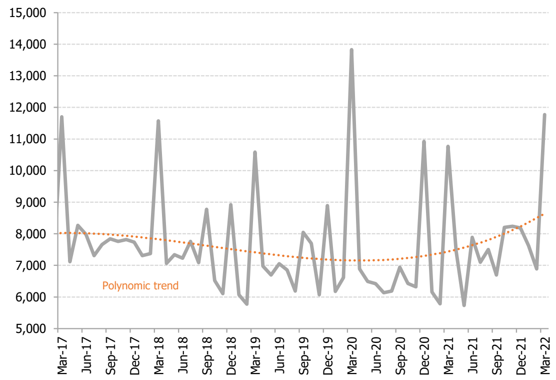
When we only focus on childhood, pregnancy ad family allowances, we see huge volatility; attempting to remove a theoretical seasonal effect proves pointless. The reason behind this is that these programs are mostly discretionary, and their increases are many times set by the political mood. Yet when we look at the trend, for the last few years they have remained rather stable, but with the recent increase they jumped to levels not observed since March 2020, when the quarantine was put in place. **As social demands are growing, these non-labor incomes are likelier to grow**. But attempting to lower the fiscal deficit simultaneously will prove challenging, and these social expenditures will either be capped or there could be cuts elsewhere.

Social plans in real terms
Seasonally adjusted, ARS million at Jan-16 prices



Source: Econviews based on Min. of Economy

Social plans: childhood, pregnancy and family allowances
Non-seasonally adjusted, ARS million at Jan-16 prices



Source: Econviews based on Min. of Economy

III. Towards a measure of disposable income

We have proposed a new measure of disposable income. Our methodology is straightforward. We combine the real wage bill of public and private sector employees, the real wage bill of unregistered employees and the bulk of social security benefits directly received by households. We eliminate the seasonal effects to better understand their performance. A setback of this procedure is that the entire series are (moderately) adjusted with new data. We then condense these masses of income into one single gross indicator using weights provided by the ENGHO 2017-18.

We then subtract the hardest to avoid expenditures, i.e. housing expenditures, basic services, public transportation, fuel for personal vehicles, education & healthcare. We do not include foods as their consumption can be, in general, adjusted before price changes (in times of crises, people tend to purchase second brands).

Households have different consumption patterns, depending on their source and level of income, as we have discussed above. For this reason, we consider these patterns when we subtract expenditures from different income masses. The last step is adjusting the data using core inflation. **We finally obtain a measure of disposable income, which is much more volatile than SIPA real wages and has a stronger correlation with consumption.**

Base Scenario

	2019	2020	2021	2022 F	2023 F
Inflation (eop)	53.8%	36.1%	50.9%	70.0%	66.0%
Exchange rate ARS/USD (eop)	59.9	84.1	102.8	164.4	269.5
Exchange rate ARS/USD (eop, YoY)	58.4%	40.5%	22.1%	60.0%	64.0%
Real exchange rate ARS/USD (eop, Dec-01=100)	151.5	158.3	137.1	137.8	140.3
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	279.4	417.8
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
Net international reserves (eop, in thousands of M USD)	12.6	3.8	2.3	8.1	12.1
Policy rate (eop)	55.0%	38.0%	38.0%	51.0%	51.0%
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%	-0.5%	0.5%
Primary surplus (% GDP)	-0.4%	-6.5%	-3.0%	-3.0%	-2.3%
Public net debt (% GDP)	43.6%	53.3%	42.2%	40.4%	42.6%
Current account (% GDP)	-0.8%	0.9%	0.7%	0.5%	0.7%

Source: EconViews

*Includes SDRs in 2021

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