MONTHLY REPORT

ECONVIEWS

ECONOMÍA Y FINANZAS

January 2023

Issue #223

THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- With a 0.1% monthly fall in December's CPI, US inflation ended 2022 at 6.5% after peaking at 9.1% in June. Wage increases slowed from 5.8 to 3.4% despite a very tight labor market, with unemployment at 3.5% in December.
- Inflation closed 2022 at 94.8% year-on-year, a 31-year high. However, monthly inflation lowered from 7.4% in July to 5.1% in December, thanks to some fiscal restraint, price agreements for basic staples and lower international inflation.
- The Central Bank's second edition of the special exchange rate for soybean exporters, this time at an ARS 230 parity, allowed for USD 3.1 billion exports in December. This figure is less than half of September's 7.7 billion result.
- Sovereign dollar bonds soared by 16% in the last month, gaining 2.9% the day after Minister Massa revealed a USD 1 billion debt buyback. The GD30 bond went from 20 cents in October to 37 now. However, at 1,834 bps country risk is still at default levels. Argentine stocks also rallied 29% in the last month.
- With inflation slowing to 5% monthly, the Central Bank has decided to keep its Leliq policy rate at 75%, but it raised the repo rate from 70 to 72%. The unstated objective appears to be lowering the Blue Chip Swap, which increased 7% to ARS 364 in January. The parallel dollar shot up 11% to ARS 381.

FIGURE OF THE MONTH

Argentine stocks rallied

29%

on Wall Street this last month.

TO BE ALERT

The economy contracted

1.4%

from August to November, falling for three straight months for the first time since 2020.

WHAT'S COMING NEXT?

- Despite hawkish talk from Federal Reserve officials, markets are pricing two more 25 bps hikes to 4.75-5% in March and rate cuts as soon as November 2023. The narrative is that with growing recession risk, the focus will shift quickly from inflation to activity in Q2 or Q3.
- The World Bank expects global growth to slow down from 2.9 to 1.7% in 2023, the lowest since the 2009 or 2020 recessions. However, Fed estimates show the US economy is growing at 3.5% and the Eurozone expanded 2.3% in Q3-2022.
- The ongoing drought could cost Argentina around USD 10 billion in 2023. We expect the BCRA to bring back the "soybean dollar" in March in line with the harvest, but private estimates show the soybean crop could be 13% below last year's. The official exchange rate is depreciating at 5.6% per month or 87% annualizing five days, down from 100% a few weeks ago, but it is unclear how long the Central Bank will be able to hold this slower rhythm.
- With less than seven months until the primary elections, the Government has yet to announce whether President Fernández will seek re-election or if Minister Massa will run.
- Retail workers negotiated a 23% update on their 2022 wages taking the year-on-year increase to 101%. This leaves them in line with steel (+110%) or construction workers (+105%). However, Massa wants unions to fall in line with his 60% benchmark for 2023.

SUMMARY OF MAIN INDICATORS

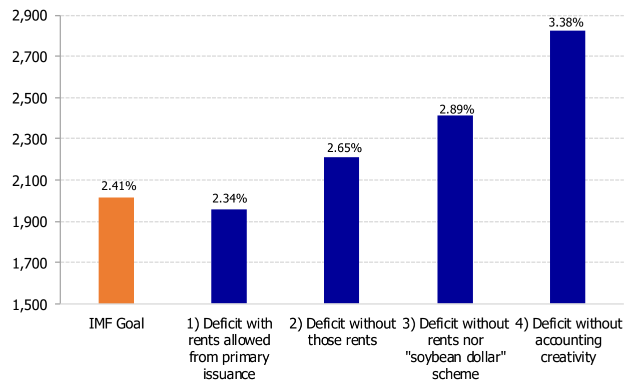
	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	-0.7%	-0.5%	Inflation (monthly)	5.1%	4.9%
Consumer confidence (MoM)	2.2%	-1.4%	FX spread (21day avg.)	92.3%	93.7%
Industrial activity (MoM s.a.)	0.8%	-1.3%	Country risk (bps 21day avg.)	2,049	2,293
International accounts			**External data**		
Current Account (USD BN)	-3.03	-0.83	Soybean price (per ton, 21day avg.)	552.7	537.6
CB Reserves (USD BN 21day avg.)	43.72	38.64	Brazilian activity (MoM s.a.)	-0.6%	-0.1%
Primary balance (ARS BN)	-502.13	-134.65	Financial Conditions Index	0.1	-15.9

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

GRAPH OF THE MONTH:

The multiple measures of the primary deficit

ARS billion and % of GDP - Econviews based on MECON



*IMF nominal goal not adjusted by larger GDP. 1) Includes non-cash rents from primary debt issuance allowed by the IMF; 2) Excludes them; 3) No rents nor additional export duties from the soy bean dollar scheme; 4) No rents, includes additional export duties but includes the soy bean dollar scheme's fiscal cost not computed in fiscal accounts

RECENT ECONOMIC DEVELOPMENTS

DEC 22nd	DEC 26th	JAN 3rd	JAN 16th	JAN 17th	JAN 23rd	JAN 26nd
Econviews Monthly #222: another year in the roller coaster and different scenarios for 2023.	Government announces Supreme Court mandated **debt with City of Buenos Aires will be paid in TX31 bonds.**	Peronist governors sign document **supporting President Fernández in his fight with Supreme Court.**	**Parallel dollar hits ARS 376**, up 18% in the last month, while Blue Chip Swap trades at ARS 362, a 9% increase.	Argentine dollar bonds up 2.9% in the day after Minister Massa announces a **USD 1 billion buyback of 2029-30 debt.**	Presidents Fernandez and Lula announce **plans for common Argentina-Brazil currency** for trade uses.	**Econviews Monthly #223**

POLITICS

After an adverse ruling on a claim by the City of Buenos Aires, the national government escalated its fight with the Supreme Court, seeking to impeach the current judges and install a new 25-member court. Given that it lacks votes in Congress to undertake such a significant reform, the conflict can be read as a way to antagonize with the opposition-led City and shift attention from economic issues. It also fits VP Cristina Kirchner's narrative that she is persecuted by the Court, which may allow Peronism to rally around a more moderate candidate such as Minister Massa in the 2023 presidential elections. Polls favor an opposition victory, with Mayor of BA Horacio Larreta or hawk Patricia Bullrich as likely candidates.

IMF

On December 23rd the IMF board concluded the third revision of Argentina's EFF, disbursing USD 6 billion to cover maturities from the previous deal. Argentina managed to comply with the 2.5% primary deficit, USD 5.8 billion reserve accumulation and 1 % of GDP deficit monetization limits for 2022. In 2023 it must reduce its primary deficit to 1.9% of GDP, is expected to accumulate 4 billion in reserves and only has room for 0.6% of GDP in direct assistance from the Central Bank to the Treasury. To achieve these goals, IMF authorities recommended "targeting energy subsidies and social spending" while criticizing "reliance on ad-hoc FX incentives and restrictions".

ECONOMIC ACTIVITY

Activity slumped for a third straight month in November (-0.7%) and is down 1.4% from August's peak. In year-on-year terms the economy expanded 2.6%. We believe 2022 will close with 5.6% GDP growth, but with a harsh 1.1% contraction in Q4. In eleven months, hotels and restaurants (+37.7%) grew the most against 2021, while manufacturing (+5.7%), retail (+6.9%) and construction (+6.2%) kept expanding and are back at 2018 levels. On the other hand, the agricultural sector shrunk 2.6% and is facing a tough 2023 due to the drought. Lacking FX reserves to import goods or inputs and with high inflation and interest rates, we expect zero GDP growth in 2023 with a 1.2% contraction in Q1 and a weak recovery in other quarters.

INFLATION

With a 5.1% monthly print in December, inflation closed 2022 at 94.8% year-on-year, the highest mark since 1991. Seasonal prices (+4.6%) helped offset a sharp increase in restaurant and hotels' prices (+7.2%) in the last month of the year. Core inflation rose by 5.3% and reached 90.6% for the full year. Apparel (+4%) saw some moderation in December, but led the index year-on-year (+120.8%). Food and beverages rose 4.7% monthly and 95% year-on-year. Minister Massa's price agreements managed to reduce the number of items increasing above 6% monthly from 70% in August to 36% in December. With adjustments in transport and healthcare, we expect 5.4 % inflation in January. We lowered our full 2023 forecast from 110 to 105%.

MONETARY SECTOR

The BCRA racked up USD 3.1 billion with the second version of the soybean dollar leaving net reserves at 6 billion, after capital maturities with the IMF and bondholders in January. This relative security allowed it to slow the official exchange rate's depreciation to 87% annualized, with a slight acceleration this week. After the BCS rose 7% to ARS 364, taking the FX spread to 97%, the BCRA raised the reverse repo rate for mutual funds from 54 to 68.4%. The Treasury is paying effective rates of around 110% in its latest auctions and managed to rollover the ARS 440 billion which matured in January, although it still faces a "wall" of maturities between April and September equal to ARS 14.9 trillion and is hard-pressed to issue longer debt.

FISCAL ACCOUNTS

Argentina ended 2022 with an official primary deficit equal to 2.34% of GDP, below the nominal limit set by the IMF (which amounts to 2.41% without adjusting for higher GDP). But after discounting non-cash rents from primary debt issue and including the fiscal cost of the soybean scheme, the deficit would have reached 3.38% of GDP. Still, primary expenditure contracted sharply in the second half of 2022 (-9.6% YoY in real terms) leading to a yearly real fall of 1.1%. In all 2022, among the main drops in real terms were economic subsidies (-10.2% YoY) and transfers to provinces (-10.6% YoY). Given the elections, we believe the government will miss the IMF's 1.9% target for 2023 and the primary deficit will end at 2.5%.

I. Similarities and differences between 2015 and 2023

If we could go back in time and try to find a year that looks like 2023 the answer is pretty obvious: 2015. It was the last year of the Kirchner administration, which was struggling to get to the presidential elections in one piece. It was fighting a man-to-man battle to defend reserves and avoid devaluation. The instruments relied on maintaining very tight foreign exchange and capital controls, combating inflation through intervention, and having utility rates and controlled prices that did not cover costs. The consequence was suffering a large spread between the official and the parallel exchange rates, relying on the Central Bank to finance a large fiscal deficit, and failing to have access to the financial markets. Essentially, a picture of the current situation.

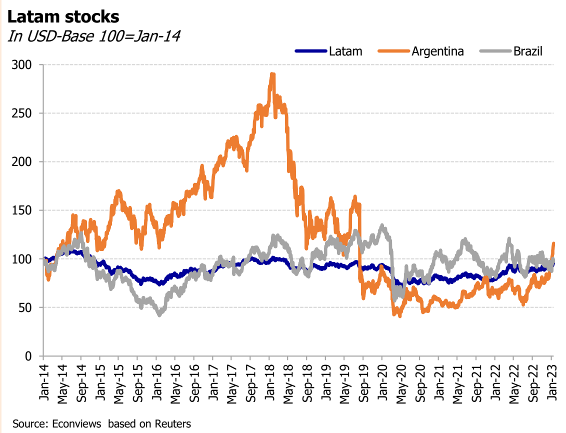
There are some differences though and is not obvious which situation would be more difficult to manage. This time around the primary deficit is almost half what it was at the time, while the distortions in relative prices are somewhat smaller. On the other hand inflation is much higher, the debt burden is larger and there is little margin to obtain fresh money from the IMF. Poverty is not only higher but also more structural.

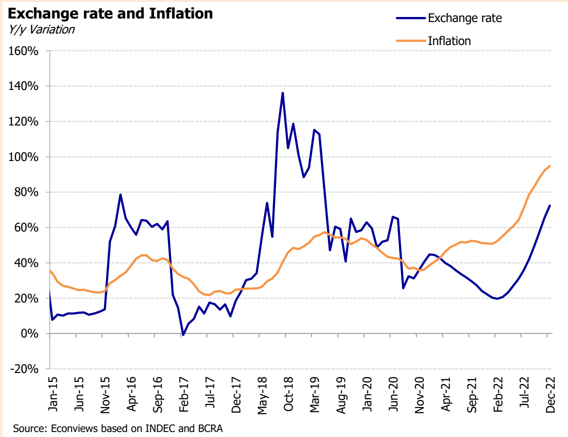
When the Macri administration won the elections in 2015 markets were hopeful, there was a rally in the bond and stock markets and the country quickly recovered its access to external financing. Argentina enjoyed over two years of financial buoyancy, only to suffer capital outflows, a run on the currency and financial turmoil towards the end of the administration triggered by both domestic and international factors.

The Macri experience left a sour taste on investors, which is leading them to be much more prudent this time. However, as Argentina enters the election year with strong indications that there will be a change in government and in economic policies, there are signs that some investors are starting to show some cautious optimism, especially because Argentine assets remain extremely cheap.

It is important to remember, though, that the new government will receive a very fragile economic and social situation. The main concerns will be how to boost reserves without access to external financing (at least initially), and how to adjust relative prices in an environment of very high inflation. These challenges will require technical capacity and political skills. But it can be done.

The Macri administration made three mistakes that in the end cost them dearly. First, it was unwilling to reveal the depth of the economic crisis that Argentina was facing at the time. The political advisors convinced him that he shouldn't talk about adjustment, in part because the crisis was asymptomatic and would be difficult to convince the population at large of its need. Second, he was not willing to build a broad political coalition to move ahead with daring and necessary reforms. And third, he made the wrong choice of macro policies, namely tight money, loose fiscal and an immediate unification of the FX market (and the elimination of the fx restrictions).





Our belief is that this time the opposition is much more conscious that an adjustment is necessary and hence that it will take the necessary measures early on. So, the choice of macro policies will be reversed putting more emphasis on the reduction in the fiscal deficit and less on a rapid elimination of the *cepo*. Finally, because the population is much more aware of the need of reforms, the new government will probably be more willing to go ahead with them.

2023 will be the year of living dangerously

The government, the opposition, the IMF, and investors are starting to write up their strategies for the year. **The administration knows that it faces an uphill battle on the economic front, though it needs an improvement to have a chance to have a decent performance in the elections**. The initial bet was to reduce inflation to 3% per month towards the middle of the year, but the current dynamics indicate that inflation is more likely to remain between five and six percent per month through most of the year. Core inflation was 5.3% in December, and there are no signs that it is receding.

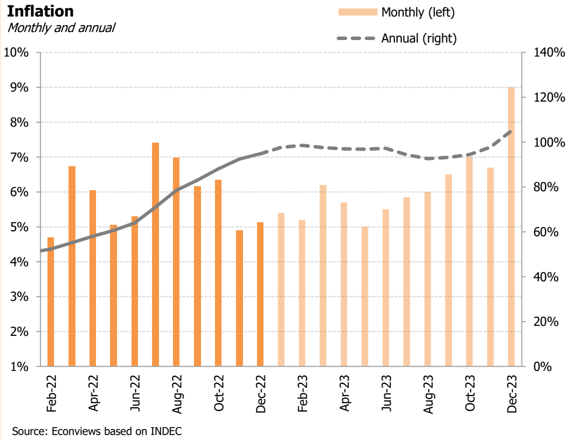
On the external front the bet is still to avoid running out of reserves. This means looking for any possible credit line (the target now is to get a trade line from Brazil), and to get to the elections without with a major turmoil in the FX market. The government will try to meet the fiscal targets set in the IMF program, especially in the first and second quarter, which are the ones that will be reviewed during their tenure. The third quarter, which will be reviewed in December, is no man's land and we maintain a guarded prognosis.

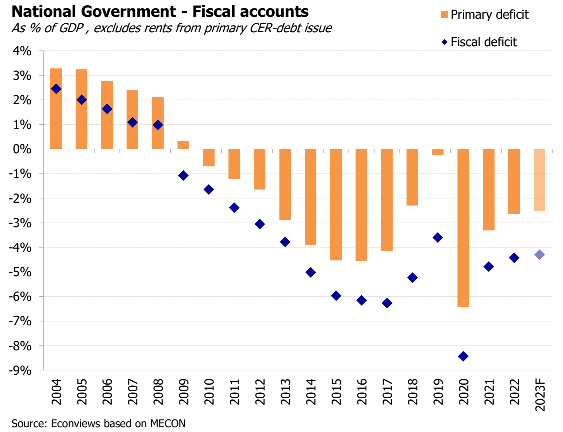
In sum, the government will try to muddle through, with little chance that the economy will improve and become their winning card in the elections. If inflation remains at current levels, chances are that Massa will not run for president, though today he is probably the best candidate that the Peronist coalition can put forward.

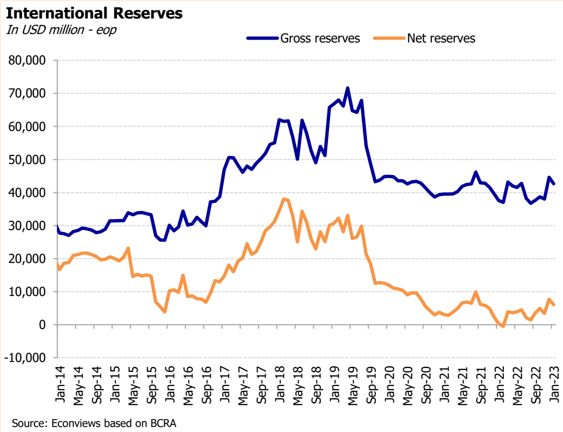
The opposition has a different objective. Their base case scenario is one in which the economy muddles through, and if there is some deterioration it is going to be on the inflation and activity fronts (which erodes the government's chances of reelection) rather than on the fiscal or external fronts, which complicates the legacy that they will receive. Consistent with this view they will maintain their ambiguity about what will they do with the mounting short-term domestic debt and criticize any tricks to increase gross reserves at the cost of higher external debt (such as currency swaps with China or trade credit lines from Brazil).

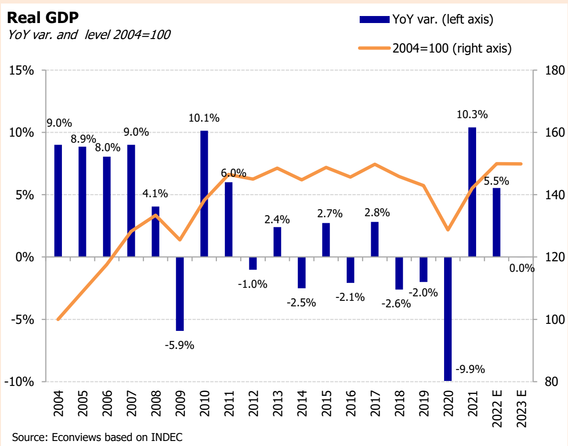
The opposition understands that they will receive large imbalances in relative prices, in the fiscal and external accounts, and the challenge will be to avoid a new default (certainly on external debt), to reduce the FX spread and to bring down inflation. And that they need to address these issues with very limited financing. It will not be easy, but they are working on the blueprints to do it.

The IMF will continue to be mainly an observer, who will try to minimize the damage in the macro-fundamentals, but with little power to change the course of events, especially if the government maintains relative prudence on the fiscal and monetary fronts and does not get into a







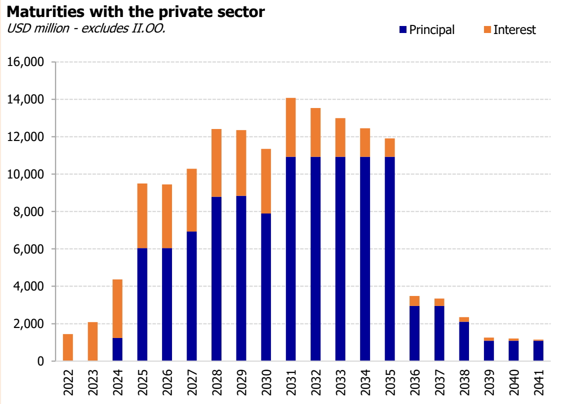


populist spree. Its main challenge will be to design a new comprehensive program for 2024 to help Argentina to get out of more than ten years of stagnation.

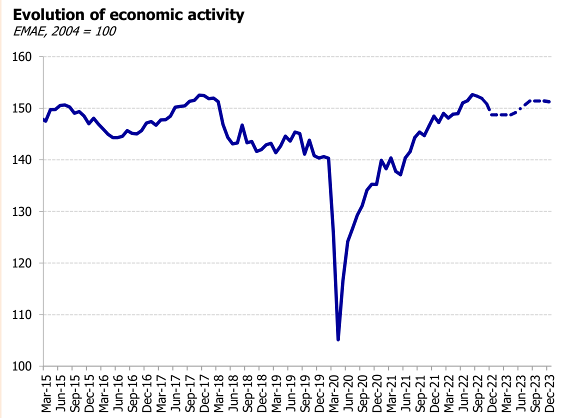
Finally, **bondholders will be monitoring the situation closely**, especially the electoral polls and evaluate the chances that there will be a sea change in economic policies with a new administration. They will be much more cautious than in 2015, but the high return of bonds and the potential of significant improvements in prices provide an attractive opportunity, especially if the next administration, in line with our base case, can avoid a new debt restructuring.

Regarding recent economic developments, the government enjoyed some good news towards the end of the year. Inflation for the moment remains in the low five percent range, though there are no signs that is receding. We expect that it will remain in the five to six percent range in coming months, though the risks are the upside. There has also been a reduction in the rate of depreciation of the official exchange rate, in line with the lower rates of inflation. It seems that the Central Bank will maintain a policy of keeping the evolution of the exchange rate aligned with domestic prices. The other positive news is that the government is managing to rollover domestic debt, although the acid test will be in the third quarter, when investors will need to start investing beyond August, betting on what the next administration will do regarding debt.

The news is less positive on economic activity, as there have been three consecutive months of drops in this indicator, and there are no indications that numbers are going to improve. The main problems are and important drought, restrictions on the supply side due to difficulties to import goods and the fiscal and monetary contraction that are taking a toll on consumption. A second concern is that rapid increase in the parallel rates, though we think that it was mainly an adjustment after months in which it had remained stable.



Source: Econviews based on Min. of Economy

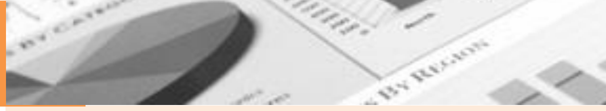


Source: Econviews based on INDEC

II. The ups and downs in 2023

Economic activity had two marked periods in 2022. Almost all sectors managed to grow in the first 8 months of the year, but in the last third of the year, the economy took a few steps back. Still, Argentina will post a growth rate of 5.5/5.6% in 2022 when national accounts are published next March. However, the downturn of the last part of the year, opens several question marks for 2023, when the statistical drag will be zero, if not negative.

Sector wise, the clear winners have been “restaurants and hotels” with a growth rate of over 35% in the year and extractive industries which jumped north of 13%. “Agriculture, livestock, and forestry” is the only loser among the 16 sectors in which the Argentine economy is divided while financial intermediation will hover around zero.



In this report we engage in a stock-taking exercise to understand the performance of a wide range of sectors of the economy, which comprise nearly 50% of total added value**, and provide an outlook for 2023.**

Overall, we expect no growth for the economy, but with a good dose of heterogeneity. The three overarching trends are the following:

a) **The drought will generate at least a 10-12% drop in agriculture and livestock**. We come to this conclusion bearing in mind that the sector shed 15% of its value in the last big drought (2018) and considering that the base is now probably lower, and output still has chances of being less bad than in 2018. On the pessimistic side, there is a negative carry over of more than 3%, which could mean worse losses. Droughts tend to correlate highly with transportation activity. A loss of 12% in the harvest should mean a decline of 2% in transportation output, given that the lion's share of the crop is moved by trucks.

b) **Manufacturing will struggle to source imports**, given that the government has prioritized keeping the dollar at bay. That means maintaining severe import restrictions, which create huge sourcing problems for many industries. The negative carryover for manufacturing is 1.4%, so having positive figures in this sector that accounts for almost 20% of GDP will be extremely difficult.

c) **Argentina is receiving more and more foreign tourists**, so the recovery of leisure-related sectors is bound to continue. There are still bottlenecks with domestic and international flights, but the situation is gradually improving. And the carryover effect is slightly positive, so robust growth in this chapter is a possibility.

See below our detailed sector outlines.

Economic activity heatmap: 2022

Yoy variations, colors by row

	January	February	March	April	May	June	July	August	September	October	November	December
EMAE	5.1%	8.5%	4.7%	6.1%	8.1%	7.2%	6.2%	6.8%	4.9%	4.5%	2.6%	NA
Agriculture & livestock	11.2%	-0.1%	-2.6%	-4.9%	-4.9%	-4.4%	-3.1%	0.9%	1.3%	-0.2%	-6.3%	NA
Industrial production	-1.3%	8.7%	3.7%	4.7%	12.0%	7.5%	5.6%	7.9%	4.3%	3.6%	1.4%	NA
Use of electricity	-3.3%	2.1%	-0.6%	3.2%	1.4%	-1.2%	0.6%	0.0%	-1.5%	0.9%	-1.3%	-0.2%
Retail sales	17.5%	20.7%	15.0%	6.0%	3.4%	NA	3.5%	2.1%	NA	-3.2%	-3.1%	2.7%
Supermarket sales	4.3%	6.6%	-0.1%	3.1%	-0.6%	2.0%	5.3%	-0.2%	0.8%	-1.6%	NA	NA
Exports	12.9%	35.1%	28.6%	35.7%	21.2%	20.3%	7.6%	-6.9%	-0.7%	16.0%	15.0%	-7.1%
Imports	36.6%	51.7%	33.1%	47.3%	53.4%	46.6%	45.0%	36.2%	21.3%	15.9%	-0.1%	-19.3%
Formal private employment	3.7%	3.8%	3.8%	3.6%	4.2%	4.5%	4.9%	4.9%	4.9%	4.9%	NA	NA
Real wages (SIPA)	3.0%	3.1%	1.3%	2.9%	1.5%	3.7%	1.6%	-2.8%	-2.8%	-1.6%	-4.1%	NA
Merval in USD	16.2%	23.4%	38.0%	45.2%	26.3%	-2.7%	-4.4%	8.7%	8.1%	-0.8%	6.7%	29.4%
Loans in ARS (real)	-1.8%	-2.7%	-1.3%	0.9%	2.3%	4.4%	2.8%	0.2%	-3.5%	-8.1%	-12.0%	-13.7%
Automobile production	-23.3%	72.7%	12.9%	49.5%	32.8%	20.9%	37.9%	40.9%	19.9%	27.8%	14.8%	-6.9%
Oil production	14.4%	14.9%	13.6%	13.2%	13.2%	14.3%	14.2%	13.3%	14.8%	13.6%	14.4%	11.0%
Gas production	13.2%	12.0%	11.1%	9.6%	11.5%	12.1%	9.8%	7.2%	5.8%	2.6%	4.3%	-1.2%
Construction activity	-5.0%	7.1%	1.9%	8.8%	20.0%	7.2%	5.2%	7.3%	5.1%	-0.9%	-1.5%	NA
Real Estate transactions (CABA)	-14.5%	3.9%	-4.4%	10.7%	50.8%	23.2%	27.7%	23.8%	12.4%	15.5%	18.5%	25.8%
Asphalt production	-11.8%	-40.0%	-12.4%	-13.7%	-26.2%	-31.6%	-23.2%	-40.2%	-37.0%	-62.8%	-46.7%	NA
Cement output	-1.9%	15.7%	7.6%	9.8%	24.2%	14.3%	9.4%	12.3%	8.6%	-1.4%	0.1%	NA
Steel production	-4.6%	-3.6%	-1.6%	2.3%	14.3%	15.8%	7.6%	7.7%	-0.8%	10.1%	1.8%	2.6%
Wine exports (volume)	-22.6%	-15.5%	-17.7%	-20.6%	-24.8%	-18.4%	-31.7%	-8.3%	-11.6%	-19.1%	-30.7%	-28.4%
Flour production	-5.9%	-0.7%	6.0%	-0.7%	-0.6%	1.0%	0.3%	0.5%	-1.9%	-2.2%	4.9%	NA
Beef production	-2.4%	1.7%	-2.8%	-4.1%	18.1%	4.6%	3.0%	7.8%	7.1%	1.7%	4.7%	6.6%
Chicken production	3.6%	7.1%	-2.9%	-6.0%	6.9%	-0.1%	1.4%	4.8%	2.5%	1.9%	2.2%	-2.1%
Pork production	-3.8%	-0.7%	-1.6%	2.3%	9.9%	0.0%	1.4%	7.7%	4.3%	5.4%	2.1%	NA

Source: Econviews based on multiple sources

BEEF, POULTRY AND DIARY PRODUCTS

STATE OF AFFAIRS

- Pork production has been rapidly growing in recent years, and up to November it accumulated a growth of 2.5% YoY (measured in heads).

- Beef production recovered partially last year. Rising feeding costs led to an increase in slaughtering, which averaged 3.9% YoY in 2022 but reached 6.6% YoY in December. Exports were record last year, with a growth in value of 24% and 10.9% in volumes, but international prices have been falling since May, registering a drop of 17% m/m last November.

- Chicken production has remained stagnant in the last few years and 2022 was no exception. Measured in heads, production of chicken grew only 0.7% in 2022. In seasonally adjusted terms, production (in heads) during 4Q-2022 was 11% below its peak. Relatively cheaper beef prices are a threat to demand.

PERSPECTIVES

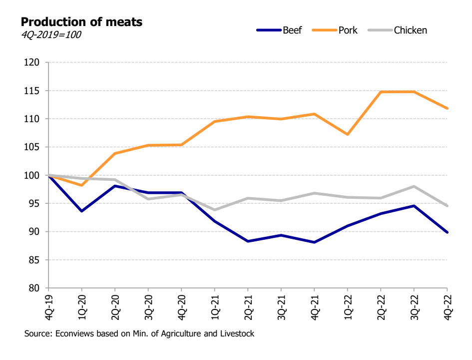
- Cattle stock is expected to drop as the drought is rising the cost of feeding. However, slaughtering is not expected to continue much further as it could pose a risk to stocks and future production, which could result in higher domestic prices.

- Pork has been the best performer in the meat segment in recent years and is expected to continue to be so. 2023 could be challenging for production due to high feeding costs due to the drought, but medium and long term remain very positive: changing perceptions have increased domestic demand and the internal market for pork has room for growth. However, Chinese demand is expected to drop as it has recovered self-sufficiency.

- Poultry production could continue its downwards trend in 2023 due to higher production costs (particularly corn).

Indicators

Value added (% of GDP)	3.0%	Status
Employment (% of total)	3.4%	
Productivity	High	Outlook
Wages	Medium	



OILSEEDS AND GRAINS

STATE OF AFFAIRS

- The sector had a difficult end of the year with a wheat harvest of just 12.4 million tons, almost 50% down compared with the previous year due to the drought.

- Beyond climate, the context is not great. As key player in the export market, the currency appreciation does not help and more so when some inputs are being priced at a blend between the official dollar and market dollars.

- Soybean crushing (by far the most important oilseed) accumulated a drop of 9.3% in 2022, with only November posting YoY growth. As for the cereals, wheat crushing in 2022 managed to remain stable on average vs 2021, but in December it fell 1.6% YoY.

- The government provided two incentives in the form of a special exchange rate for soybeans, which was a temporary relief, but it covered just one product. Doing it with corn would have a higher impact on inflations. Still, the special exchange rate for soybean has meant an increase in cost for pork and milk producers, which the government will compensate for.

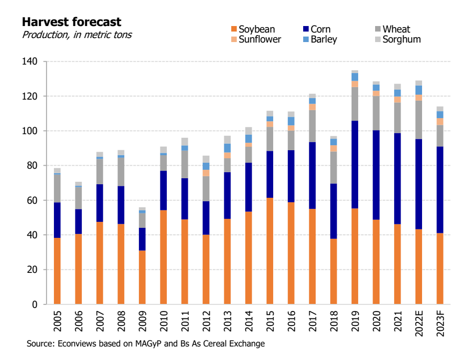
GPERSPECTIVES

- Climate in the next few weeks is the chief variable to understand output in the agriculture sector. There is still a window of opportunity for rains to improve the prospects and there seems to be something coming.

- Against this background soybean production can reach 38 million metric tons, up from the doomsday forecast of 35 million tons. Corn could be in the low 40s. The situation in sunflower seems to have been less affected than in the two major crops.

Indicators

Value added (% of GDP)	7.4%	Status
Employment (% of total)	2.7%	
Productivity	High	Outlook
Wages	Low	



FRUITS AND WINE

STATE OF AFFAIRS

- Domestic sales of wine contracted by 1.3% in 2022, with sharp contractions in November (-15.6% YoY) and in December (-23.4% YoY). However, measured per capita, domestic sales hit a fresh low of 16.7 liters per capita in 2022, while in the mid 2000's they averaged 29.2 liters per capita. Wine exports measured in dollars shrank 8% in 2022 after a strong rise of 13.4% in 2021 and were 11% lower than 2012's peak. But in volumes the drop was even sharper: they fell 21% YoY.

- The exported volume of pears from Río Negro and Neuquén decreased by 9% in 2022 compared to 2021 and reached 277,536 tons, the lowest level since 2017.

- Shipments of apples decreased by 19% year-on-year and reached 63,924 tons, a historic low. A decisive factor in both pear and apples drop in exports was the Russian invasion of Ukraine, as the former slashed its Argentinian fruit imports (by 60% last year).

PERSPECTIVES

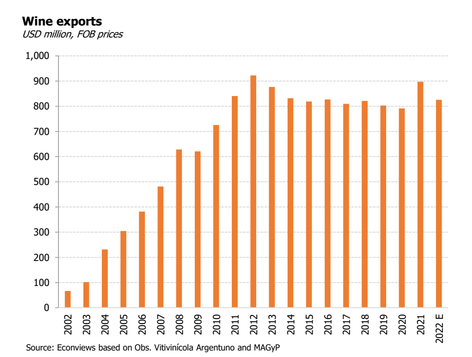
- 2023's outlook for wine is worrisome. An appreciated real exchange rate has significantly lowered wine exports' competitivity and late frosts have had an impact on yields and costs: grapes' prices are expected to double this year.

- The late frosts -coupled with hails- in the Rio Negro's province High Valley in the last bimester do not bode well for exports of other fruits as well, and demand has been on decline: domestic demand for consumption of apples has shrunken for two years in a row (-4% in 2022) and demand for pears fell 6.7% last year.

- The appreciated exchange rate is also a problem for other producers of fruits, like pears and apples in Patagonia, who have been demanding a differential exchange rate, arguing that margins in the sector are extremely low. These are labor intensive sectors and therefore they are the first to notice currency appreciation. Labor issues are another big problem for this sector.

Indicators

Value added (% of GDP)	1.5%	Status
Employment (% of total)	1.2%	
Productivity	Medium	Outlook
Wages	Low	



OIL, GAS AND MINING

STATE OF AFFAIRS

-2022 was a good year for oil and gas. Prices soared as a result of the Ukraine-Russia war and output has significantly grown, especially in Vaca Muerta. Between January and November, oil output rose 13% against 2021's average and gas output increased 6.9%. But production is still well below 2000's peaks: oil production in 2022 was still 23% below its peak form Feb-04 and gas production was 10% down from the same month (adjusting by seasonality).

- Mineral exports accumulated a total of a total of USD 3.86 in 2022, a growth in value of 19%. Most of the dynamic, however, was explained by the growth in prices. Lithium exports, by far the most dynamic, reached USD 696 million, growing 234% year-on-year and representing 18% of total mining exports, but measured in quantities their growth was of 5.2%.

PERSPECTIVES

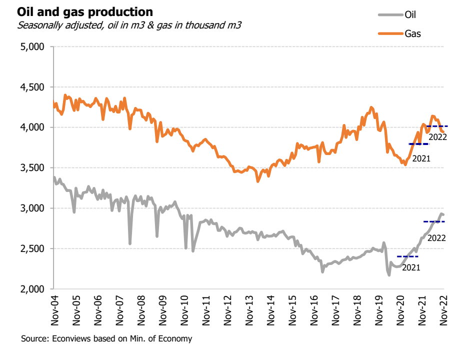
- Perspectives for both oil and gas are favorable for 2023. The easing of covid-related restrictions in China is expected to increase demand despite global economic slowdown, and OPEP expects demand will grow 2.2% on average.

- The Secretary of Energy is expecting a moderate growth in gas production of 2% during 2023, but the finishing of the construction of the pipeline could also lead to energy imports savings of USD 2 billion in the initial stage. Projections for oil are much more optimistic, with an expected rise in output of 15%. The finalization of the trans-Andean pipeline could also spur exports.

- The price of lithium is expected to fall this year, considering that a drop in the consumption of the metal is expected since electric vehicle sales in China are set to decline sharply after the world's top consumer stopped subsidies in the sector. New projects to produce this metal worldwide will also impact prices, but demand is expected to continue rising in the long term.

Indicators

Value added (% of GDP)	5.0%	Status	
Employment (% of total)	1.5%		
Productivity	Medium	Outlook	
Wages	High		



AUTOMOBILES AND AUTO-PARTS

STATE OF AFFAIRS

- The automobile industry had reasonable 2022. Following the recovery of 2021 -which surpassed 2019's levels- last year the industry saw an increase of 23.5% in production, with 536.9 thousand vehicles, the highest level since 2014, but still 35% below its 2011 peak.

- The growth in local production was fueled by an uptick in exports. Import restrictions led to a reprofile of car sales. Sales of domestically produced vehicles rose 21.9% last year, while sales of imported cars only recovered 2.3% after shrinking 16.6% in 2021. Exports also displayed an annual growth of 24.2%, totalizing 322.15 thousand units sold abroad, also the highest level since 2014.

- In the first half of the year, the industry had to reach an agreement with the government to pass onto suppliers of auto-parts their quota of access to dollars. Restrictions on imports somewhat affected production in recent months but delayed import authorizations were somewhat cleared by the year's end.

PERSPECTIVES

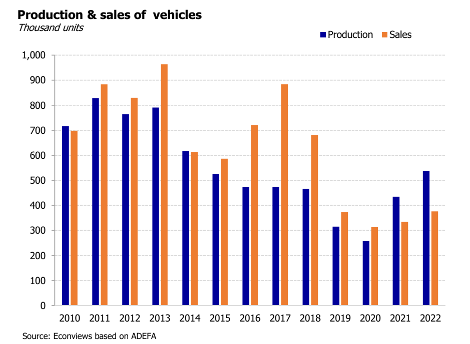
- The outlook is positive for the automotive sector. Domestic demand is far from being met, and industry leaders estimate that nearly 100 thousand additional vehicles would have been needed to meet demand.

- Most plants are planning to increase production next year as external demand has significantly grown, and investments in the sector in the last 2 years have amounted to around USD 1.4 billion.

- The main concern in regarding imports of auto-parts; the drought will severely limit the inflow of dollars and it is very likely that will continue (and even deepen) restrictions on imports.

Indicators

Value added (% of GDP)	0.6%	Status	
Employment (% of total)	1.1%		
Productivity	Medium	Outlook	
Wages	High		



TEXTILES AND APPAREL

STATE OF AFFAIRS

- Favored by protectionist policies, production of clothing, leather and shoes accumulated in November a rise of 20.3% vs the same period in 2021 and is up 23.4% vs Jan-Nov 2019, despite being hit hard by the pandemic like most industries.

- Production of textile products did not perform as well: it barely grew 0.8% up to November and 0.9% vs Jan-Nov 2019. But preparation of fibers of textile use took a hard hit and fell 15.1% in the same period.

- Sky-rocketing clothing prices have led to a steep reduction in sales: retail sales of clothes fell 8.5% in 2022.

PERSPECTIVES

- The outlook is uncertain for the sector this year, but with a tendency towards negative. As the sector is being a sector favored by trade protectionism, prices increases are consistently above headline inflation. This has led to a strong shrinkage in sales in 2022 that is likely to continue in 2023.

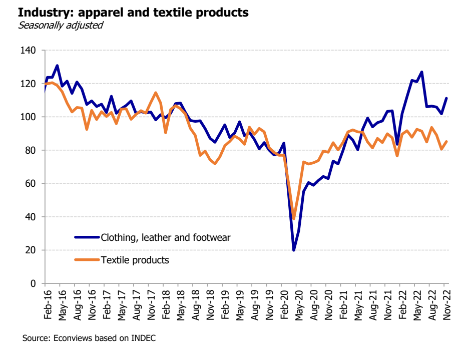
- The sector is also dependent on consumers' disposable income, which is likely to shrink this year due to persistently high inflation and adjustments in inelastic expenditures such as utilities.

- In addition, a reduction in access to input imports has been reported by different spinning mills, weaving mills and graphic ink factories which is likely to continue this year.

- Another issue is that cotton is likely to be in short supply in coming months due to the drought.

Indicators

Value added (% of GDP)	0.7%	Status	
Employment (% of total)	1.6%		
Productivity	Low	Outlook	
Wages	Medium		



STEEL AND IRON

STATE OF AFFAIRS

- The iron & steel industry recovered all that was lost due to the pandemic in 2021 thanks to the recovery of construction activity (its main demander) and construction material's relatively low cost due to the high FX spread, as well as the rebound of the automotive industry.

- Numbers in 2022 have not been great: up to November, INDEC's index for the steel iron & industry as a whole accumulated a drop of 4.3%. Part of the drop can be attributed to April's fall (-36.1%) which was explained by programmed technical stoppages, but the weakening of construction activity has led to yearly falls both in October and November.

- But these numbers have not been homogeneous. According to the Argentine Chamber of Steel, production of steel grew 4.5% in 2022, while primary iron production fell 1.6%, products laminated in heat fell 2.8% and laminated in cold fell 12.8%.

PERSPECTIVES

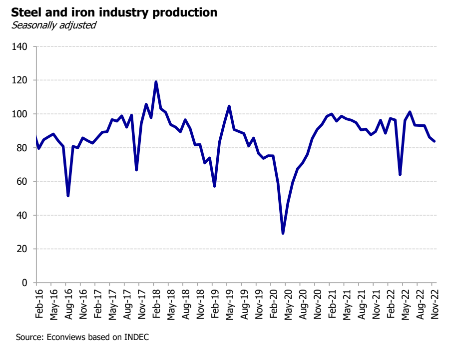
- Perspectives are mixed for the sector. Restrictions on imports are likely to hurt production this year, and in the last two months of 2022 different plans reported stocks under the security benchmark.

- The sector is heavily dependent on the evolution of the construction sector, which explains nearly half of its demand, and to a lesser extent on the automotive industry. Both industries are likely to be affected by the economy's slowdown. The same goes for the home appliances sector, which is likely to be hurt by shrinking consumer demand.

- However, another big demander of the industry is the energy sector, whose outlook remains positive this year.

Indicators

Value added (% of GDP)	2.8%	Status	
Employment (% of total)	1.9%		
Productivity	High	Outlook	
Wages	Medium		



PETROCHEMICAL

STATE OF AFFAIRS

- The petrochemical sector accumulated up to last November a growth of 4.5% against the same period in 2021. Oil refining, coke and nuclear fuel production displayed a growth of 5.6%, while production of chemical substances accumulated a rise of 4.2%.

- Within the sector as a whole, last year's results were not homogeneous. In the oil refining subsector, production of naphtha, gasoline and diesel accumulated a growth of around 4% in all cases, while asphalt production saw a decline of 33.1%.

- In the chemical substances sector the best performance was displayed by agrochemicals, whose production accumulated up to November a growth of 15.8%, while production of paints -whose main consumer is the construction industry- declined by 7.7%.

PERSPECTIVES

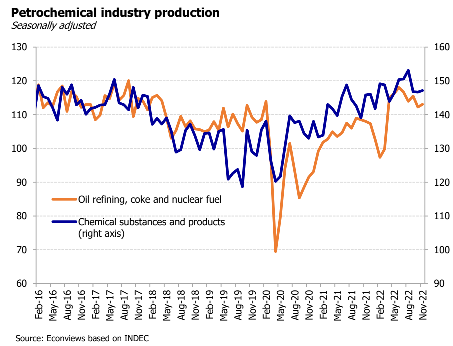
- Perspectives are mixed. The oil refining industry is met with the challenge of continuing to adapt to a decreasing production of conventional oil amid the rise of non-conventional oil. But adaptation has seen important advances. Non-conventional oil from Vaca Muerta now represents around 40% of oil used in refineries across the country.

- Growing production in the Neuquén basin (where Vaca Muerta lies) represents an opportunity for the sector in 2023.

- Asphalt production will be tied to the evolution of public works. The government faces the dilemma of increasing public works in the electoral year to spur growth but must reduce public spending to meet the IMF's goal. We are somewhat more inclined towards the former. Demand for asphalt was stable compared to 2021, but up to November it was 28.4% lower than the same period in 2019.

Indicators

Value added (% of GDP)	4.3%	Status	
Employment (% of total)	2.6%		
Productivity	Medium	Outlook	
Wages	High		



PHARMACEUTICAL

STATE OF AFFAIRS

- The pharmaceutical sector saw a large growth in its sales in 2021 when non-covid related medical consultations started to recover when the pandemic started to wane. Sales of national products grew 13.2% in 2021.

- But up to the third quarter last year, sales of locally produced products have accumulated a drop of 7% in real terms. Still, they remained well above 2019's levels (15.6% compared to the same period and 13.2% against 2019's yearly average). Sales to the domestic market shrank 4.7% while those destined to foreign markets contracted 26%.

- On the other hand, industrial production of pharmaceutical products accumulated up to November a modest growth of 1.4%, after growing in 2021 and even during the pandemic.

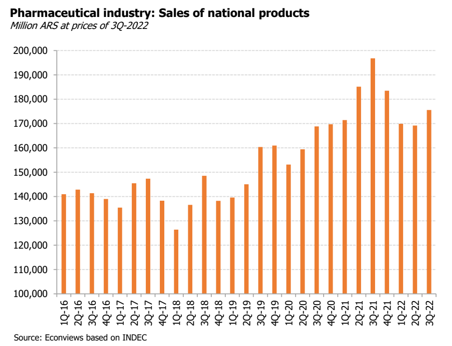
PERSPECTIVES

- Pharmaceutical exports have grown in recent years, but the sector will remain a net importer as the process of registering local developments is very costly being outside the Patent Cooperation Treaty.

- Domestic production could decline in 2023 if current conditions prevail. Imports of medicines accumulated a growth of 12.3% in 2022, while imports of medicinal products for production (that is, as an intermediate good) shrank 12.4% in the year and in December a year-on-year drop of 44.9% was registered. But we do not expect a sharp drop, as domestic demand is mostly covered with locally produced medicines.

Indicators

Value added (% of GDP)	0.6%	Status	
Employment (% of total)	0.6%		
Productivity	Medium	Outlook	
Wages	High		



HOME APPLIANCES

STATE OF AFFAIRS

- Growing inflation and a sharp increase of the FX spread helped partly recover sales of home appliances in 2020 and 2021, but dwindling disposable income has moderated its growth in 2022. Up to September, sales home appliances only grew 2.7% in real terms vs the same period a year before and on average remained a staggering 46% below its peak in November 2015.

- Protectionism in the sector has helped sustain local production. Up to November, production of home appliances grew 16.5% vs the same period in 2021 but it has not yet recovered from the blow the sector suffered from the pandemic: in 2020 it fell 27.7% and only recovered by 15% in 2021.

- From 2021 the tax rate on imported electronic products has been of 17%, when it had previously been of 5.5%. Electronic products manufactured in Tierra del Fuego are levied at 6.5%. Still, according to INDEC, imports of "Machines, apparatus and electrical material; its parts and accessories" rose 19.2% in value in 2022 (but fell 25.9% YoY in December).

PERSPECTIVES

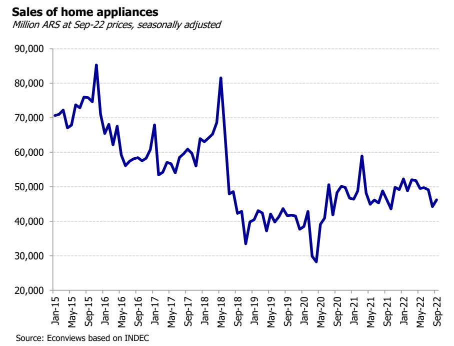
- The outlook for the sector is negative. As families often tend to purchase home appliances -especially more costly ones- in several installments, the sharp increase of interest rates will continue to affect their sales.

- The government could relaunch or improve conditions of the different "Ahora 12" installment programs, but households can no longer expect interest-free financing.

- Disposable income is expected to shrink in 2023 and non-essential purchases, including home appliances, are likely to be reduced.

Indicators

Value added (% of GDP)	0.5%	Status	
Employment (% of total)	0.4%		
Productivity	Medium	Outlook	
Wages	Medium		



TOURISM

STATE OF AFFAIRS

- The inflow of tourists began to recover after two years affected by the pandemic. Taking the data from November 2022, the entry of foreign tourists by air is still 22% below the 2019 average or 11% against the 2016-2019 average, although the trend is upward.

- Despite this recovery, foreign exchange earnings from this activity remain very low. This is explained exclusively by the exchange rate spread. With 100% difference, all the tourists changed their dollars to the parallel rate instead of using the card. Now they can make their payments at an exchange rate equivalent to the financial one, but this will not have an impact on the exchange balance.

- Regarding hotel occupancy, in the first 10 months of 2022 it averaged 49.5% against 24.6% in the same period of the previous year.

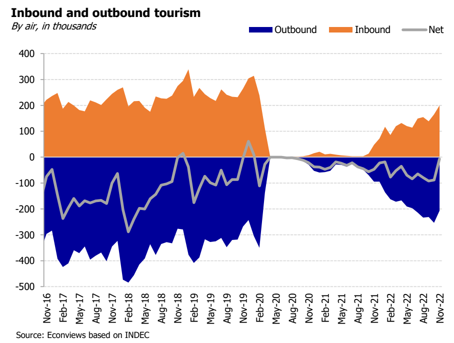
PERSPECTIVES

- In 2023 and surely 2024 the country will continue to be cheap for foreign tourists, especially from neighboring countries like Brazil. Our country has a diversity of landscapes and climates, which allow tourism to take place all year round.

- This sector still has a lot of potential. An eventual new government with a different commercial air policy could help a lot to exploit it. Tickets have a very high tax component; the number of flights is low and the distances in Argentina are very long. With more flights tourism could significantly grow.

Indicators

Value added (% of GDP)	2.4%	Status	
Employment (% of total)	4.7%		
Productivity	Medium	Outlook	
Wages	Low		



KNOWLEDGE-BASED

STATE OF AFFAIRS

- This sector has great potential in Argentina. There are many important international companies providing services from Argentina. But in many ways, there is a missed opportunity as the spread between official and market dollars mean that workers prefer to work offshore and receive payment for their services in some other jurisdictions. Companies exporting services and therefore receiving payments in official dollars are struggling to retain staff.

- The sector employs 300,000 people, almost 5% of the total formal private workforce. Almost half of them are in the IT strand. Salaries in the KBE are significantly higher than in the rest of the economy, although it is fair to say that they suffer inflation as much as everyone else.

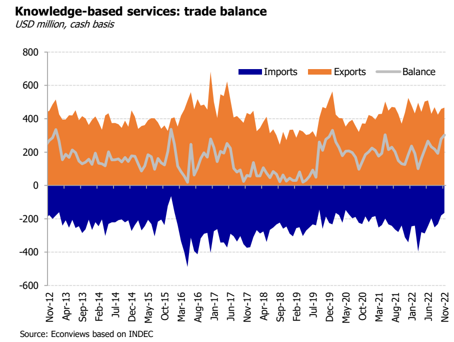
PERSPECTIVES

- The short-term perspective is challenging since the FX restrictions will continue to be a problem for the sector. In the medium run, Argentina has huge opportunities.

- Some challenges to consider are connectivity and education. Companies claim that they need more English speakers to enlarge their local operations. Opportunities not only lie in software and IT in general, but also in advertising, design, accounting, translation and other disciplines.

Indicators

Value added (% of GDP)	2.8%	Status	
Employment (% of total)	3.0%		
Productivity	High	Outlook	
Wages	High		



BANKING

STATE OF AFFAIRS

- The stock of credit to the private sector in pesos fell 13.7% YoY in December in real terms. At the same time deposits grew 1%. This accounts for a lower level of financial intermediation, which according to INDEC in November it had already contracted by 3.3% YoY.

- The total earnings of the banking sector between January and October improved in 2022 compared to 2021. The key was higher income from government bonds. Exposure to the public sector exceeded 50% of assets and loans to the private sector only 30%.

- The competition from Fintech firms and the growing informality are a problem for established institutions. But the banking system is solvent and enjoys ample liquidity. The challenge will be how to reduce its exposure to the public sector.

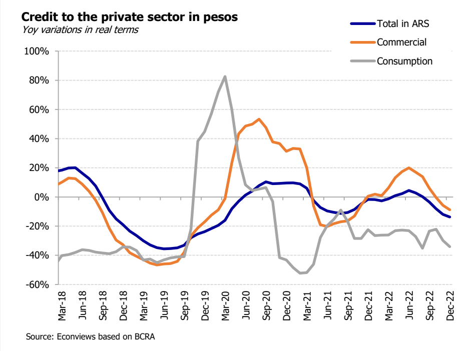
PERSPECTIVES

- We anticipate that activity will not grow this year and that will not play in favor of a greater demand for credit. Additionally, companies unable to rotate profits have a surplus of liquidity that also works against them.

- The only factor that can play in their favor is that companies may want to be indebted in pesos when the government changes because these liabilities will liquefy with an eventual devaluation and more inflation at the end of 2023 and beginning of 2024.

Indicators

Value added (% of GDP)	4.6%	Status
Employment (% of total)	2.7%	
Productivity	High	Outlook
Wages	High	



CONSTRUCTION

STATE OF AFFAIRS

- Construction activity accumulated a growth of 6.2% up to November and is expected to have closed 2022 just below 6% (in the national accounts measure). But the carry over is quite negative for 2023.

- Aided by a high FX spread that lowered costs measured in market dollars, the sector was key for the post-pandemic recovery but did not manage to reach the levels of late 2017/ early 2018.

- Demand for asphalt, a key indicator of public works activity, only accumulated a growth of 1.7% and remained 27% below its level during the same period in 2019, falling in year-on-year terms since June.

- Demand for cement accumulated a growth of 8.8% up to November, while hollow bricks demand accumulated a drop of 5.6% as its cost in dollar rose, but it remained 23.4% above its level vs the same period in 2019.

PERSPECTIVES

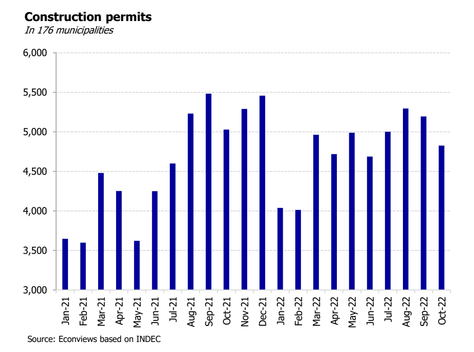
- The outlook for the sector is stable to negative. Construction permits have fallen in recent months and so did cement dispatches, but the cost of construction measured in dollars seems to have reached a roof in November as the parallel rate woke up from its dormancy, which could lead to an increase in demand for materials and some reactivation in private works.

- Another indicator which closed the year in positive terms is the number of real estate contracts in the city of Buenos Aires (25.7% YoY) and indicates that activity isn't likely to slump.

- However, expectations of private and public works companies for the first months of the year remain pessimistic, though in the private sector nearly 70% believe activity will remain stable, while just 46% of companies dedicated to public works believe their activity will remain stable and 30.3% believe it will fall.

Indicators

Value added (% of GDP)	4.8%	Status
Employment (% of total)	6.8%	
Productivity	Medium	Outlook
Wages	Low	



RETAIL AND WHOLESALE

STATE OF AFFAIRS

- Retail and wholesale trade had a very good start of the year, which started to worsen in recent months. Still, up to November, the sector accumulated a growth of 6.9% against the same period in 2021. It was fueled by an uptick in private consumption in part explained by a pro-consumption bias in many households in the backdrop of high inflation.

- But the sector as a whole has been decelerating as disposable income has been shrinking with falling real wages and increases in regulated prices (like utility rates, healthcare, and others). In October, real sales in supermarkets had fallen 1.6%, self-service wholesale shops displayed a drop in sales of 7.1% YoY.

- In a similar way, retail sales have been shrinking in YoY terms in recent months, with the exception of December.

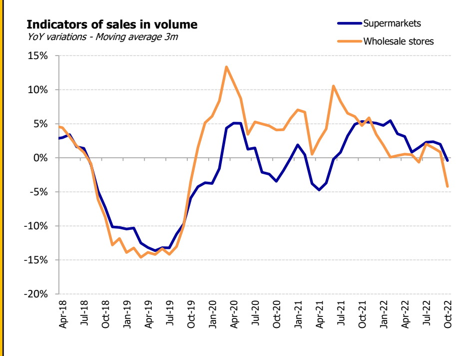
PERSPECTIVES

- Perspectives are rather negative, as disposable income will continue to shrink and households do not seem to eager to consume as much as they did during the first half of 2022.

- The sector could be benefitted by an extension of installment programs like "Ahora 12" nearing the elections -and possibly an increase in transfers- but the slowdown of the economy does not bode well for the sector. The carryover effect for 2023 is -1.4%, which means that even if the sector stagnates, it will post a decline of 1.4% in activity.

Indicators

Value added (% of GDP)	10.1%	Status
Employment (% of total)	17.9%	
Productivity	Low	Outlook
Wages	Low	



All in, 2023 will also have two parts. The first one is the muddle through with businessmen trying to deal with the labyrinth of the FX restrictions, import problems, climate, tax pressure and labor issues, but without the prospects of a muddle through.

In the second half of the year, elections will take the center of the stage. This adds more uncertainty to an already volatile local scenario. There are many open questions such as will the prospect of a new government bring new vibes to the extent of putting Argentina in the investment map again?

Will companies be concerned by the potential short-term effects of the stabilization plan to be applied by the new authorities? Will businessmen try to anticipate in 2023 some of the price increases of 2024 given the need to adjust FX and utility prices? **Probably the right answer is "all of the above", but the devil is in the details and the weightings**. Our goal is to monitor these and other such questions along the year, as we don't have a definitive answer for any of these.

Base Scenario

	2019	2020	2021	2022 E	2023 E
Inflation (eop)	53.8%	36.1%	50.9%	94.8%	105.0%
Exchange rate ARS/USD (eop)	59.9	84.1	102.8	177.1	460.6
Exchange rate ARS/USD (eop, YoY)	58.4%	40.5%	22.1%	72.4%	160.0%
Real exchange rate ARS/USD (eop, Dec-01=100)	151.5	158.3	137.1	129.2	171.6
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	340.8	783.0
Spread with official exchange rate (eop)	24.6%	66.8%	97.7%	92.4%	70.0%
Gross reserves (USD billion, eop)	44.8	39.4	39.7	44.9	40.5
Net international reserves (USD billion, eop)	12.6	3.8	2.3	6.6	5.1
Policy rate (eop)	55.0%	38.0%	38.0%	75.0%	80.0%
GDP (YoY)	-2.0%	-9.9%	10.4%	5.5%	0.0%
Formal wages in real terms (aop, YoY)	-6.0%	-1.9%	0.4%	-0.4%	-0.5%
Primary result (% GDP)*	-0.2%	-6.4%	-3.3%	-2.7%	-2.5%
Fiscal result (% GDP)*	-3.6%	-8.4%	-5.0%	-4.1%	-4.1%
EMBI Argentina (spread in bps, eop)	1,744	1,350	1,703	2,196	1,500
Public net debt (% GDP)	43.6%	52.7%	42.1%	34.9%	35.4%
Current account (% GDP)	-0.8%	0.8%	1.4%	-1.2%	-0.5%

Source: EconViews

*Excludes rents from primary debt issuance in 2022

(+54 11) 5252-1035
Av. La Pampa 1534 – 8A
Buenos Aires
www.econviews.com
www.facebook.com/econviews
Twitter: @econviews

Miguel A. Kiguel
Director
mkiguel@econviews.com

Andrés Borenstein
Chief Economist
aborenstein@econviews.com

Isaías Marini
Economist
imarini@econviews.com

Alejandro Giacoia
Economist
agiacoia@econviews.com

Melina Sommer
Economist
msommer@econviews.com

Rafael Aguilar
Analyst
raguilar@econviews.com