MONTHLY REPORT

ECONVIEWS

ECONOMÍA Y FINANZAS

May 2023

Issue #227

The **lack of international reserves** is reaching a **critical point**

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Tourism, a **sleeping giant** that needs relatively little to **take off**

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THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- US headline inflation decreased from 5 to 4.9% in April, the lowest in two years. However, core inflation remains high at 0.4% monthly and 5.5% year-on-year. The unemployment rate is still very low, at 3.4%, and there are renewed signs of wage pressure.
- Although the drought is officially over, the Rosario cereal board lowered its forecasts for the 2022/23 harvest to 20 million tons of soybean while corn remains at 32 million.
- Argentina's monthly inflation accelerated from 7.7 to 8.4% in April, beating the market forecasts again. Food and beverage prices rose 10.1% monthly, after an already high 9.3% in March. Year-on-year inflation hit 108.8%.
- The parallel exchange rate leapt from ARS 462 to 495 in late April and the Central Bank raised its policy rate, first by 1000 bps from 81 to 91% on April 27th, and another 600 bps after April's CPI print, to 97%.
- In the almost two months since the preferential exchange rate for agricultural exports came into effect, the Central Bank's net FX purchases amount to only USD 764 million. The official exchange rate will close May around ARS 238, up 35% YTD while accumulated inflation is closer to 44%.

FIGURE OF THE MONTH

April's CPI print came in at

8.4%

monthly, accelerating for the fifth month in a row

TO BE ALERT

The Central Bank transferred ARS

440bn

to the Treasury in May, a record since June 2022

WHAT'S COMING NEXT?

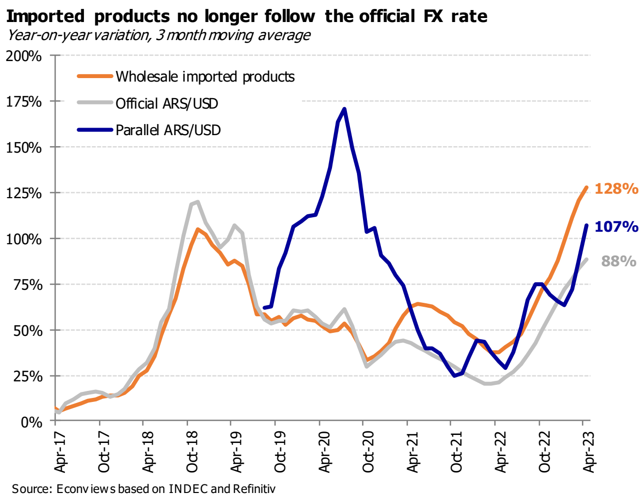
- The Fed hiked 25 bps to 5.25% in May as expected. The market is pricing one more hike in June to a terminal rate of 5.50% and a single cut in November, with further cuts to a 3.50% rate in December 2024. However, Fed officials have shown a more hawkish tone, signaling two more hikes this year.
- Parties for the 2023 presidential elections must write in their alliances by June 14th and their candidates by June 24th. Mayor of BA Rodriguez Larreta and former Minister Bullrich will run in the opposition primary, while far-right Javier Milei will run on his own. The government has not picked a candidate yet, with all eyes on Ministers Massa and De Pedro.
- We believe the Central Bank will hike rates again in June, from the current 97% to something closer to 100%, possibly after May's CPI print comes out on June 14th.
- Dollar futures for December 2023 are trading at ARS 524, and contracts for April 2024 are at ARS 740, meaning the market is pricing in a significant devaluation after the elections. We expect an ARS 500 exchange rate for December and ARS 783 by April 2024.
- Minister Massa has flown to China to seek financing, but with net reserves USD 1.57 billion in the red, the BCRA will probably be forced to accelerate its 7.6% monthly devaluation rate.

SUMMARY OF MAIN INDICATORS

	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	0.1%	0.5%	Inflation (monthly)	8.4%	7.7%
Consumer confidence (MoM)	3.3%	-2.9%	FX spread (21day avg.)	103.4%	94.5%
Industrial activity (MoM s.a.)	3.4%	-1.3%	Country risk (bps 21day avg.)	2,582	2,473
International accounts			**External data**		
Current Account (USD BN)	1.73	-3.17	Soybean price (per ton, 21day avg.)	516.7	549.2
CB Reserves (USD BN 21day avg.)	34.60	37.50	Brazilian activity (MoM s.a.)	-0.1%	2.5%
Primary balance (ARS BN)	-331.37	-257.86	Financial Conditions Index	15.0	8.5

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

GRAPH OF THE MONTH:



RECENT ECONOMIC DEVELOPMENTS

APR 26th	APR 27th	MAY 1st	MAY 12th	MAY 15th	MAY 25th	MAY 29th
Econviews Monthly #226: Challenges on exchange rates and inflation fronts + special report on the Leliqs.	To contain informal exchange rate which had shot up to ARS 495, **BCRA hikes rate 1000 bps from 81 to 91%.**	**Electricity (+75%) and gas (+30%) rates increase for high-income households,** reducing subsidies but fanning inflation.	**April's inflation surprises again at 8.4%,** well above even most negative expectations. Year-on-year CPI at 108.8%	Government reacts to April's CPI print by **hiking rates another 600 bps to 97% and opening food imports.**	At government rally, **VP Cristina Kirchner voices support for Ministers Massa and De Pedro,** criticizes IMF program.	**Econviews Monthly #227**

POLITICS

After stepping down, President Fernández is a lame duck. Back in a leading role, VP Cristina Kirchner is said to be weighing a formula between Minister of Interior De Pedro, a hardliner, and Minister of Economy Massa, which is read as market friendly. Governor of BA Kicillof could also end up on the ballot. Alliances must be written in by June 14th and candidates by June 24th. Mayor of BA Rodriguez Larreta and former Minister Bullrich will compete in the opposition primary, possibly alongside other candidates. Javier Milei, the far-right libertarian candidate, is gaining steam in the polls and analysts warn that further economic meltdown favors his chances of reaching a place in an eventual run-off election.

IMF

The agreement signed in March 2022 is almost broken. After the non-completion of first-quarter targets, for the second quarter and the remainder of the year, we do not expect that any target could be met. In a context of a severe drought and no access to international credit, the government is looking for a renegotiation. Its objective is to get in advance the disbursements from June, September, and December. This implies around 10 billion dollars that are key to increasing international reserves. It will also be necessary to postpone capital repurchases and it is probable that the IMF at least will ask for more fiscal adjustment or some measure to stop selling reserves at bargain prices.

ECONOMIC ACTIVITY

Activity grew 0.1% monthly in March, and February was revised up from 0 to 0.5%, leaving the quarter-on-quarter variation at 0.8% in Q1-2023, after slumping 1.5% in Q4-2022. With this data, we have changed our 2023 forecast from -4.5 to -3.8%, although we believe that due to the drought, a recession is unavoidable. Agricultural production was down 12% year-on-year in March, with transport contracting 1%. The Rosario cereal board is expecting output to be 40% below last year's. Other sector such as manufacturing (+3.1%), construction (+3.2%) or retail (+3.6%) are still growing with respect to 2022. Mining and oil (+12.1%) stands out as a relative success story within a troubled economy.

INFLATION

Monthly inflation accelerated for the fifth time in a row to 8.4% in April, a 20-year high. Year-on-year CPI is running at 109%, a record since the early 90s. Apparel (+10.8%), food and beverage prices (+10.1%) and restaurants and hotels (+9.9%) all rose above the headline index. May looks even worse, with adjustments in gas and electricity utilities and the pass-through from the 20% increase in the parallel exchange rate. Our conservative forecast is 9%. We have also raised our estimate for the full year from 130 to 150%. Unions are negotiating quarterly increases of around 20-30%, which allows purchasing power to remain more or less constant. But this indexation also embeds the inflationary inertia.

MONETARY SECTOR

After the worrisome 8.4% of inflation in April, the Central Bank increased the interest rate by 6 percentage points and now stands at 97% or 154.9% effective. This hike came after the tightening of April when the monetary policy rate was increased by 13 p.p. This decision aims to keep parallel exchange rates under control but has important implications regarding the BCRA's remunerated liabilities. The special exchange rate to incentivize exports did not work as expected and the Central Bank only bought USD 749 million during the program. In this sense, net international reserves fell to negative ground (USD -1.57 billion). The Government is directing all its efforts to get new dollars from the IMF or China.

FISCAL ACCOUNTS

April's primary deficit soared to ARS 331 billion, accumulating 0.6% of GDP in four months of 2023. The 0.8% IMF target for Q2 appears unreachable, but the program is already being renegotiated and fiscal targets are sure to be loosened. Primary expenditures fell 9.7% year-on-year in real terms, mostly as a result of inflation eroding pensions and social spending (-10.1%) and cuts in energy and transport subsidies (-16%), although the latter is countered by an accumulation of floating debt. Tax revenues fell 9.1%, with a 68% contraction in export duties due to the drought. Activity-linked taxes such as VAT (+3.1%) are doing well. We expect the year to close with a 3.3% primary deficit to GDP, and a 5.3% fiscal deficit after interests.

I. The lack of international reserves is reaching a critical point

The macroeconomic problems remain the same. Policy dilemmas have not changed, but the situation is rapidly deteriorating, and the outcomes remain uncertain. The government's unwillingness to tackle the critical policy problems, perhaps hoping that the bleeding of reserves would miraculously come to an end or that inflation would somehow fall into place have put the economy in an extremely fragile situation. And there are no expectations that things are going to improve.

The most urgent and problematic issue is how to deal with the lack of reserves. Net reserves are now roughly 1.6 billion dollars in negative territory, and there is little hope that they will increase in the near future. It is obvious that the main underlying problem is that the currency is overvalued, while the severe drought has made the situation much worse. It seems that a devaluation is all but unavoidable, but the government is not ready or willing to do it and is trying to explore alternative solutions. The main concern, on top of dealing with the narrative, is its potential impact on inflation, which in our view will take place anyway with the policy measures that are being implemented.

Staying the course and doing nothing is not an option, though it is what the government has been doing with predictable results. Devaluation or letting the currency float is not in the menu. The alternatives are either to strengthen the FX controls (the so called "*cepo*"), which of course has a limit because it is starting to affect the availability of inputs and hence affecting production or alternatively to split the FX market creating a second official exchange rate (possibly along the lines of the so called *dolar soja 3)* that would be used for most transactions while maintaining the current official exchange rate for selective transactions (such as imports of food and medicines).

Alternatively, there could be a combination of them. In addition, the government is starting to implement a third alternative which is to allow to pay for some imports with dollars that the companies already owned or obtained from clients, or authorizing imports when the payment takes place after 210 days. These two options do not use net reserves in the short term, but they do have an effect on prices, as companies use dollars that are trading at 470 pesos, or if they pay at a later stage there will be a new government that almost certainly will devalue the currency.

The shortage of dollars and the multiple foreign exchange controls are already leading to increases in prices and fueling inflation.

Until now, the government has been avoiding the devaluation by depleting Central Bank reserves or by borrowing from whoever was willing to lend. The draught became an unsurmountable obstacle for the early strategy of muddling through till the elections and it is now desperately looking for dollars, but most of the options confront a dead end.

One option is to beef-up reserves by borrowing, not from the markets where Argentina does not have access to credit, but instead from official lenders. The government has been knocking on doors left and right, but

Net and Liquid International Reserves

In billion USD

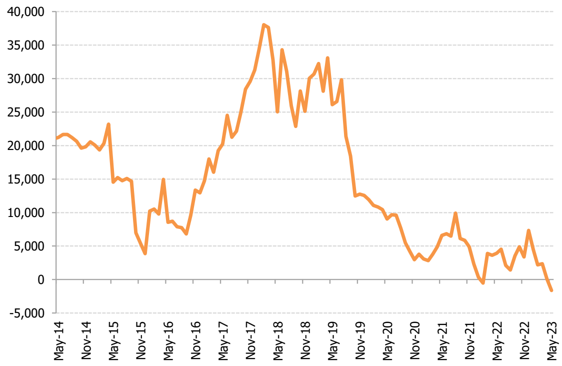
Gross reserves	**33.1**
Reserve requirements in USD	11.4
Swaps (incl. China)	20.3
SDRs	0.0
BIS	3.0
Net reserves	**-1.6**
Gold	4.0
Liquid net reserves	**-5.6**

Source: Own estimates based on BCRA and IMF

Up to May-21

Net International Reserves

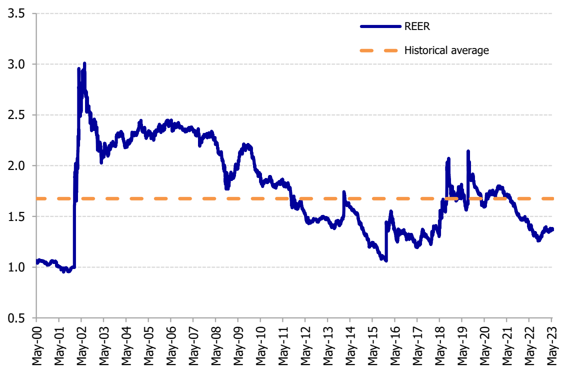
In USD million - eop



Source: Econviews based on BCRA

Multilateral Real Exchange Rate

Dec-01=1



Source: Econviews based on BCRA

Latest forecasts

In million tons

	2017/18	2020/21	2021/22	2022/23
Wheat	18.5	17.6	22.1	12.4
Soybean	37.8	46.2	43.9	20.0
Corn	31.8	52.5	49.0	32.0
Sunflower	3.5	3.4	4.0	3.9
Barley	3.7	4.0	5.2	3.8
Sorghum	1.6	3.3	2.9	3.0

Source: Econviews based on MAGyP, BCBA, BCR (soybeans and corn) and own estimates with little success. It is clear that Brazil wants to support Argentina, but it does not seem ready to lend to a country that does not know when it will be able repay them. The dream of the much talked about a repo with Wall Street players is now history, probably a miscalculation due to inexperience. Almost five billion dollars in yuans have already come from the Chinese currency swap. It will be difficult get many more. Multilateral banks such as the IDB and the World Bank have already reached the limit of what they can lend to Argentina, so it is difficult to get fresh funds. The only possible option would seem to be the much-criticized IMF, which for now continues to support a program that is purely testimonial with the aim of reaching to December, when the change of government will take place, in one piece.

Everything indicates that the IMF is willing to help, advancing disbursements, making the program more flexible and giving the waivers that are necessary so that Argentina does not fall into arrears with the organization. It is paradoxical that a “super light” program like the one signed in March of last year, of which there are surely no precedents due to the little conditionality it had, ends in so many non-compliances.

Now the Fund is being asked for a new effort, to lend 10 billion dollars, mainly by advancing future disbursements. The curious thing is that the Fund is seriously thinking about it and that it will probably grant it, although this time it seems that it will try to limit the uses of the proceeds so that the Central Bank stops giving away dollars at the official exchange rate. And therein lies the heart of the problem. How can the Fund provide financing, which in part will be used to pay back the Fund, and make sure that they are not wasted like the dollars that were given last year? This cannot be achieved by reducing the fiscal deficit or by raising interest rates. The answer are changes in the FX regime, either a decoupling of the market or alternatively a devaluation. But the latter seems a non-option because it would violate one of the "religious" principles of this government.

The second short-term problem is inflation, which has been accelerating since late last year and is expected that in May will exceed 9% or thereabouts. On the one hand the persistence of inflation does not come as a surprise, as the government did not take policy measures to bring it down. In particular, the Central Bank has been reluctant to increase interest rates while there was no tightening of fiscal policy. However, the acceleration of inflation that the country is experiencing came as unpleasant surprise. What is behind the new reality?

Perhaps there were especial factors that underly the recent larger increase in prices such as the draught that is having an effect on food prices, the tightening of the foreign exchange controls that is leading firms to set prices closer to the parallel exchange rate, and of course the adjustments in utility rates that were long overdue. The problem is that these temporary shocks could become permanent in the absence of a policy response and inflation could move in ways that are difficult to predict.

The response so far has been timid and based on some isolated measures including a hike of 13 percentage points in interest rates. However, what Argentina needs is a comprehensive plan that addresses

Cash flow with the IMF

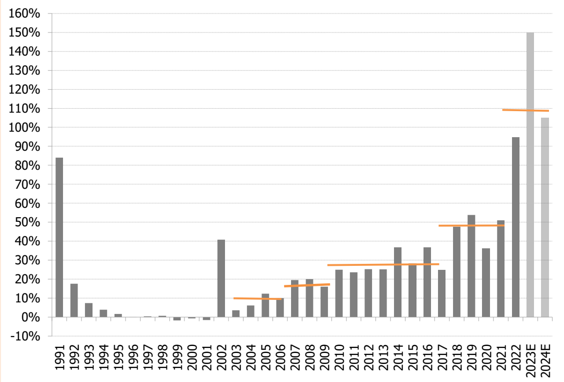
In million USD

	Disbursements	Repurchases	Charges
Jun-23	4,001	-2,687	
Jul-23		-2,634	
Aug-23			-733
Sep-23	3,335	-917	
Oct-23		-2,634	
Nov-23			-647
Dec-23	3,335	-917	
Jan-24		-1,951	
Feb-24			-581
Mar-24	1,067		
Apr-24		-1,951	
May-24			-522
Jun-24	1,067		
Jul-24		-650	
Aug-24			-503
Sep-24	1,086		
Oct-24			
Nov-24			-493
Dec-24			
Jun-Dec 2023	10,671	-9,789	-1,379
Total 2024	3,220	-4,552	-2,100

Source: Econviews based on IMF

Annual inflation

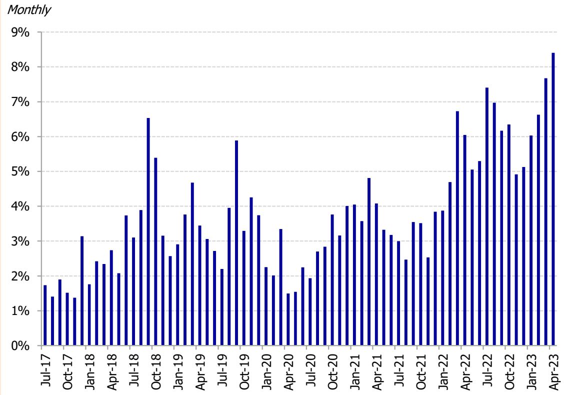
Year-on-year inflation, eop.



Source: Econviews based on INDEC

National headline inflation

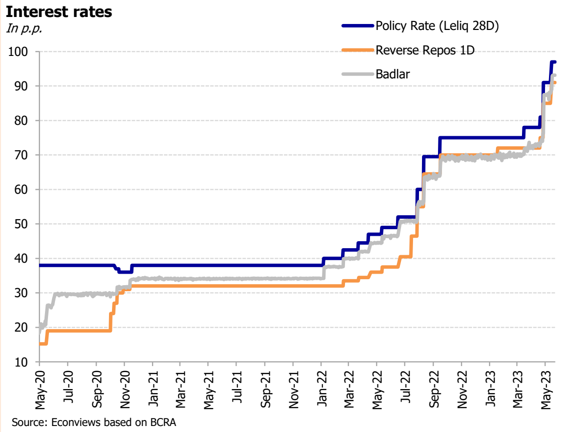
Monthly



Source: Econviews based on INDEC

the fiscal deficit and provides a strong nominal anchor to guide inflation expectations. Obviously, they need to be support by structural reforms that can restore growth and support the stabilization effort. Unfortunately, none of these policy measures can be expected in the near future.

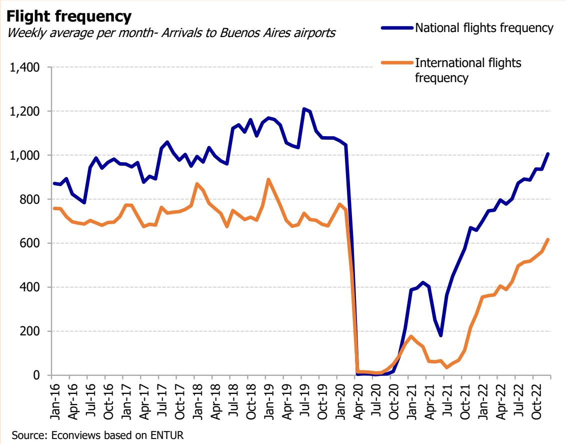
The combination of a fragile external situation which requires some adjustment in the exchange rate and a rate of inflation that in the best case shows persistence and in the worst-case scenario will continue to accelerate portends a difficult year. In addition, the uncertainty generated by the elections and the risk of a vacuum of power if Massa leaves the Ministry of the Economy increases the concerns about what could happen in coming months.



Without policies that can address the external situation and inflation the short-term outlook is gloomy, with some of these measures it can probably muddle through until the elections. However, in the medium term with a comprehensive program Argentina still has a good chance, with the support of dollars from agriculture, oil and gas and mining, of getting the economy on a path of stability and growth.

II. Tourism, a sleeping giant that needs relatively little to take off

A typical walk around the neighborhoods of Recoleta or Palermo in Buenos Aires will enable us to listen to different languages and accents. Americans, Europeans, Latin Americans are coming again to Argentina. Often on weekends it is hard to find a hotel room in the City of Mendoza, the capital of Malbec Wine, as Brazilians fill the wineries, restaurant boutiques and all other attractions form rafting to moto-bike tours.



As in many other countries the tourist sector has been hardly hit by the Covid-19 and only started to come back to life once the government stimulated domestic tourism with subsidies. But now Argentina seems to be ready to play in the major leagues again**. In 2022 global tourism was still 34% below 2009's numbers. Foreigners spent USD 7.9 billion in Argentina in 2019 and USD 5.6 B in 2022, in line with global trends.**

It is believed that some 400,000 people work on tourist-related activities. Some of which are informal and seasonal. The sector claims that over 1.26 million people work in tourism, bit probably entails some double-accounting and includes people who work for many sectors including tourism. Unlike many of the other promising sectors for Argentina's development such as energy, mining, agriculture of export of knowledge-based services, tourism does not need macroeconomic stability as badly as the others. At least on the surface.

Tourism is the fifth or the sixth export sector in Argentina. The first four are undoubtedly: oilseeds, cereals, automotive and petrochemical value chains. The fifth can be disputed between two service sectors: tourism and knowledge-based exports, both of which count in the old British category of "invisible exports".

In 2019, the last “normal” year, Argentina received 11.1 million tourists, being the 40th largest recipient in the world, according to the World Tourist Organization. The only other Latin American county doing better than Argentina is Mexico, who works in another league as the 5th destination of world tourism after France, US, China, and Spain. Taking the statistics of the last 20 years to 2021 Argentina ranked 43rd, which means that there is a small improvement. Also, in the last 20 years Argentina received 118 million people, and almost 10% in the last normal year, a clear account that numbers are rising. In the region, the rest of the top five is made of Brazil, Dominican Republic, and Puerto Rico.

Tourism does not need huge capital injections, nothing compared to an LNG plant or a copper mine. It is far more labor intensive that other sectors with potential and has the capacity to provide jobs to the unskilled workers, of which Argentina has a good stock. And unlike the natural resource-based sectors, tourism is spread around the country. Almost all provinces have relevant attractions.

The spread between the official and unofficial exchange rate means that Argentina is quite cheap placed for foreign visitors. Moreover, there is plenty of border tourism, as citizens of neighboring countries, particularly Uruguayan and Chileans, cross to Argentina to buy from the supermarkets. This has happened in the past, but observers point out that the volumes are jaw-dropping. In some companies, the stores next to the Uruguayan border are the best selling points these days. And Buquebus ferries come every Friday packed of Uruguayans that arrive at Buenos Aires for theater, shopping, and dining.

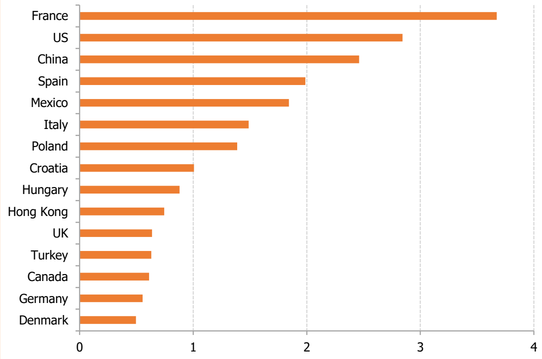
Based on travelers that arrive by air, the biggest number of tourists come from Brazil, roughly one in four, followed by Europeans. Americans come fourth and Chileans 5th. **Little by little, international congresses are coming back from medicine to corporate events and students are picking Argentina for their exchange programs**. More and more Argentines are renting their second apartments through AirBnB rather than permanent contracts to locals, which in turn complicates the availability of units for local tenants and increases prices, particularly in Buenos Aires best rated neighborhoods.

Still, this does not mean that Argentina is ready to capitalize on that. The air traffic policies of the current government have conspired against a fastest come back of the sector. Several international airlines stopped flying to Argentina and the domestic routes have also been cut with four airlines exiting the market.

In April there have been 8,485 international flights (seasonally adjusted) landing in Argentina. By mid-2019 the number of monthly international flights had been over 10,000. So, Argentina today has 15% fewer flights than before the Covid outbreak.

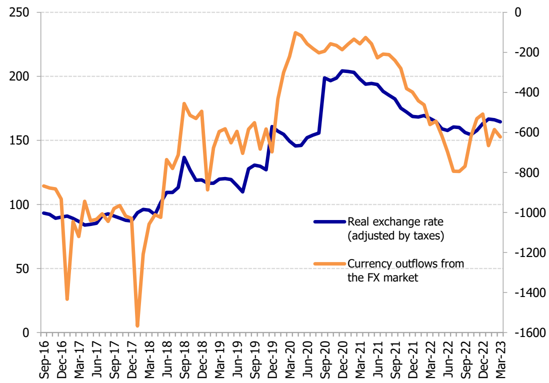
In the last 12 months international passengers reached 10.06 million people. By May 2018 there were 15.3 million passengers. If the loss were to be equally split between Argentines and foreigners, the country is still short of 2.7 million tourists. This may be a reasonable account. At its peak Argentina received 376.000 foreign tourists arriving by plane in February 2018. In February 2023 the number was 195.000, a loss of 181,000 in just one month. And this only counts those who come flying.

Top 15 arrivals by country
Last 20 years - In million tourists- Argentina ranks 43th



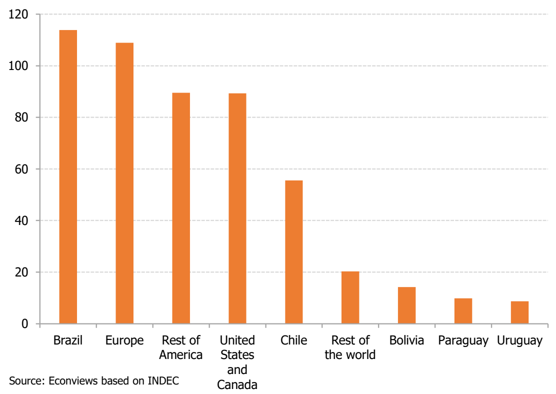
Source: Econviews base on UNWTO Tourism stadistic database

The REER overappreciation is a problem to be solved
In millon USD



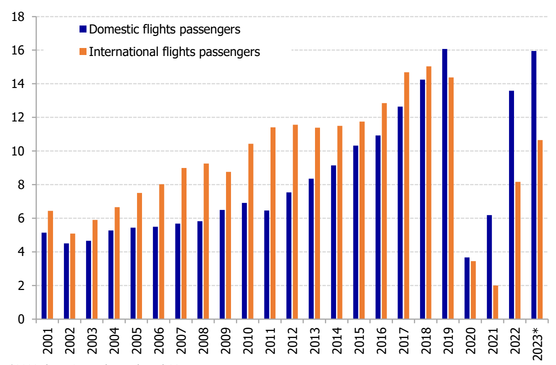
Source: Econviews based on BCRA

Where do our tourists come from?
In thousand tourists, 4Q-2022 data- Arrival to main airports



Source: Econviews based on INDEC

Passengers for domestic and international flights
In thousand



*2023: last 12 months until April-23
Source: Econveiws based on ANAC

The City of Buenos Aires reports that its airports used to connect to 49 foreign cities, while now the number dropped to 32. Many of the casualties were Brazilian cities, but the list also includes Auckland and Los Angeles. Avianca (Colombia) had a load factor of 96%, Copa (Panama) at 91%, American Airlines 90% and United Airlines 89%. And there are no airlines with weak load factors, so economics are likely to be working.

In the domestic market, critical for local and foreign tourists, the current administration closed the third airport serving Buenos Aires, El Palomar (EPA). This airport, formally a military base, was re-opened to be used by low-cost airlines during the previous administration to help a congested local airport (AEP) and the international airport (EZE), which is too far away and with no public transport, so not suitable for budget travelers. El Palomar was closer than Ezeiza International airport and accessible by public transportation, making it ideal for low-budget travelers including local families, youngsters, and foreign backpackers. Another disturbing measure was that the regulator has created minimum prices, so budget airlines could not compete by lowering ticket prices. This was clearly done to protect the share of the flagship carrier Aerolíneas Argentinas. In practice, inflation has made this effort somewhat irrelevant.

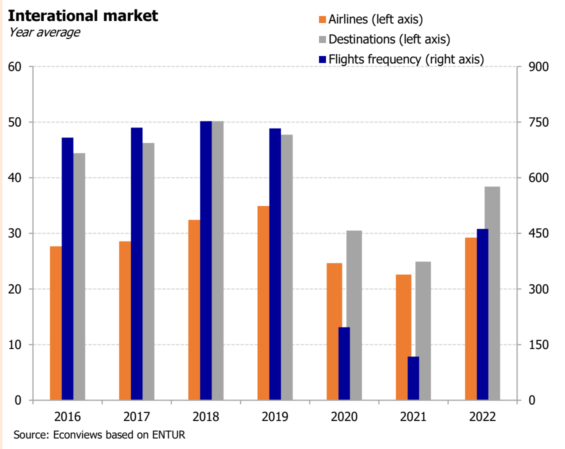
Today there are 3 airlines supporting the market. Aerolíneas Argentinas, Flybondi and Jet Smart. Flybondi has been having occupancy rate of over 90% and is now at 87%. Jet Smart has been in the mid-eighties for the past year as has Aerolíneas Argentinas, which is now down at 80%. The loss in the total number of domestic passengers has been less than at international level. In the last 12 months to April some 14.91 million flew compared to maximum of 16.1 million. During 2023 the number of domestic passengers should come close to the record. Flybondi aims to bring more planes to boost the supply of seats. Aerolíneas has a market share of 63%, a loss of 8 percentage points while Flybondi rose from 15 to 22%. The rest belongs to Jetsmart.

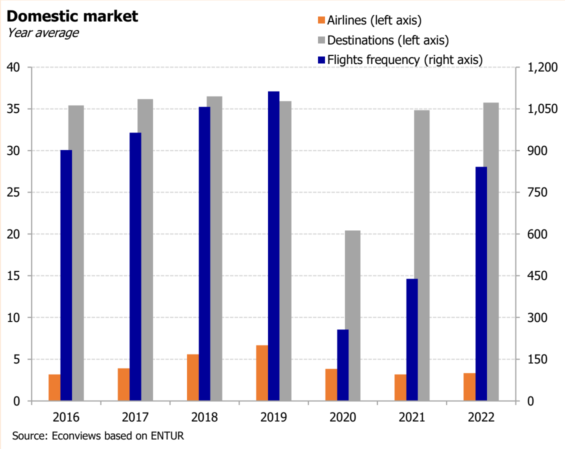
Unlike in other countries where business flights take an important share of the market, in Argentina tourism is key. The busiest airports for domestic routes have been both Buenos Aires airpors, Bariloche, Cordoba, Mendoza, Neuquén, Calafate, Iguazu, Salta and Usuahia. With the exception of Cordoba and Neuquén, the rest of the cities are far more important in tourism than business. Argentina has 38 airports with regular flights.

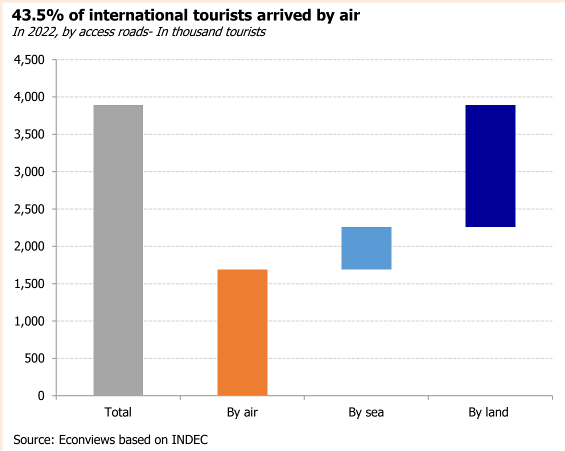
One other important problem with airlines is the lack of linkages among cities in the interior and the fact that only a few of them have connecting flights to other countries. Only Cordoba and Mendoza enjoy decent traffic with the outside world. The rest need to connect in Buenos Aires. There are also issues with the airport regulator, baggage handling where the state owns a company and the difficulties for imports, which complicates the availability of parts and pieces for servicing the planes.

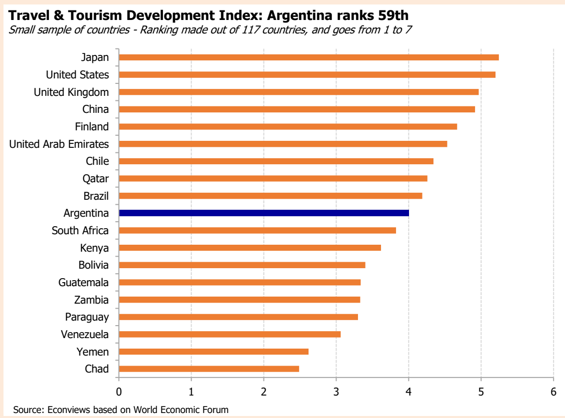
It is not just flights

Other issues that prevent a deeper development of tourism is the lack of infrastructure. In a note of 1 to 7 Argentina scored 4.0, which means that it ranks 59th in a sample of 117 countries tracked in the Travel and Tourism development index. In South America it is in the 5th position after Chile, Brazil, Uruguay, and Colombia. Not very encouraging considering









that Argentina receives more people than all those countries. Statistics from the City of Buenos Aires show that the number of hotels has more than halved since 2008, although it has timidly recovered in the last year or so. Still, Argentina has an offer of around 700,000 beds, according to the UNWTO, which is not a bad number. As in all markets with heterogeneous products, it is not obvious that demand meets supply, as there may be a surplus of beds in one region and a deficit in others and likewise with quality issues.

Infrastructure problems abound. The bus terminal in the City of Buenos Aires has been an endemic problem. It is unsafe, dirty, and clearly not prepared for more sophisticated tourism. Renting a car in Argentina tends to be quite expensive and in high season even difficult to find in some key destinations such as Bariloche. Roads in many parts in the country are in sorry state. There is a lot to upgrade in a number of airports and lot more can be done with cruise ship terminals.

Argentina can develop a lot more its nature-related tourism, which is trendy around the world. Argentina has 49 protected areas managed by the National Park Association. There is one of them, Parque Nacional Nahuel Huapi, in the area of Bariloche, Villa Langostura and surroundings that concentrate most of tourism. But there is plenty of capacity for more. Esteros del Ibera in Corrientes, Talampaya in La Rioja, Aconquija in Tucumán are some of the areas with lots of untapped potential.

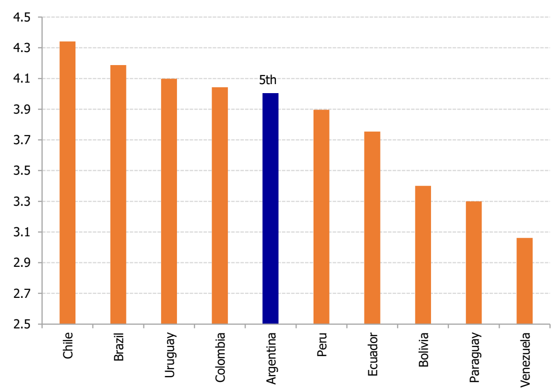
Domestic intervention

One of the problems in the balance of payments is the number of Argentines that spend holidays abroad. Some USD 400 million every month are spent by locals outside Argentina. And this happens even when it is expensive to do so. The official dollar is cheap, but with all the taxation that comes with buying tickets or using the credit card abroad the cost is almost as high as using the market-based dollar.

The pandemic was an opportunity to showcase domestic destinations to locals, as travelling abroad was hard, with all sorts of medical requirements and restrictions. In some ways, it paid off. But at a cost. In order to help an ailing sector such as hotels the government started to subsidize domestic travel. This created two problems. Firstly, resources do not abound in Argentina to spend in subsidizing tourism. Secondly, in its first edition the targeting was not well implemented, as it was easy to see rich families paying 5-star hotels with a subsidy, probably not the objective of the plan.

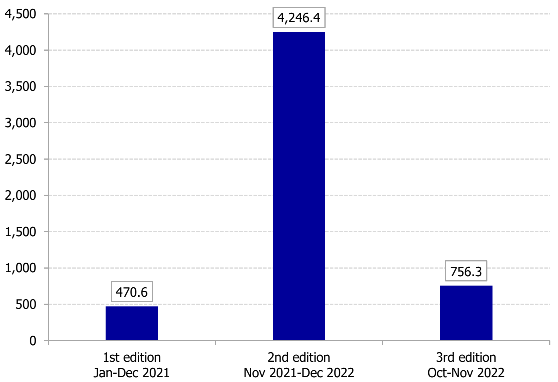
In its first edition, the "Previaje program" was used by 470,600 people. In its second edition it was 4.2 million and its third edition, far more restrictive and during low season only has attracted 756,300 people. The program puts money in a credit card that can only be used in tourist related services, although some have found a way around. Buenos Aires, Bariloche, Cordoba, Mendoza and Calafate have been the places where the program was mostly used, the usual suspects. Those who support Previaje have two points. Firstly, it could have induced employment. Secondly, given that people had to pay with credit cards it may have reduced informality and tax evasion in a sector that has plenty of those diseases.

Travel & Tourism Development Index 2021
South American countries



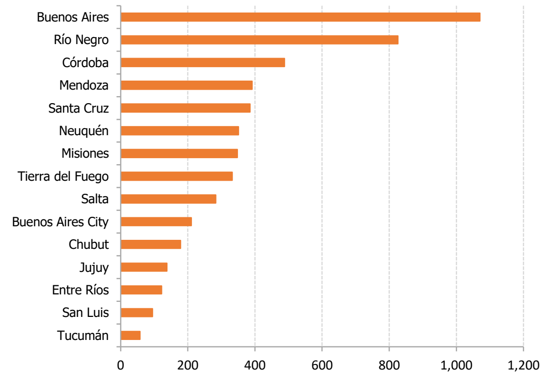
Source: Econviews based on World Economic Forum

Previaje program - Travelers by edition
In thousand people



Source: Econviews based on the Ministry of Tourism and Sports

Previaje program - Top 15 destinations by travelers
In thousand (includes 1st, 2nd and 3rd edition)



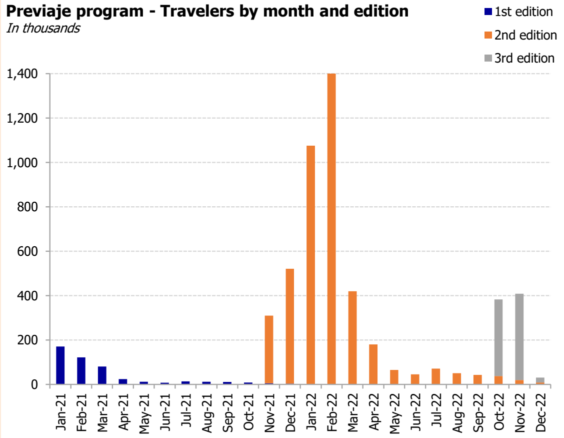
Source: Econviews based on the Ministry of Tourism and Sports

The problem in the short term with trying to induce more domestic tourism is the supply of hotel room and infrastructure. Renting a place by the beach in Cariló (300 km south of Buenos Aires) in high season can be as expensive as travelling. Skiing in Bariloche can be quite expensive for local pockets as well. Some of the touristic villages are ill-equipped to deal with more tourists. From ground traffic to sewage system or electricity distribution networks, many places reach a limit quite fast. This is when macro comes to town. Reducing the cost of capital is one of the drivers to attract more investment to the sector. And this includes provinces and municipalities that need to upgrade roads, sewage and more.

As for public policy, it is clear that getting more flights is a primer. But in parallel Argentina needs to have an active policy in export promotion. Sports, nature, corporate and academic events, destination weddings and culture must all be on the table. The potential is huge, and it ticks the two boxes politicians want: it creates jobs and attracts dollars.

Previaje program - Travelers by month and edition

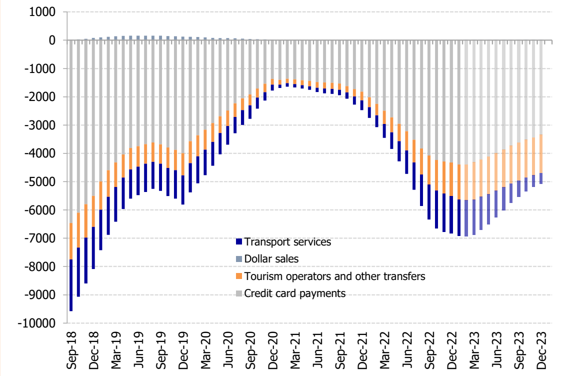
In thousands



Source: Econviews based on the Ministry of Tourism and Sports

Net result of tourism

In million USD - Accum. 12 months - cash basis



Source: Econviews based on BCRA

Base Scenario

	2019	2020	2021	2022 E	2023 E	2024 E
Inflation (eop)	53.8%	36.1%	50.9%	94.8%	150.0%	105.0%
Exchange rate ARS/USD (eop)	59.9	84.1	102.8	177.1	500.4	1,000.9
Exchange rate ARS/USD (eop, YoY)	58.4%	40.5%	22.1%	72.4%	182.5%	100.0%
Real exchange rate ARS/USD (eop, Dec-01=100)	151.5	158.3	137.1	129.4	155.3	156.1
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	340.8	725.5	1,000.9
Spread with official exchange rate (eop)	24.6%	66.8%	97.7%	92.4%	45.0%	0.0%
Gross reserves (USD billion, eop)	44.8	39.4	39.7	44.9	36.4	43.9
Net international reserves (USD billion, eop)	12.6	3.8	2.3	7.7	0.4	1.4
Policy rate (eop)	55.0%	38.0%	38.0%	75.0%	110.0%	38.0%
GDP (YoY)	-2.0%	-9.9%	10.4%	5.2%	-3.8%	0.0%
Formal wages in real terms (aop, YoY)	-6.0%	-1.9%	0.4%	0.3%	-2.5%	-2.0%
Primary result (% GDP)*	-0.2%	-6.4%	-3.3%	-2.7%	-3.3%	0.0%
Fiscal result (% GDP)*	-3.6%	-8.4%	-4.8%	-4.1%	-5.3%	-2.0%
EMBI Argentina (spread in bps, eop)	1,744	1,350	1,703	2,196	1,500	750
Public net debt (% GDP)	43.6%	52.7%	42.1%	34.1%	35.0%	41.6%
Current account (% GDP)	-0.8%	0.8%	1.4%	-0.6%	-2.4%	1.5%

Source: EconViews

*Excludes rents from primary debt issuance in 2022; PIPs below the line in 2019

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