THE WEEK
AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

November 25th, 2020

Editorial: Agreement Still Far Away, Busy Summer

The International Monetary Fund mission left Argentina last weekend. The official statement published on Friday by the Washington-based organization suggests that an agreement between the two parties is still distant. In its very particular language, it states that guidelines for a program were discussed, a clearly ciphered message indicating that the substance of an agreement is not near.

Our vision is that an initial agreement on how and when to eliminate the primary deficit is missing. Also, it is not clear that there is an agreed path for exchange rate policy. The FX spread is unsustainable at these levels. And no reasons arise indicating that the spread reduction will occur by lowering of the ceiling instead of rising the floor. The October exports' bad print, even with rising prices, is a good example of how difficult it is to manage an economy with this distortion. The Government insists that the IMF is not calling for devaluation, but it is unclear where the reserves will come from in order to prevent the peso from weakening. Let us bear in mind that there is a surplus of pesos in Argentina and about 300 billion more are about to be issued in December. **Can the demand for pesos increase so as to clean up that surplus? Although the economy is normalizing, we do not see the monetary hangover being cleaned up that fast.**

In this political economy environment, the fastest imaginable timing for an agreement with the IMF is February, but March or April are more likely. Regardless of the differences with the Argentine authorities, it is unlikely that staff will want to go to the board before January 20, the day of the presidential handover in the United States.

The program with the IMF currently has many ownership issues and the mission probably perceived this. While Minister Guzmán tries stay in balance to display a better environment and meets with important businessmen, and gives signs of fiscal adjustment (new pension formula, IFE elimination, utility price hikes), the rest of the government does not seem as persuaded. The senators' letter to the IMF was followed by statements from the president showing that he not only has to juggle judicial matters but also, he has got to be careful when he talks about the economy. Not only did he somewhat endorse the letter against the IMF, but more recently he spoke against free trade, he allowed the tax on fortunes and the motion that restricts the use of scorched land to move forward. More recently, businesses were threatened using the supply law, another measure that does not go hand in hand with reasonable pro-investment policies. Even with all these setbacks, we still see an agreement in the Q1-2021 as the most likely scenario.

In this context, however, proposing a set of structural reforms will be a very complex endeavor for the staff. It is not that the fiscal, monetary and exchange rate issues are simple, but in certain circumstances, politicians will swerve in the absence of alternatives. In Argentina, the trigger is the lack of reserves. The CB no longer has its own liquid reserves and, on top of this, the price of gold is falling, depressing the value of the gross reserves. The good news is that deposits in dollars halted their fall. Selling structural reforms that go in the direction of improving long-term productivity seems to be a difficult mountain to ascend because the discursive angle to advance along that path is unclear, not even from the most "pro-market" sector of the coalition.

Against this background, we foresee a busy summer. High inflation, probably a leap in the exchange rate in the first quarter and regulatory changes typical of a scenario of macroeconomic volatility. The interesting thing is that, after the United States election, the world went into risk-on mode. Perhaps with a more concrete sign, Argentina could take advantage of some of that improved global mood. For now, the variable that helps is the price of soybeans which is at a 6-year high, partly explained by expectations of drought in Argentina.

What's Coming Up this Week…

- On **Thursday 26** the Treasury will conduct the **last auction of the month**. It is key to see if they are willing to increase rates and this will partially determine how much money is issued in December.
- On **Thursday**, INDEC will release **Supermarket and Shopping Centers' sales data** for September.
- Also, on **Thursday 26 home appliances' sales** for the Q3 will be released. This report is key to see how sales grew driven by the FX spread.
- On **Thursday 26** the CB will release the **banks' report** and the reprogrammed **monetary policy report**.
- On **Friday 27** the **exchange market data** will be published. It will be key to understand how many people were able to buy dollars for savings since October was the first full month of restrictions.

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	Last data vs previous quarter
Industrial production - INDEC	*Sep-20*	4.3%	21.7%	4.5%
Automobile production - ADEFA	*Oct-20*	-11.2%	72.5%	4.5%
Steel production- Chamber of steel	*Oct-20*	8.1%	33.1%	14.3%
Poultry production - Min. of Agriculture	*Sep-20*	15.5%	-2.3%	10.9%
Dairy production - Min. of Agriculture	*Oct-20*	0.8%	-3.3%	-1.2%
Beef production - Min. of Agriculture	*Oct-20*	-6.1%	-3.3%	-4.5%
Real Estate transactos City of BA	*Sep-20*	50.4%	87.9%	82.1%
Flour Production - Min. Of Economy	*Sep-20*	2.2%	0.3%	-2.0%
Oil production - Min. of Production	*Sep-20*	-0.9%	0.9%	-2.1%
Gas production - Min. of Production	*Sep-20*	6.1%	1.9%	5.0%
Cement production - AFCP	*Oct-20*	1.7%	16.4%	11.5%
Construction activity - INDEC	*Sep-20*	4.0%	58.7%	5.4%
Retail sales - CAME	*Oct-20*	-2.8%	24.1%	4.6%
Gas sales - Min. of Economy	*Sep-20*	6.1%	33.6%	6.5%
Motorcycle licenses - ACARA	*Oct-20*	-4.0%	13.5%	4.1%
Use of electricity - CAMMESA	*Oct-20*	1.9%	7.6%	2.9%
Subway rides - City of Buenos Aires	*Oct-20*	-0.6%	26.4%	26.5%
Imports CIF - INDEC	*Sep-20*	22.7%	12.3%	26.4%
Exports FOB - INDEC	*Sep-20*	-4.7%	3.0%	-2.0%
Loans in ARS to private sector (real) - BCRA	*Oct-20*	1.6%	5.0%	3.0%
VAT-DGI Revenues - AFIP	*Oct-20*	4.0%	11.2%	8.4%
Formal private jobs - SIPA	*Aug-20*	0.0%	-1.2%	-0.3%
Formal private jobs - Min. of Labor	*Sep-20*	-0.2%	-0.3%	-0.2%
Consumer confidence - UTDT	*Oct-20*	-3.7%	3.8%	-2.8%
Government confidence - UTDT	*Oct-20*	-12.1%	-20.0%	-16.9%

Note: stoplight color depends on last data vs previous quarter

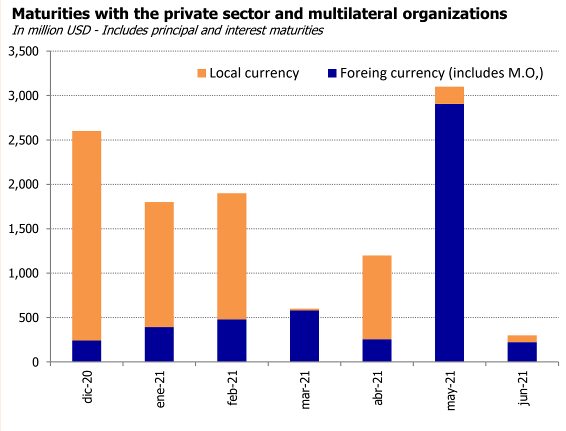
The Central Bank Will Assist the Treasury Again, through an Alternative Path

- *The Treasury will ask the Central Bank for ARS 344 billion in assistance again, this time as profits transfer, to cover its financing needs for the rest of the year*

- *The Treasury managed to cover its November capital and interest maturities in the mar ket, but it will hardly obtain net financing to cover the primary deficit that we estimate at almost ARS 93 billion*

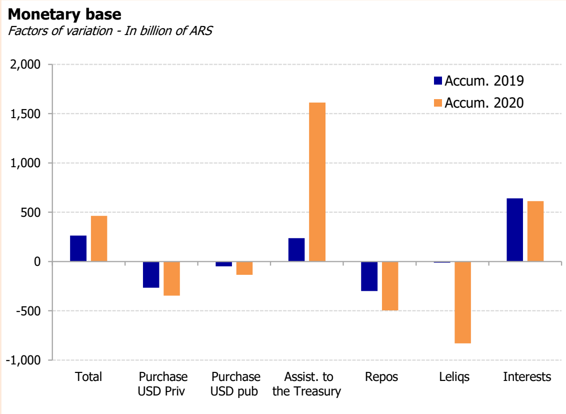
- *The December financing needs amount to ARS 660 billion, of which almost ARS 500 billion are with the private sector; we estimate that between ARS 300 and ARS 350 billion will be financed in the market*

- *The Central Bank will have to sterilize the excess pesos once the seasonal demand at the end of the year is exhausted, and will probably need to raise rates*



At the beginning of November, and in the midst of a strong exchange tension due to the parallel dollar soaring, Minister Guzman sought to send monetary and fiscal consistency signs to the market by assuring he would not ask the Central Bank for any more assistance until the end of the year… in the form of temporary advances. At the same time, he announced with great fanfare the repayment of advances for ARS 101 billion that were added to the ARS 24.7 billion already repaid in October. The Treasury aimed to obtain net financing from the market, reducing the Central Bank's issuance needs. **But a door was left ajar: the transfer of profits,** which also implies monetary issuance. **And in the last few days, the Treasury opened that door. And went in.**

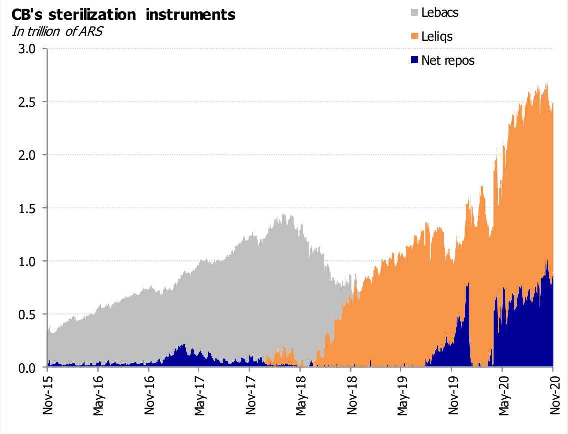
In addition to resorting to market borrowing**, the Treasury will again request assistance from the Central Bank to cover its financing needs for the rest of the year.** No longer in the form of temporary advances, which have already hit the cap allowed by the entity's Charter, but in the form of profit transfers. **On November 13, the Central Bank transferred ARS 30 billion in profits to the Treasury and will total an additional ARS 344 billion for the remainder of the year.**



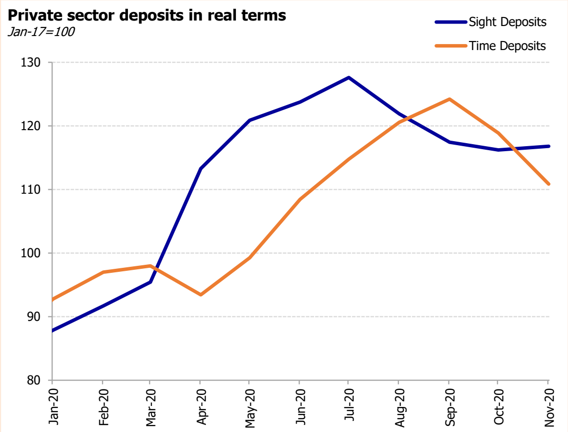
Source: Econviews based on BCRA

So far in November, the Treasury obtained ARS 281 billion financing from the market, in a month in which capital maturities in pesos amount to ARS 303 billion between private and public holdings. There are still ARS 90.6 billion to be paid next Monday 30 (S30N0) and a last auction of bills will be held on Thursday 26. This means that, with some luck, the Treasury will manage to cover the month's capital and interest maturities in the market, but it will find it difficult to obtain net financing to cover the primary deficit that we estimate at almost ARS 93 billion. **A hand from the CB is needed.**

In December, capital and interest maturities in pesos will total ARS 400 billion (about ARS 230 billion with the private sector) and we estimate that the primary deficit will be at least one point of GDP (about ARS 260 billion). The financing needs for the last month of the year amount to ARS 660 billion, of which almost ARS 500 billion are with the private sector. In the auction announcement for tomorrow, the Treasury included a swap for holders of four instruments that expire in December (Bonar 2020 and three bills). As it has been happening in the last auctions, the cut-off prices are above those of today's market close, so we estimate that most of the bids will come from the public sector. Therefore, the financing that can be obtained in the market in the last auctions of the year, which we anticipate will be between ARS 300 and ARS 350 billion, will be crucial. **Surely another hand from the Central Bank will be needed.**



More assistance from the Central Bank means more need for money issuance. So far this year, the monetary base increased a little over ARS 460 billion, while the Leliqs stock grew 120% (equal to more than ARS 920 billion) to 1,681 billion pesos, and the reverse repos stock doubled and is already over ARS 870 billion. The Central Bank's interest-bearing liabilities stock is over ARS 2,550 billion and as long as inflation continues to accelerate and the pressure on the foreign exchange market does not ease, the CB will have to pay higher rates for them. The Central Bank will have to issue around ARS 450 billion until the end of the year, only for assistance to the Treasury and interest payments on repos and leliqs, and continue to renew its stock of interest-bearing liabilities, which has an increasingly short life, to prevent the monetary base from expanding too much. We foresee that the monetary base will close the year with a rise barely under 50% compared to the close of 2019.



The demand of pesos continues to be weak and the private sector's time deposits fell again in the last 30 days (-1.8%). On average, in October these placements fell 4.3% in real terms compared to September's record, and the monthly fall broadened to 6.8% in November, with data up to the 17th and an estimated inflation similar to the previous month. The other side of the coin is the increase in sight accounts, which in the last 30 days accumulated a 3.7% rise and in November have been growing a 0.7% average in real terms.

The private sector's need for funds to pay bonuses and other year-end expenses will probably validate much of the increase in the money supply in December, but the surplus pesos will have to be absorbed by the Central Bank during the first quarter of 2021 when the seasonal demand decreases. In a scenario of accelerating inflation, **the CB will have to raise rates to at least 40% this year and 45% in the first three months of next year, to achieve this sterilization objective.**

The Fiscal Deficit was the Lowest Since the Onset of the Pandemic

- *In October, primary expenditures scored the lowest year-on-year variance since the onset of the pandemic (54.8%); IFE and ATP programs' assistance dropped to less than half the levels recorded since May*

- *The National Government's revenues grew 28.1% y/y, while tax revenues slowed down and grew 34.9% (vs. 41.5% in September)*

- *The primary deficit totaled ARS 81.6 billion in the month (0.3% of GDP) and was the lowest since the beginning of the pandemic, although in October 2019 there had been an ARS 8.5 billion surplus; interest payments were the lowest for the year (ARS 31.1 billion), driving the fiscal deficit to ARS 112.7 billion (0.4% of GDP)*

- *Thus, the accumulated deficit until October was ARS 1.384 trillion, equivalent to 5.2% of GDP; while the accumulated fiscal deficit totaled ARS 1.847 trillion (7.0% of GDP). We expect a primary deficit of around 6.5% of GDP for the entire year or slightly more*

Fiscal accounts of Central Government

Up to October 2020 - % variations and amounts in ARS billion

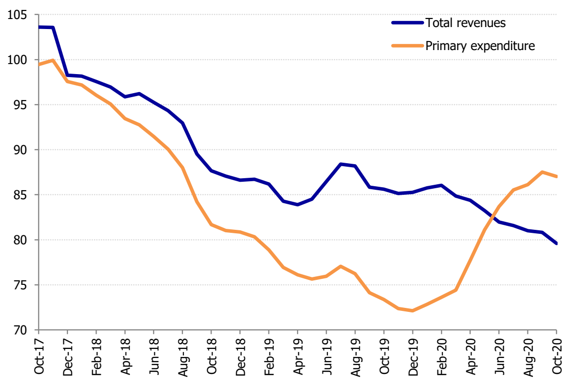
	Accumulated YoY	YoY October
Total revenues	**22.8%**	**28.1%**
Tax revenues	28.8%	34.9%
Primary expenditures	**67.9%**	**54.8%**
Current expenditures	**72.3%**	**58.0%**
Social security	75.4%	52.6%
Economic subsidies	110.2%	162.7%
Salaries and operating exp.	29.4%	24.6%
Transfers to provinces	201.1%	172.1%
Transfers to universities	50.1%	45.7%
Other current expenditures	49.4%	-13.2%
Capital expenditures	3.7%	0.0%
Primary balance	-1,383.6	-81.6
Interests	463.3	31.1
Fiscal balance	-1,846.9	-112.7

In October, **primary spending recorded the lowest year-on-year change since the onset of the pandemic (54.8%).** After the FX spread skyrocketed last month, reaching levels not seen since the hyperinflation, **the government began to signal a "turn to orthodoxy" and, in that direction, announced that there would be no IFE 4** and that, furthermore, no more temporary advances would be requested from the Central Bank and they would actually begin to be paid back.

IFE and ATP programs' assistance fell to less than half of the levels observed since their implementation (ARS 30.3 billion vs. 71.5 billion in September). As a result, **social benefits moderated their year-on-year growth (52.6% vs. 69.8% the previous month)** although they continued to grow above inflation. As for **retirement and contributory pension expenditures, they grew 1.4% year-on-year in real terms, although they decreased 2.5% compared to last September,** after inflation posted its highest record of the year during October (3.8%).

Revenues and expenditure in real terms

Accum. 12 months - Dec-16=100



While **in September economic subsidies had soared due to the regularization of electricity subsidies,** and explained a large part of the leap in primary spending, **in October expenditures for this concept moderated; economic subsidies grew 162.7% y/y** (vs. 224.7% in September) while **energy subsidies grew 224.7%** (vs. 327.5%).

On the other hand, **current transfers to provinces,** aimed at counteracting lower provincial tax and automatic transfers income, **remained high and grew 172.1% y/y.** As for capital spending, **it was the same as a year ago, falling**

27.1% year-on-year in real terms, despite the acceleration of spending on transportation (58.4%) due to road works.

The total revenues of the non-financial public sector grew 28.1% y/y and the performance of its components was divergent. Tax revenues, which had grown 41.5% y/y in September favored by a low comparison base, **grew 34.9% in October.**

Among the taxes levied on the domestic market, the VAT performance stood out (27.0%), as it recorded its highest year-on-year variation since the beginning of the pandemic, partly due to the higher degree of mobility (according to data from Google, in October mobility to stores was the highest since April). **Revenues from Income tax (99.4%) and Personal Assets (591.2%) continued to be the most dynamic.** On the other hand, **taxes on foreign trade lost momentum and export taxes,** which in September had grown 47.5% y/y, **stagnated compared to October 2019**. The advance of export settlements that took place between October and December last year, together with the transitory decrease of the rates, explained this.

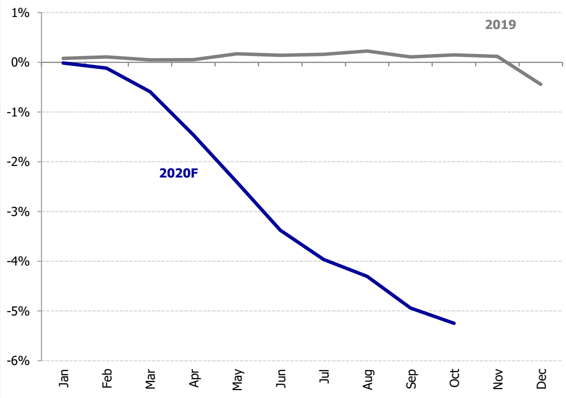
Non-tax revenues fell compared to a year ago. Property income contracted by 1.2%, mainly due to the interruption of payments on loans granted by ANSES, while **capital income decreased 23.6% year-on-year,** due to fewer resources available for financing the Historical Repair program.

Thus, **in October an ARS 81.6 billion primary deficit was recorded, equivalent to 0.3% of the GDP.** Interest on the public debt amounted to ARS 31.1 billion, which brought the **fiscal deficit for the month to ARS 112.7 billion (0.4% of the GDP). Both were the lowest since the beginning of the pandemic, although they remain at extremely high levels.** In fact, **the October primary deficit was two and a half times the cumulative deficit from January to October 2019** (ARS 31.4 billion).

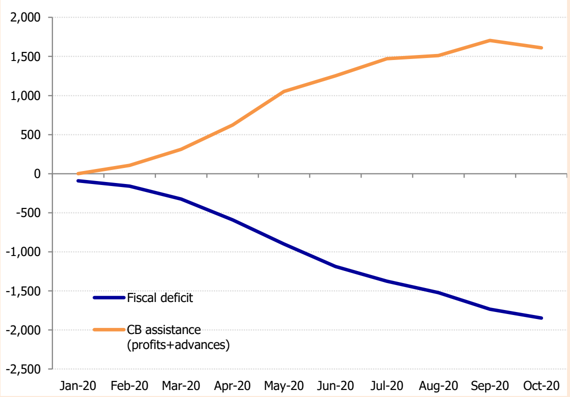
As a result, **the accumulated primary deficit as of October reached 5.2% of GDP, while the accumulated fiscal deficit was equivalent to 7% of GDP.** In its eagerness to show fiscal moderation, **the government financed part of the deficit through the placement of instruments indexed to the evolution of the exchange rate and inflation, while it returned around ARS 125.8 billion to the Central Bank in for temporary advances, although it requested ARS 30 billion via profits. For the whole year we expect a primary deficit of 6.5% of GDP or slightly more.**

The end of the IFE program and the announcement that as of November only critical sectors would benefit from the ATP program point to the gradual elimination of Covid spending. However, **the gap between revenues and expenditures remains high and the Ministry of Economy announced that until the end of the year it will request ARS 344.0 billion assistance from the Central Bank as profits,** as we had anticipated in our weekly reports.

Primary result
Accum. as % of GDP - National Government, cash basis



Fiscal deficit and assistance to the Treasury from the CB
Accum. in ARS billion



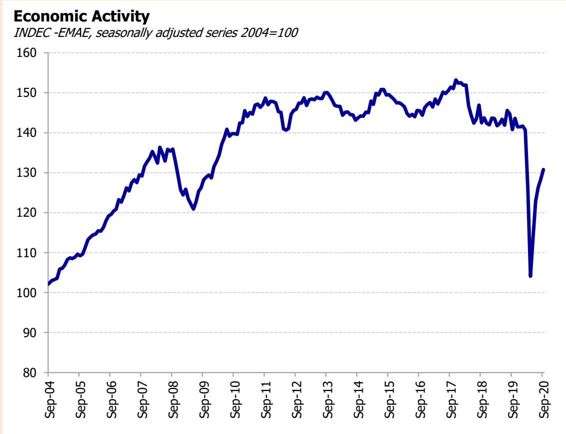
Economic Activity Gained Ground in September

- *EMAE-INDEC increased 1.9% compared to August, though it is still 7.0% below its February level*

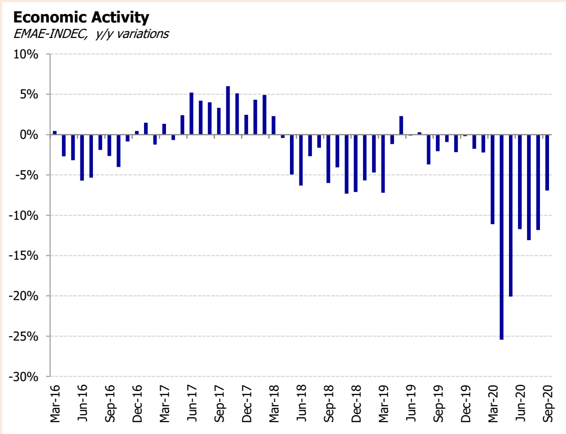
- *In y/y terms, the official indicator moderated its fall from 11.8% to 6.9%*

- *Out of the 15 divisions of EMAE, 6 of them recorded positive y/y variations, with trade, industry, and financial intermediation standing out*

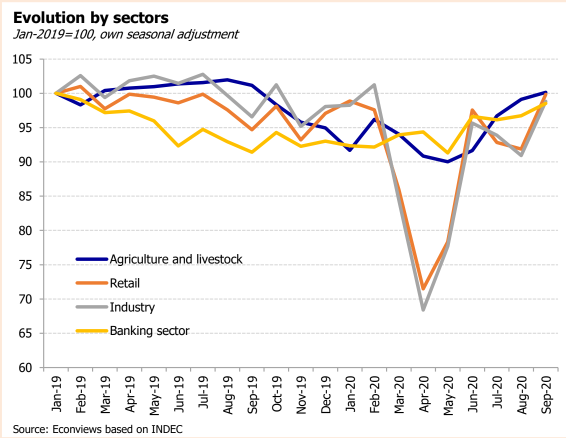
- *Economic activity accumulated an 11.9% contraction up to September compared to the same period in 2019; the "electricity, gas, and water" sector is the only one that has grown (1.1%)*



Economic activity continued to gain ground in September. The greater opening of the lockdown and the increased mobility of the population helped the economy recover, for the fifth month in a row, part of what it lost during March and April, the strictest months of the lockdown. **EMAE-INDEC –seasonally adjusted series– increased 1.9% monthly, after growing 1.6% in August (revised from 1.1%), although it is still 7.0% below February's level.** INDEC is still adapting its seasonal adjustment methodology to the evolution of the quarantine, and this caused them to make some significant adjustments in previous months' records. **Q3 recorded a 13.2% growth compared to Q2,** which would have been 11.1% had they not adjusted the values reported a month ago. **In y/y terms, the official indicator cut its fall from 11.8% (revised from 11.6%) to 6.9%.**



Out of the fifteen sectors of activity grouped by the official indicator, six of them managed to grow in y/y terms in September. The most dynamic sector was fishing (43.2%), although its contribution to the official indicator was limited (0.16 p.p.) due to its low relative weight. **Trade had the greatest positive impact (5.8% y/y, contributing 0.66 p.p.),** favored by the greater opening of the economy. **Industry trailed behind (2.2%), contributing 0.36 p.p.** Just as the manufacturing IPI had forecasted, industry grew in y/y terms for the first time in 9 months. As for **financial intermediation, it grew 7.7% and contributed with 0.29 p.p.,** although it was partly favored by the low comparison basis (deposits in dollars experienced a strong contraction in September 2019 after the primaries). **According to our estimations, the sector grew scarcely 1.9% m/m compared to the 8.7% recorded in both industry and trade.**

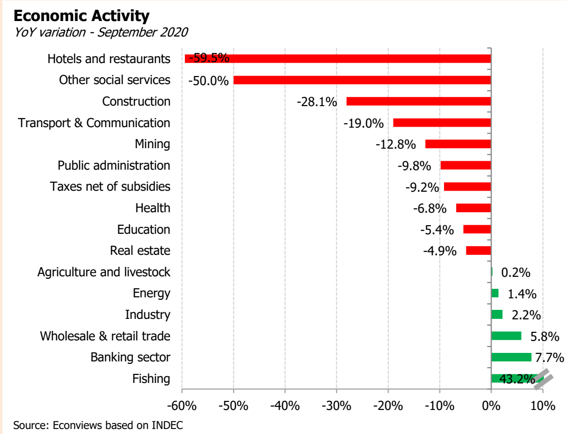


Conversely, the sector with the greatest fall was hotels and restaurants (59.5% y/y, -1.02 p.p. in the general index) and lost ground compared to a month ago in the seasonally adjusted comparison. Nonetheless, we expect the sector to partially recover, especially starting in November, with social distancing replacing the lockdown in the Metropolitan Area of Buenos Aires (AMBA). Although it recorded a somewhat lower y/y fall, **the economic sector**

that had the greatest negative impact was transportation and communication (-19.0% y/y, -1.62 p.p.), and was followed by social services (-50.0% y/y, -1.31 p.p.).

Between January and September, economic activity accumulated an 11.9% fall compared to the same period in 2019. The "electricity, gas, and water sector" remained the only one that managed to accumulate growth (0.9%), while the most struck sectors were hotels and restaurants (-47.3%), social services (-43.4%), and construction (33.6%).

We expect the recovery of economic activity to continue in October, although some early indicators indicate it will not be as strong as it was in September. In seasonally adjusted terms, there were monthly falls in indicators such as automotive production (-11.2%) and retail sales (-2.8%), but other sectors scored some growth, such as electric energy consumption (1.9%) and cement production (1.7%).



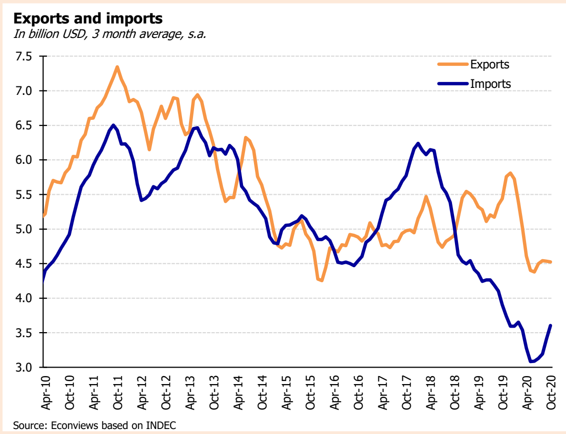
Trade Surplus Under USD 1 Billion Again in October

- *October's trade surplus amounted to USD 612 million, closer to September's 584 million than to the almost 1.4 billion average from the first eight months of the year*

- *After growing in September, imports reached USD 4.0 billion, meaning a slight 2.8% decrease in y/y terms*

- *Exports are still shrinking and totaled USD 4.6 billion, 21.6% below their value in October 2019*

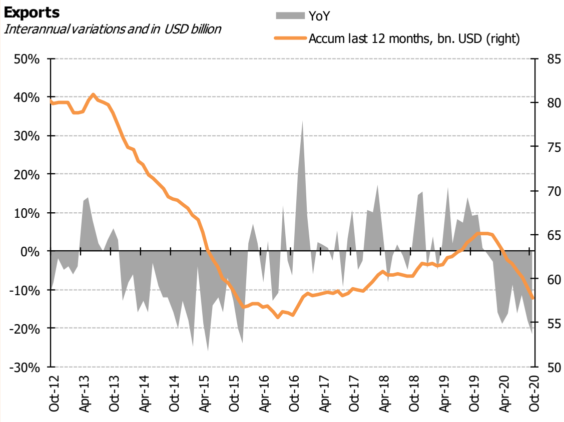
- *During the first 10 months of 2020, the accumulated surplus amounted to USD 12.1 billion due to a 13.5% contraction in exports, while imports lowered 19.3%*



The exchange rate problems that deepened in September brought unfavorable dynamics for commercial trade. In September, the net balance of exports fell below USD 1.0 billion for the first time in over a year. With the FX spread between the official and the parallel dollar at almost 120% throughout October, exports kept falling. Thus, **the trade surplus was USD 612 million,** and the balance kept declining if we take a look at the median from the last twelve months.

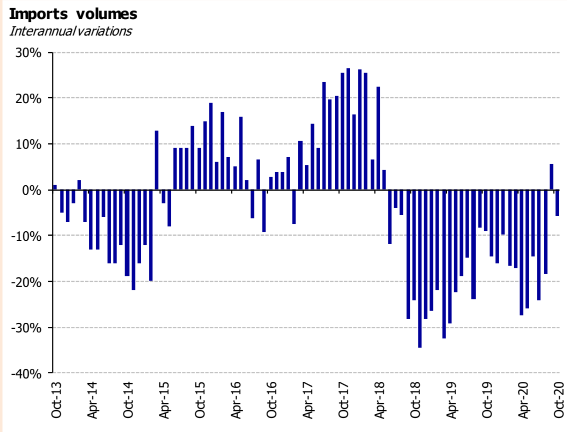
Export amounted to USD 4.6 billion and stood 21.6% below their value one year ago. Thus, they recorded their worst y/y fall since December 2015, another month that was marked by devaluation expectations (back then it was due to the exit from the *cepo*) which encouraged producers to halt outbound sales. The 2.4% increase in international prices was not enough to counter the 23.5% slump in exported volumes. INDEC's seasonally adjusted series displayed a 1.0% monthly drop in October, its second one in a row after the recovery in August.

A lower soybean supply affected the export slump. The contribution of seeds and oilseeds to the trade balance was USD 472 million lower than in October 2019. The grain trade also dropped: corn grain sales, which represent a tenth of total exports, sank 13.2% compared to one year ago. In total, **primary product exports contracted 34.4%,** their greatest y/y fall since March 2014. **Agricultural manufacture exports did not have such a hard time and shrunk 4.2%** due to the drop in sales of meat and its byproducts. The Government is placing a bet on increasing exports of kosher meat to Israel, the third most important market for the sector, as a way of improving its balance. **Industrial manufacture exports experienced another hard fall, 23.7% below one year ago.** Particularly, automotive sales were 28.5% lower. Lastly, **fuel and energy exports sank 56.7%.** Such a y/y slump was unseen since 2015, in a sector that contributed 5% to the exported total over the last years.



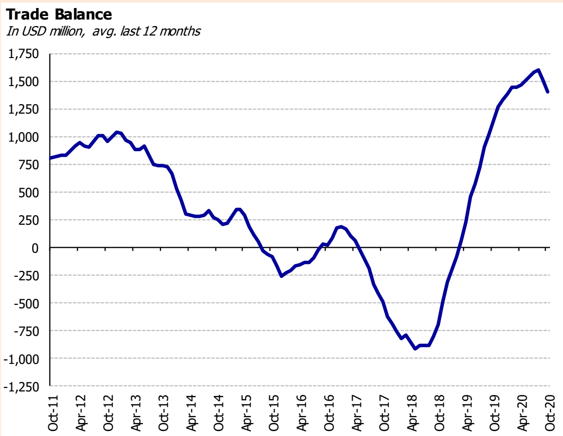
Source: EconViews based on INDEC

Imports totaled USD 4.0 billion, 2.8% less than in October 2019, and remained high compared to the first months of the year, although they decelerated 1.8% compared to September's record according to the seasonally adjusted data. Imported amounts sank 5.8%, while international prices went up 3.2%.



The various items according to their economic use displayed different behaviors: there was a **contraction in imports of capital goods (-10.9%)** and **spare parts and accessories for capital goods (-21.1%),** although the demand for computers, phones their spare parts kept growing over 50% y/y. In addition, **fuel and lubricant exports fell again (-36.3%)**, contributing to the recovery of the energy surplus despite the collapse of exports. **Consumption goods imports also decreased (-7.7%).**

The two items where imports grew are linked to the effects of the high FX spread. On one hand, **purchases of intermediate goods (14.1%)** were boosted of a 548% increase in soybean imports from neighboring countries due to the mills' need to substitute the local supply. **Imports of passenger vehicles made the greatest y/y jump (50.4%),** as sales accelerate since their price is tied to the official exchange rate.

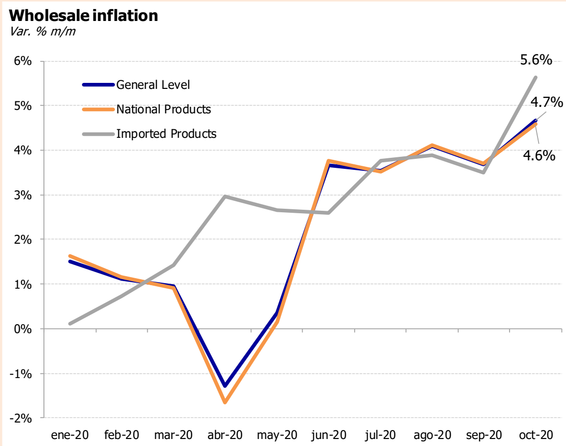


So far in 2020, Argentina has accumulated a USD 12.1 billion trade surplus, slightly over (907 million) the one recorded during the same period in 2019. So far, the effect of the pandemic on international trade hit **imports** harder, which **sank 19.3% so far this year,** than **exports, which dropped 13.5%.** Certain international factors, such as the recovery in Brazil or the rise in the price of soybeans work in favor of Argentina, but the FX instability and the uncertainty surrounding export taxes pose challenges for foreign trade.

Strong Increase in Wholesale Prices and Construction Cost

- *The Wholesale Price Index increased 4.7% in October, almost one point more than the consumer price index and hand in hand with imported goods, whose prices escalated 5.6%*
- *The Construction Cost Index in the Greater Buenos Aires rose 3.7%*
- *Building materials went up 7.8%, while the cost of labor increased 0.1%*

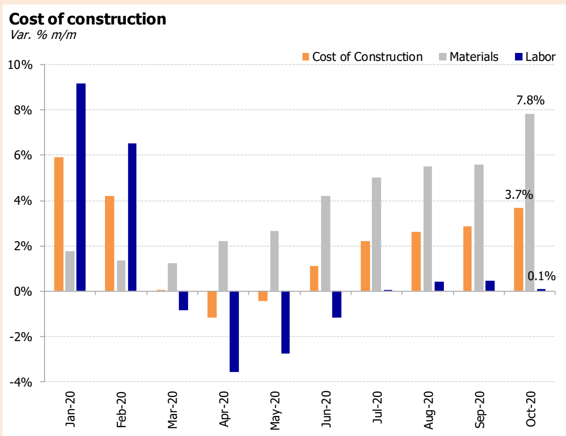
In October, the Wholesale Price Index recorded a 4.7% increase compared to September, 0.9 p.p. over the CPI (3.8%). This figure represents the greatest monthly increase so far this year and is aligned with the violent variations in free exchange rates (the FX spread widely surpassed 100% in mid-October). **National products increased 4.6% throughout the month, while inflation reached 5.6% in imported products.**



As for manufactured goods, the greatest increases were recorded in paper and paper products (10%), wood and wood products except furniture (9.4%), and other means of transport (7.4%). As for primary products, the agriculture and livestock sector was one of the month's highlights, displaying an 8.6% rise. In this case, the increase in the international price of livestock and agricultural products had a great impact. Another category worth highlighting due to its weight on the general index is food and beverage, which went up 5.3%.

In y/y terms, the increase in the general level was 36%, and it reached 24.5% year-to-date.

The Construction Cost Index also presented noticeable increases compared to previous months. The monthly variation was 3.7%, while the year-to-date record amounts to 22.9%.



Keeping the same dynamics from the past 7 months, building materials was the item recording the greatest increase (7.8%), way over inflation. The magnitude of the FX spread and the devaluation expectations were two key factors that increased the demand for these products, which translated into said increase. The Government started hunting ghosts in its speculation, but with an 80% spread and a robust demand it was quite hard to expect prices to behave favorably.

General expenses increased 2.5% and labor scarcely 0.1%. The latter has accumulated a 7.9% increase so far in 2020, which means a great decline in real terms considering that the CPI has accumulated a 26.6% increase during the same period.

Taking the accelerations of both wholesale prices and construction costs into account, **we expect these increases to spill over onto retail prices over the coming months,** which will make the CPI go up about 4%.

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