THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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Editorial: Income Tax Populism

Last week, the government presented a bill to modify the income tax paid by individuals that is a step back from many angles. The central idea is that just over half of the salaried workers who today pay the tax stop doing so. Essentially it would reduce the universe of taxpayers from 2 million to about 750,000 at a cost that the government estimated at ARS 40,000 million, probably something more.

In macroeconomic terms this is not a significant amount. We are talking about 0.1% of GDP (it could be something more) that will have to be financed between the provinces and the national state. Nor is it much stimulus to consumption, considering that the 3,500 million pesos per month of tax savings have to be divided between 1.25 million people.

The problem with this patch is that it does not make sense neither from the tax design nor from the logic of income distribution. Personal income tax is paid by the two richest deciles and a few in the third decile. So this relief is going to hit the second richest decile of the population and will help some in the first decile as well. In other words, there is a great problem of focus in this measure that is clearly regressive at a time when poverty exceeds 40% of the population.

From the design, the patch is even worse as the project breaks with the concept of progressive rates. As it is a special deduction that is extinguished when spending 150,000 gross pesos of income per month, it will happen that salary increases end up generating in-pocket losses. The government can enable smoothing clauses to mitigate the effect, but it puts a great distortion on the labor market. In addition, it further breaks the horizontal equity between employees and independent workers who are left in a much worse situation.

In addition, the government leaked that the fall in tax revenues will be recovered with an increase in corporate income taxes. This would operate by not applying the Macri reform that lowered the rate from 30 to 25%, but also with an increase in the tax on dividends from 7 to 13%, that would make a company that pays 100% of dividends to pay from 34.9 to 39.1%. Argentina has a giant investment deficit and more taxes leave it at a disadvantage against many other jurisdictions.

Countries have been moving in the opposite direction. They lower taxes on corporations to attract capital and try to get more people to pay income tax, since this is a tax almost without distortions and it is very equitable by applying progressive marginal rates and covering particular situations through deductions (children+, interest on a single home mortgage, etc.). Before the reform proposed by Deputy Massa, Argentina was already one of the countries with the highest non-taxable threshold in the world, now we will be champions.

There is consensus among economists and tax experts that the proposal is rather sketchy. But political economy goes the other way. Neither the governors who will pay more than 60% of the bill nor the opposition seem to have the will or ability to oppose it. When Massa proposed something similar during the Macri government, the governors subtly operated in the Senate to overturn it. It won't happen this time. Demagogic phrases are back, such as "salary is not profit" that arise from a bad name for the tax that should be called as in other places: "income tax".

LAST WEEK IN REVIEW

- The **terms of trade** for Argentina **improved 0.6% in 2020**. The y/y variation in 4Q-2020 was 3.1%.
- In December, **the use of the industry's installed capacity was 58.4%**, 1.5 p.p. more than a year ago. In the basic metal industries, the figure reached 73.5%.
- The **arrival of international tourists sank 95%** in December, compared to the same month of 2019. In full 2020 the fall was 77.3%.
- **Brazil's activity index** improved 0.64% between November and December and **ended 2020 with a 4.05% fall in GDP**, less than expected by the market.
- **YPF restructured its debt** with an acceptance of 60%. Shares of the oil company on Wall Street rose 2.7% after the news. Hours later, **Entre Ríos** reported that it had reached an agreement with its creditors.

NEXT WEEK'S HIGHLIGHTS

- **Today**, the **public debt report** with data for January will be published.
- On **Wednesday 17** INDEC publishes the **cost of the basic food basket** that is used to determine poverty and indigence lines.
- On **Thursday 18**, the **wholesale price index** and the **construction costs** for January will be announced.
- Between Friday 19 and Monday 22, the **budget execution data for January** should be published.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y
Official exchange rate ARS/USD	88.9	0.7%	3.7%	44.3%
Blue Chip Swap	150.7	1.1%	3.8%	81.0%
CB reserves (USD million)	39,370	+196	-338	-5,331
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	-10 p.p.
Badlar rate (private banks)	34.1%	-0.06 p.p.	-0.19 p.p.	-1.06 p.p.
Merval (in ARS)	51,466	0.5%	0.5%	28.9%
Country Risk (spread in %)	1,461	1.1%	3.3%	-25.1%
Official exchange rate BRL/USD	5.37	-0.1%	1.5%	25.0%
Soybean (USD/ton)	508.8	-1.2%	-2.3%	54.9%
Oil - Brent (USD/barrel)	64.4	6.5%	18.1%	11.1%

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Dec-20*	0.9%	4.9%	3.3%
Automobile production	*Jan-21*	11.2%	48.4%	38.1%
Steel production	*Dec-20*	11.9%	19.3%	17.0%
Poultry production	*Dec-20*	1.9%	0.8%	0.2%
Dairy production	*Dec-20*	0.8%	1.1%	2.0%
Beef production	*Dec-20*	-3.8%	-2.1%	-3.3%
Real Estate transactions (CABA)	*Dec-20*	-5.4%	58.6%	-1.0%
Flour Production	*Dec-20*	-6.3%	-9.5%	-12.4%
Oil production	*Dec-20*	0.7%	0.0%	1.1%
Gas production	*Dec-20*	-3.0%	-2.0%	-2.6%
Cement production	*Jan-21*	-3.9%	14.8%	1.1%
Construction activity	*Dec-20*	4.3%	12.7%	10.1%
Retail sales	*Jan-21*	4.7%	10.9%	7.9%
Gas sales	*Dec-20*	13.8%	17.6%	20.7%
Motorcycle licenses	*Jan-21*	-15.7%	-9.7%	-18.6%
Use of electricity	*Jan-21*	3.2%	7.0%	5.0%
Subway rides (CABA)	*Dec-20*	36.0%	80.0%	66.8%
Imports CIF	*Dec-20*	-4.5%	23.3%	4.6%
Exports FOB	*Dec-20*	-20.3%	-6.0%	-18.4%
Loans in ARS to private sector	*Jan-21*	-1.0%	-0.7%	-1.4%
VAT-DGI Revenues	*Jan-21*	4.4%	7.1%	0.3%
Formal private jobs (SIPA)	*Nov-20*	0.1%	-0.1%	0.0%
Formal private jobs (EIL)	*Dec-20*	0.0%	-0.2%	0.0%
Consumer confidence	*Jan-21*	-2.8%	-1.7%	-3.7%
Government confidence	*Jan-21*	1.6%	-13.4%	-3.8%

Note: stoplight color depends on monthly variation

Income Tax: A Proposal Going the Wrong Way

Last week a bill was put forward by the president of the Chamber of Deputies, and member of the ruling Frente de Todos, Sergio Massa. The measure would imply that the majority of individuals reached by the income tax stop paying it. The focus is almost entirely electoralist and goes against some basic principles of equity and tax design. However, we estimate that it will be approved perhaps with minor changes.

What is and how does the personal income tax work? Known locally as “profits” tax (“impuesto a las ganancias”), the tax levies all types of income earned in a tax period. Depending on the source of the earnings, the tax is divided into four categories:

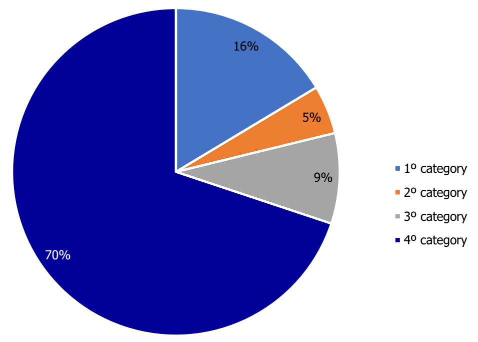
- First category: from the exploitation of real estate

- Second category: income from shares, dividends, interest, etc.

- Third category: earnings of societies and sole proprietorships

- Fourth category: earnings obtained from personal work

Income tax on individuals
By income category - 2018

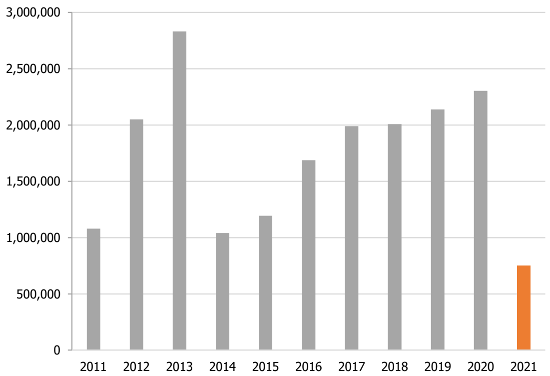


Source: Econviews based on AFIP

The fourth category is by far the one with the largest number of taxpayers, **around 70% of the universe of human persons reached by the tax. Not only wage earners fall into it, but also retirees. This is clearly an income tax, despite its local naming.**

In 2017, during Mauricio Macri's administration, the law was modified, introducing changes in the structure of the tax and establishing progressive reductions of the rates on companies. After the Economic Emergency Law was approved in December 2019, the reductions established for 2020 were suspended and **the tax on corporate profits remained at 30%, plus 7% on the dividends paid**. This takes the maximum to 34.9% in the hypothetical case that the ratio between dividends and earnings (payout ratio) is 1. **For 2021, it was expected to reduce the rate from 30 to 25% and raise the tax on dividends to 13%, which that generates more incentives to retain profits. The corporate income tax would vary between 25 and 34.1%.**

Personal income tax-payers
Salaried employees and retirees - 2021 after law approval



In the case of individuals**, the tax establishes a series of deductions from which the non-taxable minimums can be calculated**, ranging from family charges to mortgage interest for a single home, medical expenses and several more. **Deductions are updated annually based on the RIPTE wage index**, which is for formal salaried workers. **As wages have grown below inflation in recent years, the non-taxable minimum was also adjusted below inflation and as a result the tax has been progressively including more people.** According to data from AFIP that were presented in the bill, **the income tax reached about 2.3 million people in October, falling to 2 million in January when the new scales came into effect. The project seeks to reduce that number to approximately 750,000.**

Since January of this year, the general deductions have taken the non-taxable minimum for a single person without children to ARS 74,810 pesos per month in hand (that is, net of social security discounts). From that amount, scales are established with a fixed value plus a rate that grows as the scale increases. **This is progressivity: not only those who earn more pay more, but also pay a higher proportion.** The progressive rates system guarantees that, even when paying a higher proportion, an improvement in gross income generates an improvement in income net of taxes, one of the points where the bill falters.

What does the bill propose? Strictly, the project seeks to **discreetly increase the specific deductions for salaried employees and retirees, taking in practice the non-taxable minimum to 150,000 pesos per month (or to better compare, ARS 124,500 net after social security) and a similar amount for retirees.** The non-taxable profit per se is not modified. The bill allows the Executive Power to eventually establish a special partial deduction for those who earn between 150 and 173 thousand (gross) pesos to avoid the discrete jump of the tax (a softener in the jargon).

The adjustment is purely discretionary, and no automatic mechanism is established. **As only the deductions change, in the scheme presented so far, whoever earns more than 150 thousand (gross) pesos per month automatically falls into the category that currently corresponds to them, so a salary increase can be more of a headache than a relief.** The partial deduction that will eventually be announced would try to avoid this, but without adjustment of the scales, it will affect those who earn just over 173,000 pesos. That is to say that whoever today earns about 125,000 gross per month with the expected increases may pay all that is saved now by the end of the year. The special deduction patch will distort the job market and add an additional wedge between workers in a dependency relationship and self-employed. Salaried employees pay 0 and when they cross the threshold, they go directly to 27%.

The justification for the bill is that many people are reached by the tax and that the increase in the non-taxable minimum is a progressive measure that benefits employees and retirees. Is it really so? The income tax is recognized worldwide as one of the most efficient (it only distorts the margin between work and leisure) and equitable due to its progressive nature. The trend among OECD countries has been to increase the share of the tax in total tax resources and to reduce taxes on companies to favor investment. For example, in the United States the personal income tax amounts to about 40% of general taxes and 50% of federal tax resources. In Latin America, the share is lower and in 2019 it reached 9.6%. Argentina is even below the average for the region, with just 7% of total resources.

On the contrary, in Argentina, taxes that are fundamentally regressive, such as VAT, which for example taxes 21% on food regardless of the taxpayer's purchasing power. If what is sought is to increase progressivity, reducing the most progressive tax we have goes in the opposite direction. As can be seen in the graph, Argentina is among the countries that tax the most on goods and services. **And in almost all developed countries the tax on individuals is much higher than on corporate profits**. Argentina is not ready for that, but it should not go in the opposite direction. The other theoretical problem is that

Annual accumulated taxable income - current scheme		Will pay ARS	Plus %	On the excess of ARS
More than ARS	Up to ARS			
0	64,533	0	5	0
64,533	129,065	3,227	9	64,533
129,065	193,598	9,035	12	129,065
193,598	258,131	16,778	15	193,598
258,131	387,196	26,458	19	258,131
387,196	516,261	50,981	23	387,196
516,261	774,392	80,666	27	516,261
774,392	1,032,522	150,361	31	774,392
1,032,522	and over	230,382	35	1,032,522

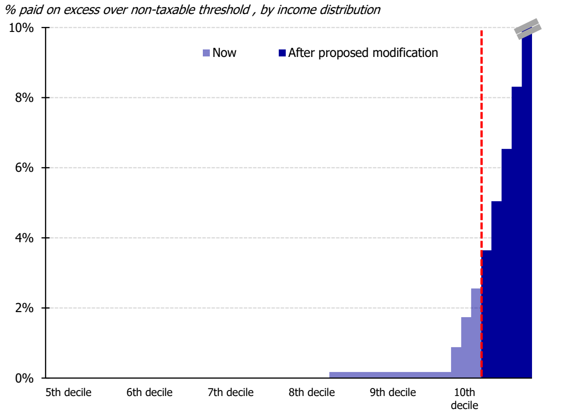
Accumulated taxable income

New scheme (without smoothing adjustment)

Will pay ARS	Plus %	On the excess of ARS
80,666	27	0
150,361	31	774,392
230,382	35	1,032,522

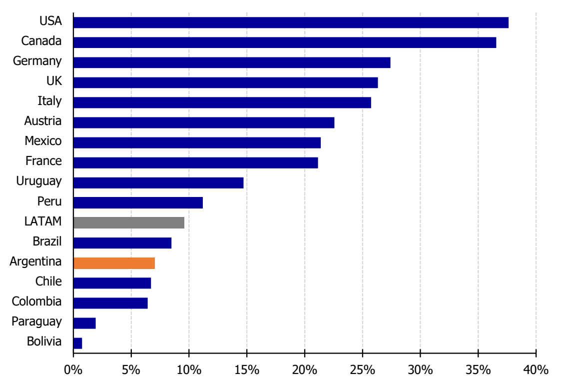
Income tax on individuals

% paid on excess over non-taxable threshold , by income distribution



Income tax on individuals

As a % of total revenues



Source: Econviews based on OECD

by reducing the universe of taxpayers, the *taxpayer culture* made famous by the economies of Anglo-Saxon origin will be further weakened.

On the other hand, it is argued that the bill is progressive because the beneficiaries are salaried workers and retirees. **What is not mentioned is that the measure basically benefits the two highest deciles of the income distribution, that is, those with the highest purchasing power.** If the current non-taxable minimum is compared in relation to average income, it is observed that it is already very high, not only comparing against rich countries but also against others in the region. If the bill is passed, **the non-taxable minimum will be equivalent to more than two average salaries of formalized private sector workers**, according to SIPA data from December, **while the OECD average is 0.3 times more than the general average salary.**

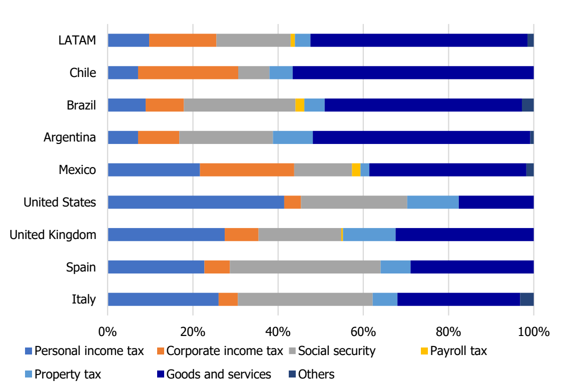
As of December, there were 12 million registered workers, of which less than 10 million are salaried and self-employed excluding single-tax payers (*monotributistas*), with an average salary of 69,000 (gross) pesos if only formal private workers are considered. Considering that, according to the Government, the tax reaches 2 million taxpayers (including retirees), this means that less than 20% of formal workers with the highest salaries are reached by the tax. **The project will exclude half of these. It is estimated that 40% of the beneficiaries will be public employees.**

It is important to clarify that in the third quarter of the year, a household that received 121,000 pesos was already in the top 10% of the income distribution and that includes many households with more than one income. By individual income, with 70,000 pesos a person was among the 10% richest in the country. **In other words, no matter how much we adjust for inflation and any other factor, the Massa project puts money in part of the wealthiest decile.**

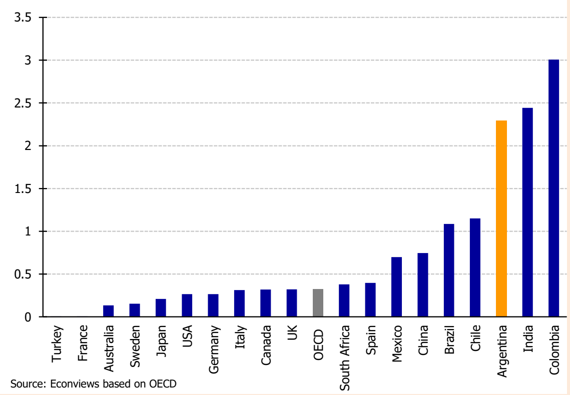
The fiscal cost is estimated at around ARS 40,000 million, a figure that is not too important in macroeconomic terms, but in a context of strong deficits and high monetary issuance, its financing must be carefully evaluated. Due to the sharing of the income tax, **60% would be indirectly financed by the provinces.** One would expect a part to come back in the form of VAT and gross income. If it is assumed that 70% of the fiscal cost is consumed, around ARS 5,800 million would be collected by VAT, of which ARS 3,500 would return to the provinces through automatic transfers, plus an additional 840 million via the province's "gross income" (*ingresos brutos*) tax. **For the provinces, the numbers do not add up.**

The AFIP divides the earnings into 9 scales on which it applies the progressive rates of income tax. By raising the non-taxable minimum, the revenues from the first 6 scales and a part of the seventh are lost. Assuming that 50% of taxpayers fall in the first scales and then this percentage is progressively reduced (a very conservative assumption, given that the information is not public), making some assumptions, it is possible to estimate that the fiscal cost reaches 41 billion pesos, in line with what the Massa team estimated. However, the distribution is not necessarily this and possibly the number of taxpayers in the middle scales is higher, **so the fiscal cost could be higher than 40 billion.**

Tax structure
Taxes as % of total revenues - total government

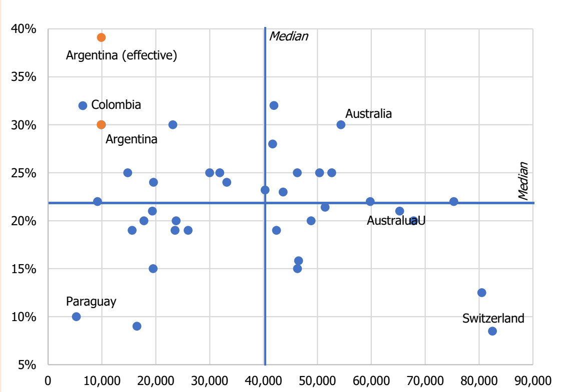


Non-taxable threshold of income tax on individuals
As a multiple of average wages - 2017

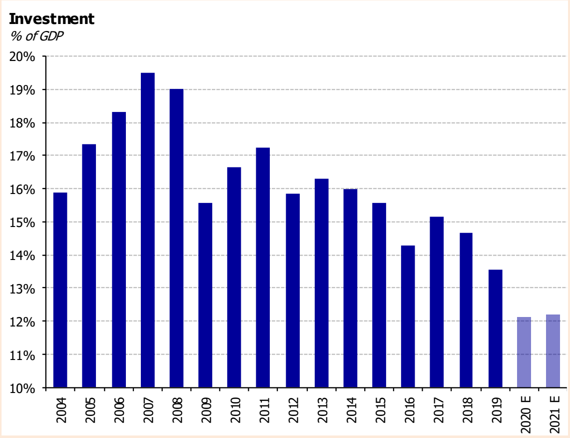


Source: Econviews based on OECD

Corporate income tax and per capita GDP
In USD - GDP 2019



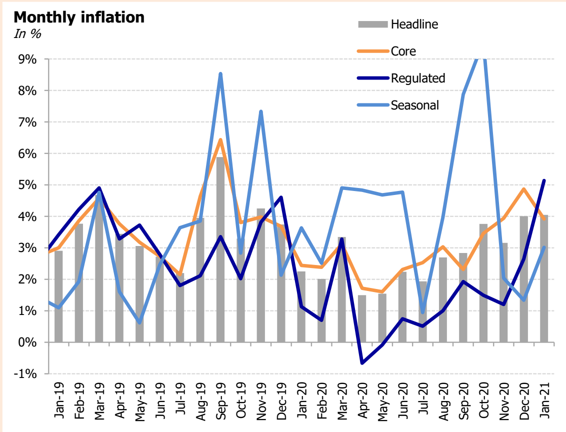
According to comments leaked from the government, to make up for the fiscal cost, the reduction from 30 to 25% of the tax on company profits will be postponed or eliminated and the rate on the dividends distributed will be increased to 13%. If 70% of the profits are distributed via dividends, the effective rate reaches 39.1%.



This increase would take the rate almost to world records if a full payment of dividends is assumed, in a context in which investment is at historic lows. High-income countries can afford high rates without fear of an impact in investment, as is the case with Australia, whose rate is 30%. Countries like Paraguay and Hungary, whose rates are 10% and 9% respectively, seek not to discourage much-needed investment. **With this measure, Argentina once again moves in the opposite direction to the world.**

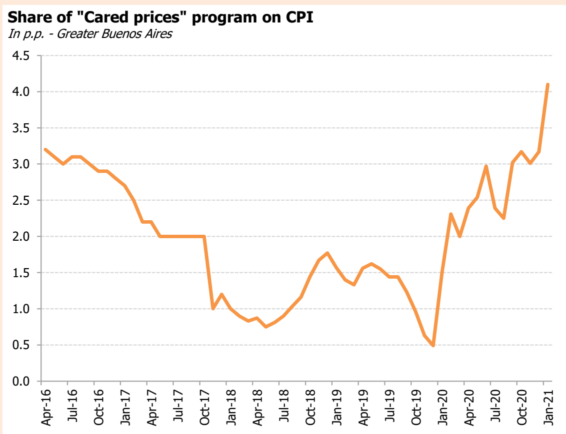
How likely is the bill to be passed? Very high. A populist measure is unlikely to find opposition, especially when the focus is the middle sector, which has been relatively volatile with its vote. The fiscal cost is not huge, but at the margin it may require more inflationary tax, which is the one paid by the poor, to add a bit of additional regressivity. The impact on consumption of giving 3,000 pesos per month to a million people will not be so decisive in the reactivation of the economy, but it can make the difference between losing or gaining purchasing power with net salaries.

2021 Inflation Off to A Shaky Start



Inflation started the year without surprises: very high! It was the highest monthly record since November 2019. In line with our estimates and much of the market, inflation in January was 4.05%, the second consecutive month above 4%. With this number, y/y inflation climbed to 38.53%, its value moving further and further away from the 29% official forecast and slowly approaching the 50% analysts' consensus estimates.

The good news this month was that core inflation, which hit 4.9% last month, was down to 3.9%. The surprise came from the regulated side (+ 5.1%) as communications increased more than 15% and contributed 0.41% to January inflation. Transport also rose strongly (+ 4.6%) adding half a point. It is worth clarifying that the communications item rose just 23% in the last 12 months, so that the CPI is still in debt with this sector. And if in January internet connections had risen like the rest of the goods, inflation would still have exceeded 3.7%, so that we should not make too much noise about it.



The big problem with inflation in January was food prices, as they rose 4.8% in the month and left a drag for February. If we annualize the last 4 months, food inflation exceeds 63% and taking the last 12 months it exceeds the index by almost 4 points, reaching 42.3%. For now, the wage-food ratio does not pay off for the elections. And efforts are being made in measurement. According to INDEC, 4.1% of the prices measured are controlled "*precios cuidados*", the highest coefficient since Alberto Fernández took office. In January some cuts of meat rose more than 10%. And the item "meats and derivatives" rose more than 6.4% with a ceiling of 9.6% in some regions. Fish also went up sharply. If we look at a specific price, we see that minced meat increased by 54% in the last year in the Greater Buenos Aires. This will undoubtedly have repercussions on the measurement of poverty and extreme poverty.

Looking at the price index as a whole, there is a clear acceleration. While in the last 12 months the CPI grew 38.5%, annualizing January we obtain 61% and if we take the last 3 months it drops to 55%. If we do this exercise with core inflation, that excludes seasonal and regulated prices, we see that in the last 12 months prices grew 41.4%, but annualizing the last 3 months we are already at 64.6%, although as a small mercy the number falls to 58% if we only take the last data. More conceptually, we can see how the quarantine anesthetized prices and since October, they have risen above 3% every month.

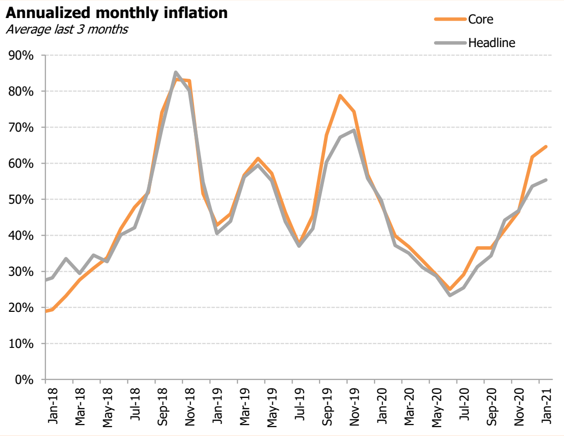
For inflation to reach the 29% figure foreseen in the Budget Bill over the next 11 months, prices should grow at 1.97% per month. If they converged to 2.5%, yearly inflation would close just above 2020's with 36.6%. A much more realistic 3% per month already leaves us at 44.1%. To meet our inflation forecast, prices should grow 3.5% from now on. February will surely beat that number.

Because the Buenos Aires Metropolitan Area is more intensive in services, inflation has been hitting much harder in the rest of the country. In the last 12 months, Greater Buenos Aires suffered 2.6 points less of inflation than the national average, which implies a difference of 3 points with the other regions on average. The logical thing would be that as the activity normalizes, the relationship should reverse. In the Province of Córdoba, per case, inflation climbed to 5.82% in January while in the City of Buenos Aires it was 3.84%. Although the provincial measurements are higher than INDEC's (they use different methodologies), the tendency was that outside Buenos Aires, inflation accelerated faster. As in December, regional inflation volatility was high, almost always associated with regime changes (acceleration or deceleration).

<u>What comes next?</u>

Beyond the monetary issues that are key for inflation's course, there are variables that will have their influence on the fine numbers. A very obvious one is the price of the dollar. Market values are calm or with low mobility so far this year and that can help on the margin. But the official dollar is the key. There are signs, still subtle, that the Central Bank is changing its strategy of avoiding a real appreciation and sliding the dollar in line with prices. The annualized weekly devaluations came to above 60% at the end of January, tracing inflation's rhythm, but are now below 40%. February inflation is unlikely to drop that much. This is in line with what Minister Guzmán said about depreciating only 25% in 2021. In the last 12 months the dollar increased 43%. For the dollar to end up where the minister wants it, it can only go up 1.6% per month. Nothing is impossible in Argentina, but we assign it a low probability.

There is no doubt that exchange rate can be used as an anchor, but for that more reserves are necessary, an area where Argentina is lacking. The greater

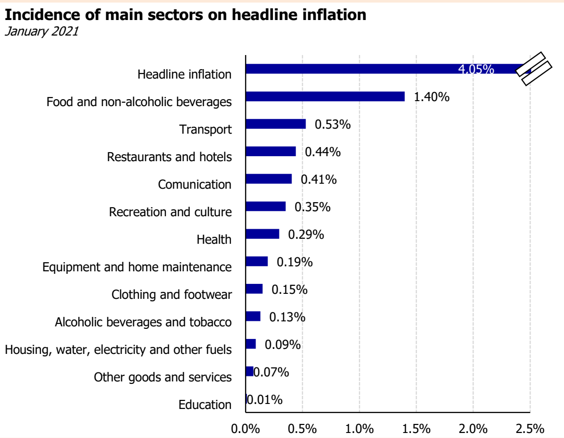


Inflation by main categories

Jan-21

	m/m	y/y
Headline inflation	**4.0%**	**38.5%**
Food and non-alcoholic beverages	4.8%	42.3%
Alcoholic beverages and tobacco	4.5%	33.2%
Clothing and footwear	1.4%	60.5%
Basic services	1.1%	18.1%
Home maintenance	3.0%	43.6%
Health	3.4%	35.7%
Transportation	4.6%	38.4%
Communication	15.1%	23.7%
Recreation and culture	4.8%	47.8%
Education	0.6%	20.1%
Restaurants and hotels	5.4%	37.9%
Other goods and services	2.0%	25.4%

Source: Econviews based on INDEC



amount of dollars that will come from the rise in commodity prices already has several destinies. There was talk that they could be used to pay maturities with the IMF, or to release more imports so that the economy grows faster, and now for a cheap dollar strategy. We'll see what happens.

While the dollar can serve as an anchor, the most relevant variable are often wages. And the signs are ambiguous here too. While the Government tries to coordinate with employers and unions to lower the nominality, the official statement was "there is no ceiling for wage discussions". Inflation can always be read as a weighted average of wages and the exchange rate and the error of the model will be low. Being an election year, the average wage increase could be at least forty-something and could start with 5 as well. The point is, if the exchange rate is successfully appreciated, we economists will adjust our forecasts downwards, but the dynamics of wages will hardly allow us to correct too much.

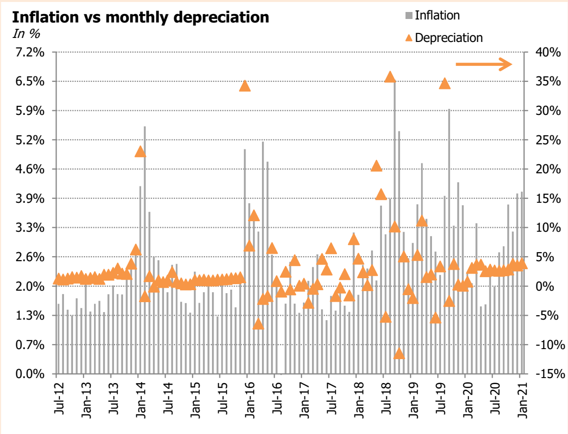
Could inflation be less than our 52% forecast? The answer is yes, but at the cost of more future imbalances and without much room to lower it. But it is true that in this political context the probabilities are asymmetric, with more chances of a decline in inflation. The service economy, which is employment-intensive, is very backward and its prices have grown little more than half of goods' in the last 12 months (24 vs 45%), so that the increase in wages will be impossible to absorb for service providers.

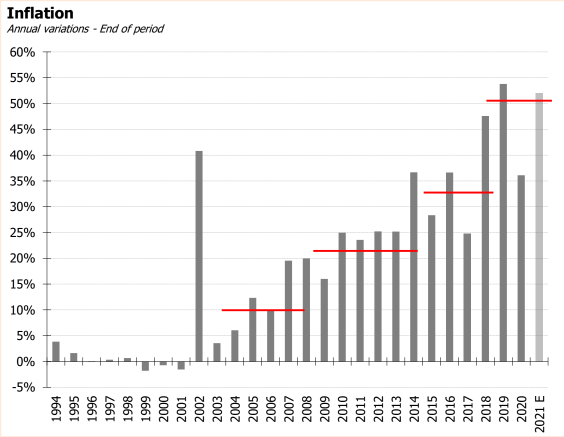
Then there are interesting stories by sector. Education is one of the most obvious. It has been growing for 10 consecutive months below 1% monthly, with some bouts of deflation. Between February and March, when private schools return to normal, there should be important increases. The weight of education in the CPI is low, only 3% in the AMBA and somewhat less in the interior, but an at least 20% rise could be divided between February and March. To this we must add what has been happening with oil prices, some health insurance companies and surely a testimonial increase in electricity, gas and water.

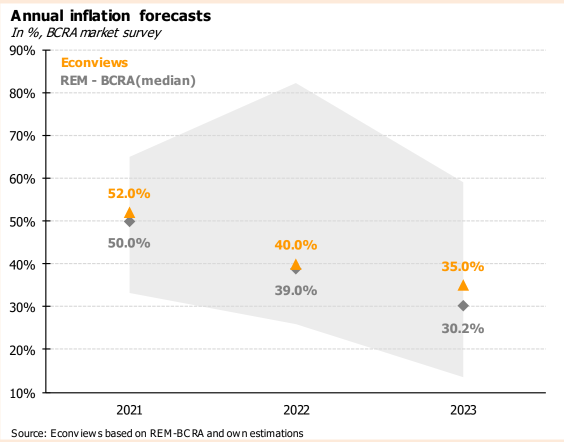
And in macro terms, the story is very clear. If the vision is that more than 1.7 trillion pesos are going to be issued to finance the deficit and also the BCRA has to pay interest on its liabilities for at least 3 points of GDP, the obvious question is who is going to demand those pesos. The recovery of the economy may allow for some rise in demand, but not much, since most of the 6% growth for this year has already occurred. After that, the blanket is too short. It will be very difficult to issue pesos, step on the dollar, maintain low real rates and lower inflation. Stranger things have happened. But as a popular saying puts it: one of the keys to miracles is expecting them not to occur.

REM vs. Econviews: Similarities and Differences

At Econviews we make a habit of debating projections. We look at consistency, we use models and analysts' experience to reach an internal consensus. Of course, we also like to compare with what the rest of the







profession thinks. Here is a summary of our projections and the differences and similarities we have with the market, based on the monthly survey carried out by the Central Bank.

In terms of inflation we are somewhat more pessimistic than the market. For the last couple of months, we've held that 2021 will end at 52%. The consensus is getting closer and today it is only two points below us at 50% according to the median, but almost 4 points below us according to the average. The official projections of 29% are not taken into account since the minimum is at 33% and 90% of analysts are above 38%. Our vision has to do with the issuance that will be necessary to finance a primary deficit of around 4% of GDP and eventually the importance of liquefying the stock of Leliqs and BCRA repos. In other words, in the face of a deficit, you take on debt or sell assets or you end up paying with inflation tax.

Regarding interest rates, our forecast is somewhat higher than the consensus, but there is no different view. For us, the Badlar rate ends at 39.6% and the median REM is at 38%. We have some hope that during the year there will be stronger increases, but the market is thinking about much more stability of rates. Today the Badlar is at 34%.

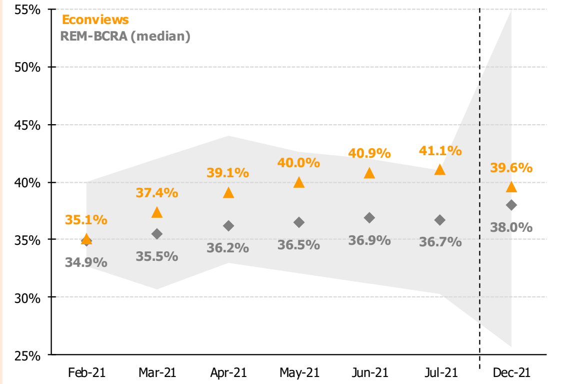
Looking at the exchange rate, we see a trajectory very similar to the market and quite in line with inflation. Our closing value for 2021 is 128 ARS/USD against a median of 125. During the week Martin Guzmán spoke of only a 25% rise in the dollar, which would give ARS 105 by December. 90% of analysts expect the dollar to be worth at least 114. At the same time, it must be said that nobody expects another currency crisis. 90% of the 41 analysts see it below ARS 131.

For us, the economy will grow more than what the consensus believes. While in Econviews we think that 6% is a floor, analysts' median is 5.5%. With a carryover from 2020 that will surely pass 5%, we do not see it impossible to raise the projection in the margin in the coming weeks. We believe that the beginning of classes can give a new dynamism to the economy, but at the same time we are concerned that credit will continue to contract.

Exports is where we have the most coincidences. Our models indicate that Argentina would export 60.6 billion dollars in goods and the median of the 34 analysts is only 180 million above. Regarding imports, the market is at 48.5 billion, while in Econviews we are at 47.6 billion. It's not a big difference, but since imports tend to be elastic with growth, the market should be lower to reflect relative pessimism about GDP in 2021. But the difference is small enough not to force revisions for now.

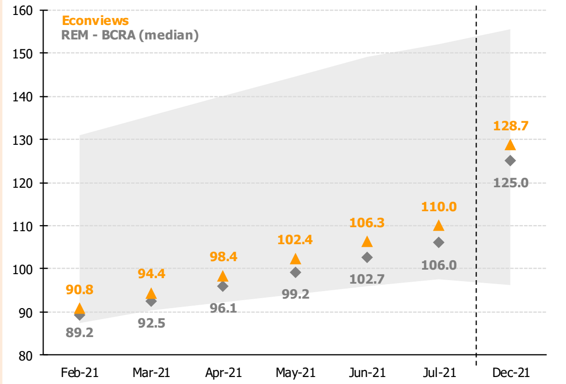
In fiscal terms we are fully aligned with the profession's consensus. While the median expects a primary deficit of 1.735 trillion pesos, our number is 1.728 trillion. And finally unemployment is where we differ the most. The market thinks in terms of 11%, while for Econviews unemployment may end at 13%. We see a recovery, but with less job creation and the normalization of labor supply, since in the pandemic many of the unemployed could not search for work, but that ends in 2021.

Badlar interest rate forecasts
Nominal annual rate



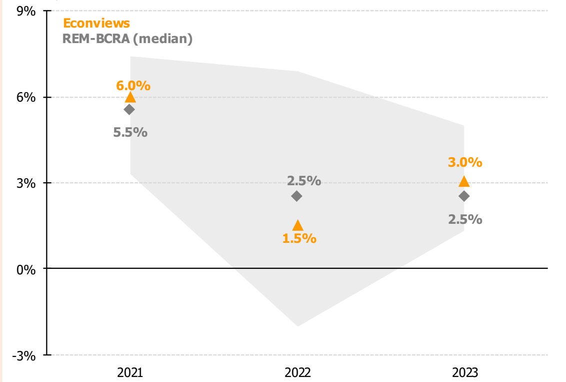
Source: Econviews based on REM-BCRA and own estimations

Official exchange rate forecasts
ARS/USD, BCRA market survey



Source: Econviews based on REM-BCRA and own estimations

Real GDP forecasts
Annual growth, in %



Source: Econviews based on REM-BCRA and own estimations

REM vs. Econviews
Forecasts for 2021

	REM (median)	Econviews
Inflation (Dec/Dec)	50.0%	52.0%
GDP growth	5.5%	6.0%
Official exchange rate ARS/USD (Dec)	125.0	128.7
Badlar rate (private banks, Dec)	38.0%	39.6%
Unemployment rate (annual average)	11.0%	13.0%
Trade balance (USD billion)	12.3	13.0

Source: Econviews based on REM-BCRA