THE WEEK AT A GLANCE

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Editorial: Can Argentina End Up In Another Debt Restructuration?

With Argentine bond yields approaching 20% a year, some begin to wonder if Argentina will have to restructure its debt again, despite the fact that the agreement with bondholders was closed just six months ago. There is no single answer, but common sense says that Argentina is unlikely to be forced to renegotiate its liabilities (beyond the IMF) before 2024 or 2025, since the maturities in foreign currency are simply negligible. And even so, the maturities with the foreign currency market are 3 billion dollars in 2024 and slightly more than 6 billion in 2025 and 2026, that is, 1.5% of current GDP. It is difficult to think of a default unless one has a very negative scenario in mind.

However, the market does not seem to believe the same. Using the non-arbitrage condition and arbitrarily setting a recovery value -sovereign debt is never worth zero- the implicit probability of default in bond prices can be established. Using a 35 cent recovery value, bonds under foreign law have a probability of default between 67 and 75% in the next 5 years. If a 40 cent recovery value is used, the probability of default grows to a range between 70 and 78%. On bonds under Argentine law, the odds are even higher.

How are the two visions compatible? It is possible that the market has already priced the worst-case scenarios in which Argentina cannot grow and is unable to return to credit markets for a long time, and neither does it make an effort to show willingness to pay. In this context, 6 billion dollars, although it seems little for a G20 country, can be a lot without access to credit.

The key to the matter is to regain access to credit. In practice, countries rarely repay their debt, because for that they have to generate financial surpluses that are often politically unviable or only the product of favorable price cycles that eventually reverse. There are exceptions such as Norway or other oil producers that accumulated a surplus and do not have public debt. But they are exceptions.

For most countries the equation is rather to maintain a primary equilibrium or a small deficit that, in the presence of growth, stabilizes the public debt to GDP ratio. **And once the market perceives it to be intertemporally stable, it has no problem in refinancing maturities.**

Argentina has a public debt worth 87% of GDP. **After the intra-public sector debt is removed** (temporary advances, bonds held by the Central Bank and Anses among other debts) **the figure drops to 52% by the end of 2020**. With the expected recovery of the economy plus some exchange rate appreciation, debt to GDP would drop under 48%, a level more than acceptable for an emerging country, but with a still very high deficit. **The solution for Argentina, whose government is not among the market's favorites, is to reach a program with the IMF that can serve as a scapegoat for fiscal adjustment**. From there, **the country should go towards primary equilibrium and think about reforms that raise the growth rate and allow reserves to recover in order to be less vulnerable to shocks**. An important point is that Argentina is one of the most volatile countries in the world, with one of the lowest growth rates. That is, little benefit for a lot of risk. If accounts are put in order, volatility would surely be reduced, lowering the perception of the risk of default. In short, it is not necessary to restructure, nor for soybean's price to fly. It only takes a little political will to reduce the deficit and regain access to voluntary debt markets.

LAST WEEK IN REVIEW

- In the first month of the year, **the use of installed capacity in the industry reached 57.2%,** 1.1 points above January 2020. By item, the highest level was reached in oil refining (77.5%).
- **Tourist arrivals** were still very low in January, **93.3% down** from a year ago.
- **Formal salaries fell 2% in real terms throughout 2020.** The RIPTE index warned that salaries grew 1.8% in nominal terms during January, against a monthly inflation of 4%.
- **Argentina exceeded 2 million vaccinated:** so far 5.3% of the population has received at least one dose, although the rate of application is accelerating.
- The Government sent **the bill to modify income tax:** it contemplates **increasing the charges on companies** to compensate for the increase in the non-taxable minimum for individuals.

NEXT WEEK'S HIGHLIGHTS

- On **Tuesday 16** the Treasury will open a new **auction for debt instruments** in pesos.
- On **Tuesday 16** a **report on the Argentine Pharmaceutical Industry** will be published.
- On **Tuesday 16** February data will be released for the **basic food basket** and the **total basic basket.**
- On **Wednesday 17**, **wholesale inflation** and the **cost of construction** for February will be announced.
- During the week, **steel production data** will also be known.
- Today **Monday 15** the Treasury will pay **AR $ 0.4 bn** on a maturity of the **BOCON** (PR13), and on Thursday 18 another **AR $ 2.2 bn** in interests of the **BONCER 2022** (TX22)

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	90.9	0.5%	2.6%	44.6%	▲
Blue Chip Swap	148.9	0.7%	-1.4%	66.5%	▲
CB reserves (USD million)	39,823	+24	+454	-4,616	▲
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.2%	+0.31 p.p.	+0.06 p.p.	+4.38 p.p.	▼
Merval (in ARS)	49,071	3.9%	-4.7%	73.1%	▲
Country Risk (spread in %)	1,603	0.8%	10.1%	-48.7%	▲
Official exchange rate BRL/USD	5.55	-2.4%	3.4%	15.9%	▼
Soybean (USD/ton)	69.3	-1.3%	11.1%	119.5%	▼
Oil - Brent (USD/barrel)	520.2	-1.3%	3.2%	65.6%	▼

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q	
Industrial production	Jan-21	1.7%	6.8%	3.9%	green
Automobile production	Feb-21	-48.2%	25.2%	-41.5%	red
Steel production	Jan-21	-1.2%	18.8%	7.5%	green
Poultry production	Dec-20	1.9%	0.8%	0.2%	yellow
Dairy production	Jan-21	0.8%	2.6%	1.8%	green
Beef production	Jan-21	-14.8%	-4.7%	-15.7%	red
Real Estate transactions (CABA)	Jan-21	7.8%	15.6%	4.9%	green
Flour Production	Dec-20	-6.3%	-9.5%	-12.4%	red
Oil production	Jan-21	2.2%	1.6%	2.8%	green
Gas production	Jan-21	0.5%	-1.6%	-1.2%	red
Cement production	Feb-21	0.1%	-0.3%	-5.1%	red
Construction activity	Jan-21	4.4%	12.6%	9.7%	green
Retail sales	Feb-21	3.6%	10.2%	7.3%	green
Gas sales	Dec-20	13.8%	17.6%	20.7%	green
Motorcycle licenses	Feb-21	11.4%	-12.5%	-1.0%	red
Use of electricity	Feb-21	-2.3%	5.1%	0.0%	yellow
Subway rides (CABA)	Jan-21	8.2%	91.6%	41.2%	green
Imports CIF	Jan-21	1.0%	20.0%	5.6%	green
Exports FOB	Jan-21	58.4%	3.3%	36.8%	green
Loans in ARS to private sector	Feb-21	-1.2%	-1.8%	-1.8%	red
VAT-DGI Taxes	Feb-21	-2.1%	0.3%	-2.0%	red
Formal private jobs (SIPA)	Dec-20	-0.1%	0.0%	-0.1%	yellow
Formal private jobs (EIL)	Jan-21	0.0%	-0.1%	0.0%	yellow
Consumer confidence	Feb-21	-1.1%	-3.9%	-4.3%	red
Government confidence	Feb-21	1.6%	-11.6%	-5.0%	red

Note: stoplight color depends on monthly variation

A Bittersweet Year for the Agricultural Sector and the FX Market

The harvest will be at least 9% worse than 2020 and 13% worse than 2019 with the risk of marginally worsening. However, the rise in prices will cause exports of agricultural products and derivatives to grow by about USD 9 billion dollars. This means that the Central Bank can buy around 4 billion dollars and that the revenues from tax grow by 0.7% of GDP.

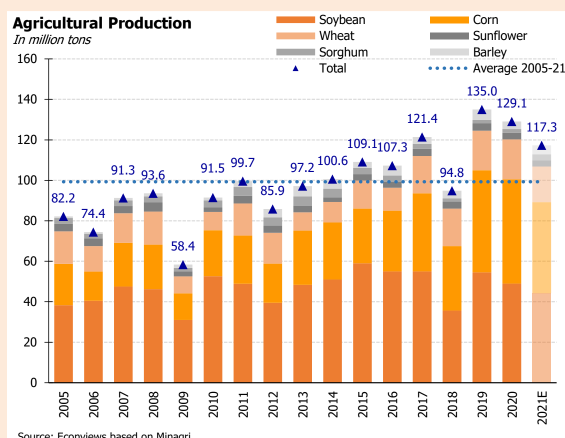
With the gross harvest weeks to begin, it can be said that Argentina this year was very lucky with prices and quite unlucky with the weather. After a hint of improvement with the rains in January, February and so far March have been dry and, with high temperatures forecast for the core area in the coming weeks, the harvest is going to be weak. The latest estimate of 44.2 million tons is more likely to fall than to rise.

Our latest estimates considering the six main crops in Argentina speak of a decrease in tons of 9% compared to 2020, which had already been less than 2019. In two years, production fell mor e than 13%. Export taxes and the FX spread may have contributed marginally, but weather has been the main reason for the decline. The total harvest will be just over 117 million tons, while two years ago it amounted to 135 million.

Producers used practically the same number of hectares as in the last harvest (small decrease in soybeans and corn, small increase in wheat). In other words, the main problem was in the yield. While this could technically be linked to less investment, the story is fundamentally climate. In this campaign, the hectare of soy produced around 2,600 kilos, while two years ago that number reached 3,250 kg. For corn, the yield does not reach 4,800 kilograms, 7.4% below the historical average and 22.6% of the maximum achieved in 2017 when 5,840 kilos per hectare were produced.

The impact on the level of activity is directly estimated at more than 0.4 percentage points, but it can easily add up to 0.2 considering second-order effects. The agriculture, livestock and forestry sector weighs 8% in GDP, but agriculture is approximately 5%. So a 9% drop could remove 0.45% of GDP. The rest may be the effects of grain transportation, less activity in ports, milling and consumption due to lower income fr om producers. **In this context, we continue to believe that the numbers in the economy will show at least 7% growth, unless the health issue forces a new strict quarantine.**

Not all of these secondary effects will be present. Milling should grow because the expectation is that part of the stock left over from the previous soybean crop will be used, which is estimated at 8 million tons, double what is usually left. And the price effect should more than compensate producers for the drop in yield and production, hence, for many, the drought is more a loss of opportunities than a real loss. In any case, the panorama is heterogeneous because, of course, the drought does not hit everyone in the same way.

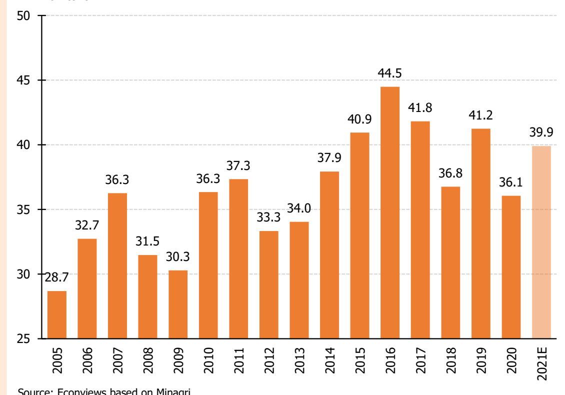


Yields per Crop

By season - in tons

	Soybean	Corn	Wheat
2010/11	2.59	5.22	3.47
2011/12	2.15	4.24	3.13
2012/13	2.47	5.26	2.53
2013/14	2.71	5.41	2.52
2014/15	3.10	5.63	2.65
2015/16	2.87	5.77	2.59
2016/17	3.06	5.84	2.89
2017/18	2.19	4.75	3.12
2018/2019	3.25	5.56	3.09
2019/2020	2.90	5.20	2.86
2020/2021	**2.60**	**4.79**	**2.63**

Source: Econviews based on Minagri



The sweet part of the story is that with super high prices, Argentine agricultural exports are going to grow like never before. Our estimate is that taking the corn, soybean and wheat complexes alone, exports will go from 24,221 to 33,846 million dollars. These are gross numbers, because the temporary importation of Paraguayan soybeans (and to a lesser extent Uruguayan and Brazilian) should be discounted, which would subtract slightly more than 2,000 million by 2020 and about 2,800 milli on (price effect) in 2021. Export estimates are made assuming some moderation in prices. As a reference, soybeans were exported at 556 dollars per ton in the first two months of the year, a number that we are estimating at 532 for the next few months. Even in scenarios of low prices in the coming months, exports would still be above 32,000 million. In addition, the government will collect approximately 2.2% of GDP in export taxes, against 1.44% in 2020 and it would be the highest number since 2012.

Main Agricultural Exports

In million USD

	2017	2018	2019	2020	2021E
Soybeans	2,704	1,374	3,469	2,341	2,963
Pellets	3,700	4,071	6,022	6,140	7,946
Soy Oil	9,820	9,703	9,502	9,106	12,932
Corn	2,580	3,208	3,024	2,735	3,280
Wheat	3,858	2,902	3,449	3,919	6,726
Total	**22,662**	**21,258**	**25,467**	**24,241**	**33,847**

Source: Econviews based on Minagri

The Harvest and the Mulc

The FX market not only improved in these summer months. With average soybean prices exceeding 50% the data for 2020, the drop in the tonnage of the harvest is a minor detail for the external accounts of Argentina. We reviewed the estimates of the foreign exchange market and we expect that the proceeds from exports of goods will reach 61,802 million dollars, almost 23% more than in 202 0. This is the result of more exports in some sectors such as the automotive and oil (also helped by better prices) and above all the effect of higher agricultural exports. Additionally, we are assuming that the proportion of agricultural exports proceeds versu s real exports increases from 91 to 96% in un context of a FX spread somewhat lower than last year.

Imports will reach almost 47,000 million, an 11.7% increase. We not only take into account the greater value of the mor e than 5 million tons of soy that are imported, but also the greater volume of imported gas and the recovery of the economy that needs more consumer goods, more parts and pieces and supplies. This determines a surplus of 15,000 million dollars, slightly higher than what we expect from INDEC.

On the services side, we expect a small increase in the deficit, from USD 1.6 billion to 2.25 billion. Part of this story is the reopening of tourism in the second part of the year. The drop in tourism was what most contained the deficit in services. The appreciation of the official dollar would help, although the “solidary dollar” (official plus PAIS tax plus income tax withholdings) is hardly cheap enough to for a new "give me 2" from other times.

Assuming an interest charge of 4.4 billion, there would be a cash-basis current account surplus of just over 8 billion dollars, about 2 points of GDP. However, the financial account will remain in deficit. Even though January and February were calm, in an election year it is unlikely that there will be no formation of external assets. In any case, given the hyper-strict *cepo*, we expect hoarding to fall from USD 3.053 to USD 1.2 billion. Another item that will demand dollars is the cancellation of private sector loans. Last year more than 7,000 million dollars were paid, we estimate that this year this number will almost halve.

Balance of Payments

In million USD

	2020	2021E
Current Account	**320**	**8337**
Balance of Goods	8490	15037
Exports of Goods	50357	61802
Imports of Goods	41867	46765
Balance of services	-1595	-2250
Exports of services	6900	7300
Imports of services	8495	9550
Interests	-6528	-4400
Profits	-130	-100
Transfers	83	50
Financial Account	**-8139**	**-4350**
Foreign Investment	1058	800
Portfolio	34	0
Net Loans	-7258	-4000
Multilaterals	761	-200
Hoarding	-3053	-1200
Others	319	250
Reserves Purchases	-7436	3987

The other item that worsened in our view is that of international organizations. In our previous estimate we assumed a net of USD 1 billion came in. Now that the lack of agreement with the IMF is most likely, we think that the net will be an outflow of 200 million, which was the figure for January. In other words, from now on we expect maturities and disbursements to match. The relationship with the IMF also shifted. Now the most likely scenario is that there is no agreement in 2021 and the capital installments of USD 3.6 billion are paid using SDRs that are in the portfolio plus those that will be received during the winter. I n our base scenario, there are no payments to the Paris club in 2021.

The corollary of this analysis is that the Central Bank should be a net buyer in the market for 4,000 million dollars, which does not mean that the reserves increase by that amount. As we have been pointing out in previous reports, the amount of reserves depends on what happens to the dollar deposits for reserve requirements, whether the BCRA buys the bonds it sells in pesos using dollars, the value of gold, the yuan and what happens with credit lines with the BIS and Sedesa. Our vision is that the reserves will grow less than the 4,000 million to be bought.

Liquidated Exports

In million USD

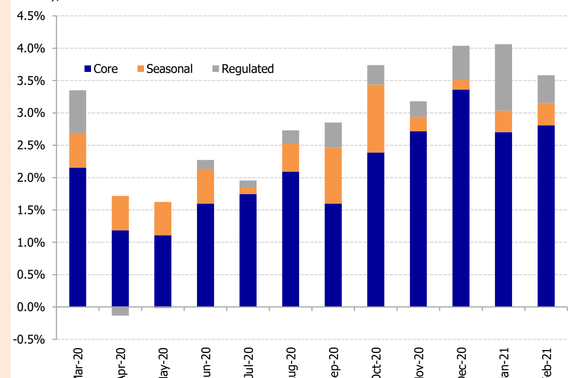
	2021E
Cereals and Oilseeds	31434
Food	8485
Automobiles	5906
Chemistry and plastics	3041
Mining	2071
Metals	892
Oil and Gas	3650
Machinery	661
Textile	545
Livestock and other primaries	2320
Others	2797
Total	**61802**

More Bad News Than Good With Inflation

Inflation in February was 3.57%, down from 4.05% in January and somewhat lower than the 3.9% we expected in Econviews. Core inflation (4.1% vs 3.9%) and seasonal inflation (3.1% vs 3.0%) rose slightly, but thanks to lower inflation in the prices of regulated goods and services, that grew only 2.2% compared to 5.1% registered in January, the CPI could slow down. In any case, what sets the trend is core inflation and this was the second highest since Alberto Fernández took office.

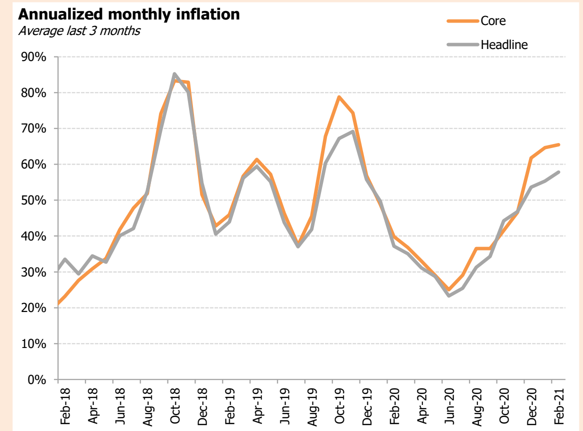
So far, **the numbers are not encouraging for the government, which in the 2021 Budget set a goal of 29% as of December.** If we annualize the core inflation of the last 3 months, by December it would reach 65%, while, if we take the CPI, it would reach 58%. The median of the BCRA-REM expects inflation of 48.1%, while in Econviews we expect it to be at 50%, although with a downward bias. In the last 12 months, inflation was 40.65%, but that number is condemned to rise since from now on it will compare against the low inflation months of the strict quarantine.

To reach December with an inflation of 29%, the record for the next 10 months needs to be 1.8% on average, a number that is clearly unlikely since in March inflation could start again with 4 or at less above 3.5%. The 1.8% is the number that the government uses to do marketing among union members to achieve lower wage-agreements and thus generate a virtuous circle for inflation. Stepping even further on regulated prices would entail higher fiscal costs and a greater distortion in relative prices, which at some point will have to be corrected. That is, bread for today, hunger for tomorrow.



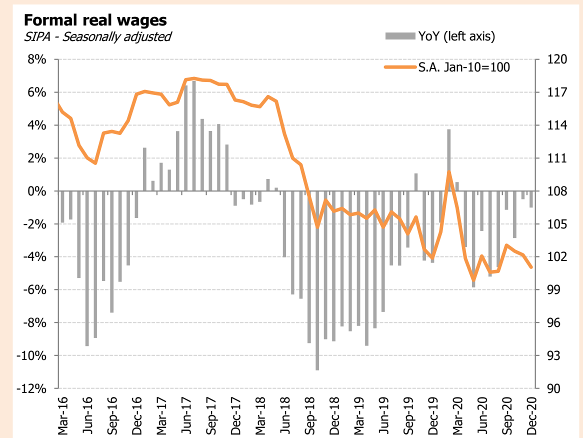
But even in the hypothetical case that the government could maintain the inflation rate of regulated items at 0%, but core inflation remains at 4% and seasonal inflation averages 2% per month (conservative assumption), inflation at the end of year would reach 46%. In any case, this assumption is unfeasible since gasoline rises again and in March there are other regulated adjustments such as transport in the City of Buenos Aires and prepaid medicine, among others. And the fuel price hike in March clearly won't be the last.

Relative prices are very imbalanced and will have to be rearranged at some point. Core inflation, which sets the trend, in February registered an interannual variation of 43.7%, while regulated prices grew only 21.0% in the same period, that is, almost 23 points of difference. The same happens between goods and services: goods increased 47.8% in twelve months and services 26.0%. Exiting the pandemic will surely put greater pressure on the latter.



There are also other sources of pressures on prices. Wholesale prices have been growing above retail prices and will eventually turn to the latter: between November and January, wholesale inflation averaged 4.7% per month, while retail inflation averaged 3.9% in those three months.

Other sources are the dollar and wages in the election year. The Central Bank began its new strategy of **slowing down the rate of depreciation to use the exchange rate as a nominal anchor**. The main risk of this strategy comes from the side of the spread and the meager reserves of the Central. Holding down the exchange rate for a long time can lead to a discreet jump in inflation, although with the high price of soybeans the government has some more margin.



For their part, salaries accumulate 3 years of decline in real terms: 2020 closed with a 2% drop taking the average SIPA salary. The government says that it will not put a ceiling on wage agreements and that it wants wages to beat inflation, but that works against inflationary dynamics. **In our base scenario we project a 1.5% increase for the year.**

The government will surely tighten price controls and step on the exchange rate a bit more (which would affect all prices) to lower inflation, but inertia works against it: **today no one expects the Budget goal to be reached.**

What does the CPI update imply?

At the beginning of last week it was announced that INDEC will begin to work on updating the basket on which the Consumer Price Index is calculated. Although updating the price index is a regular task carried out by national statistical institutes every 5 or 10 years, the news raised suspicions that it could be an intervention to mask inflation numbers as seen in other times. This was reflected in the CER-adjusted bond market -which varies based on the CPI - which fell to 2.5% on Monday. However, we do not believe that a new manipulation will occur.

The implications of a change in the CPI are big: almost two-thirds of the debt denominated in pesos is adjusted by the Reference Stabilization Coefficient (CER). A small change in measurement could affect the present value of the bonds and, therefore, their prices.

How was the current price index built? After the intervention of INDEC in 2007, the inflation numbers stopped reflecting reality and **it was not until 2016**, when the government of Mauricio Macri took office, **that the reconstruction of the current was carried out**, starting in 2017 with base 100 in December 2016.

The current index was prepared taking as a reference a r**epresentative consumption basket based on the National Survey of Household Expenditures (ENGHo) of 2004 and 2005.** More than fifteen years have passed, and consumption patterns have changed substantially, as well as the proportion of income spent on various goods and services. Today, for example, it is clear that the average family spends more on utilities such as electricity and gas than fifteen years ago.

To implement this update, the INDEC will take as a reference the results of the ENGHo conducted during 2017 and 2018. From it, the proportions that an average consumer currently spends on different goods and services can be estimated. At the same time, the new basket will incorporate new services and goods that are part of habitual consumption today and that were not at the beginning of the millennium, such as streaming platforms.

Although the current CPI weights are based on the 2004/05 ENGHo, they are not exactly the same. In turn, some categories of goods and services and what each includes also differ. The same happens between the ENGHo of 2004/05 and 2017/18 (whose categories do coincide with the current CPI). However, by making some adjustments, comparisons can be made that allow us to draw some useful conclusions.

First, the weight of food in the CPI basket is going to decrease. Although the weight of food and beverages in the 2005/05 household survey was 33.4%, unlike the CPI and the last ENGHo, it included spending on restaurants and alcoholic beverages. Strictly, the weight in the current CPI for food and beverages (including alcoholic ones) is 28% and 28.4% in the previous ENGHo. The latest survey assigns a weight of 23.7% to these concepts.

Second, public services, transportation and communication will have greater weight. The “housing, water, electricity and other services” category represented 10.8% of total spending in 2004, while in 2017 it represented 14.5%. In particular, public services weighed 4.0% and now 5.9%. Transportation weighed 11.7% and communication 3.9%; current weights are 14.3% and 5.2% respectively.

The effect of the change could be a drop in the measurement under the condition that regulations on utility prices and services such as transport and telecommunications are maintained. From December 2019 to last February, **accumulated inflation was 46.7% while regulated prices grew only 23.3%.**

Structure of CPI weights

	Weights
Food and non-alcoholic beverages	27.0%
Alcoholic beverages and tobacco	3.5%
Clothing and footwear	9.9%
Housing, water, electricity and other fuels	9.4%
Equipment and home maintenance	6.4%
Health	8.0%
Transport	11.0%
Communication	2.8%
Recreation and culture	7.3%
Education	2.3%
Restaurants and hotels	9.0%
Various goods and services	3.5%
TOTAL	**100%**

Source: Econviews based on INDEC

Household expenditure structure

*As % of total expenditure**

	ENGHo 04-05	ENGHo 17-18
Food and beverages2	28.4%	23.7%
Clothing and footwear	10.8%	14.5%
Housing, water, electricity and other fuels	10.8%	14.5%
Water and other home services	*0.8%*	*2.5%*
Electricity, gas and other fuels	*4.0%*	*5.9%*
Health	7.5%	6.4%
Transport	11.7%	14.3%
Communication	3.9%	5.2%

[1] Selected categories

[2] Alcoholic beverages are included, restaurants are excluded

If the price of food and beverages (including alcoholic) increases by 40%, under the current scheme, the impact on inflation is 11.2 p.p. If we assume that the same weights of the last ENGHo are used (surely it varies to some extent), the impact would be closer to 9.5 p.p. On the contrary, if the prices of electricity, gas and other fuels (which although weighed 4% in the ENGHo, weigh only 2.9% in the CPI) increased 40% on average, the current impact would be 1.16 p.p. vs about 2.4 p.p after the change. As public services now weigh more, there would be greater incentives to keep their prices under control and avoid a higher incidence in the number of inflation.

In conclusion, **the procedure that the INDEC will carry out is perfectly normal**, but if price controls are maintained on goods and services that now weigh more, the **inflation number will actually be lower. But if, as we believe, utility prices are adjusted within the framework of a program with the IMF, the government will be able to collect lower inflation dividends in 2021, but it will pay for that with interest since not only will it have to raise prices a lot, but its greater weight in the index will complicate the final CPI number even more.**

Accumulated inflation since Dec-19

Up to Feb-21

Headline	46.7%
Core	50.8%
Regulated	23.3%
Food and non-alcoholic beverages	54.6%
Alcoholic beverages and tobacco	44.0%
Clothing and footwear	66.8%
Housing, water, electricity and other fuels	21.3%
Equipment and home maintenance	48.2%
Health	37.7%
Transport	47.2%
Communication	26.2%
Recreation and culture	58.7%
Education	20.9%
Restaurants and hotels	51.4%
Various goods and services	33.4%

REM versus Econviews: Similarities and Differences

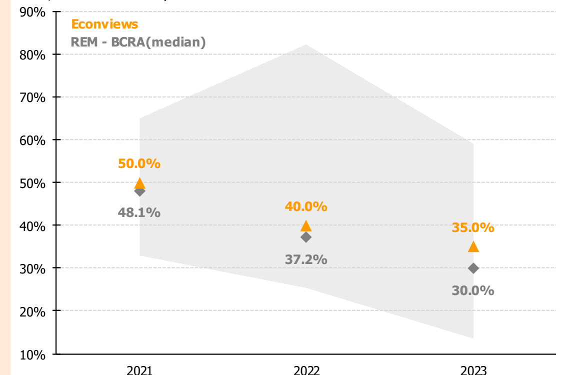
At Econviews we are in the habit of debating projections. We look at consistency, we use models and our analysts' experience to reach an internal consensus. Of course we also like to compare with what the rest of the profession thinks. Here is a summary of our projections and the differences and similarities we have with the markets, based on the REM monthly survey carried out at the Central Bank.

Like the REM, we lowered our annual inflation forecast, but remain above the median. The market consensus went from 50 to 48.1% in February, while we lowered our estimate from 52 to 50%. We believe that the slower rate of depreciation will help contain prices. With a looser fiscal outlook due to the harvest and the Fund's SDRs, the utility hikes may also be partly postponed. Analysts aren't confident about the official 29% projection: the REM's lowest estimate is at 32%, and three-quarters of those surveyed believe inflation will be above 42% in 2021.

Interest rates: until June we see a similar trajectory to the REM's, but our forecast for the end of the year is 2.6 percentage points higher. We agree that the Badlar rate will reach around 36% in mid-2021, but while for the market it will remain around that level and close December at 36.1%, we believe that it will have risen to 38.7% by then. Today the Badlar rate stands at 34%.

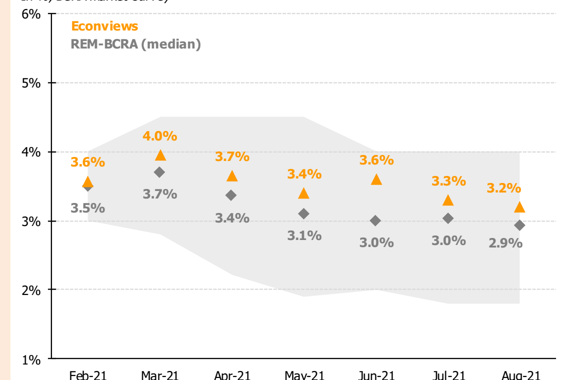
Without buying into Guzman's 102 ARS/USD both Econviews and the market lowered our ¡ official exchange rate estimates. A month ago we saw the dollar at 128 pesos for December, while the median of the REM stood at 125. With the new external dynamics, we adjusted our projection to 120.8, and the consensus lowered to 118.6. 90% of those consulted see a dollar

Annual inflation forecasts
In %, BCRA market survey



Source: Econviews based on REM-BCRA and own estimations

Monthly inflation forecasts
In %, BCRA market survey



Source: Econviews based on REM-BCRA and own estimations

below 130 by the end of the year, but for now those who believe that the Government will reach its goal of a 25% yearly devaluation are still outliers.

We see a recovery almost 1 point above the consensus. With the final data of activity in 2020 and without signs of the recovery petering out in January and February, we raised our growth projection for 2021 from 6 to 7%. With the return to schools and a calm dollar in the first semester, the conditions are ripe for a stronger rebound. Our optimism is in line with that of the market: in January the REM reported a median of 5.5% and in the February report it went to 6.2%.

On foreign trade we are also a little more optimistic. With the price effect partially offsetting the lack of rain in recent weeks, we believe that exports of goods will totaled 62.4 billion dollars in the year, 800 million above the median of those consulted by the BCRA. In our vision, imports will reach 48.5 billion, while the market estimates them at 49.2 billion. Thus, our models show a greater trade surplus for 2021, of 13.8 billion dollars against the 12.4 that arise from netting the market estimates (the number itself is not a forecast, as the REM does not include net exports in its survey).

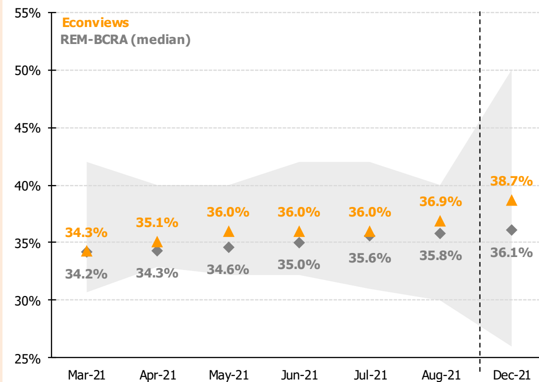
We expect lower financing needs than the rest of the profession. The REM median projects a primary deficit of 1.645 trillion pesos, while we forecast that it will reach 1.49 trillion. The previous month our forecast was closer to that of the market, but because the IMF's SDRs will be counted above the line and we improved the collection of tax on wealth in the margin (it won't be shared with the provinces) we believe that the deficit will be lower. Finally, at Econviews we expect unemployment to end up above than consensus. Our number is 13% against a median of 11%, since beyond the economic reactivation many unemployed persons who could not search for work last year will do so in 2021, affecting the denominator.

REM vs. Econviews
Forecasts for 2021

	REM (median)	Econviews
Inflation (Dec/Dec)	48.1%	50.0%
GDP growth	6.2%	7.0%
Official exchange rate ARS/USD (Dec)	118.6	120.8
Badlar rate (private banks, Dec)	36.1%	38.7%
Unemployment rate (annual average)	11.0%	13.0%
Trade balance (USD billion)	12.4	13.8

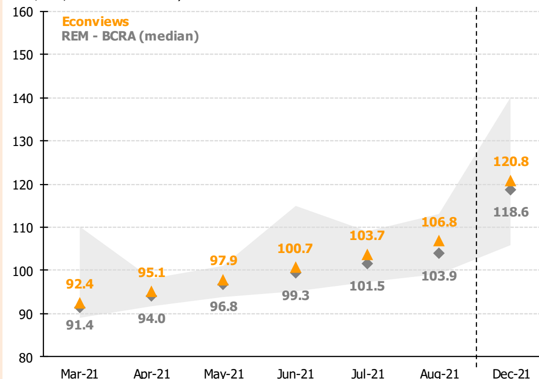
Source: Econviews based on REM-BCRA

Badlar interest rate forecasts
Nominal annual rate



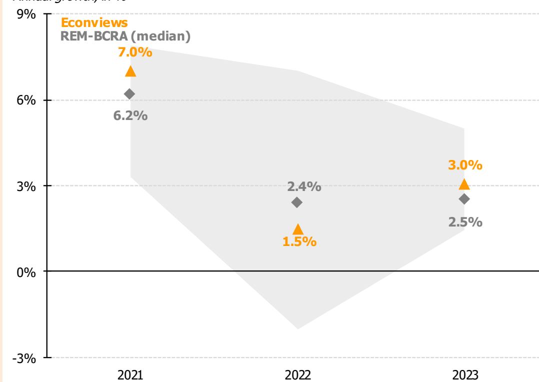
Source: Econviews based on REM-BCRA and own estimations

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