THE WEEK
AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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Editorial: The Paris Club and the Fund: Parallel Lives

Argentina is trying not to default with the Paris Club. That is good news because it implies that at the end of the day there is an interest in maintaining a certain reputation. The agreement with the Club is not easy. It does not have the institutional framework of the Monetary Fund or the World Bank. It is not in fact a multilateral body.

The Paris Club is an association of countries that have bilateral claims against emerging countries. In most cases originated in loans related to infrastructure projects or exports, through ECAs or "Export Credit Agencies", as is the case of the USA's Eximbank. Germany and Japan are the most important creditors with almost 60% of the total. They are followed by the Netherlands, Spain, Italy and the United States with between 6 and 8% of the debt each.

Argentina has to pay USD 2,119 million of capital and USD 230 million of interest this month, but it has until the end of July to avoid being declared in default. Between June and December there are another USD 300 million more in maturities to pay. The total bill for this year is USD 2.65 billion.

There are two clear links between the Paris Club and the International Monetary Fund. On the one hand, the Club's rules prevent kicking debts forward if there is no agreement with the Monetary Fund. In 2014, this rule was broken only because Argentina agreed to pay interest and penalties from the moment it entered into default in 2001. This implies that it would be good to have an agreement, although it seems politically difficult to do so before the expiration of the grace period to end of July. The ability of the negotiators will be for the Club to put the debt on hold with the promise that an agreement will be closed in 6 months. The second objective will be that Argentina does not pay punitive interest of 9% as stipulated in the contract.

The problem for Martín Guzmán is that the creditors are going to ask for something in return. And here the second problem appears. The program with the Fund is already on the table, but surely there will be more. Portugal has already asked to advance with the EU-Mercosur agreement, something that this government rejected at the time. Many of the multinational companies that operate in Argentina have their headquarters in Club countries. The CEOs of these companies have influence on their governments who will likely request a better business climate. For example, they will ask to be able to remit dividends and pay their debts. Also. They will request that price controls are eliminated and that they can import inputs. It is unthinkable for Argentina to obtain concessions for nothing.

Although there are chances that Argentina will achieve its mission and avoid default, this will not be due to the management of Pope Francis or the eventual good chemistry with a European leader. Perhaps the pandemic situation helps a little more, but you have to remember that nothing is free.

The presidential tour has generated expectations after a long time that the country only generated negative news. It shows a path that today excited the markets that responded with rises in the prices of bonds and stocks. But the road is long and an agreement with the IMF implies concessions that it is not clear which sectors of the government coalition are willing to grant. It seems very clear that the ball is on our side.

LAST WEEK IN REVIEW

✓ On his European tour, **President Fernandez met with IMF Director Kristalina Georgieva. Both described the meeting as "constructive".** One of the president's requests was the reduction of the surcharge that Argentina pays for having taken on debt above its maximum allowed threshold.

✓ **In the second half of 2020, there was a deterioration in the index of living conditions.** Housing, access to public services and education all show worse results in comparison to 2020's first semester.

✓ For the fifteenth time, **the province of Buenos Aires extended the deadline to reach an agreement for the renegotiation of its USD 7.1 million debt**.

✓ **Pensions will increase 12.12% in June**, according to the new mobility formula.

NEXT WEEK'S HIGHLIGHTS

✓ **Today** we will know the **industry's use of installed capacity** during March. A slight increase is expected compared to February.

✓ On **Tuesday 18** the **basic food basket**, which determines the poverty and indigence index, will be published. Given the 4.7% rise in food prices in Greater Buenos Aires, the numbers don't look good.

✓ On **Wednesday 19 April's foreign trade data** will be released. The rise in commodity prices should provide a good surplus.

✓ On **Thursday 20** we will know the **wholesale price indexes** and the **construction cost** for April

✓ Also on **Thursday 20** the INDEC will publish the **level of activity for March**. We expect a rise of 0.7 to 0.8% against February, seasonally adjusted.

✓ "Super Action **Thursday**" closes with the presentation of **fiscal data** for April.

✓ On **Friday 21** the Central Bank will publish its **quarterly monetary policy report**.

✓ During the week the **Treasury** will have to face **maturities of more than ARS 300 billion,** of which 70% is in private hands.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	94.0	0.2%	1.5%	39.0%	▲
Blue Chip Swap	159.5	1.1%	5.6%	30.4%	▲
CB reserves (USD million)	40,988	+534	+968	-2,227	▲
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.2%	+0.06 p.p.	0 p.p.	+12.38 p.p.	▲
Merval (in ARS)	54,850	6.7%	16.0%	39.8%	▲
Country Risk (spread in %)	1,549	-2.4%	-1.8%	-49.0%	▼
Official exchange rate BRL/USD	5.27	0.7%	-6.7%	-9.3%	▲
Soybean (USD/ton)	589.3	-1.1%	13.7%	92.0%	▼
Oil - Brent (USD/barrel)	69.9	0.6%	6.4%	144.4%	▲

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Mar-21*	0.7%	3.1%	0.2%
Automobile production	*Apr-21*	-20.3%	-16.4%	-7.2%
Steel production	*Apr-21*	-12.3%	-1.0%	-9.7%
Poultry production	*Mar-21*	15.6%	-1.9%	15.9%
Dairy production	*Mar-21*	-1.9%	1.6%	-1.2%
Beef production	*Mar-21*	4.8%	-5.0%	8.8%
Real Estate transactions (CABA)	*Mar-21*	11.3%	8.9%	13.7%
Flour Production	*Mar-21*	1.1%	2.0%	6.0%
Oil production	*Mar-21*	1.1%	3.7%	2.5%
Gas production	*Mar-21*	0.1%	-1.9%	-0.6%
Cement production	*Apr-21*	3.9%	-1.2%	7.1%
Construction activity	*Mar-21*	-0.5%	5.8%	-1.9%
Retail sales	*Apr-21*	6.6%	-13.7%	-17.4%
Gas sales	*Mar-21*	6.0%	15.5%	8.7%
Motorcycle licenses	*Apr-21*	-6.2%	16.0%	10.8%
Use of electricity	*Apr-21*	-0.7%	4.1%	3.7%
Subway rides (CABA)	*Feb-21*	11.7%	81.0%	28.0%
Imports CIF	*Mar-21*	13.8%	33.4%	16.1%
Exports FOB	*Mar-21*	0.6%	33.4%	13.4%
Loans in ARS to private sector	*Apr-21*	-2.5%	-4.7%	-4.6%
VAT-DGI Revenues	*Apr-21*	2.6%	3.7%	5.6%
Formal private jobs (SIPA)	*Feb-21*	0.0%	0.2%	0.2%
Formal private jobs (EIL)	*Mar-21*	0.2%	0.1%	0.2%
Consumer confidence	*Apr-21*	-7.5%	-6.0%	-7.1%
Government confidence	*Apr-21*	-2.8%	-7.3%	-5.3%

Note: stoplight color depends on monthly variation

Bad News: Inflation Is Not Slowing Down

Last week the INDEC released April inflation data and set off the alarms. Monthly inflation was 4.08%, in line with our forecast (4.0%) but above market expectations (3.8%) and, of course, the government itself. Although the record was lower than that of March, it was the highest value for an April since 2016, when energy rates were abruptly adjusted. **Core inflation was even worse than expected: 4.56%, against a market expectation of 3.9%.** With these numbers, annualized inflation taking the average of the last 3 months reached 63.0% for the headline and 67.4% for the core. Minister Guzmán's 29% annual target is just wishful thinking, impossible to come true.

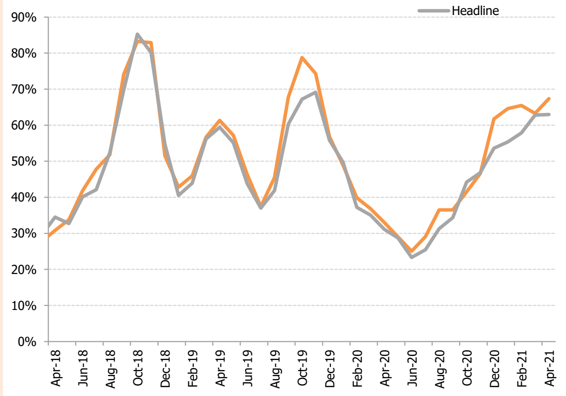
Regulated prices and those of seasonal nature contributed less than in March. Inflation in regulated goods and services was 3.5% while in April it was 4.5%. On the other hand, seasonal prices increased 2.2% in April, while in March they had jumped 7.2%. Core inflation explained 3.1 p.p., while the regulated ones explained 0.7 p.p. and the seasonal 0.2 p.p. **The government anticipated that it would intensify price controls and accelerate the implementation of the Shelves Law, mainly affecting regulated items, but it is core inflation that sets the trend.**

What's behind the rise in recent months? One of the reasons is the reopening of the economy, following the easing of the strong restrictions that extended from March to September last year. After the closure of bars, restaurants, hotels, shopping malls, cinemas and theaters, inflation in these items was kept at bay and, in fact, in some months they were attributed the general inflation because there were not enough prices to survey. **But the reopening led to strong increases.**

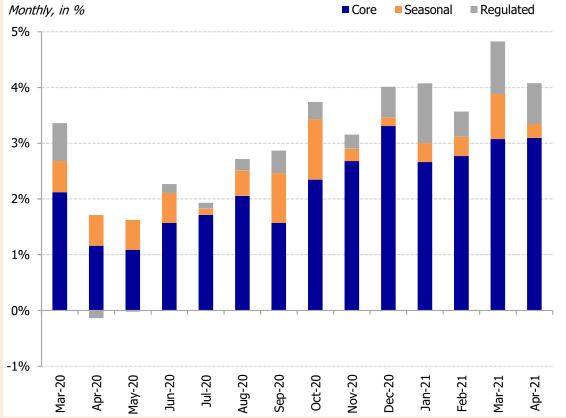
Since last October, when flexibilizations began to generalize, **headline inflation accumulated 26.1% and failed to pierce the 3% floor in any month; that's 7 months, something that had not happened since the end of hyperinflation.** Restaurants and hotels increased their prices slightly above, by 28.5%. Clothing and footwear, on the other hand, increased by 31.5%, that is, 5.4 percentage points above general inflation, and explained 3.1 p.p. of it. And although the recreation and culture category, which includes items such as magazines and newspapers, increased only 26.7%, the recreational and cultural services subdivision, which includes cinemas, theaters and cultural shows, shot up 42.2%.

The greatest impact on prices, however, came from the Foods, the division with the greatest weight in the index. Although they were not affected by the restrictions, since October food increased 28.4%, above general inflation, and explained 6.8 p.p. of the 26.1 of post-reopening general inflation. With the exception of bread and cereals, all the subdivisions within the Foods category increased above inflation, having a full impact on the poorest sectors, which spend a greater part of their income on the purchase of food. But what stood out the most was the impressive increase in meats, which shot up 48.3% since last October and explained 4.3 points of inflation for the period. In response, the government last week launched a new agreement with the main supermarket chains to offer 11 cuts at prices lower than the market until the

Annualized monthly inflation
Average last 3 months



Contribution to headline inflation
Monthly, in %



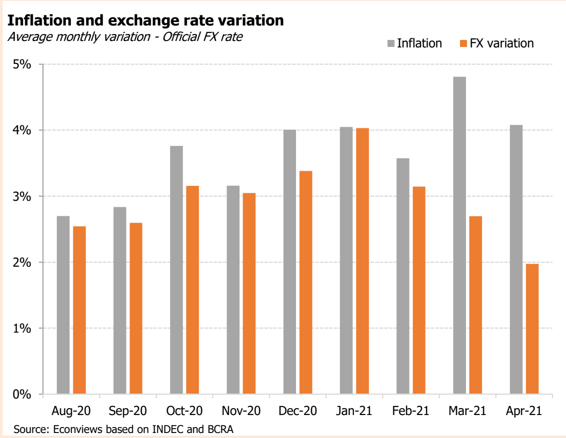
Evolution of prices since lockdown flexibilization - Nation
Apr-21 vs Oct-20 % variation and impact on headline inflation

	Var %	Impact
Headline inflation	**26.1%**	**26.1%**
Food and non-alcoholic beverages	27.3%	7.4%
Food	28.4%	6.8%
Bread and cereals	21.7%	1.0%
Meats	48.3%	4.3%
Dairy	25.2%	0.9%
Oils	34.8%	0.2%
Fruits	32.2%	0.4%
Alcoholic beverages and tobacco	27.1%	0.9%
Clothing and footwear	31.5%	3.1%
Clothing	32.8%	2.4%
Footwear	27.7%	0.8%
Housing, water, electricity and other fuels	14.2%	1.3%
Equipment and home maintenance	23.3%	1.5%
Health	25.9%	2.1%
Transport	31.2%	3.4%
Vechicle purchase	35.2%	1.0%
Functioning of personal transport equipment	34.9%	1.9%
Public transport	17.0%	0.5%
Communication	17.2%	0.5%
Recreation and culture	26.7%	1.9%
Leisure and cultural services	42.2%	1.2%
Education	33.2%	0.8%
Restaurants and hotels	28.5%	2.6%
Restaurants	29.4%	2.5%
Various goods and services	16.5%	0.6%

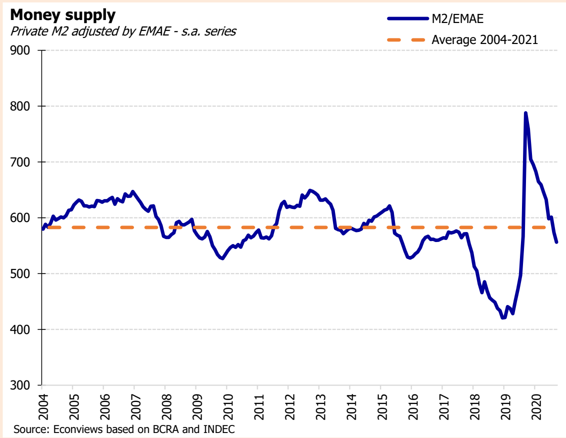
Source: Econviews based on INDEC

end of the year and for a greater number of days than the agreement that had been reached a few months ago. **2020 closed the year with the lowest per capita meat consumption in 100 years and 2021 is shaping up to do the same.**

The second biggest impact came from the Transport division, which contributed 3.4 p.p. to inflation since October. More than half of the impact was due to the rise in the subdivision "operation of personal transport equipment", which is mainly made up of the **price of gasoline and diesel. In March YPF implemented a 7% increase, in April another 6% and for May a new increase of 5% is expected.**



The reopening, however, does not explain all the increase of inflation. A part of prices is influenced by the exchange rate, because many of the inputs and machinery used in the production of goods must be imported, and also because some consumer goods are imported. For much of 2020, the Central Bank's strategy was to move the nominal exchange rate in line with inflation so as not to appreciate the real exchange rate in a context of a high FX spread and a shortage of reserves. But mindful of the rise in prices, the strategy it adopted since March and deepened in April was to reduce the daily depreciation to put an anchor on prices. **The anchor, for the moment, has not been giving results and inflation has not dropped from its cruising speed of around 4%.**



The large imbalances of last year left a significant inflationary inertia that the government is unable to stop, neither by appreciating the exchange rate nor by deepening price controls. In 2020, the amount of money, adjusted for economic activity, reached a 35% higher level than the historical average since 2004. And although the monetary excess has already been diluted in part by the recovery of economic activity and in part by the advance of the inflation, in economics "there's no free lunch": **the effects of monetary policy have lags and the take-off of inflation in recent months is largely due to last year's monetary imbalance.**

The government's response to the sustained increase in prices does not seem to change the direction, and through price controls, tariffs and exchange rate anchors, it will only be able to suppress inflation in the short term, but structural inflation will remain firm if fiscal and monetary imbalances are not adjusted. **For the moment we maintain our expectation of 46% for the year, but May looks worrisome. Electricity and gas in the AMBA will increase 9% and 6% respectively, telecommunications 8%, prepaid 5.5% and gasoline another 5%. Combining their impact, the regulated prices alone imply an incidence of at least 0.8% for May (vs 0.7% in April).**

How do Wages Arrive to the Midterms?

Martín Guzmán presented the 2021 budget with an inflationary pattern that indicated that the price increase throughout the year would be 29%. With that target in mind, the government's economic policy got ready to "coordinate" with the unions the salary increases so that there are no deviations from the proposed objective. After eight months it is clear that the guideline will not be met, or rather it will be advanced: at the current rate, the 29% proposed by the minister will be reached in August, just in the month prior to the midterms.

The incumbent vote is always related to the economic situation in the run-up to the suffrage, so it is striking to note that, **if there were no reopening or adjustments in the salary adjustments that were set so far, the average of the evolution of wages in the three months prior to the midterms, it would be 6 points below the inflation**. To have a dimension, this negative difference against the wages would only be surpassed by the one that occurred in the general elections of 2019. In the defeat of the ruling party at that time, wages grew at a rate 9 points below the inflation.

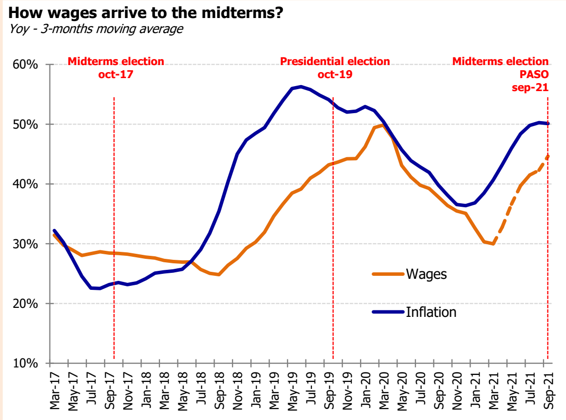
On the contrary, in the rest of the elections since 2009 the differential was always favorable for wages: in 2017 it was +5 (incumbent victory), in 2015 it was +8 (incumbent defeat), in 2013 it was +4 (incumbent defeat), in 2011 it was +10 (incumbent victory) and in 2009 it was +2 (incumbent defeat). Of course, the pandemic adds another dimension to the elections and the scope of vaccination, and the level of reopening could be as decisive as the economic indicators in these midterms' elections.

This situation suggests that the government will give scope in the coming months for the different unions, both those who have already closed their negotiations until after the elections, and those who are in the middle of it, to set increases (whether they are remunerative, non-remunerative, bonuses, etc.) **that promote a rise in real wages that leaves a feeling of recovery that, for now, has not arrived**. In any case, even considering that increases are made, as contemplated in our base scenario, the boost that it will give to the wage bill will be meager. The labor market is not having the dynamism required to reverse three years of sustained crisis in which the wage bill has averaged a 7% annual drop in real terms.

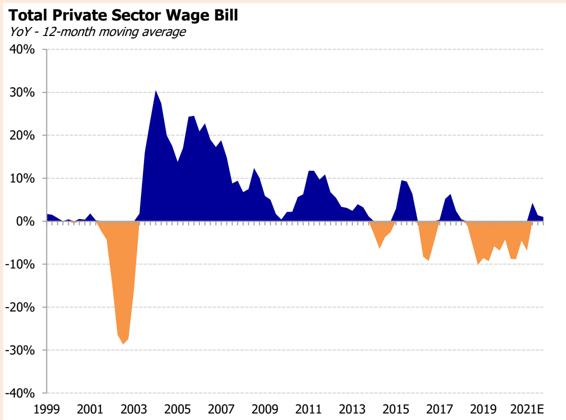
It is striking that being at wages valuated in dollars in levels of 2009, at the official exchange rate, and 2006, at the CCL, we are not in a better situation in terms of labor demand. Everything indicates that structural factors such as the contracting conditions and the future perspective are not the best. On the other hand, the pending reform in pension matters, which finds a way to have a sustainable system in the medium term, is reflected in the fact that the minimum pension returns to 2004 levels, after having almost doubled its value in real terms during the years in which we enjoyed the super commodity cycle. A cycle that, in our point, and despite the good prices, in principle would not return.

To sum up, we expect that between the end of the second quarter and the beginning of the third, the unions will press for greater wages adjustments than that contemplated, a request that will be supported by a price dynamic that will be in the order of 50% year-on-year.

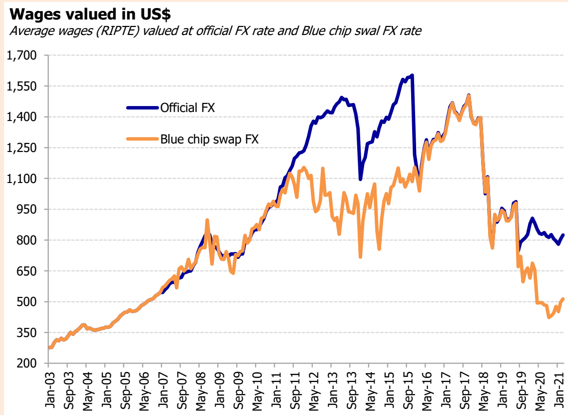
In the same way, reinforcements through bonds could appear to support retirements and social plans, which in any case will have an increase in the



Source: Econviews based on INDEC, Ministry of Labour and differente unions



Source: Econviews based on Ministry of Labour



Source: Econviews based on Ministry of Labour same month of September (around 10%, through the mobility formula) that would be for above inflation for the quarter.

However, the momentum that can be given in the run-up to the election is limited by time. In practice, there are less than four months left for the elections.

<u>**Summary of wage deals**</u>

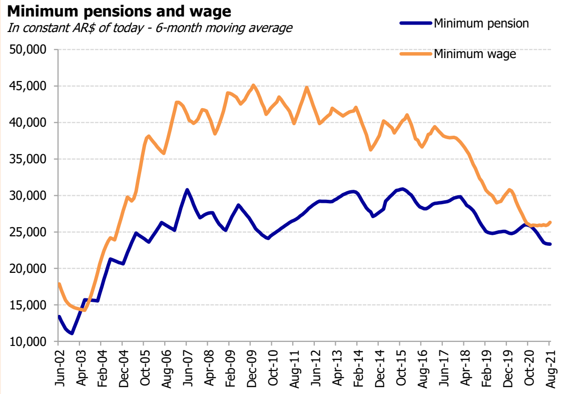
Retail employees, construction workers and teachers stand out among the main unions that have already closed their 2021 wage negotiations. The raises, 32% for retail, 36% for those represented by the UOCRA (construction) and 34% for education, do not deviate far from the official objective (practically obsolete with April's data) of a 29% annual inflation. Although the first two left the door open for inflation-based adjustments towards the end of the year. These arrangements mark the path for the rest of the workforce: in 2018 the SEC (retail) numbered almost a million among its ranks, while the affiliates in construction reached half that number, in an area with high informality. **Retail and construction lost almost 200 thousand formal jobs since mid-2018, but they still represent 24.6% of registered private workers**. The national teacher's arrangement signed by the Government compromises a universe of 1.5 million, a base which the different provincial unions will then discuss upon. **The negotiation with the teachers' unions brought up a new point of discussion that could be very relevant in 2021: vaccines**.

Other unions who've already reached a deal include bank clerks, which were among the first to close negotiations and achieved 29% in three stretches, the last in August, but added a memo for updates in September and November. Oil company and port workers, two generally well paid sectors, negotiated increases of 25% with an adjustment in August and 35%, respectively. Oil workers also obtained a 30% increase on their 2020 deal, raising it to 45% (one of the best arrangements). The increase agreed for this year will only become effective as of January 2022. Doormen achieved a staggered increase similar to UOCRA's, of 32% instead of 36%, but with a closer review (in September). Finally, the metallurgists defended by UOM obtained 35.2% in three stretches, between April and October.

Among those who have yet to strike an arrangement in 2021 are the Truckers, **who have just closed a deal with Wal-Mart for a compensatory bonus for their employees after the retail chain's change of hands**. Last year they fixed on 30% and will seek to make good on their status as essential workers in times of Coronavirus. Last week, the union obtained vaccines for drivers working international routes, a claim that gained support in the middle of a harsh second wave in South America.

Third in number of members, FATSA (Healthcare) just agreed on 2020's wage raise in April (with a final 36%) and will reopen negotiations for 2021 next month. **According to the Ministry of Labor, despite their vital role during the pandemic, as of December a representative salary in healthcare (ARS 56,350) was 10,000 pesos below the RIPTE average (ARS 66,869)**. The Government recently announced bonuses of ARS 5,000 for health personnel from April to July. **With a rise of 25% in 2020 with 36.1% inflation, public sector workers ranked among the worst paid last year**. They have not yet signed their 2021 deal, but sources hinted at a 35% increase, following the pattern of the latest deals (UOCRA and UOM). In the midst of the clashes between the Government and businessmen due to frozen prices, food workers are also discussing their salaries, after obtaining an additional 9%

Minimum pensions and wage
In constant AR$ of today - 6-month moving average



Memo Ítems: The pensions series does not take into account extraordinary bonuses granted
Source: Econviews based on Ministry of Labour

Wage negotiations by sector and union
Latest accorded wage raises

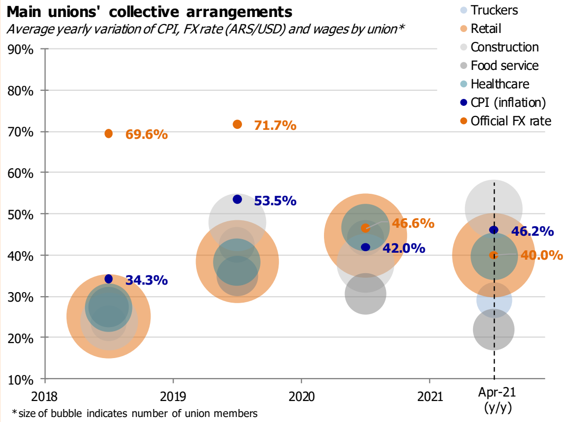
	2020	2021	
	%	%	Details
Oil and port workers (FTCIODyARA)	**35%**	**25.0%**	25% between Jan and Apr-21,with adjustments in Aug-21
Food industry (STIA)	**41%**		Adjustment in Mar-21 resulted in a 9% raise for 2020's wage, 2021 in negotiation
Auto industry (SMATA)	**21.4%**		In negotiation
Sugar cane industry (FOTIA)	**38%**		In negotiation (above +35%)
Bank clerks	**34%**	**29%**	In three stretches, Jan-21, Apr-21 and Aug-21, with 2.1% adjustment on 2020
Truckers (SCC)	**30%**		Negotiations to begin in Jul-21
Construction workers (UOCRA)	**33%**	**36%**	In four stretches, Apr-21, Jul-21, Oct-21 and Feb-22 with adjustments in Dec-21
Teacher's unions (CTERA, UDA, CEA, SADOP and AMET)	**34%**	**34%**	In three stretches, Mar-21, Jul-21 and Sep-21
Retail employees (FAECyS)	**34%**	**32%**	In four stretches, May-21, Sep-21, Jan and Feb-22 with adjustment in Dec-21
Doormen (FATERyH)	**29%**	**32%**	In four stretches, Apr-21, Jul-21, Oct-21 and Feb-22 with adjustments in Sep-21
Government (UPCN and ATE)	**25%**		In negotiation
Metallurgical industry (UOM)	**40%**	**35.2%**	In three stretches, Apr-21, Jul-21 and Oct-21
Oilmen	**45%**	**35%**	30% adjustment on 2020's wages (adds up to 45%), 2021's raise to be paid in 2022
Health workers (FATSA)	**36%**		Negotiations to begin in Jun-21
Transport workers (UTA)	**30%**		2020 adjustment includes +$15.000 in three stretches in Jan-21, negotiations for 2021 still closed

Source: Econviews based on several sources over 2020's original 32% rise in March. Automobile, sugar cane industry and transport workers are other important sectors that are still negotiating.

Looking at recent years, despite the pandemic, in 2020 wages were closer to matching the official dollar and inflation. In 2018, the RIPTE index (an average of formal private salaried workers) lost 4.7% in real terms. The following year, inflation-adjusted wages sank 8.8%. As the graph to the right illustrates, in that two-year period none of the large unions was able to beat the rise in prices (not to mention keeping up with the official dollar). Only a few outliers such as bank clerks and doormen escaped the erosion of purchasing power. **And in 2020? The 1.2% real decline in the RIPTE was not owed to a clear improvement in nominal salaries** (the index rose 40.6% in 2020, just 0.2 points above its variation in 2019) but rather **the result of moderate inflation in the first semester and the BCRA's strict control of the official FX rate**. Furthermore, due to the ban on layoffs and the nature of lockdowns, **the worst of the crisis in labor market terms fell on informal workers**.

Main unions' collective arrangements

*Average yearly variation of CPI, FX rate (ARS/USD) and wages by union**



*size of bubble indicates number of union members
Source: Econviews based on INDEC, RIPTE and unions' arrangements