THE WEEK AT A GLANCE

ECONVIEWS

ECONOMÍA Y FINANZAS

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Editorial: The Same Mistake Time After Time

Argentina continues to stumble over the same stone. It is often said that no single instrument can be used to solve many problems. But sometimes just one policy error creates a lot of problems. The announcement of a 30-day beef export ban seems to go in that direction. If the aim is to lower inflation, it is very difficult to achieve it and if it does, it will be exclusively in the short term. It is true that beef price rose considerably more than inflation. The price of the steer in Liniers grew 101% in the last year. Minced beef in Greater Buenos Aires rose 63.85%, 17 points more than retail inflation. But what these types of measures do is reduce the supply in the medium term and therefore raise prices, with the secondary effect of reducing the export as well. The last time something similar was implemented, Argentina lost 10 million of heads, cattle went from 57 to 47 million. Even a moderate increase in the export tax rate would have been better than prohibiting.

Even when the ban lasts 30 days or is reversed next week, the damage to our credibility as a trading partner has already been doomed. From now on it will be more difficult to convince an entrepreneur to invest in the different production supply chains. Additionally, beef exports are not the same as oil or soybeans. It is costly to open markets and Argentina's label as an unreliable supplier is all that our competitors need to steal market share. Brazil and Uruguay celebrated the Argentine measure.

The exports band also sends a new torpedo to the primary sector, that for 13 years has not been able to build bridges with Kirchnerism. Even though it is a sector that provides 60% of the dollars generated in the exports of goods, it has already had 3 battle grounds of different magnitude. Export tax rate was raised in December 2019, then came the failed nationalization of Vicentín in 2020 and the band of corn exports (later reversed) at the beginning of 2021. They are pulling too hard of the rope. The government seems to have lost the grip. Only last October it had spoken of 10 consensuses, the first of which was to enhance the exports. They blow up their own credibility. The timing was not adequate either. The SIAL in China, Asia's Largest Food Innovation Exhibition, was just beginning. The Asian giant bought 75% of Argentine beef exports in 2020.

Meanwhile, economists jump to the scene to remember that inflation is a macroeconomic phenomenon, something that is naturally shared by the minister and more timidly by other high-grade officials. So, what is the point of using these unorthodox tools or the controversial "Ley de gondolas"? There are many ways to tackle inflation. You can discuss the impact of the interest rate, the exchange rate, the influence of fiscal policy or salary issues. But these microeconomic moves help inflation next to nothing and create political, business problems, and probably more inflation in the long run. Argentina today needs to regain credibility so that at some point the investment returns and quality jobs can be generated. It would have been better to grant one more point of inflation than to apply this terrible policy measure that has united all economists, something difficult to do in Argentina, against it.

Perhaps the electoral promise of more barbecue or the April data showing a new floor in per capita beef consumption weighed in the decision. But for a government that changed its mind on more important issues more than once, this was a minor offense. The consequences of this measure are likely to be more onerous in the long term. As we move closer and closer to midterms, we are likely to see more short-term policy-oriented decisions. The cost will be increasing, and the benefit is not entirely clear. Winning is something that has been elusive for all the incumbent that have stood for elections since the beginning of the pandemic. The cheapest barbecue may not compensate for the inability to have a vaccination plan that allows us to get away from another round of mobility restrictions.

LAST WEEK IN REVIEW

- The **President announced a total lockdown for 9 days** from Saturday 22 to Sunday 30. During the first weekend of June these measures will also govern.
- In March, the **Utilization of Installed Capacity in the Industry reached 64.5%,** 6.2 p.p. above the February level. An improvement was also observed compared to March 2020 (51.6%), although this was the first month of strict quarantine.
- The **Total Basic Basket increased 3.4% m/m** in April and 47.8% y/y, while the **Basic Food Basket increased 3.9% m/m** and 49.1% y/y. A typical family (4 members) needed ARS 62,958 to overcome the poverty line.
- The **Wholesale Price Index increased 4.8%** in April (61.3% year-on-year). Domestic products rose 5%, while for imported products the rise was 2.5%.
- In April, **Construction Costs increased 6.4%** and 55% in year-on-year terms. In the breakdown, Materials rose 4.1%, Workforce 9% and General expenses 5.2%.
- The **Government ordered the closure of beef exports** for 30 days.

NEXT WEEK'S HIGHLIGHTS

- **Today** the INDEC will publish the **sales surveys of supermarkets and shopping centers** for March. The commercial sector GDP data for March was good.
- **Today** will be released the volume of **home appliance sales** for the first quarter of the year.
- Today the **last bond auction of the month** will be held. It is an opportunity for the treasury to recover from the weak bidding this week.
- On **Thursday 27,** the University Torcuato di Tella will publish the **consumer confidence index.** Also, in the short week the government confidence index should come out.
- On **Thursday 27** the **information of the agricultural machinery sector** corresponding to the first quarter of the year will be published.
- On **Thursday 27** the BCRA will publish the **banks report** as of March.
- On **Friday 28** the report on the **operations in the exchange market** for April will be released.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	94.3	0.2%	1.3%	38.5%	▲
Blue Chip Swap	162.7	2.0%	6.2%	37.5%	▲
CB reserves (USD million)	41,591	+589	+1383	-1,248	▲
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.1%	-0.06 p.p.	0.06 p.p.	+7.63 p.p.	▼
Merval (in ARS)	56,287	2.6%	18.2%	36.0%	▲
Country Risk (spread in %)	1,527	1.3%	-2.1%	-42.0%	▲
Official exchange rate BRL/USD	5.33	1.3%	-2.0%	-2.1%	▲
Soybean (USD/ton)	555.5	-4.0%	-3.6%	78.5%	▼
Oil - Brent (USD/barrel)	69.5	-1.2%	5.1%	108.7%	▼

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	*Apr-21*	0.6%	0.3%	-0.4%
Beef production	*Apr-21*	-4.8%	3.2%	2.2%
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)	*Apr-21*	-11.2%	41.6%	3.8%
Imports CIF	*Apr-21*	-9.7%	6.8%	-2.3%
Exports FOB	*Apr-21*	-4.0%	20.8%	-3.6%
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

Is The Budget Lost?

An hour after the president's announcement about the imposing of new mobility restrictions for the next weeks, the fiscal result of April was released, showing a primary deficit of ARS 11,445 million. In the accumulated of the first four months of the year the deficit was up to ARS 80,594 million, the lowest in the last 5 years. The coincidence is striking: the good fiscal result just released contrasted with the announcements of higher expenditures due to the tightening of the restrictions.

In the prelude to what may be a break in terms of the dynamics observed in recent months, one that combined restrictions that increased at the margin but ended up being more flexible than expected, **we revisited the 2021 Budget, which had been presented last September as the central pillar of Minister Guzmán's macroeconomic plan.** We do it to have a dimension of the deviations that have accumulated throughout these months and to verify if the primary fiscal result target on it, one that did not contemplate a second wave like the one we are going through, has been blurred or not.

A couple of clarifications before we start. The first is conceptual: **the budget should be the tool that enables the much-acclaimed consensus between political parties.** That is because they could use their political power so that their interests are reflected in the so-called law of laws, giving predictability and a path to follow during the year in which it is sanctioned. **However, in Argentina unfortunately it is a) useless as soon as it is approved both in commissions and in the premises,** where legislators can make fiery speeches for the tribune; or **b) a strategic way to save fiscal space, to later distribute it in a discretionary manner,** without the need to renegotiate in Congress, using the control of the "checkbook" for political purposes.

This last case is the one that best applies to the fact that the minister drew up a budget that did not contemplate a second wave that was clearly going to come sooner rather than later. And even more if we note that the contribution to the great fortunes apparently still does not appear, neither accrued nor cash, in the public accounts. A coin that is saved to be used when market funding loosens? A footnote and a statement are for now all the official information available on this big contribution.

The second clarification is technical: in the analysis we will be looking at the fiscal figures corresponding to the National Public Administration (APN), which differ from those that are more widely used, those of the National Public Sector (SPN), but which are present in the Budget.

Let us start with the macroeconomic assumptions made by the Budget last September. We observe that, in addition to the greater momentum in terms of activity left by the end of 2020, the current inflationary rhythm will be at least 17 percentage points higher than projected. Even if the change in the exchange rate is closer to that of the Budget than the one suggested by our baseline scenario, **the inertia that we are seeing in recent months points that the exchange rate anchor will not be enough to accomplish the target of 29% yoy in December.**

Macroeconomic Assumptions 2021

Yoy variation

	Econviews 2021	Budget 2021	Difference in p.p.
Growth (average)	7.0%	5.5%	1.5
Inflation (eop)	46.0%	29.0%	17.0
FX (eop)	35.5%	25.8%	9.7

Source: Econviews based on Mecon

Tax revenues

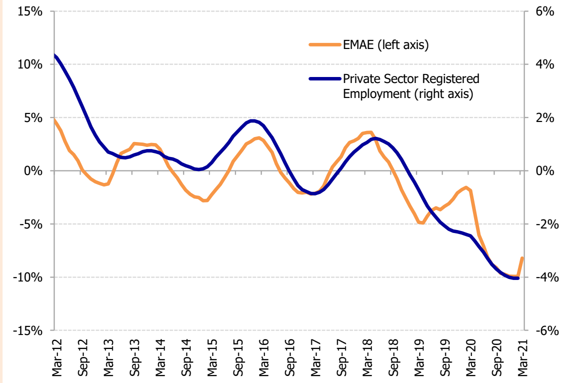
Yoy variation

	Jan-Apr 2021	Budget 2021	Difference in p.p.
Total	**70.1%**	**46.0%**	**24.1**
Social Security	36.1%	40.3%	-4.2
VAT	67.7%	48.9%	18.8
Income tax	98.7%	43.2%	55.5
Credits and debits	53.4%	40.5%	12.9
Exports tax	187.2%	58.0%	129.2
Imports tax	89.3%	55.6%	33.7
"PAIS" tax	15.7%	89.0%	-73.3
Others	123.6%	52.5%	71.1

Source: Econviews based on AFIP and Mecon

Activity and Employment

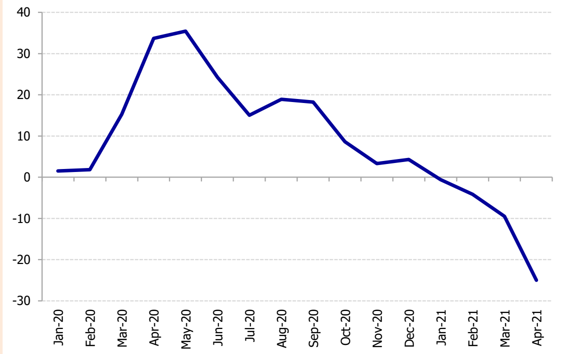
Yoy variation - moving average 12-month



Source: Econviews based on INDEC and Ministry of Labour

Primary Expenditures excl. capital and subsidies

YoY real variation



Source: Econviews based on AFIP

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The immediate consequence of this is that the variations proposed for tax resources already differ by several points in the first four months of the year. **A separate case is that of export and import duties, where the difference with the budget shows how unforeseen the growth in international prices was seen in recent times. It should be noted that his downfall can be that untimely as well.**

In summary, the inflationary-tax and the favorable terms of trade are giving a boost to tax resources that were not in the script, luckily for the minister. The only taxes that were initially overestimated are the "PAIS"-tax, which denotes the suspicion that there was regarding the level of intensity with which savers would seek to take refuge in the dollar during the electoral year, and the Social Security revenues, which shows that the labor market continues to languish.

On the expenditure side, there is also a greater acceleration, but several points less than in the case of the tax resources, and only in the subsidies is there a significant deviation. Both social security, operating (mainly salaries) and capital expenditures are in line with the projections of the Budget. **A known trick in times of fiscal adjustment is being apply: inflation adjustment. These items had a real year-on-year fall of 25% in April.** Even if we consider the boost announced yesterday for this year's COVID package, AR $480 billion in addition to the AR $165 already detailed in the Budget, the impact is limited. **It is that without social programs as the "IFE" or the "ATP", the pressure on fiscal accounts is determined solely by the subsidies expenditures, proof of this is the dispute that remains open within the ruling party, with respect to a expenditure that grows at an average year-on-year rate in the last 6 months that is 30 points above inflation.**

All this makes us maintain our base scenario, in which the primary result reaches to 4% of GDP, which is reduced to 3% if we consider the SDRs that would be distributed in August / September. With 1.5% of GDP from interest, the financial deficit would amount to 5.5% (or 4.5%). It should be clarified that, although we consider that the restrictions can escalate quickly, as they did in the last three weeks, generating an economic impact that reduces income and forcing greater palliative spending, **we also think that the economic team, or a part of it, know the imbalances that financing a greater financial gap could bring to the economy.**

With more deficit, more debt or issuance will be needed, and with a market that is becoming more and more elusive to refinance the Treasury, the BCRA issuance may be the only way out. More monetary financing in an environment in which inflation rides to 4% per month even with regulated and anchored exchange rates, is something that we understand will be sought to avoid.

COVID-related expenditures

AR$ bn and % GDP

	AR$ BN	% GDP
Total 2021 (budget + recent)	**645**	**1.5%**
Potenciar Trabajo	167	0.4%
Tarjeta Alimentar	145	0.3%
REPRO II	83	0.2%
Others	250	0.6%
Total 2020	**918**	**3.4%**
IFE 2020	263	1.0%
AETP 2020	227	0.8%
FOGAR/FONDEP	126	0.5%
Others	302	1.1%

Source: Econviews based on Congressional Budget Office and 20-may announcements

Primary Expenditures

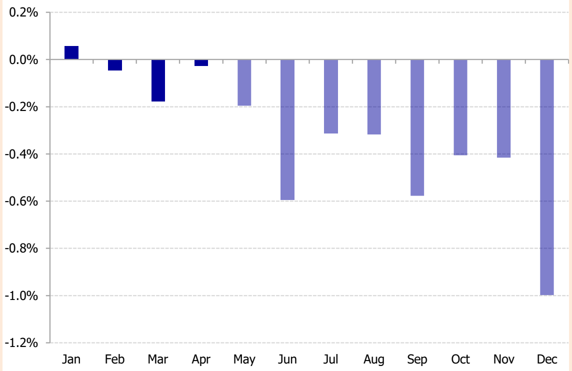
Yoy variation

	Jan-Apr 2021	Budget 2021	Difference in p.p.
Primary expenditures	**26.0%**	**19.5%**	**6.5**
Social security	29.0%	30.5%	-1.5
Economic subsidies	54.3%	38.3%	16.0
Operating expenditures	41.9%	37.8%	4.1
Capital expenditures	98.4%	89.8%	8.6
Others	11.8%	19.2%	-7.4
Primary Déficit (% GDP)	**-0.4%**	**-4.5%**	**410.2%**

Source: Econviews based on AFIP and Mecon

Primary result 2021

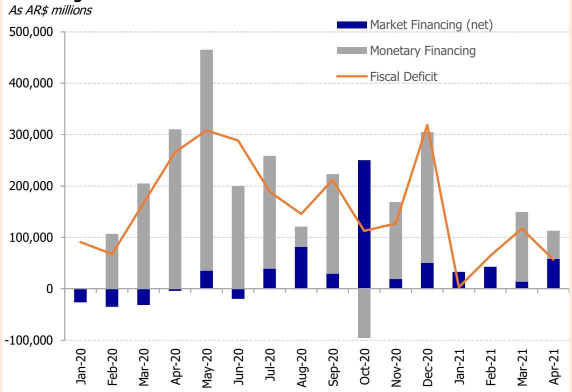
As % of GDP



Source: Econviews based on Mecon

Financing the Fiscal Deficit

As AR$ millions



Source: Econviews based on BCRA

Activity and Foreign Trade: Bad News and, Good News?

Two important economic results were released last week: the trade balance for April and the economic activity for March. On the one hand, **the trade balance showed a surplus of 1,470 million dollars**, the best result since July 2020. On the other hand, **economic activity surprised with a decrease of 0.2% compared to February**, when it had contracted 0.9%. **The releases seemed to provide some good and bad news. But what appears to be positive on the commercial side does not turn out so well in light of the evidence.**

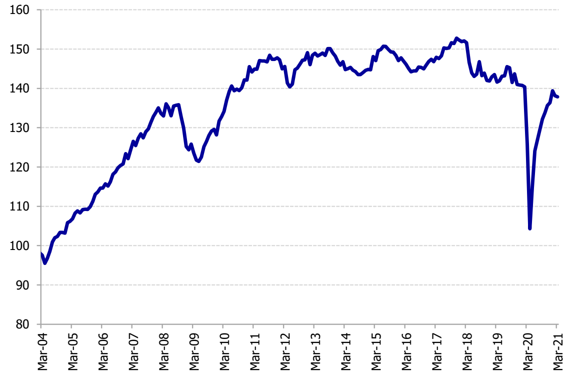
The economy took another misstep. Despite the fact that the expectation among economists pointed to a rebound between 0.8 and 1.1 in March, the economy contracted 0.2% and was 1.8% below the level of February 2020, before the beginning of the restrictions due to the pandemic. In the year-on-year comparison there was a jump of 11.4%, contaminated by a very low comparison base: in March 2020, which included 10 days of strict quarantine, the economy contracted by 11.1%. **Due to the base effect, April and May will register double-digit year-on-year growth, but the monthly dynamics tells another story. The first quarter closed with a growth of 2.3% without seasonality and we expect that in the second it will fall around 4%, a figure that would recover in the second semester, aided by the vaccination process. The statistical carryover effect continues above 7% because, among other things, the INDEC corrected the data for January and February upwards.**

Construction and Industry disappointed in March. The manufacturing IPI closed March with a mediocre rise of 0.7% that did not compensate for the fall of 1.5% in February, while the ISAC recorded another fall of 0.5% after the contraction of 3.7% the previous month. Better results were expected in both sectors, but despite the declines in the last two months, they remain at good levels. **Commercial activity showed ambiguous results.** The hotel and restaurant sector contracted 5.5% compared to February without seasonality (in our own seasonal adjustment), retail sales plummeted according to CAME but car sales increased 9.2% s.a.

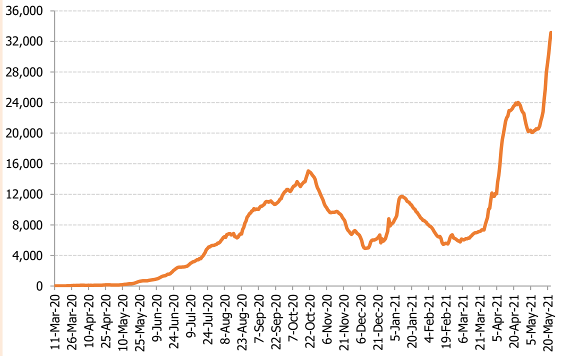
April was sluggish, May will be worse. Industrial activity could have contracted 2.9% s.a. in April according to estimates from the Ministry of Production, while cement shipments increased by 3.2%. Commercial activity, especially bars, restaurants, cinemas and theaters, received a new blow with the closure of shopping malls and the night curfew. **The government announced a strict lockdown for 9 days and the first weekend of June due to the takeoff of Covid-19 cases. This will be a coup de grace for some sectors that were in intensive care, and May points to be the worst month of the year in terms of activity.**

On the other side of the road, in April the trade balance registered a surplus of 1,470 million dollars, the highest value since July 2020**. But it is worth asking, is this result as good as it seems?**

Economic Activity
INDEC -EMAE, seasonally adjusted series 2004=100

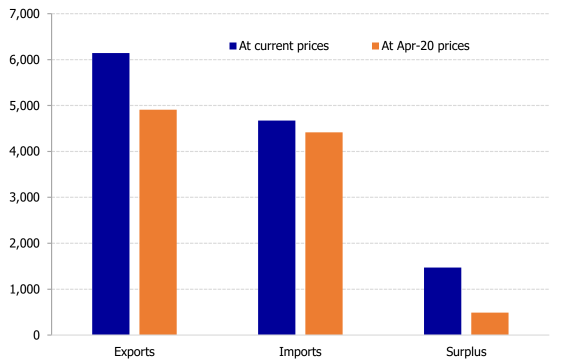


Covid-19 new daily cases - Argentina
7-day moving average



Source: Econviews based on Our World in Data

Exports and imports - April
In USD



Source: Econviews based on INDEC

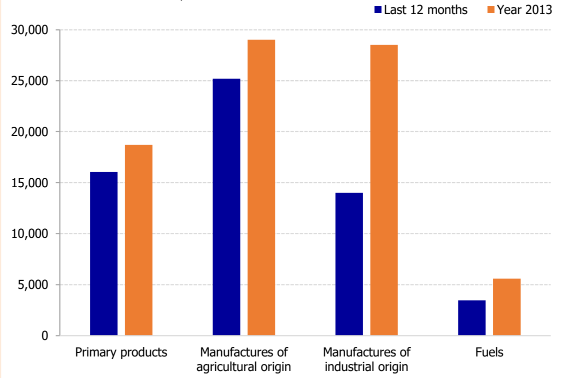
Exports reached 6,143 million dollars, the highest value for the month of April since 2014. Indeed, the high number is in itself good news because it implies a greater inflow of foreign currency (which does not necessarily coincide, since the trade balance is calculated on an accrual basis). In April 2020, the trade balance had reached a surplus of 1,455 million dollars, mainly explained by the collapse of imports in the hardest month of quarantine. If the prices of exports and imports had remained at the level of April 2020, **last month's trade balance would have reached a surplus of only 491 million. The difference is explained virtually entirely by the higher prices of exports: if the levels of a year ago were maintained, exports would be 20% lower in value. The blessing of exporting food.**

But the blessing of soybeans and other commodities is not enough. Agricultural exports in recent months reached USD 16,068 million and those of manufactures of agricultural origin another 25,201 million, totaling 41,269 million and together accounted for 70% of last year's exports. In 2013, with an international price of soybeans at the levels of recent months (although higher than the average of the last year), the combined of these two items reached 47,750 million. But total exports in 2013 were USD 75,964 million, while in the last year they totaled 58,745 million, that is, about 17,219 million less. The main factor that explains this difference is exports of industrial origin: while in 2013 they reached 28,510 million and represented 38% of the total, in the last year they added only 14,023 million and contributed only 24%.

"We need to export more, but we are going to close exports." **This contradictory message is the one that the government gave when announcing the temporary closure of beef exports to introduce new regulations on the market**, in view of the price increases that were registered in recent months. But the strategy of closing exports is wrong by any measure. In the first place, the closure of exports will have a direct impact of 250 million dollars, according to estimates by the FADA foundation. Second, if the objective is to moderate price increases, this measure in the medium and long term will go in the opposite direction. In 2006 it was decided to carry out the same experiment to try to lower local prices. The result: production plummeted, exports fell, and with less supply, prices rose. Nothing indicates that this time the failed experiment will work. And third, punishing a key sector in the second year of the pandemic and in the middle of negotiations with the IMF, only worsens the already weak investment climate.

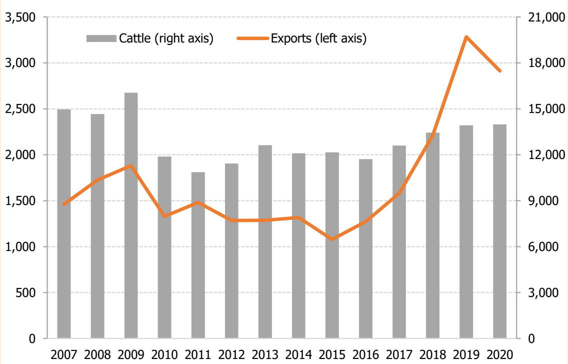
Imports and economic activity, two sides of the same coin. Imports recovered 52% in real terms from the floor to which they fell during the April 2020, the month in which the economy contracted 25.4%, the worst drop in Argentine history. Much of the upturn in imports was due to the recovery of Industry: 65% of imports in the last 12 months were concentrated in capital goods, intermediate goods and parts and accessories for capital goods, a value that rises to 78% for the last month. Precisely as the growth of economic activity and in particular of Industry implies importing more, restricting imports is restricting economic activity.

Exports by type
Accumulated 12 month - in USD, current values



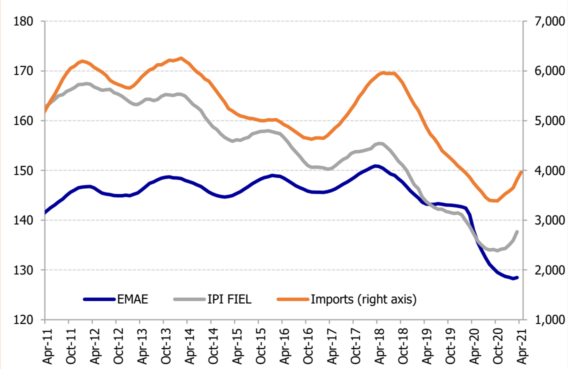
Source: Econviews based on INDEC

Beef exports and production
Thousands of cattle heads and exports in USD million



Source: Econviews based on MAgyP

Imports, economic activity and Industry
Seasonally adjusted series- moving average 12m

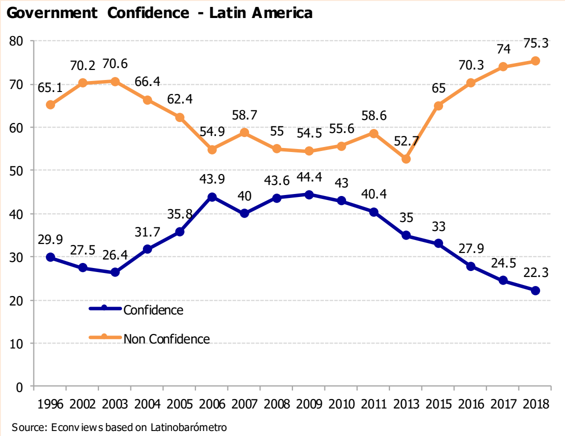


Source: Econviews based on INDEC and FIEL

The strategy of restricting imports to avoid an outflow of foreign currency may pay off in the short term, but in the long run it implies less activity and also less exports. In April, imports totaled USD 4,673 million, which implied a 9.7% drop compared to March. **Either the March tap was turned off or the economy fell again. Most likely it is a bit of both. The EMAE data for March left a statistical carryover for 2021 of 7.2%, but the falls that we expect for April and May will eat up part of it. We expect the year to close at 7%, although it will largely depend on the evolution of the pandemic.**

What Is Going on in Latin America?

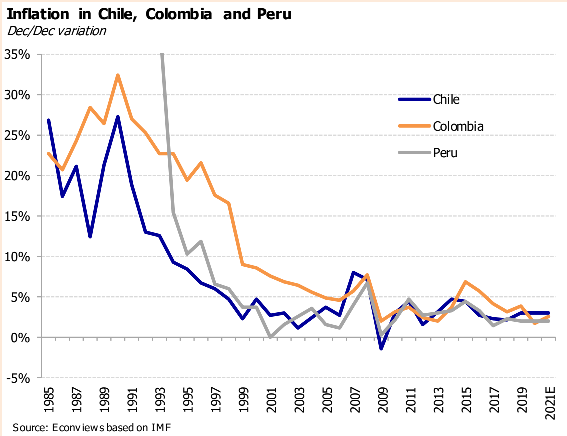
In recent weeks, problems have emerged in three of the economies that have best managed macroeconomic policy in the region for at least two decades. **Chile, Peru and Colombia**. Although in all three cases problems had appeared before, in Chile's case with the protests in October 2019, or in Peru with multiple ex-presidents impeached, imprisoned or having committed suicide, the point is that politics in those countries is in a state of upheaval. The question is what will happen going forward. The answers are probably not the same for all countries. **But for some time now, traditional parties have had a hard time winning, faced against multiplying "outsiders"** (Bolsonaro was the first in the region perhaps). And the pandemic further aggravated the situation. Latin America has suffered the worst by far, perhaps with the exception of Italy and Spain in the first months after the virus appeared.



The growing trend in Latin America is a deep sense of dissatisfaction with democracy, political parties and, above all, with the ruling elites. All this was manifested in the "anti-system" groups that are personified in the Peruvian candidate Pedro Castillo or in several of the parties that were present in the constitutional elections in Chile. And the reason for them goes beyond the economic or social achievements achieved in the last 20 years.

<u>**Good macro is essential, but not enough**</u>

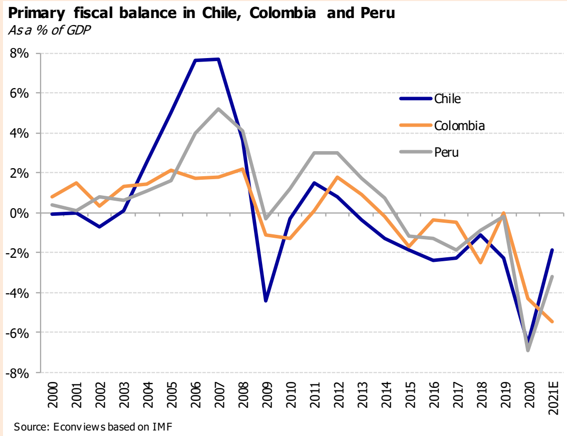
The concrete data shows that while Chile and Peru had some of the largest cycles of sustained per capita growth in the region, today they are at two crossroads. In Peru there will be a ballot between two candidates which, to varying degrees, threaten to break with economic stability. In Chile, traditional parties were brutally defeated in local and constituent elections, and while not all the pillars of the Chilean model seem to be at stake, there is a trend that tips the field for more populist measures that comes from the polls.



Colombia is a case apart. It has a culture of economic stability that was not altered even in the worst times of drug trafficking and the guerrillas. But today, **in the face of an attempt at tax reform, people took to the streets in the middle of the pandemic and very violent protests were generated**. Some

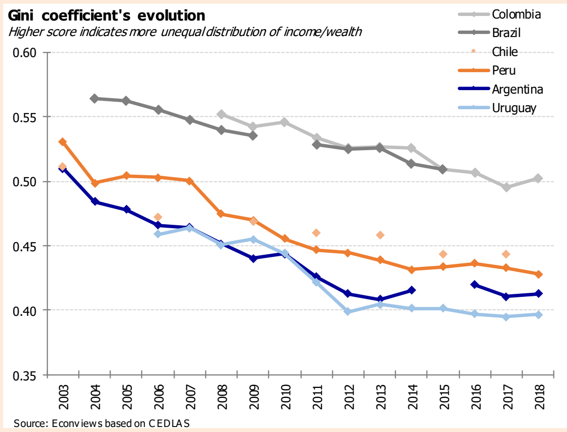
say that it is the hand of Venezuelan intelligence. While that option cannot be discarded, a single factor cannot explain phenomena that are happening in a deeper layer of society.

Before continuing, let's look at the numbers. **The economic data for these countries has been very good**. The GDP of 2021 (measured in PPP) would be 222% above the GDP of the year 2000 in Peru, 183% in Colombia and 168% in Chile. In the last 30 years the GDP measured in PPP grew 472% in Chile, 564% in Peru and 345% in Colombia. These numbers by far surpass those of the region’s bigger players, that is to say Brazil, Mexico and Argentina.



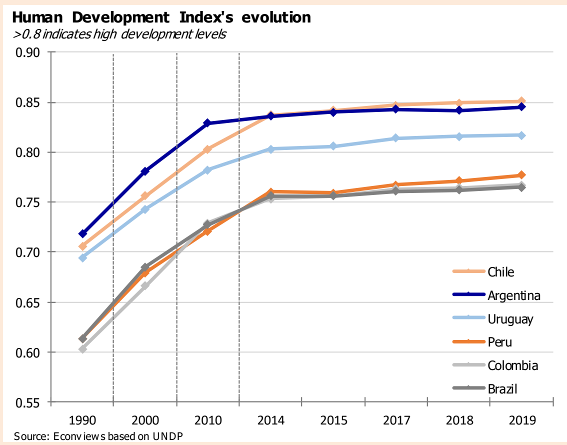
If we go to GDP per capita, the conclusions are similar. Of these three countries, the one with the worst performance was Colombia, which multiplied its income by 3 in 30 years, while Chile and Peru quadrupled it in the same period. Brazil and Mexico barely doubled it and Argentina tripled it, but only because the base is 1990, a very bad year for the country.

Inflation has not been a problem in any of these countries for a long time. In the last 25 years, inflation averaged 3.3% in Colombia, 3.5% in Chile and 6.5% in Peru. All three countries have independent Central Banks with great institutional stability. In Peru, for example, the head of the Central Bank survived a dozen presidents from different political backgrounds, such as Toledo, Humala, Garcia, PPK and the signatures continue. If the analysis were limited to 20 years, the average yearly inflation would be 2.6%, 3.1% and 4.5% respectively, which reflects that inflation rates are not only low, but are still falling.



The fiscal deficit is also not a problem, beyond the fact that logically in 2020 the Covid brought everyone into the red. In the last 20 years, the average was slight primary surplus in the accounts, before interest. Chile and Peru have investment grade and Colombia has just lost that distinction in S&P, although it retains the status in the other rating agencies. In any case, it is clear that fiscal performances have deteriorated in part due to the need for higher social expenditures.

It is often said that growth was very good, but that income distribution is the real problem. And clearly it is, although it has been improving. Both Chile and Peru and Colombia have a much more unequal distribution than Argentina and Uruguay. However, the first two have consistently reduced inequality. Peru's Gini coefficient, which was at 0.53 in 2003, is today at 0.43. In Chile the drop was from 0.51 to 0.44. And in Colombia the drop was from 0.55 to 0.5.



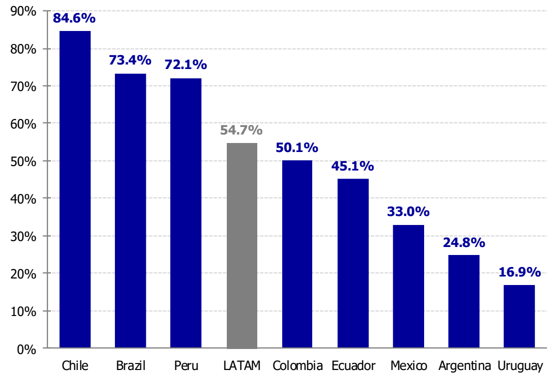
The Human Development Index, which captures quite well all those important issues that GDP does not capture, shows an interesting improvement. Chile is in 43rd place, having passed Argentina with a coefficient of 0.85 when in 1990 it was 0.7. Peru and Colombia are in positions 79 and 83, but they are the ones that have grown the most in the 30-year period, at a speed higher than 0.8% per year on average.

The improvement in some indicators was impressive in Chile and more modest in the other two. For example, in 1987 less than a third of Chileans had 12 or more years of education when today that number reaches two-thirds. In Colombia there are not so many statistics, but the results are poorer. They went from 14.5% in 2001 to only 26% in 2018. In Peru they went from 23 to 32% in 30 years, it does not seem like a great achievement. To have a reference, Argentina went from 30% in 1988 to 62% in 2019, that is, it was below Chile.

<u>Politics puts the tail</u>

The protests in Colombia and Chile are against conservative governments and that makes explaining the conflict, a priori, **easier from an ideological standpoint**. But this is a simplification. In her first government, Michel Bachelet had already faced harsh protests due to the *Transantiago* iniciative. This reveals that it is a more complex phenomenon than left or right. **Qualitative indicators already showed by 2018 that three out of every four Latin Americans were dissatisfied with the functioning of democracy**. The traditional parties do not know how to handle this problem well and the pandemic was in many cases the straw that broke the camel's back. This is a deeply rooted issue among young people and women in the middle and lower middle classes. Beyond indigenous participation in many countries, this is not a phenomenon that arises from a poverty issue.

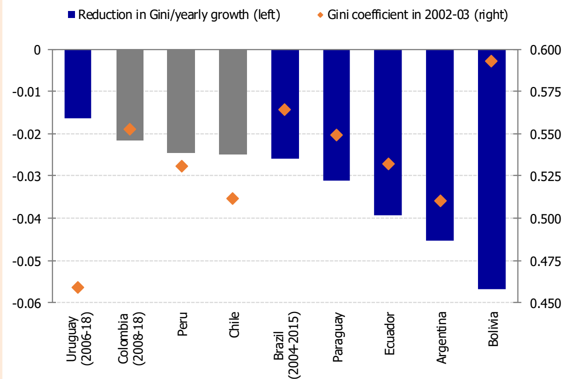
Private sector's weight in superior education
Private university students as % of total students, 2016



Source: Econviews based on Red Índices

The case of Chile with its impressive economic and social achievements is especially interesting. There is a gigantic number of people defined as the "first generation of university graduates", but despite this indicator of social advancement, they are not happy. Many of them were left with huge debts to pay for their studies and find that when they leave university the good jobs fall to the same patrician families. This is also a generalization and a simplification, but it is what motivates many to look for different alternatives. Traditionally, the left coalition in Chile was made up of the elites as well, and due to their ideological vocation, they did not know how to break with a very classist and top-down society. At the end of the day, left-leaning Michel Bachelet is the daughter of a general and Eduardo Frei of a president of the Nation.

2003-2018: Inequality in the boom years
Reduction in Gini coefficient/per capita yearly growth (PPP)



Source: Econviews based on CEDLAS and IMF

The partition of the old Chilean Concertation alliance had already left a place for independents to make a good election in 2018 and, **after President Piñera's poor handling of the crisis that resulted from rise in transport prices**, **the wave of discontent became impossible to stop**. The low level of pensions in the context of the supposed success of the pension fund model has already led to three early withdrawals, that is, people who cash out in the present savings that in theory were for the future, which reveals the society's impatience, exacerbated by the pandemic. Even so, **although Chile will open the Pandora's box that is rewriting its constitution**, the specialists point out that even among the most radical constituents an institutionalist tinge that goes beyond left and right predominates. And from there it follows that some of the sacred cows such as the independence of the Central Bank will not be slaughtered.

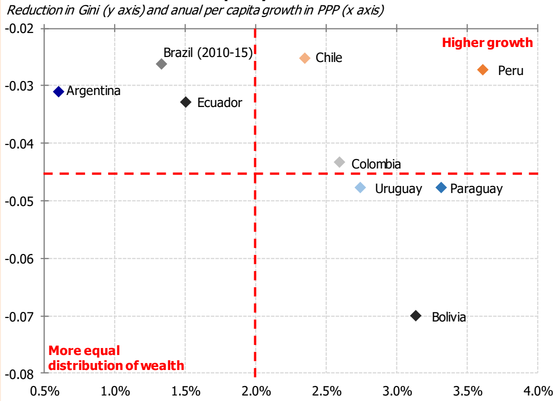
The Peruvian case shows why institutions go beyond having an independent Central Bank and being fiscally prudent. **Not having political parties is at the end of the day a major institutional deficit**. In the first round of this year's elections, blank votes came in second. Scandals devoured the popularity of relatively successful presidents such as Toledo (exiled to avoid extradition), García (committed suicide prior to his arrest), Humala (he was also imprisoned), Kuczynski (impeachment after being grazed by a splinter of the Lava Jato case) and even Keiko Fujimori herself, today the candidate closest to the status quo, also went through jail. Despite its economic successes, Peru failed to provide quality public goods and to make matters worse, its economy was destroyed by the pandemic with a fall of 12%.

In the case of Colombia, the revolt began with the tax reform proposed by President Ivan Duque, which the government itself decided to back down after wide disapproval, but this did not stop the protests from continuing. **Colombia is a society that despite its stability has always lived with very high unemployment rate and at some point relied excessively on oil to move to a new level of development**. There were no new discoveries, the price is no longer that of the commodity boom and forecasts had to be recalculated. Meanwhile, Colombian society claims for better quality of healthcare and more security. The dividends of having defeated the cartels and striking a peace deal with the guerrillas (with all its cracks and complications) seem to have already been diluted.

Will another commodity cycle be able to breathe new life into these countries? The feeling is that the model that we knew inexorably will undergo changes. Some sarcastically have pointed out that Argentina could be a local welfare state model, but because of its instability it does not appear to be the case. It is strange to think that there are people looking at Argentina as a model. **Beyond specific political issues and their eventual outcomes, these types of movements are rather logical in countries that had strong growth and created a new middle class.** Could a parallel be drawn with the 1890 Revolution in Argentina that led to the Saenz Peña Voting Rights Law of 1912? **Are they squabbles related to the famous "middle income trap?** It is difficult to know, but what we surely know is that good macroeconomics is essential to grow, **but after a certain level, more is needed than only good macroeconomics**.

2010-2018: Growth and inequality

Reduction in Gini (y axis) and anual per capita growth in PPP (x axis)



Source: Econviews based on CEDLAS and IMF