

THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

July 26th, 2021



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dancing the
election music

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Editorial: The Economy Dancing the election music

On the weekend the first stage of the primaries closed and therefore the candidates for the legislative elections in November are already outlined. The economy began to rebound in June and the data looks very different from the first half. In the absence of a "delta invasion", the level of activity could close the year between 2.5 and 3 points higher than the May level announced last Thursday, that is to say an interesting reactivation, although without much job creation. The economy will grow at least 7% this year. Inflation will remain high to close slightly below 50%, but the average for the second semester will be around 3% compared to 3.8% for the first semester, so there is an improvement there as well.

In terms of disposable income, the second semester will also be better. Real wages lost 6% in the first 5 months of 2021 against the same period of last year, but that fall will diminish over the months, that is to say that in real terms will recover something. A similar path fits for pensions. More economic activity, more disposable income and more vaccines make up the government's recipe to deal with a complicated midterm election. The image of the government and its main political leaders is from bad to down.

But beware that this improvement is neither guaranteed nor will it be robust. On the one hand, the drop in inflation through regulated products anchor is hitting some windmills. The healthcare system is creaking. The middle and lower middle class (the Argentine "swing voters") are sensitive to issues like these. The recovery may be anchored in higher public spending and some recovery of disposable income and from the supply side with less sanitary restrictions, but investment will not be a determining player. With 1,600 country risk points and a government poor in credibility and rich in distortions, we shouldn't expect much. And procrastination is not going to work because beyond the electoral result it will be necessary to continue at least two years.

The fiscal numbers were going to get worse anyway, but with elections it is a guarantee. The 3.5-point deficit of GDP before interest breaks down by half a point in the first semester and 3 points in the second. They were going to get worse due to seasonality itself, due to the dynamics of pensions expenditures and due to some extraordinary revenues, such as the solidarity contribution. But now the pressure to increase bonuses of the different social programs, public jobs, subsidies, and the effect of the income tax on workers will take their toll.

The second semester will also come with greater volatility. The dollars of the soybean exporters will be less and less and with a BCS that has been increasing the incentives to export are reduced. We see the Central Bank selling dollars both in the official spot market to maintain a devaluation rate of between 1 and 1.5% per month and also through the parallel market where it sells bonds in pesos and repurchases them in dollars. The informal market at election times becomes more unpredictable. And although it is considered small, it is not irrelevant to expectations.

The big question is whether in this scenario where the economy helps a little, but doesn't seduce anyone, the government will try to twist its institutional agenda. The logic would be to maintain the status quo and hope that the salary improvements pay some dividend, but that logic not always works in the peronist's world. The fight against the volatility of the dollar versus the improvement in income could be weathered with an agreement with the Monetary Fund that positively surprises the market. That would give an umbrella of credibility that could weaken currency skirmishes. It is unlikely to happen, and the agreement will only arrive in 2022. But it is an ace up its sleeve that the government could play.

LAST WEEK IN REVIEW

✓ The **construction cost increased 2% m/m in June and 62.4% y/y**. In regard to the components, there was an increase of 3.6% in materials, 1.4% in general expenses, and 0.6% in labor.

✓ In June, **the wholesale price index had a monthly rise of 3.1%**. In this way, the interannual variation reached 65.1% and so far this year the increase amounts to 29.8%. Domestic and imported products increased 3.2% and 2.5% respectively.

✓ The **basic food basket increased 3.6%** in June and 57.6% in year-on-year terms. For its part, the **total basic basket had a monthly increase of 3.2%** and 51.8% y/y. With these increases, a 4 members family needed ARS 28,414 to overcome the indigence line and ARS 66,488 to pass the poverty line.

✓ **Steel production grew 66% y/y in June and almost 3% compared to May s.a.** In the second quarter, production fell 0.5% against the first. However, the outlook for the sector is encouraging given the demand from the automotive, energy and agricultural machinery sectors.

✓ The **Treasury obtained financing for ARS 120 billion** in the second auction of the month.

✓ After more than a year of being in default, **the province of Buenos Aires announced an agreement with creditors** to restructure more than USD 7 billion of debt under foreign legislation.

NEXT WEEK'S HIGHLIGHTS

✓ Today the INDEC will publish the information of **supermarkets, wholesale distributors and shopping centers** for the month of May.

✓ On **Tuesday 27** the Central Bank will publish the **report on private external debt**.

✓ On **Wednesday 28** will be the **last bond auction of the month**. Between the previous auctions and the BCRA issuance, the Treasury arrives relaxed at the auction.

✓ On **Thursday 29**, the **banks report** will be published with information for May, including results and portfolio irregularity.

✓ The Universidad Di Tella will publish the **report on consumer confidence** for July.

✓ On **Friday 30**, the INDEC **salary index** for May will be published. Although the RIPE has already been published, the INDEC index includes informal employment.

✓ On **Friday 30**, the BCRA will publish the **monthly report on the exchange rate market**.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	96.4	0.2%	0.9%	34.2%	▲
Blue Chip Swap	167.1	0.6%	2.0%	45.4%	▲
CB reserves (USD million)	43,111	+180	+709	-238	▲
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.1%	-0.13 p.p.	-0.13 p.p.	+4.94 p.p.	▼
Merval (in ARS)	64,841	2.8%	-1.9%	33.9%	▲
Country Risk (spread in %)	1,582	-0.8%	3.3%	-28.8%	▼
Official exchange rate BRL/USD	5.20	1.7%	4.7%	-0.2%	▲
Soybean (USD/ton)	514.8	-3.7%	1.2%	54.6%	▼
Oil - Brent (USD/barrel)	75.3	-0.3%	-1.0%	69.8%	▼

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q	
Industrial production	May-21	-5.0%	-1.9%	-5.5%	●
Automobile production	Jun-21	22.8%	8.9%	21.8%	●
Steel production	Jun-21	2.8%	-0.5%	6.1%	●
Poultry production	May-21	-6.9%	5.5%	-8.5%	●
Dairy production	May-21	1.9%	-0.1%	1.7%	●
Beef production	Jun-21	13.1%	-3.2%	0.8%	●
Real Estate transactions (CABA)	May-21	-13.0%	9.3%	-16.6%	●
Flour Production	May-21	-2.5%	2.1%	-4.9%	●
Oil production	May-21	1.0%	4.1%	2.4%	●
Gas production	May-21	3.9%	1.0%	4.0%	●
Cement production	Jun-21	5.5%	3.7%	1.9%	●
Construction activity	May-21	-3.0%	-5.4%	-5.1%	●
Retail sales	Jun-21	5.0%	-6.4%	5.1%	●
Gas sales	May-21	-11.8%	1.6%	-12.5%	●
Motorcycle licenses	Jun-21	66.4%	11.9%	33.5%	●
Use of electricity	Jun-21	3.8%	7.4%	5.9%	●
Subway rides (CABA)	Jun-21	33.0%	5.7%	17.4%	●
Imports CIF	Jun-21	8.5%	9.9%	7.6%	●
Exports FOB	Jun-21	8.9%	4.7%	12.0%	●
Loans in ARS to private sector	Jun-21	0.5%	-6.8%	-2.5%	●
VAT-DGI Revenues	Jun-21	-2.7%	2.0%	-4.2%	●
Formal private jobs (SIPA)	Apr-21	1.0%	0.8%	1.0%	●
Formal private jobs (EIL)	May-21	-0.1%	0.3%	0.1%	●
Consumer confidence	Jun-21	-2.3%	-7.8%	-4.6%	●
Government confidence	Jun-21	-11.8%	-2.2%	-6.3%	●

Note: stoplight color depends on monthly variation

Is the Fiscal Adjustment Sustainable?

The "shortcut" that the government used to cut the pensions expenditures, together with the extraordinary revenues (solidarity contribution and export duties), allowed it to achieve a remarkable fiscal adjustment in the first semester. Nevertheless, this will change in the second part of the year, first because both effects were transitory and second because of the expenditures pressures that will come from the electoral needs. If we do an item-by-item analysis, there are some government expenditures that were effectively reduced but only for this year, pensions being the most remarkable example. In addition, many other ones are beginning to have an increasingly dizzying dynamic, such as social programs and subsidies. This suggests that, although the primary deficit in the first half of the year was the lowest in 8 years -in 2019 there was a primary surplus-, for the period that will be known as the post-pandemic era it will be necessary to think about how to finance a primary expenditure that, without the extraordinary revenues, today would be unmanageable.

Budget balance

Up to June 2021 - as % of GDP

	Accumulated	
	2020E	2019
Primary balance	-0.5%	-3.2%
Interests	0.7%	1.1%
Fiscal balance	-1.2%	-4.3%

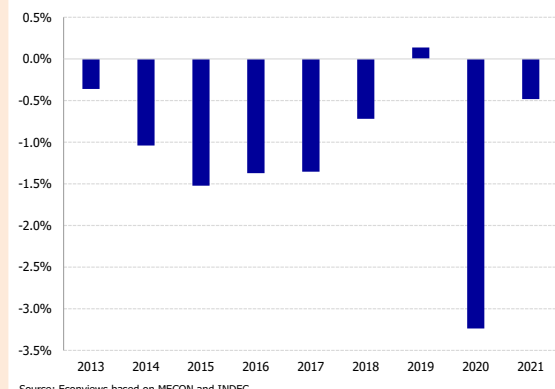
Source: Econviews based on MECON

Let us start by highlighting the pensions expenditures, which represents 45% of primary expenditure and which in the accumulated of the first semester of the year was, in real terms, 9% below 2020 and 19% below 2018 (the historical peak). This reduction was achieved through a discretionary mechanism of increases by decree, which were below the increases stipulated by the mobility formula that was suspended at the beginning of 2020. Although the extraordinary bonuses granted to the recipients of the minimum pension allowed them to have a greater increase, the bulk of the expenditures for this concept were reduced. In addition, with the reinstatement of the mobility formula used until the December 2017 reform in 2021, the government was able to reduce it a little more because of the formula's built-in lag, which takes the variations of the tax revenues and the wages of the previous quarter. Therefore, during years when inflation accelerates, pensions expenditures run behind prices.

This "shortcut" will be reversed as the months with the highest wages increases and highest tax revenues, the two variables on which the formula depends on, begin to enter in the accounting. The increase that is schedule in September will be calculated based on the variation from Mar-21 to Jun-21, which is the period in which the increases established at the beginning of the year began to be perceived. While the December's increase will be

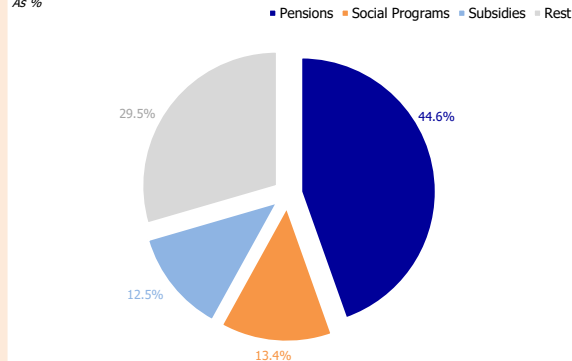
Primary result in the 1H of every year

As % of PBI



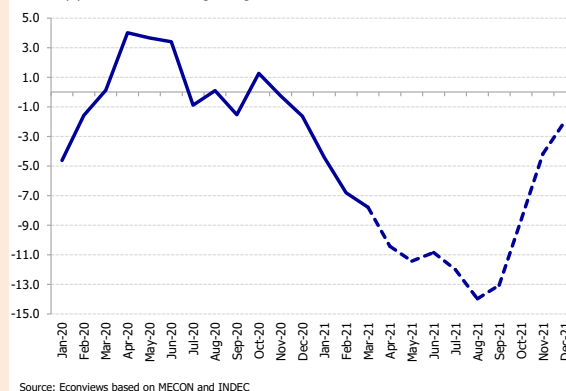
Primary expenditures composition

As %



Pensions Expenditures

Variation y/y in real terms - Moving average 3m



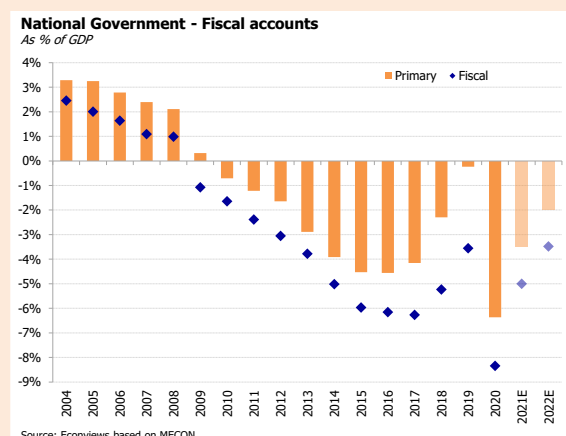
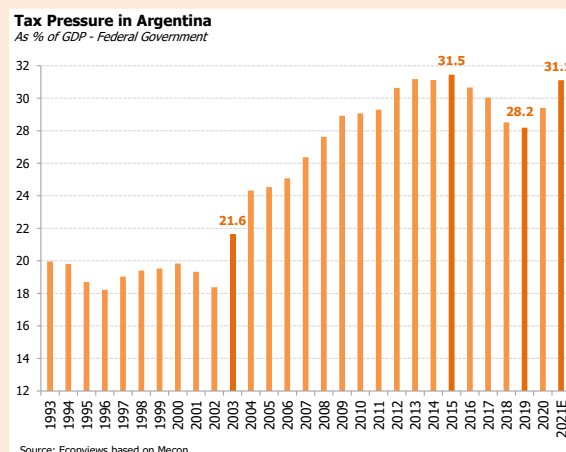
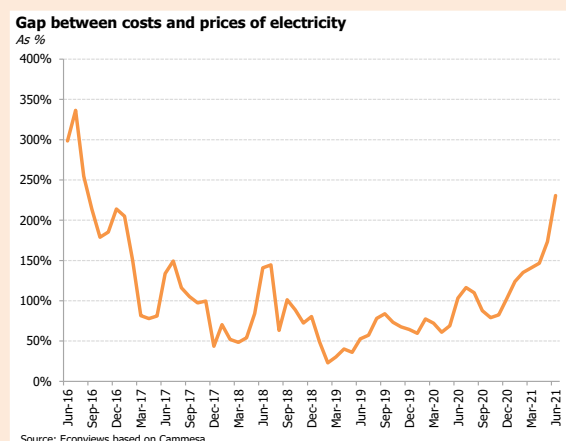
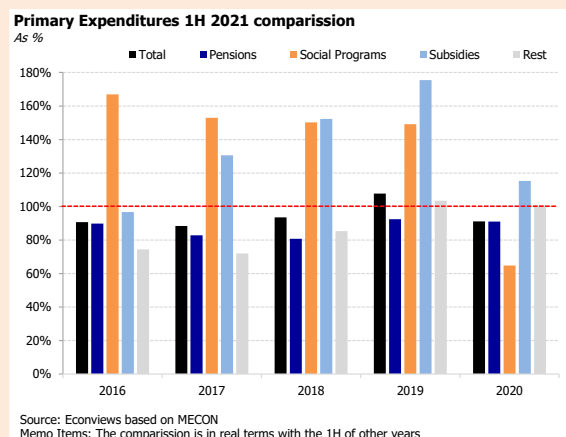
calculated based on the Jun-21 to Sep-21, period in which the results of the wage renegotiations will kick in. **In other words, for the last quarter of the year, pensions expenditures will be increasing at a significant rate. An inertia that will complicate the end of the 2021 in fiscal terms, but much more in 2022.**

While pensions expenditures are used as an anchor, social program expenditures are between 45 and 65% higher, in real terms, than in previous years. With a weight of almost 15% of the total, the expenditures on Universal Child Allowance program, on "Alimentar" Card (food stamps) program, on Work-aid program and on other social programs shows an accelerated growth. This dynamic is the reflection of a country that does not generate jobs and that has been stagnant in terms of growth since 2012. **It will be difficult for the current level of social expenditure to decrease until the government found a way to integrate those who are marginalized into the labor force.** And that will take time, even in the auspicious scenario of all the political wings' roadmaps, requiring a basic economic program in the medium term.

Subsidies are another of the items that, in real terms, are almost at the same level as in 2016, when they represented 3.5% of GDP. It is not surprising, after the consummate resistance of a part of the ruling party to not validate more than a single increase in gas and electricity bills. The gap between the cost of generation (which increased 83% y/y in June) and the price paid by the users (which rose just 13% y/y) is close to 250%, as in mid-2016, in the midst of the energetic reform that was happening at that time. Bottom-line: the latest version of the Gas plan is still very under-executed. **Thus, the intention that the disbursements in economic subsidies do not exceed the initial target of 2.5% of GDP (the same level as in 2020) is already impossible and will surely exceed 3% of GDP.**

The rest of the expenditures, which includes public wages, capital expenditure and transfers to universities and provinces, among others, remain contained. **But this is detrimental to the quality of the goods and services provided by our Welfare State.** Except that it is gaining ground in terms of efficiency, the competitiveness that is being lost also affects the global competitiveness of the economy. **Put in other terms, when we say that a high level of the real exchange rate is necessary to sustain a sustained growth process, we are considering that state capacities have been strongly diminished.**

In short, if one looks at the dynamics of expenditures considerations above described realizes that pensions expenditures will no longer be an anchor due to the lag in the formula. This, added to the absence of extraordinary revenues in the magnitude that were disposal in the first semester (almost AR\$ 400 billion between the "solidarity contribution" and export duties), **will cause a fiscal inertia that will put pressure on the sources of financing available. And with a tax pressure that will return to record levels this year, it is difficult to think that the private sector can finance the public sector even more and at the same time create jobs and attract investors.**



The expectations are that these problems will be put under the rug, as is to be expected in an election year, but in 2022 we will have to really find a genuine way to balance the budget. Will it be hand in hand with a program with the IMF? We hope so. We project that the primary deficit will be 3.5% of GDP (5% if we count the interests) for this year, after which there will be a need to bring the primary deficit to levels of 2% of GDP.

Activity: After the Storm, the Sun Rises

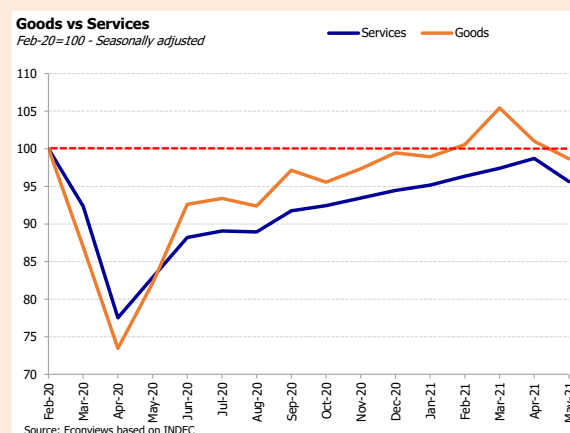
May was a very bad month for economic activity, as we had already announced. Activity fell 2.0% without seasonality, although we expected the drop to be somewhat greater, around 3%. In year-on-year terms, activity grew by 13.6%, below the 14.9% of our nowcast and the 16.2% of the market consensus. If the previous seasonal factors were maintained, this year-on-year variation would have implied a much greater monthly decline. In fact, **the past months were strongly revised**: the fall in February was reduced, March went from negative to positive (as we anticipated a few months ago), and the decline of 1.2% in April was reduced to just 0.3%. We expect further revisions in the coming months. **But the data that came out for June and some very preliminary data for July indicate that the storm has passed and, although we do not expect a boom, activity will gain ground in the coming months.**

In May, services fell more than goods, and moved away from pre-pandemic levels. In our seasonal adjustment (different from that of INDEC, which has more detailed information), activity fell 3.4%. Based on our calculations, the decline in the service sectors was 3.1% s.a. on average, against a 2.3% drop in goods. The strict quarantine of the last 9 days of May was a serious blow to commerce, hotels and restaurants and transport. Producers of goods were not spared either, with construction and industry posting some of the biggest monthly drops of the year.

Between January and May, activity averaged 9.5% above the same period of 2020 (which includes the most stringent quarantine months), but comparing with 2019, a recessive year, it was 4.3% below.

At the sectoral level, the industry and the public services sector were the ones that had the best performance in the comparison against January-May 2019 (2.4% and 2.5%, respectively). Construction had the best results compared to 2020, but this is mainly due to the activity stoppage in the first months of the pandemic.

On the other side of the road, hotels and restaurants are still in the doldrums: -16.1% against the accumulated of 2020 and -46.5% against the same period of 2019. Last year they had fallen 49.1%. **The increased flexibility in recent weeks and those to come will give the sector some oxygen, especially**



Evolution of the recovery

% accumulated variation (Jan-May)*

	Acum. vs 2020	Acum. vs 2019	2020
Agriculture and livestock	-1.1%	-9.9%	-6.5%
Fishing	3.6%	-12.2%	-20.9%
Mining	2.1%	-5.8%	-10.5%
Industry	22.1%	2.4%	-7.8%
Electricity, gas and water	1.8%	2.5%	1.4%
Construction	42.3%	-8.3%	-22.6%
Commerce and repair	17.9%	2.3%	-5.5%
Hotels and restaurants	-16.1%	-46.5%	-49.1%
Transport and communication	-1.2%	-13.8%	-17.0%
Banking	2.9%	-3.4%	-0.9%
Real estate, corporate and rental activities	9.2%	0.8%	-5.7%
Public administration	0.3%	-4.1%	-7.2%
Education	0.3%	-3.5%	-4.7%
Health	6.2%	-7.1%	-9.6%
Other social services	16.0%	-21.2%	-38.4%
Taxes net of subsidies	11.7%	-2.4%	-9.8%
Services	6.7%	-5.1%	-10.1%
Goods	13.4%	-3.5%	-9.4%
EMAE	9.5%	-4.3%	-9.9%

*% variation vs same period in 2020 and 2019, plus total variation year 2020

Source: Econviews based on INDEC

restaurants, although after 17 months of restrictions many have ceased to exist.

Of special relevance is the agricultural sector, the third most important in the Argentine economy (behind industry and commerce). **Despite the boom in agricultural prices, quantities fell so far this year:** the item "Agriculture, livestock, hunting and forestry", which is measured in quantities, fell 1.1% against the accumulated of 2020 and 9.9% against 2019. And the restrictions on meat exports will deepen the decline. In fact, in June exports of primary products grew 31.9% YoY measured in prices but fell 10% in quantities.

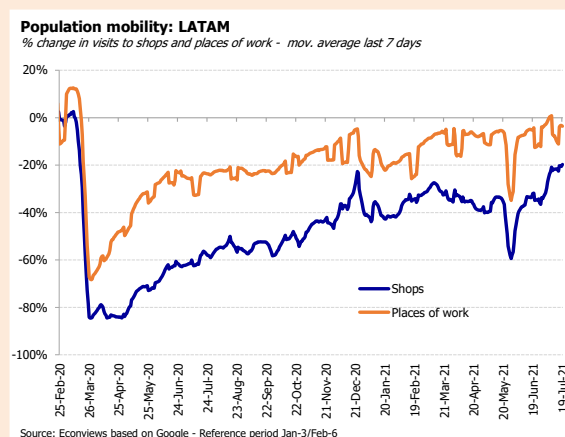
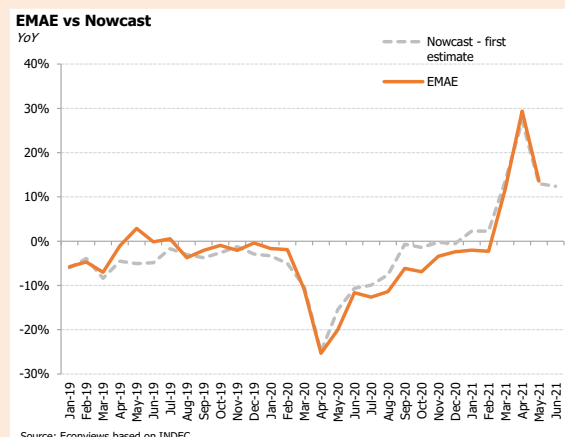
The good news is that the indicators that came out for June turned green. Let's start with some indicators related to industry and construction. Steel production rebounded 11.1% monthly s.a. after having fallen 12.1% in May, favored by higher demand for the manufacture of agricultural machinery, and from the construction and automotive sectors, according to the Chamber of Steel. For its part, automotive production, a leading indicator of the industry, jumped an impressive 22.8% monthly s.a. In addition, cement shipments recovered 5.5% after falling 6.9% a month ago. **With the jump in the FX spread with the parallel dollar, construction costs measured in dollars are getting cheaper again and supply stores are already reporting shortages given the increase of demand.** We expect good numbers for the sector in the coming months.

Sales, in the context of greater openness, were also mostly up. Retail sales recovered 5.0% after plunging 11.1% in May. Motorcycle registrations, which also fell in May, soared 66.4% in June. On the other hand, car sales were even 1.6% below May, when they had already fallen 13.1%.

Using the available indicators of production, sales and tax collection for the month of June, in a preliminary estimate our nowcast exercise points to a 12.4% year-on-year variation of the EMAE. A year ago, the fall had been 11.6%, which implies a net fall of only 0.7%. In April this result had been -3.4%, which indicates a substantial improvement in June. In our baseline scenario, June would have advanced 1.5% compared to May, although these numbers are subject to revisions in the coming weeks, as other June indicators are published.

And July will most likely be positive. The real-time mobility data provided by Google, with just a few days of lag, yielded two very positive results in the last week. First, **mobility to shops and places of recreation reached the highest level since the pandemic began**, even surpassing the peaks of December. Although it still has ground to recover, since it is 20% below a period of relative normality.

On the other hand, mobility to workplaces is also at the highest levels since February 2020. People are beginning to gradually return to work in person and with this there will be a reactivation of shops and means of transport. However, mobility has not yet returned to a period of "normality", though the graph on the right may indicate that. This is due to the fact that the reference period against which it is compared covers the weeks of January and February, which in Argentina are typically when many workers take their



vacations, so the indicator should be above zero for a full recovery. Changes in work patterns are likely to have some long-term impact: in some sectors a hybrid form of work is expected, with some face-to-face days and others at a distance.

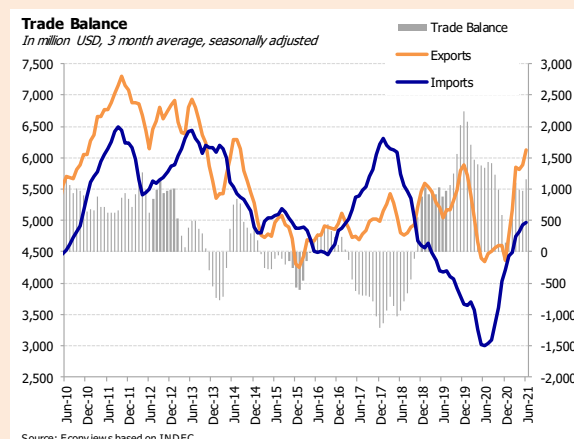
In this context, for now we maintain our projection of 7% growth for 2021, but it would not be far-fetched that it be higher. The arrival of the Delta variant poses some uncertainty, because it could affect the recovery in the coming months, but given the acceleration of vaccination in recent weeks, we do not expect that restrictions will be put back. At least not like last May.

All That Glitters Is Not Gold

The trade surplus for the first half of the year reached US \$ 6.74 billion and we expect that in all of 2021 that number will approach US \$ 13 billion, the highest in two decades. But those numbers are not as good as they appear on the surface. In the first place, the price effect is largely responsible for this level. According to INDEC's own accounts, if prices were the same as last year, the surplus would have been testimonial: only US \$ 2.5 billion. The second reason is that while no one has precise numbers, one would think that there are at least \$ 3 billion of blocked imports. A very conservative number considering the shortages of numerous products, from auto parts and other products to tennis shoes and balls. At this point last year, the trade surplus was US \$ 8.31 billion, although the magnitude of the recession at that time makes the comparison not very useful.

June numbers were especially good. There was a jump in exports of 8.9% m / m seasonally adjusted and an improvement of 8.5% in imports. And May had already shown good growth compared to April. All this rounded off a surplus of \$ 1,067 million, less than that of 2020, but in line with that of 2019 (although prices were lower then). But in any case, the fact that exports and imports continue to rise is good news.

What happened in the first semester in trade? In year-on-year terms, exports increased 28.3% and imports 46.6% measured in dollars. In volume the story was another. Exports only grew 4.7% while imports 36.9%. In quantities, the exports that grew the most were industrial with 33.6%, then that of manufactures of agricultural origin (+ 14.6%), but exports of primary products fell by 16% and energy by 28.3%. Among imports, the item that increased the most was "fuels" (+ 61.6%) followed by "parts and accessories for capital goods" (+ 59.7%). Imports rose in the six subgroups, with consumer goods growing the least with 11.7%, measured in quantities. The trick of the surplus was that export prices grew on average 22.4%. while import prices did so by 8.6%. Terms of trade showing that if you can't play well, at least you have to be lucky.



Variations in value, price and volume

Main categories, June 2021

	Value	Price	Volume
Exports	45.8%	32.0%	10.6%
Primary products	18.6%	31.9%	-10.0%
Agricultural manufactures	39.9%	36.5%	2.6%
Industrial manufactures	116.2%	18.6%	83.7%
Fuels and energy	35.2%	101.6%	-29.5%
Imports	79.1%	22.0%	47.7%
Capital goods	62.0%	12.9%	44.6%
Intermediate goods	78.0%	35.5%	32.7%
Fuels	210.6%	34.5%	134.7%
Accessories for capital goods	107.6%	4.3%	98.8%
Consumption goods	14.3%	6.8%	7.5%
Passenger vehicles	45.9%	12.1%	30.8%

Source: Econviews based on INDEC

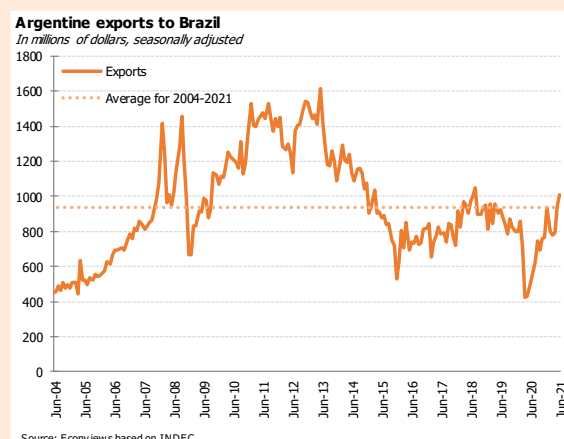
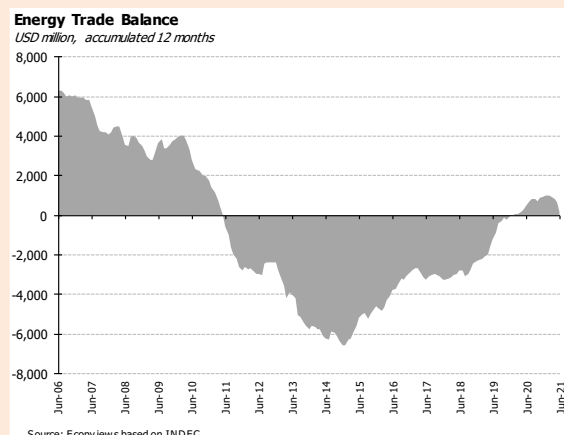
In any case, the luck effect has been fading due to gas and soybean imports. If you look at June only, the increase in export prices is 32% y/y, but that of imports rises to 22%, since energy import prices grew 34% and those of intermediate goods 35%. It must be considered that Argentina is a strong importer of soybeans from Paraguay and to a lesser extent Bolivia and Brazil. Soybeans are crushed in the country and then re-exported.

The pluses and minuses. Soybean meal and oil performed very well in this first semester among food exports. The ugly duckling was the export of beef, which fell 17% y/y in June and 2.7% in the first half because of the restrictions imposed by the government. Primary product exports declined and if they did not fall in dollar terms, it was only because of the price effect. Among the purely industrial products, the chemical complex stood out, which went from exporting 1,400 to 2,100 million dollars. There was also a good rise in the automotive sector that went from 1,500 to 2,750 million. Gold exports became important again with more than 1,000 million sold.

We once again had an energy deficit, despite the fact that oil and gas production has been rising. The energy trade account is one of the variables that best reflects the Argentine pendulum. In the winter of 2006, Argentina registered a surplus of more than US \$ 6.3 billion in energy (last 12 months). In May 2014, it reached a deficit of US \$ 7.4 billion, that is, a swing of 14 billion dollars. Between Vaca Muerta, prices and recessions, that account was turned around with macroeconomic impact and in recent history a surplus of US \$ 625 million was reached this February. In June, the deficit was US \$ 427 million, returning Argentina to the red after a full year of surplus. For now, it is only 100 million dollars, but there are several months of winter left. That account will show a red of between 500 and 1,000 million and if it is not a higher number it is because the Argentine production of oil (and to a lesser extent of gas) has been growing.

Looking ahead there are several factors to consider. Some will play in favor of the trade surplus, others against it.

- ✓ **Brazil is a party.** Hemingway does not say it, but the Brazilian economy has been lifting and the latest survey conducted by the Central Bank of that country foresees a growth of 5.27% for this year, which implies reversing all the loss of 2020 and more. Brazil's imports have been rising strongly and Argentina is not being left out of the Brazilian samba, beyond the commercial and political skirmishes.
- ✓ **Where are the dollars?** The shortage of dollars (at the price the policy feels comfortable with) is going to make import authorizations a constant round trip. With 1,600 country risk points, the parent companies are not comfortable financing subsidiaries so that, if imports are not paid, their amounts will decrease. We expect that constant “on and off” model in these months. The authorizing machine cannot save much because that would slow down the economy, which is not consistent with what political scientist Ignacio Labaqui calls “election targeting”.



- ✓ **The spread between market and official dollars.** The gap has been increasing and that is one of the strongest disincentives to export. The BCRA's strategy of deepening the stocks does not seem to have worked. If this issue is not resolved, in the margin it will hit exports.
- ✓ **Stronger peso.** It is not gigantic, but as we have been arguing, there is a decline in exchange rate competitiveness. That does not change the board, but at the margin, it also plays against exports.
- ✓ **Administrative measures.** Some decisions such as restrictions on meat exports play a role in total exports. Although there do not seem to be new measures under study, the need to control some critical prices leads us to be vigilant. In the same way, the government is making room for anti-dumping measures that work against some imports.
- ✓ **The wheat harvest.** Impacts on December exports. The impression is that it is going to be a good harvest so that there could be a rebound in external sales around the end of the year, although experts point out that there is a risk of "Niña".

In a nutshell, the trade surplus will continue to be generous, but the numbers are misleading due to the rise in prices of many of the export products. In any case, looking towards 2022 we can foresee a new jump in exports and imports since the harvest should be better than this year and on the import side, the normalization of activities will require more inputs, more final goods. It remains to see the impact of a more depreciated exchange rate in 2022 (our base scenario), which on the one hand should discourage certain imports, but on the other we hope that the program with the IMF will also aim to loosen the hold on the current account, so the net effect is not entirely clear.

What we do know is that a normalization of the economy requires more imports. Even with the comeback of 2021, Argentina imports per capita around 30% less than 10% years ago (without energy). Net of any currency effect, it could be 20% or 25%. It is not logical that a country with a 10-12% drop in GDP per capita will import 25% less when world trade grows.

Main exports

In millions of dollars, June 2021

	Value	Y/y var.	% of total
Soybean pellets and flour	1,117	34.5%	16.0%
Corn	958	35.6%	13.7%
Soybean oil	674	67.6%	9.7%
Automobiles for transporting goods	297	128.5%	4.3%
Soybeans	273	-39.8%	3.9%

Source: Econviews based on INDEC

Main imports

In millions of dollars, June 2021

	Value	Y/y var.	% of total
Soybeans	338	64.7%	5.7%
Diesel oil	298	838.6%	5.0%
Liquefied natural gas	240	225.9%	4.1%

Source: Econviews based on INDEC