

THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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the **Budget**

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Editorial: Waiting for the Budget

On September 15, 3 days after the primary elections, Congress will receive from Martín Guzmán the budget bill for 2022. Although the budget has not traditionally had the importance in Argentina that it usually has in other democracies thanks to different factors such as the use of "special powers" to change spending allocations, special decrees, and out-of-the-range macro estimates, we believe that this year the budget numbers will have a greater relevance than usual.

The main reason is that it is difficult for the program with the International Monetary Fund to deviate much from what the budget says without falling into serious inconsistencies. In fact, both the agreement with the IMF and the budget will have to go through Congress in a time window that may not reach 3 months. This is not to say that there is then no room for a decree of necessity and urgency here and there that moves some chips, but the room for maneuver for out-of-range estimates is reduced.

In 2021 the budget had an implicit inflation of 29% that had no chance of being fulfilled in almost any scenario and that caused the projections of income and expenses to be out of focus already in the first months of the year. We will see if this year comes with more realistic numbers. So far, some numbers that have been leaked seem to be heading in the right direction. A 4% growth, an exchange rate increase of more than 50% and a tariff unfreeze. We do not know if they will be the final numbers, but our numbers, although they differ, do not place it that far out of range. In our opinion, the devaluation will be a little higher, with one dollar reaching almost 170 pesos by December 2022.

In terms of growth, our figures are less ambitious. We place it at 2.5%, although there is an optimistic scenario where it is close to 4%. This requires rains for harvest and credibility. The agreement with the IMF grants a floor for the second and if the government decides to show that it can recreate certain investment appetite, it will shoulder the reforms to negotiate with Washington, the 4% growth estimate may eventually happen. Obviously, we don't assign it a high probability of occurrence, but the forecast is less delusional than 29% inflation.

Something else to watch regarding the need for the macro scenario of the budget and the one to be negotiated with the Fund is that fiscal paths coincide. The primary deficit for 2022 should be relatively agreed with the IMF, since it implies assuming a level of monetary financing that is relevant for the configuration of the exchange and monetary policy adopted within the framework of the agreement. They are the most "gruesome" details to our understanding.

In short, for a country whose biggest deficit is neither the fiscal nor the external but the confidence deficit, sending the budget to Congress is an opportunity. It is also for the Minister of Economy who suffers the wear and tear of the job, the internal disagreements of the government coalition and the rumors that point to his replacement with figures that come either from the Massa camp or from the governor of the Province of Buenos Aires's camp. By having to explain the assumptions and lead the negotiations with the IMF, Martín Guzmán can return to the center of the stage. We will also see if he can jump beyond the controversy of who borrowed more, a political trap that was generated last week, and approach 2022 with a more technical profile.

LAST WEEK IN REVIEW

✓ In August, **tax revenues grew 64.2% compared to a year ago**. Revenues by Income Tax and VAT increased 63.9% and 75.9% respectively. On the other hand, Export Duties increased by 131.9%. The only tax that fell in year-on-year terms was the P.A.I.S. (on dollar purchases) with a decrease of 60.2%.

✓ **Vehicle patents rose 1.8% in August, reaching 31,167 units**. This number is explained by a rise of 1.6% in cars and 37.1% in heavy commercials, combined with a fall of 2.3% in light commercials. Regarding the models, the most patented was the Fiat Cronos, followed by the Toyota Hilux and the Volkswagen Gol.

✓ As a result of a fewer level of currency settlement and greater import needs, last week **the Central Bank sold more than USD 500 million** in the market.

✓ **The country risk pierced the floor of 1,500 points and at the end of the week, it stood at 1,491 bp**. This represents a drop of just over 100 points from a month ago.

✓ According to the AFCP, **1,096,564 tons of cement were shipped in August, which implies a year-on-year increase of 18.8%**. Compared to the previous month, it fell 3% s.a.

✓ The Bureau of Labor Statistics reported that **235,000 non-rural private jobs were created in August in the US**, well below the nearly 750,000 expected. The impact of the Delta variant affected the recreation and tourism sector. Although unemployment fell to 5.2%, its lowest level since the pandemic began, **the data cast doubt on the possibility that the Fed will reduce its pace of asset purchases, something that was taken for sure a few weeks ago**.

NEXT WEEK'S HIGHLIGHTS

✓ On **Tuesday 7**, INDEC will publish **data on manufacturing activity** for July. We expect a weak level compared to June.

✓ On **Tuesday 7** the **figures for construction activity** will be published. We expect data similar to June in seasonally adjusted terms.

✓ On **Tuesday 7**, the **Chinese foreign trade data** will be published.

✓ On **Thursday 9** there will be held the **first bond auction** of September.

Market dashboard

Weekly, monthly and yearly variations

| | Last data | w/w | m/m | y/y | |
|--------------------------------|-----------|--------|------------|------------|---|
| Official exchange rate ARS/USD | 98.0 | 0.2% | 1.1% | 31.6% | ▲ |
| Blue Chip Swap | 170.7 | 0.4% | 0.1% | 32.4% | ▲ |
| CB reserves (USD million) | 46,033 | -166 | +3530 | +3420 | ▼ |
| Policy rate (Leliq) | 38.0% | 0 p.p. | 0 p.p. | 0 p.p. | ▬ |
| Badlar rate (private banks) | 34.1% | 0 p.p. | -0.06 p.p. | +4.13 p.p. | ▬ |
| Merval (in ARS) | 76,003 | -0.4% | 15.4% | 68.6% | ▼ |
| Country Risk (spread in %) | 1,487 | -1.5% | -5.5% | -29.8% | ▼ |
| Official exchange rate BRL/USD | 5.17 | -0.3% | -1.1% | -2.5% | ▼ |
| Soybean (USD/ton) | 471.4 | -5.6% | -7.8% | 32.4% | ▼ |
| Oil - Brent (USD/barrel) | 73.4 | 0.8% | 1.2% | 80.3% | ▲ |

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

| | | m/m | q/q | LD vs previous Q | |
|---------------------------------|--------|--------|-------|------------------|---|
| Industrial production | Jun-21 | 10.5% | -0.7% | 6.0% | ● |
| Automobile production | Aug-21 | -10.5% | 6.9% | -13.5% | ● |
| Steel production | Jul-21 | -0.7% | 7.3% | 5.2% | ● |
| Poultry production | Jul-21 | -5.5% | -4.9% | -2.2% | ● |
| Dairy production | Jul-21 | -0.2% | 1.7% | 0.4% | ● |
| Beef production | Jul-21 | -4.2% | -9.0% | -1.6% | ● |
| Real Estate transactions (CABA) | Jul-21 | -8.8% | 1.3% | 2.0% | ● |
| Flour Production | Jul-21 | -0.5% | -0.5% | 1.7% | ● |
| Oil production | Jul-21 | 0.7% | 3.5% | 1.8% | ● |
| Gas production | Jul-21 | 1.2% | 5.3% | 3.6% | ● |
| Cement production | Aug-21 | -3.0% | -0.2% | -2.0% | ● |
| Construction activity | Jun-21 | 6.8% | -4.4% | 3.7% | ● |
| Retail sales | Jul-21 | 6.9% | -3.4% | 6.6% | ● |
| Gas sales | Jul-21 | 6.5% | -4.3% | 9.1% | ● |
| Motorcycle licenses | Aug-21 | -3.1% | 20.7% | 4.5% | ● |
| Use of electricity | Aug-21 | -3.0% | -1.5% | -5.4% | ● |
| Subway rides (CABA) | Jun-21 | 33.0% | 5.7% | 17.4% | ● |
| Imports CIF | Jul-21 | -2.7% | 6.2% | 4.0% | ● |
| Exports FOB | Jul-21 | 1.7% | 4.7% | 11.1% | ● |
| Loans in ARS to private sector | Jul-21 | -0.3% | -6.7% | -2.3% | ● |
| VAT-DGI Revenues | Aug-21 | -0.1% | -1.1% | 2.4% | ● |
| Formal private jobs (SIPA) | Jun-21 | 0.1% | 1.0% | 0.3% | ● |
| Formal private jobs (EIL) | Jul-21 | 0.0% | 0.0% | -0.1% | ● |
| Consumer confidence | Aug-21 | 5.0% | 3.0% | 10.5% | ● |
| Government confidence | Aug-21 | 9.0% | -3.5% | 4.1% | ● |

Note: stoplight color depends on monthly variation

How Many Dollars Are Left?

Reserves rose to USD 46.2 billion after the IMF's USD 4.319 billion entered at the end of August. The figure may give a feeling of some sufficiency, but the situation is far from comfortable. A good part of the money that arrived in August will go to the IMF in September and December. And in our estimates, half of the reserves that the BCRA managed to acquire will be lost during the last months of the year.

Looking at the numbers in detail, it can be seen that until August 27, the BCRA bought USD 7,368 million in the market, of which it kept 6.812 million, but if we discount the gift from heaven that came in the form of Special Drawing Rights (SDR), the BCRA was left with about 2,500 million. The difference was in the reserves that it sold to the State, payments to international lending organizations of both capital and interest and the famous item "others" that hides the interventions in the blue-chip-swap market, which in addition to other movements amounted to over USD 1,900 million. If you look at the exchange balance published in July, you can see that that number was USD 3.1 billion, but August posted a deficit because there were interest payments to the IMF and the item "others" was used fluidly, although not as much as in July. In other words, the BCRA, despite the battery of regulations, continues to be the selling part in the blue-chip-swap market.

Our estimate is that between September and December the Central Bank will leave an additional 900 million dollars on the road. From the technical point of view, it can be said that the Current Account surplus should decrease due to a seasonal factor and because little by little the services item begins to rise. And the Financial Account will continue in deficit with more intervention in the BCS (although less than in July and August), a certain return of hoarding (formation of external assets in economic jargon, capital flight in political jargon), negative net flow of loans (private debt reduction), but all this will be tempered by a slight positive flow from international organizations that in the first months of the year charged much more than they brought.

That is to say that we will arrive at the end of the year panting, with the issue of reserves. For this reason, the BCRA seems to have given loosen (just) a bit of grip on the dollar, as it went to have an annualized devaluation of 12 to 18%. With the elections ahead we do not believe that there will be much more loosening, but it will hardly return to 12%. The real appreciation so far this year reached 10.6% in multilateral terms. In August in particular, we became more expensive against Chile and Brazil, less against the United States. But given that we will arrive at the elections with an appreciation of around 15%, it seems frankly difficult to think that there will be no real devaluation in 2022.

That depreciation is important because it can be one of the factors that reduces the FX spread. Today the BCS rate is 2.73 times higher than the "soybean" exchange rate. In 2015 that relationship scratched the 2.3. That is to say, in relative terms the producer is worse off, but this must also be relativized because the official exchange rate is more competitive than in 2015 and international prices are also better.

Balance of Payments

In million USD

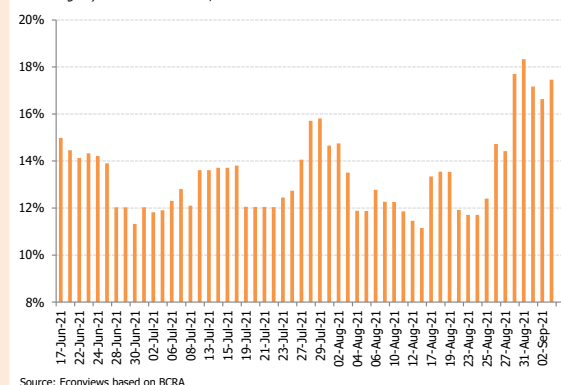
| | Jan-Jul | Aug-Dec | 2021F | 2022F |
|--------------------------|---------------|---------------|---------------|--------------|
| Current Account | 7,716 | 532 | 8,248 | 4,775 |
| Balance of Goods | 12,039 | 3,824 | 15,863 | 14,400 |
| Exports of Goods | 45,018 | 27,548 | 72,566 | 76,200 |
| Imports of Goods | 32,978 | 23,725 | 56,703 | 61,800 |
| Balance of services | -1,445 | -1,305 | -2,750 | -4,200 |
| Interests | -2,862 | -2,038 | -4,900 | -5,200 |
| Profits | -16 | -29 | -45 | -350 |
| Financial Account | -4,651 | -1,564 | -6,215 | -700 |
| Foreign Investment | 420 | 330 | 750 | 1,200 |
| Portfolio | 7 | 3 | 10 | 250 |
| Net Loans | -2,983 | -1,017 | -4,000 | -1,350 |
| Multilaterals | -1,088 | 363 | -725 | 1,000 |
| Hoarding | 632 | -1,032 | -400 | -1,800 |
| Others | -1,639 | -211 | -1,850 | 0 |
| Reserves Purchases | 3,065 | -1,032 | 2,033 | 4,075 |

Memo Items: The main items are shown

Source: Econviews based on BCRA

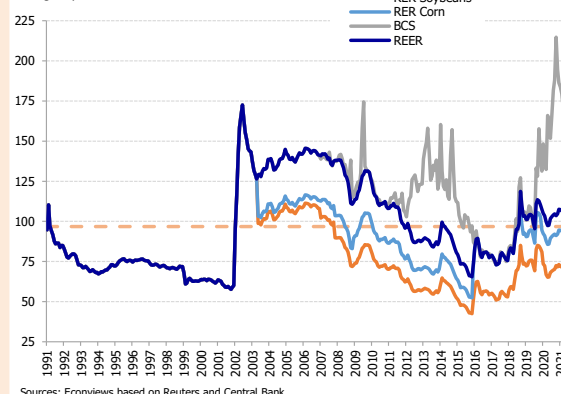
Exchange rate variation

5-working day annualized variation, official FX raate



Real effective exchange rate

At Aug-21 prices



For this reason, we expect that the BCRA can buy at least USD 4,000 million next year. We expect the trade surplus to be high even with some restrictions on fewer imports, a services account that will become more in deficit given the higher volume of the travel account, although it will be far from the deficits of the sweet silver times. If the IMF forces a certain loosening of the stocks, some accounts such as net loans will no longer be so deficit next year in the capital account. A program with the IMF should soften the hearts of the other multilateral organizations so that Argentina could be in a position to meet the reserve objective set by the IMF. Obviously, the issue of La Niña and its impact on the supply of raw materials remains to be seen, what will happen to gas imports, among other issues where there is no other but to wait. The bad news is that grain prices, while historically good, do not have the exuberance of a few months ago.

The exit is the port

In the context described above, there is no doubt that the promotion of exports should be one of the main objectives of the government. This is something that in fact the authorities have repeated countless times, but which is far from being reflected in reality and in some cases they have acted in the opposite direction, such as by prohibiting the export of meat.

What sectors are those that provide the country with dollars in a “genuine” way? The short answer is that Argentine exports are very diverse, but despite this there is a great concentration in a few sectors and/or products. In fact, only 10 of 4,748 products sold accounted for 59.2% of the total exported in the first half of 2021, where soybean flour and oil pellets were very comfortably in first place, with sales of USD 6,374 million. In general, these are products with a strong primary component, with a clear exception, which is the production of vehicles for the transport of goods, mainly destined for Brazil.

In turn, the first seven exporting sectors -which cover a number of related products- accounted for 75.7% of exports in the first semester. **The soybean sector, with its different products derived from this grain, accounted for 33.6% of all exports**, while far behind it was followed by the corn complex (10.6%), the automotive sector (8.6%) and the cattle sector (6.0%).

Despite the relative concentration, the weight of the other export sectors is not negligible, and in an economy with a chronic deficit of foreign currency, any contribution is welcome as it ends up having a significant impact. The lithium industry is an example: at present its weight in exports is very low, but in a decade it could be equated with the fishing industry.

The increase in commodity prices not only had an impact on the total value exported, but also on the structure of exports. The oilseed sector, where the soybean sector is included and weighs more than 90% within it, went from accounting for 31.1% of exports in the first half of 2020 to 37% in the same period this year. The increase was mainly due to the price effect: soybean oil exports grew 60.4% YoY in price and 24.3% in quantity; soybeans grew 51.8% in prices, but ended negatively due to a 57.2% drop in quantities. On the other hand, the participation of the cereal sector, where corn and wheat weigh

Exports proceeds

In million USD

| | 2021E |
|---------------------------|---------------|
| Cereals & Oilseeds | 36,514 |
| Food, Beverages & Tobacco | 9,260 |
| Agriculture & Livestock | 2,952 |
| Automobiles | 6,344 |
| Chemistry & Plastics | 3,925 |
| Mining | 2,775 |
| Petroleum | 3,663 |
| Others | 7,133 |
| Total | 72,566 |

Top 10 exports

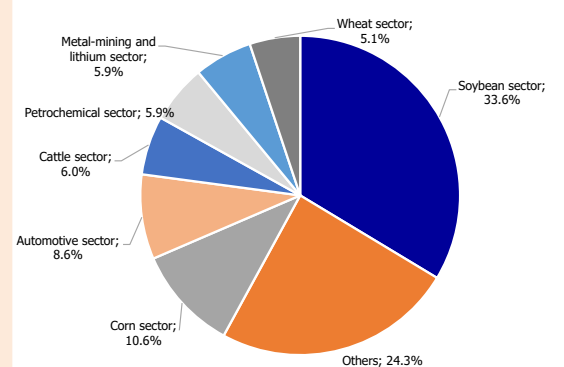
1H-2021, USD million

| | |
|---|---------------|
| Soybean flour and oil pellets | 6,374 |
| Corn grains | 3,650 |
| Crude soybean oil | 3,557 |
| Motor vehicles for the transport of goods | 1,663 |
| Wheat and meslin, exc. durum wheat and for sowing | 1,638 |
| Soybeans, exc. for sowing | 969 |
| Gold for non-monetary use | 908 |
| Beef, frozen, boneless | 822 |
| Crude petroleum oils | 724 |
| Biodiesel and its blends | 636 |
| TOTAL | 20,941 |
| TOTAL as % of total exports | 59.2% |

Source: Econviews based on INDEC

Participation of exporting sectors and subsectors

As % of total exports - 1H-2021



Source: Econviews based on INDEC

more, was reduced as it did not benefit from price increases as high as in soybeans, and the quantities fell. The automotive sector recovered some of its share after its collapse due to the pandemic, but was below previous years. **And the share in the total of the large number of small and diverse remaining exports was reduced.**

The boost in exports from the commodity price effect will not be as great in 2022 as it was this year. Soybeans went from trading in May for more than USD 600 per ton on the Chicago Stock Exchange to USD 570 last week. The government must do everything possible to stimulate exports in both the short and long term. **But behind this lies an uncomfortable truth: Argentina must open up to the world and, to export more, it must also import more.**

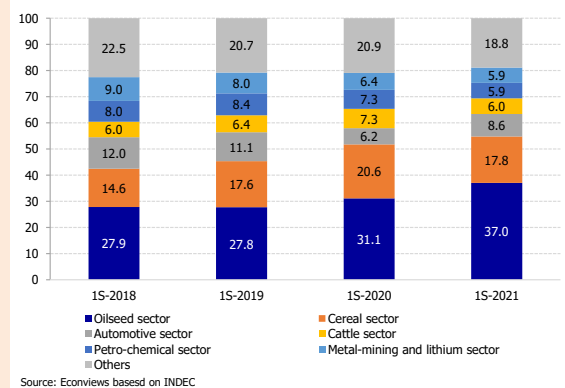
While exports are primarily primary, imports are primarily of industrial products. Of the 97 divisions of the harmonized international trade system, the first 10 accounted for 71% of the total imported in the first half of the year. Its impact is not homogeneous, since some of these imports serve mainly as inputs that give rise to exports and others are purely for consumption.

For example, the vehicles, parts and accessories division ranked third in the ranking of imports, but when considering their exports, the negative balance was almost a tenth of imports. The same happens with the chapter of seeds, which, having reached imports of USD 1,643 million, ended with a negative balance of just 138. In contrast, machinery and mechanical and electronic devices (which include from motors to household appliances) were located in the podium for imports and its exports were negligible.

The conclusion is clear: we cannot produce everything, and we need to import more to also export more. But with the current capital controls, exports face another obstacle, which is financing. The pre-financing of exports represents an instrument that allows to generate the necessary funds for the production process and the financing of exports allows to cover the gap that exists from the sale to the collection of the products. But with the current *cepo*, companies cannot meet their obligations to their external creditors. In recent days, the Central announced that importers could finance their commercial debts with foreign credits for a term of no less than 2 years and for less than USD 5 million. Although it goes in the right direction, the announcement was too little too late. As long as this strict *cepo* is maintained and incentives to export are not generated, the dollars that enter through international trade will continue to be insufficient.

Participation of main exporting sectors

As % of total exports, in p.p.



Imports ranking

By divisions of the Harmonized System, USD million - 1H-2021

| | Imports | Net exports |
|--|---------------|----------------|
| Machinery and mechanical devices | 4,317 | -3,769 |
| Electrical machinery and equipment | 3,143 | -3,066 |
| Vehicles, parts and accessories | 3,117 | -369 |
| Mineral fuels and oils, products of their distillation | 2,257 | -724 |
| Oil seeds and oleaginous fruits; cereals, seeds and various fruits | 1,643 | -138 |
| Organic chemicals | 1,488 | -1,264 |
| Plastics and their manufactures | 1,392 | -974 |
| Pharmaceutical products | 1,335 | -940 |
| Iron and Steel | 838 | -660 |
| Optical instruments and apparatus | 731 | -656 |
| TOTAL | 20,262 | -12,560 |
| TOTAL as % of total Imports | 71% | - |

Source: Econviews based on INDEC

The Day After the Primary Elections

Between the primary elections to be held next Sunday 12 and the general elections, dated November 14, there are 63 days that could look very different, in terms of the economic policies that are implemented, depending on the result left by the PASO. In the event that there is a defeat of the ruling party (preliminary, since they are primary), the need to bet with everything for a rebound would be activated, regardless of the cost. Is this scenario possible? What does it imply for macroeconomic equilibrium?

Although there is consensus among political analysts that it is hardly an election that drastically changes the balance of power in legislative terms, it is necessary to have an overview of what could happen in extreme situations, even more so considering the vertiginous drop in confidence that has citizenship in the current administration, something that can affect the vote.

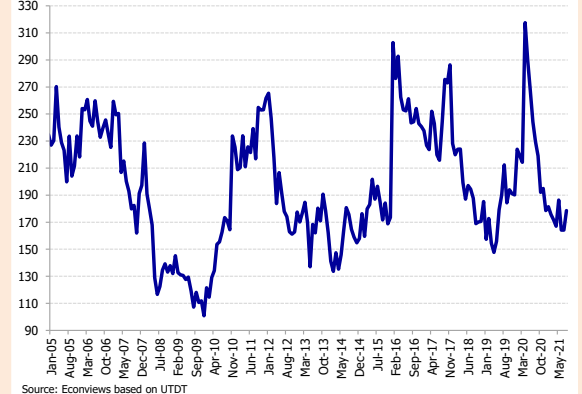
Let's start by being clear about what to observe on the night of the election to determine if the result is adverse for the ruling party. As in every legislative election, this year 127 deputies, out of 257, and a third of the Senate (24 out of 72) will be renewed by direct election. In the detail by province, 35 new deputies will enter the lower house for the PBA, 13 for the CABA, 9 for Santa Fe and Córdoba, 5 for Entre Ríos and Mendoza and 4 for Chaco and Tucumán. The rest will contribute between three and two representatives. In the upper house, the provinces that will renew their three senators - two by force with the most votes and one by the second - are Catamarca, Chubut, Córdoba, Corrientes, La Pampa, Mendoza, Santa Fe and Tucumán.

In terms of parties, the JxC coalition (former Cambiemos) puts into play 60 seats in deputies (24 in PBA + CABA) and 8 in senators, while the ruling party defends 51 (19 in PBA + CABA) and 15, respectively. Finally, the other minority parties seek to renew 12 deputies (5 in PBA + CABA) and 1 senator. Today the Senate is totally controlled by the ruling party, it has 41 needing 37 for its own quorum, while in deputies it needs to negotiate with other spaces as it lacks 11 seats for the majority.

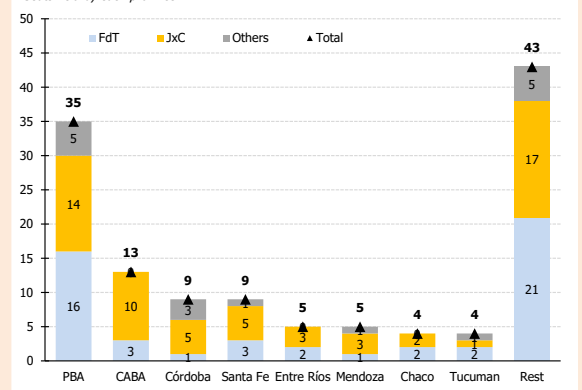
Based on the latest polls and focusing on the districts with the most seats at stake, the contests to take into account are those of PBA, CABA, Córdoba, Santa Fe and Corrientes. The first two due to their relevance in terms of deputies at stake, but also because it is where the two coalitions are concentrating their "artillery" with projections for the 2023 campaign; while the last three define a possible advance of the opposition, that is, a retreat of the ruling party, in the Senate.

Starting with the senate's race, both in Santa Fe and Córdoba the ruling party and the opposition went with several internal lines, which will dispute the right to run first in their lists in the general elections. In Santa Fe the polls give Juntos a minimal advantage (when adding all the lists), which would imply snatching a senator from the FdT, while in Córdoba, with no surprises for the moment, there would be no redistribution of seats. The Progressive Front in Santa Fe and the Cordoba's Schiaretismo (the faction of the governor) bet to

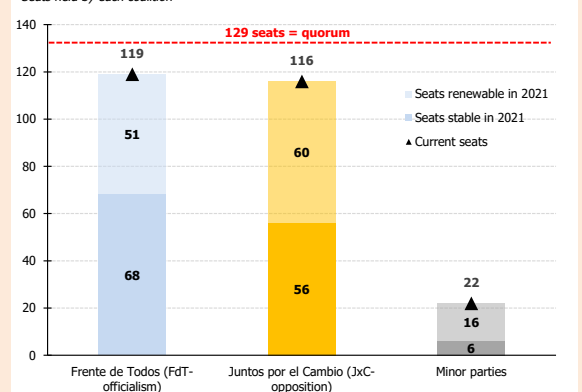
Confidence in the national government
Base nov-01 = 100



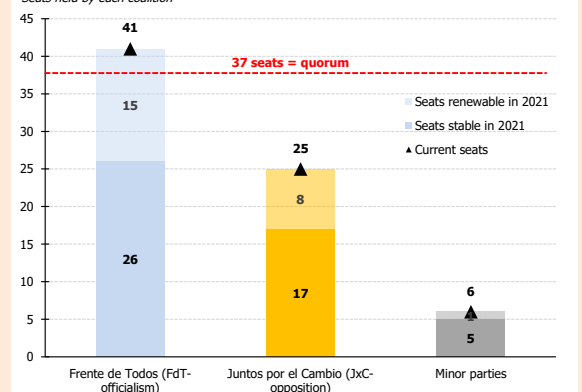
Congress: Chamber of Deputies
Seats held by each province



Congress: Chamber of Deputies
Seats held by each coalition



Congress: Senate
Seats held by each coalition



seduce those disenchanted by the two national coalitions, although they run the risk of being diluted by polarization.

In Corrientes, the election for Governor left a certainty: if the results were repeated, the FdT would lose a senator at the hands of the opposition coalition (which is the ruling party in the province). Finally, Chubut, which today has the three senators in the ranks of the FdT, would relegate 1 to the opposition. In sum, the ruling party in principle would drop from 41 to 38 seats, just 1 above its own quorum.

Turning to deputies, pollsters point to a parity in PBA and a comfortable victory for Juntos in CABA. Being the suburbs the most important district for its political construction, the FdT expects to win by at least 5 points in the PBA, so a result below that level would cause the red button to be activated, the one with the "Activate in an emergency only" label.

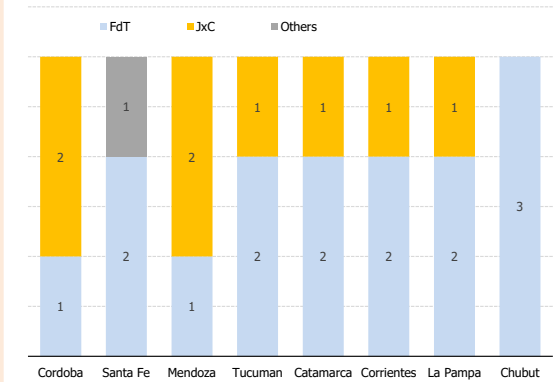
Another figure that would also activate extraordinary measures would be to be losing at the national level, which would imply a decrease in the number of deputies, who will be worth gold to deal with critical issues in the second term, such as the agreement with the IMF. As always from 2009 until now, the PASO will mean a great poll that allows players to move their chips. The government will surely watch closely to chart the next 60 days.

Returning to the economic analysis, how does the economy get to the primary? Compared to the last time that Argentines went to the polls, the economy is 4% more depressed, inflation is just as high, the private sector contracted its workforce by more than 150 thousand workers and wages, as well as spending on retirements are 5% lower in real terms. The only good thing is that, in dollars, purchasing power is 13% higher, because of the large RER overvaluation that occurred in recent months.

In any case, the memory of the current situation with respect to that of the last election in the voter does not weigh as much, say political analysts, as the perception of the last year does. This notion is reinforced if we consider that in the middle the quarantine meant a before and after in the memory of citizens. Thus, part of the economic indicators in the short term shows an improvement. And although it is the product of the rebound after a resounding fall, some sense of improvement will creep into the social imaginary.

It's the economy, stupid. In 2009 the indicators of economic activity, inflation, employment, wages, and confidence in the government clearly pointed to an inevitable defeat of the ruling party. In 2011, with the most significant RER overvaluation for an election year in a long time, victory was a formality for the ruling party. The defeat of 2013 had condiments of another type, a campaign led by the current coalition partner, Sergio Massa, which aimed to dent the reputation of a Kirchnerism worn out politically but not so economically, managed to avoid according to many the plans of the re-election of CFK. The economic indicators were auspicious in 2015, something that was verified with a favorable first round of the Kirchnerism. In the balloting of 2015 and in the midterms of 2017, the victory of Cambiemos suggested that could achieve the re-election of 2019. The 2018 crisis

Congress: Senate
Seats held by each province



| Deputies's run | | | |
|----------------------|---------------------|-------------------------------|-------------------------|
| PBA | | CABA | |
| JxC | FdT | JxC | FdT |
| Diego Santilli (PRO) | Victoria Tolosa Paz | María Eugenia Vidal (PRO-UCR) | Leandro Santoro |
| Facundo Manes (UCR) | | Ricardo Lopez Murphy (RU) | Adolfo Rubenstein (UCR) |

| Senators's run | | | |
|-------------------------|--------------------|---------------------------|----------------------|
| Santa Fe | | Córdoba | |
| JxC | FdT | JxC | PJ / FdT |
| Carolina Losada (PRO) | Agustin Rossi | Mario Negri (UCR) | Alejandra Vigo (PJ) |
| Federico Angelini (PRO) | Marcelo Lewandoski | Luis Juez (PRO) | Carlos Caserio (FdT) |
| José Corral (UCR) | | Griselda Baldada (UCR) | |
| Maxi Pullaro (UCR) | | Javier Bee Sellares (UCR) | |

Source: Econviews based on CNE

Does the past look much better now?

| Economic Indicator | vs oct-19 |
|--------------------------------------|-----------|
| Activity (EMAE var %) | -4.0% |
| Inflation (CPI var p.p.) | +1.3 |
| Employment (in thousands of jobs) | -149 |
| Real wages (RIPE, var %) | -4.7% |
| Pension Real Expenditures (var %) | -4.1% |
| Confidence in the Government (Index) | -8.0% |

Source: Econviews based on INDEC, BCRA and UTDT

frustrated this scenario with the economic indicators turned negative, especially those related to inflation and the drop in wages in dollars.

¿"IT'S THE ECONOMY, STUPID"?

Comparison between the month prior to PASO vs 1 year ago

| Year | The ruling party... | Economic activity | Inflation (in p.p.) | Registered Private Employment | Wages in US\$ (RIPTE) | Confidence in the government |
|------|---------------------|-------------------|---------------------|-------------------------------|-----------------------|------------------------------|
| 2021 | ? | 7.7% | 11.2 | 2.0% | 7.2% | -22.3% |
| 2019 | Lost | 0.6% | 23.2 | -2.2% | -10.9% | -2.2% |
| 2017 | Won | 4.6% | -22.5 | 1.1% | 9.8% | -17.4% |
| 2015 | Won* | 4.4% | -14.0 | 2.4% | 19.2% | 8.8% |
| 2013 | Lost | 2.6% | -0.4 | 0.8% | 6.1% | -8.9% |
| 2011 | Won | 4.9% | -1.7 | 4.8% | 28.7% | 46.9% |
| 2009 | Lost** | -6.8% | -14.4 | -0.7% | -10.8% | -2.7% |

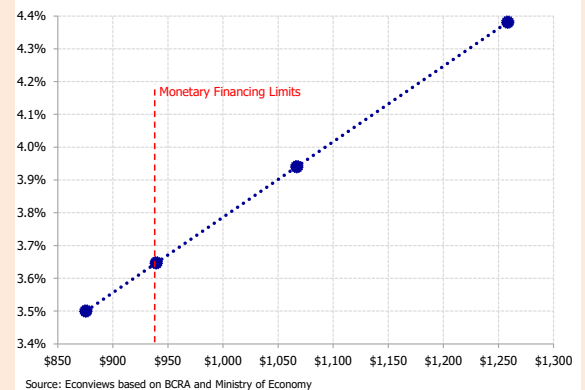
Source: Econviews based on INDEC, BCRA, Ministry of Labour and UTDT

*The ruling party lost in the second round. **The drop in inflation in 2009 was due to the severe crisis that occurred that year.

If the political events that took place in recent months make a dent in the government's chances, there it is necessary to think about what it would do in terms of economic measures to reverse it. In the two months between the primary and the general ones, it could pour in a greater number of resources, that is, expand the fiscal deficit, which we have as a base of 3.5% of GDP. This would imply that it will put even more pressure on the monetary financing of the BCRA. According to our calculations, it can turn over up to AR\$ 935 billion in the remainder of 2021. If all these resources are turned over, the deficit would widen, everything else constant, by up to AR\$ 100 billion. If more is needed, it will be necessary to resort to "creative" accounting, in which the Treasury sells the SDRs to the BCRA and then places a Non-transferable Bills in exchange for more resources.

And the black swan? Be careful with absenteeism. This year's elections in Misiones, Salta and Corrientes registered a turnout of around 60%, far from the usual 70-80%. Jujuy was an outlier with 70.5%, although it was also below previous elections. Although these are provinces that in 2017 voted together with the national calendar and in 2021 decided to unfold, it is likely that these STEP have less attendance than other years. Another trend of the 2021 provincial elections was an increase in the blank vote. There is some "denominator effect", since absenteeism overstates the percentage of white / affirmative. But it also advances in absolute terms, something consistent with the polls that denounce a "wide social discontent", although far from the brutal 24% of 2001. Mathematically, the small parties are the most affected, since they must compete against the blank vote to reach the 1.5% threshold and exceed the STEP. Instead, absenteeism could complicate large coalitions, which depend on an "undecided voter" who, out of fear of the Covid and lack of electoral enthusiasm, may well decide to stay at home.

Fiscal Deficit and Monetary Financing
Primary Deficit (Y axis) and monetary financing in trillion of AR\$ (X axis)



Social Discontent?

Elections for National Deputies

| | Blank Vote | | | Absenteeism | | |
|---------------------|------------|------|-------|-------------|-------|-------|
| | 2021 | 2017 | 2001 | 2021 | 2017 | 2001 |
| 6-Jun Misiones*† | 5.4% | 3.1% | 6.3% | 59.5% | 72.4% | 87.6% |
| 27-Jun Jujuy* | 5.6% | 2.8% | 13.8% | 70.5% | 74.4% | 74.4% |
| 15-Aug Salta* | 9.5% | 1.8% | 8.9% | 59.0% | 73.4% | 70.4% |
| 29-Aug Corrientes** | 6.0% | 0.7% | 0.1% | 65.9% | 79.2% | 69.0% |
| 12-Sep PASO†† | - | 3.0% | 24.0% | - | 72.4% | 75.5% |

*Governor election

**Governor election

†Include a referendum to create a Council of the Magistracy

††By 2001 General takeover, adding null votes + blanks, they reached 24%

Source: Econviews based on DNE