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Economic GPS

pwc

Building confidence

As mentioned in previous opportunities, the fundamentals of the Argentine economy had started to recover slowly after the adjustment in 2018. A more competitive exchange rate and a reduced level of activity led to a positive balance of trade; a result of the fiscal sector converging towards equilibrium -although with doubt about the objective of zero primary deficit, the direction was right and the goal was getting closer-; an inflation rate that, although sluggish, was starting to ease; and the improvement in the level of activity in certain specific sectors.

However, time and confidence in the future were necessary for the virtuous circle to close. Time for inflation to ease completely and enable an improvement in real income that would transfer the incipient recovery of agriculture to consumption-related sectors, increase the demand for money enabling the monetization of part of the Central Bank's interest-bearing debt, recover public revenue and consolidate the inter-temporal solvency of the government. And confidence about the fact that the next administration will uphold the intention to reach the macroeconomic equilibrium described above, to keep financing during the adjustment process.

The ambiguity of the opposition before the primary elections and their result triggered a crisis of confidence that abruptly limited financing for the public sector, caused inflation to surge and concluded with the reintroduction of foreign exchange restrictions. The answer of the current Administration to social demands, as shown in the PASO elections also contributed to a rising uncertainty. The more this situation lasts, the deeper will be the impact on economic variables and the more difficult the recovery.

Ironically, but not unpredictably -see Economic GPS Editorial of July 2019-, the opposition candidate has moderated his speech and the government has loosened its policies.

Nevertheless, in no case will uncertainty decrease -and confidence be restored- until the election process finishes, the first government measures are announced and basically it can be seen how much consensus is reached to keep a consistent macroeconomic policy.

In case the opposition wins the election, there is doubt regarding how internal tensions that could arise from apparently contradictory visions will ease. In case the current administration is re-elected, the question is how consensus will be reached to resume a policy consistent with the balance of economy in the long run.

In conclusion, it seems that, in one case or another, the main issue is how to build a broad social consensus among moderate sectors regarding a project for the country. If this could be achieved quickly, which seems so easy but has been so difficult for Argentina, the recovery of confidence and economy would not take too long.

José María Segura
Chief Economist PwC Argentina

Tracking

Controls on the foreign exchange market are back on the scene

After the outcome of the primary elections (PASO), the peso devaluation was accompanied by an increase of withdrawals of deposits in the financial system denominated in US dollars and such a draining of reserves that brought about the decision of the Central Bank of Argentina (BCRA) of restricting access to the foreign exchange market.

Industry Roadmap

Transparency in the extractive industry: responsible management of oil, gas and mining resources

The Extractive Industries Transparency Initiative (EITI) is a global standard to encourage the open and responsible management of oil, gas and mining resources, and it has landed on Argentina with a clear goal: to improve the transparency of the information from the extractive industry, as well as enhancing its communication

Zooming

An overview on the labor share of income in Argentina

The labor share of income has been falling worldwide in developed, developing and emerging economies since the beginning of the decades of 1980 and 1990, respectively. This labor share loss in the economy's GDP has caused multiple concerns regarding the implications of this phenomenon for the countries' economies and workers as well.

Global Coordinates

How can companies be prepared to operate in a context of commercial and global dispute?

The trade war between the US and China, and the threat of a trade war between the US and the EU, require a well-considered response from companies. In order to avoid any immediate pain from customs tariffs, companies will need to prepare for various scenarios of global instability.

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As mentioned in our prior issue[1], a strong devaluation occurred after the primary elections held on August 11, with an increased uncertainty that affected financial variables. In particular, in the first fourteen business days post-PASO the BCRA reserves sank by USD 12,208 million and we witnessed an acceleration of withdrawals of private sector deposits in US dollars, for a total amount of USD 4,862 million.

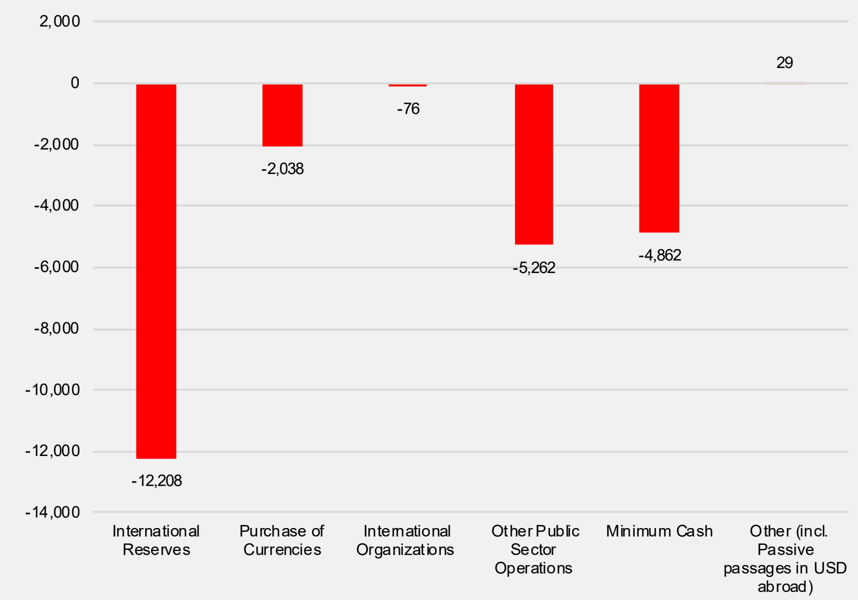
Specifically on the last business day of August there were withdrawals for USD 1,100 million, an event that served as an opening to the foreign exchange controls announced on Sunday, September 1. The National Executive Branch and the BCRA, with the purpose of curbing financial uncertainty and stemming the bleeding of reserves, established foreign exchange controls[2] where the most rigorous restrictions fell on legal entities.

On the side of demand, the purchase of foreign currency was limited to USD 10,000 per month for individuals, while legal entities saw it entirely restricted, with the exception of those companies that must pay for imports or debts falling due. Meanwhile, on the side of supply, which was practically null after the outcome of the election, exporters were obliged to settle transactions within a period of 30 to 180 days.

[1] https://www.pwc.com.ar/es/egps/nuevo/economic-gps-52.pdf
[2] Decree No. 609/2019 and BCRA Communication "A" 6770 - Income

GRAPHIC 1

Post-PASO variation of reserves (until August 30), in millions of USD



Source: Prepared by the authors based on the Central Bank of Argentina

The effect of the restrictions on the exchange market was immediate: the exchange rate appreciated by 3% and was stabilized at values around 56 pesos per US dollar in the wholesale market and below 60 in the retail market. Also, the sale of dollars by the BCRA was reduced; in the fourteen days post-PASO in August it had reached an average of USD 145 million a day, compared with the USD 47 million average for the business days in September until Friday, 13. Further, the draining of reserves as a result of the withdrawals of deposits in US dollars began to decelerate, although between September 2 and 13 withdrawals reached USD 3,327 million.

Accordingly, what appears as the primary objective —stopping the outflow of reserves and stabilizing the exchange rate— would be attained. However, it will be necessary to closely monitor financial variables, as latent risks exist that could imply the presence of further controls or even new disruption episodes.

In this sense, as from August 12 there has been a constant dwindling of deposits in US dollars of the private sector; on August 9, they amounted to USD 32,500 million and on September 13, their amount was USD 22,544 million. Giving the fact that there is no cap for withdrawal, those dollars deposited in banks could continue to drain the financial system. In addition, the risk of dollarization of private holders' term deposits is still latent. The average for the first two weeks of September shows a 5% decrease in term deposits as compared with the average stock of July, before the primary election; those CER-/UVA-adjusted deposits fell by 30%. The average stock of term deposits during the first two weeks of September amounted to $ 1,189.51 billion, with approximately 70% of deposits being placed at less than 60 days. This amount represents 83% of the monetary base, and deposit holders could seek to convert them into US dollars.

Although it is too early to express a conclusion, another fact has started to make itself evident: the increase in holdings of reverse repurchase agreements by banks to the detriment of Leliq holdings, even when there is a 10-point difference in interest rate between them; this could be a sign of increased preference for liquidity on the part of the banks, as the [reverse] repos are at 1-day term versus 7 days for the Leliqs.

CHART 1

Relevant aspects of exchange controls

EXPORTS OF GOODS

a) Exports registered after September 2, 2019:

- Exports to related companies and/or exports of goods pertaining to certain chapters and tariff positions of the Mercosur Common Nomenclature: the foreign currency must be brought in and traded in the Free Foreign Exchange Market (MLC) within 15 consecutive days as from the date of fulfillment of the shipping permit.
- For any other transactions: the period for bringing in and trading foreign currency is of 180 consecutive days as from the date of the shipping permit.
- Regardless of the maximum periods stated above, foreign currency from collections of exports must be brought in and traded in the MLC within 5 business days as from the date of collection.

b) Exports registered before September 2, 2019 and that at September 1, 2019 are pending collection: the foreign currency must be brought in and traded in the MLC within 5 business days as from the date of collection or disbursement, in Argentina or abroad.

ADVANCES AND PRE-FINANCING OF EXPORTS OF GOODS
Foreign currency from new advances and pre-financing of exports must be brought in and traded in the MLC within 5 business days as from the date of collection or disbursement, abroad or in the country.

DEBTS ON IMPORTS OF GOODS
Debts on imports of goods may only be paid upon due date. If the debtor wishes to pay early, prior approval by BCRA is needed.

EXPORTS OF SERVICES
Foreign currency from transactions of this kind must be brought in and traded in the MLC within a period no longer than 5 (five) business days as from the date of collection abroad or in Argentina, or of crediting in foreign accounts.

DEBTS ON IMPORTS OF SERVICES

Debts on imports of services may only be paid upon due date. If the debtor wishes to pay early, prior approval by BCRA is needed.

FINANCIAL LOANS ENTERED INTO WITH NON-RESIDENT PARTIES
Any new financial loan contracted abroad and disbursed as from September 1, 2019 must be brought in and traded in the MLC.

REPAYMENT OF FINANCIAL LOANS ENTERED INTO WITH NON-RESIDENT PARTIES
In order to have access to the MLC for paying the principal and interest of financial loans, it is necessary to give proof of having previously brought in and traded the foreign currency.

PAYMENT OF PROFITS AND DIVIDENDS
Prior consent of the BCRA is established as a requisite for having access to the MLC to draw profits and dividends abroad.

FORMATION OF EXTERNAL ASSETS BY RESIDENT LEGAL ENTITIES
Legal entities, local governments, mutual funds, trust funds and other universalities of assets and liabilities formed within Argentina must count on prior consent of the BCRA to have access to the MLC for the formation of external assets abroad, as well as for setting up any kind of guarantee related to the arrangement of derivatives transactions.

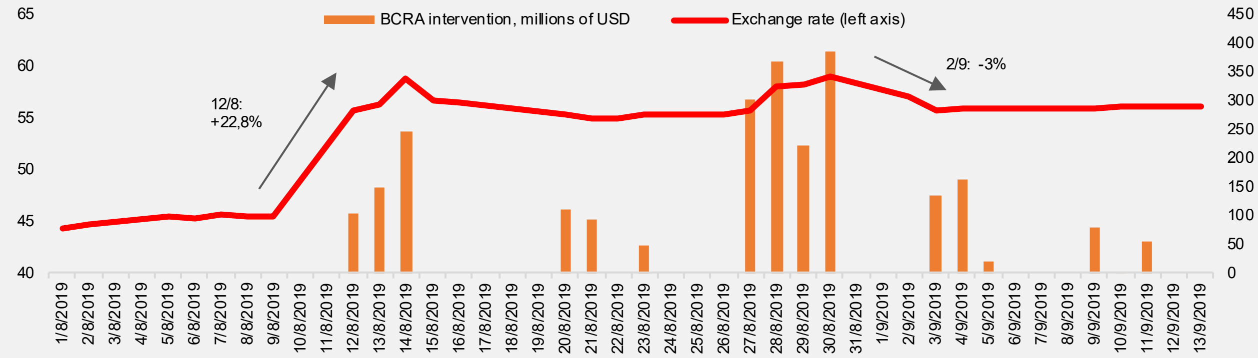
FORMATION OF EXTERNAL ASSETS BY RESIDENT INDIVIDUALS
Resident individuals may have access to the MLC for forming external assets abroad, making remittances of money to help their families and setting up guarantees for derivatives transactions up to the monthly amount of USD 10,000 in the aggregate of the financial institutions authorized to make exchange transactions. Whenever they intend to access the MLC for a higher amount, prior consent of the BCRA is required.

PURCHASE OF FOREIGN CURRENCY BY NON-RESIDENTS
Non-resident persons with the intention of having access to the MLC for the purchase and/or transfer abroad of foreign currency for amounts higher to the equivalent of USD 1,000 on a monthly basis in the aggregate of the financial institutions authorized for exchange operations must have prior consent from the BCRA, except in the case of international organizations acting as official export credit agencies, diplomatic and consular representations, among others, if the purchases relate to the performance of their duties.

Source: Prepared by the authors based on Decree No. 609/2019 and BCRA Communication “A” 6770 - Income

GRAPHIC 2

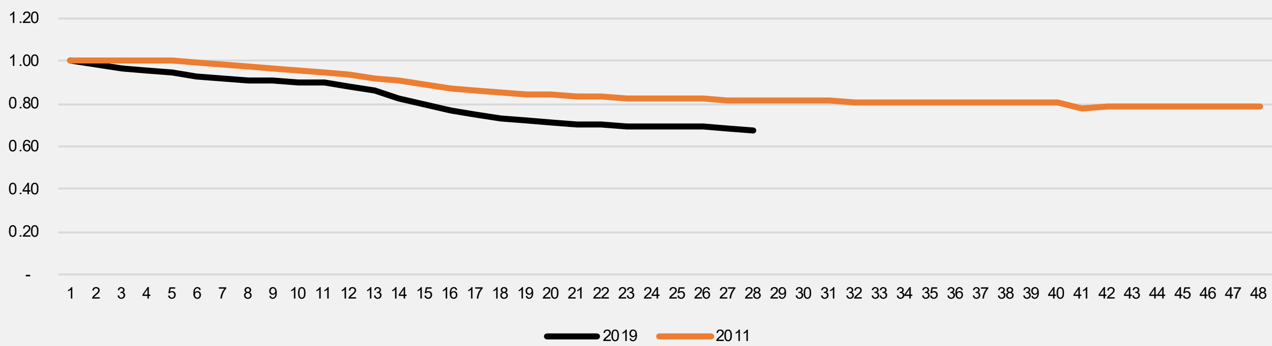
Exchange rate and intervention of the BCRA (sale of foreign currency)



Source: Prepared by the authors based on the Central Bank of Argentina

GRAPHIC 3

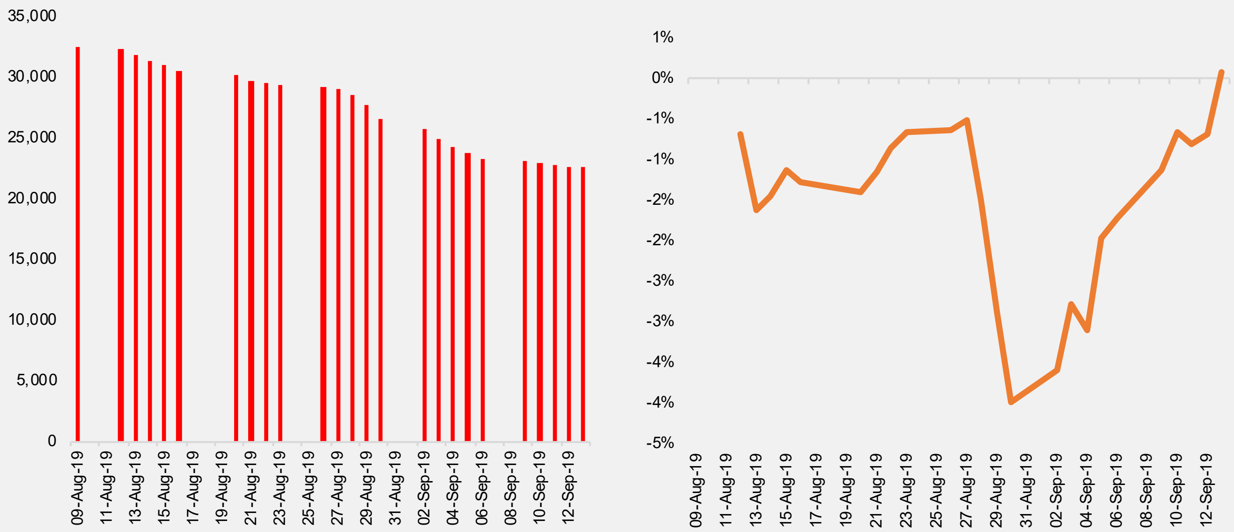
Private sector deposits in US dollars, base 1 index figure corresponds to the first business day after elections (October 24, 2011 and August 12, 2019)



Source: Prepared by the authors based on the Central Bank of Argentina

GRAPHIC 4

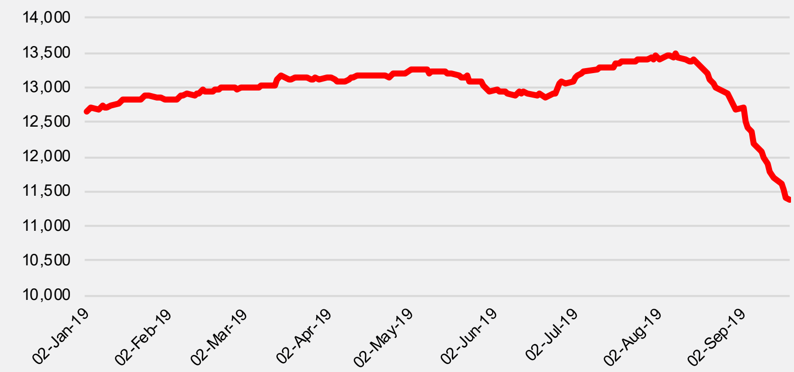
Private sector deposits in US dollars, in millions (upper frame) and daily variation % (lower frame)



Source: Prepared by the authors based on the Central Bank of Argentina

GRAPHIC 5

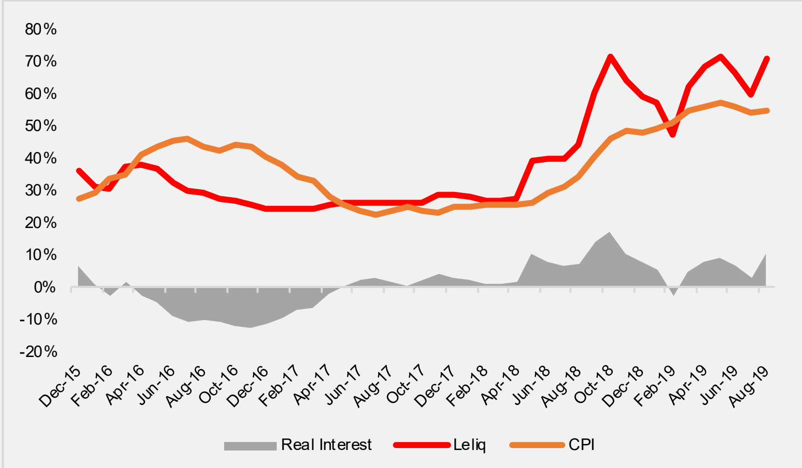
Loans to the private sector in US dollars (advances and documents), in millions of USD



Source: Prepared by the authors based on the Central Bank of Argentina

GRAPHIC 6

Leliq interest rate versus Consumer Price Index



Source: Prepared by the authors based on the Central Bank of Argentina

One of the most ostensible effects of exchange controls is the appearance of a gap between different exchange rates; the wider the gap, the greater the distortions and consequences for economy. In the first two weeks of implementing the exchange controls, the gap between the official exchange rate and the so-called “blue-chip swaps” (an implicit exchange rate that arises from purchasing bonds or shares in pesos in the Argentine market and selling them in a foreign market, in dollars) reached an average of 16%, with peaks of 29%. This affects many entities that require US dollars for their operation and can only obtain them through transactions outside the traditional channel. The terms of foreign trade are an example of this; here, the reduction of the period for trading the foreign currency from an export transaction closed when the initial conditions had been agreed upon at a longer term weakens the exporter’s competitiveness; also, importers are having difficulties to find the dollar bills to pay their debts, with the consequent delay in having new orders served.

Another effect that we are observing lately is the limitation of exports pre-financing, as the banks wish to ensure their liquidity in dollars for fear of continuing withdrawals of deposits, this in turn being a reason for the decrease of loans in US dollars (graphic 4).

In this context of uncertainty, on September 19 the BCRA issued a new communication on monetary policy, raising the lower limit of interest rates from 58% to 78% in September and to 68% in October, as a result of the acceleration of inflation in August and an even greater increase expected for September. Further, as a consequence of the drop in real terms of money supply and with the purpose of preventing liquidity issues, the monetary authority relaxed the monetary base target and authorized a monthly increase of 2.5% in September and October, with respect to the July-August target. Thus, the monetary base target for the current month is 1,377 billion pesos.

The predicament currently faced by Argentina will continue at least until the outcome of the general election is known and the new president-elect (either from the opposing party or the ruling party re-elected) defines the intended course to follow in economy. Until then, balance will be fragile and it might require an even more restrictive exchange policy.

Industry Roadmap

Transparency in the extractive industry: responsible management of oil, gas and mining resources



Leonardo Viglione, PwC Argentina Partner, Mining Industry Leader,
Diego H. López, PwC Argentina Risk Assurance Services & Sustainability Partner
Fernando Isler, PwC Argentina Partner, specialized in Internal Audit.

The Extractive Industries Transparency Initiative (EITI) is a global standard to encourage the open and responsible management of oil, gas and mining resources, and it has landed on Argentina with a clear goal: to improve the transparency of the information from the extractive industry, as well as enhancing its communication.

The aim of the standard is to tackle key issues of the sectors involved in natural resources extraction (oil, gas and mining), through the disclosure of information pertaining:

- Government income from the extractive industry.
- Payments from companies to the government, disaggregated by income flow, company and project.
- Indicators covering contextual and financial data. Indicators of non-financial data, such as gender equality, social and environmental impact, among others.

The initiative aims at identifying management risks, encouraging debate and reforms on the basis of publicly available data, improving investment and development of the industry and ensuring that the stakeholders can monitor data publication. Today, more than 50 countries have already implemented the initiative and, in each country, the EITI is supported by the “multi-stakeholder group”, an alliance composed of the government, companies and the civil society.

Within the EITI standard requirements, the “multi-stakeholder group” of each country has to ensure that the process of information presentation is thorough, compete and reliable. For such purpose, the alliance has to appoint an “Independent Administrator”, a Company responsible for managing and monitoring the information reported, and considered a trustworthy, reliable and technically competent entity.

In February 2016, Argentina entered into an agreement for the implementation of the program “Towards a Sustainable Mining Industry” with the Argentine Chamber of Mining Companies (CAEM) and the Mining Association of Canada (MAC). This initiative sets international quality standards and controls to guarantee a responsible, transparent and reliable mining activity.

Additionally, the Open Data Portal of the Ministry of Energy and Mining was launched that year, with the aim of making the data of the oil and gas industry available. Since then, the government and the business chambers have expressed their intention to implement the EITI standard in Argentina and took different measures at institutional level for such purpose.

Business chambers, top level companies, prestigious universities and renowned civil society organizations are part of the “multi-stakeholder group” in our country.

In February this year, Argentina was admitted in the EITI, and the government undertook to ensure the complete disclosure of information throughout the entire value chain of the extractive industries. The goal for the presentation of the first report was defined, and its deadline is August 2020. The report will be conducted in two stages, the first having a national scope, and the second one including provinces.

The correct implementation of the EITI standards might generate significant contributions to change and political reforms. Our country now faces the huge challenge of achieving transparent information on its extractive industry, which definitely constitutes an excellent opportunity for the sector’s growth and the strengthening of policies within the framework of the national commitment of the 2030 Agenda for Sustainable Development.

Zooming

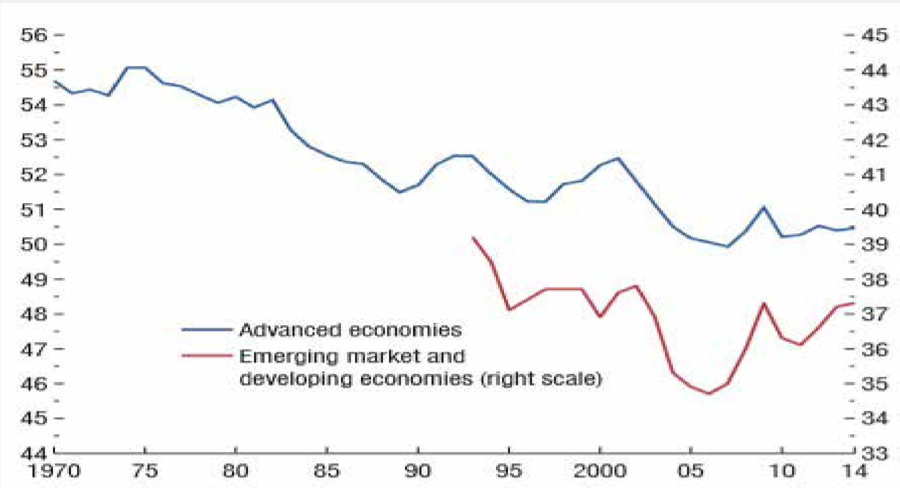
An overview on the labor share of income in Argentina

The labor share of income has been falling worldwide[1] in developed, developing and emerging economies since the beginning of the decades of 1980 and 1990, respectively. This labor share loss in the economy's GDP has caused multiple concerns regarding the implications of this phenomenon for the countries' economies and workers as well.

There are numerous studies that explaining the reasons that led to this outcome, among which are the emergence and adoption of new technologies, the forces of global integration, the offshoring of productive services, the deregulation of labor markets and the drop in the relative prices of capital goods, and others. Research[2] has revealed that the decline in the labor share of income has been associated with high-income inequality, where the erosion of low- and mid-skilled workers' share compared with that of high-skilled workers tends to concentrate labor income in this last sector. Likewise, capital ownership is typically concentrated among the top of the income distribution, which tends to raise income inequality between workers in the same economy. In spite of this, as a counterpart of higher income inequality, according to the IMF[3] the decline in labor share has stimulated growth and prosperity at a global level, as well as driven income convergence, access to goods and services and financial integration for emerging economies.

GRAPHIC 1

Evolution of labor income share

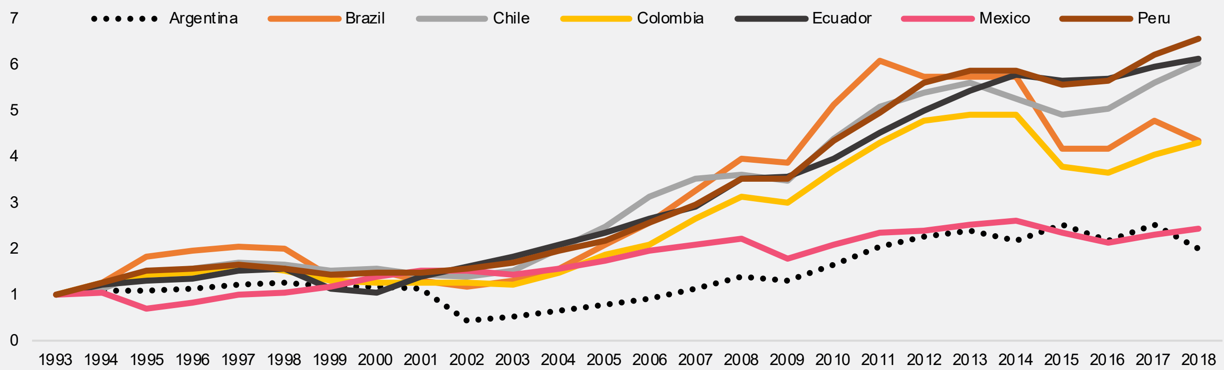


Source: International Monetary Fund, "Understanding the downward trend in labor income shares", World Economic Outlook, April 2017

[1] The labor share of income can be defined as the percentage of national income allocated to workers' wages (including contributions and supplementary allowances). The International Monetary Fund (IMF) defines it as (WL)/(PY) = (W/P)/(Y/L) where W is the wage per worker, L is labor (measured in worked hours), Y is the product and P is the GDP deflator. International Monetary Fund, "Understanding the downward trend in labor income shares", World Economic Outlook, April 2017, p. 121.
[2] International Monetary Fund, "Understanding the downward trend in labor income shares", World Economic Outlook, April 2017.
Economic Commission for Latin America and the Caribbean (ECLAC), "The earnings share of total income in Latin America, 1990-2010", ECLAC Magazine No. 114, December 2014.
[3] International Monetary Fund, "Understanding the downward trend in labor income shares", World Economic Outlook, April 2017, p. 122,123

GRAPHIC 2

GDP growth in US dollars, index 1993=1



Source: Prepared by the authors based upon statistics from WEO, IMF April 2019

According to IMF and ECLAC data,[4] the downward trend in the share of total income represented by employment earnings is less homogeneous in developing countries and emerging economies, even though this happens in most countries. It is important to recognize the economies' degree of development, since even though labor share of income declines in the aggregate, it is not caused by the same reasons and in the same way among economies, and more specifically, among sectors. In advanced economies, the total decline in labor share can be traced to the impact on technology, while in emerging countries global integration and access to capital have accounted for much of this phenomenon.

It is to be noted that even between emerging and developing countries there are differences in productivity and growth. Therefore, the decline in labor share of income may occur both in a context of sustained long-term growth and in one of cyclical growth, as the Argentine case (it can be observed in the graphic 2).

In Argentina, we can observe the labor share of income of the total economy (defined as compensation paid to wage earners over GDP) and by sectors, such as agriculture; livestock, hunting and forestry, fishing; mining and quarrying; manufacturing; energy, gas and water; construction; trade, hotel business and restaurants; transportation, storage and communications; financial intermediation and real state, business and rental activities. The available information used includes 1993-2007 and 2016-2018 periods, and it was published by the National Institute of Statistics and Census (INDEC). It is worth mentioning that the methodology established by INDEC does not comprise information about compensation to self-employed workers[5].

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[4] Economic Commission for Latin America and the Caribbean (ECLAC), "The earnings share of total income in Latin America, 1990-2010", ECLAC Magazine No. 114, December 2014, p.36.

[5] For the INDEC, self-employed workers are those people who are owners, whether individually or jointly, of unincorporated businesses where they work. The INDEC includes in this category workers dedicated to the manufacturing purely destined to its own final consumption or capital formation, whether individually or collectively, where there is no payroll processing of workers dedicated to this kind of manufacturing. For more information, please consult: Historical Statistics. National Accounts. Income Generation. Methodological Notes. https://www.indec.gob.ar/indec/web/Institucional-Indec-InformacionDeArchivo-5

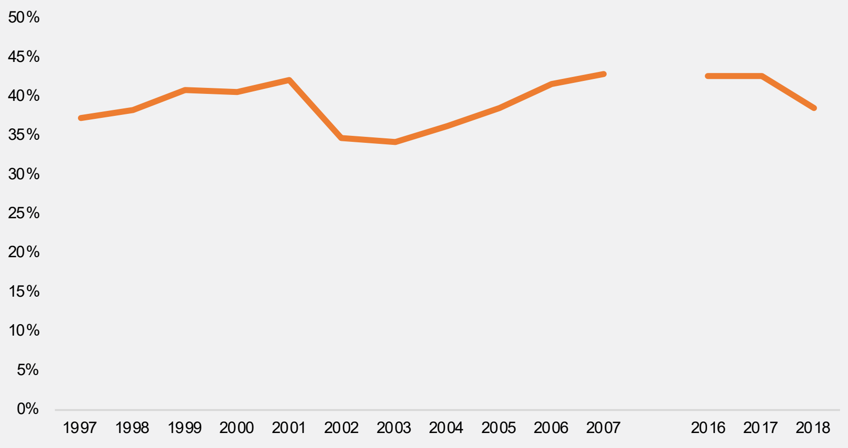
When observing the labor share of income for the total economy in the two periods analyzed, we can identify different situations. From 1993 to 2007, labor share fell, and then increased again until 2001. During the crisis, 2002 saw a sharp drop, and the following years recorded an increase until 2007. Since that date, public information is interrupted until 2016 and, in the 2016-2018 period, labor share of income shows a steady decline.

From another viewpoint, it is possible to define the labor share of income as the quotient between real wage and productivity . During the 1993-1997 period, in a context of a monetary system with a fixed exchange rate (Convertibility), which halted inflation, labor productivity rose above real wage, thus leading to a decline in the labor share of income. In the following years, productivity showed negative fluctuations, which may have been a sign of the exhaustion of a model and the need to enhance productivity through new investments and/or changes in the existing productive model. At the same time, real wages increased, but at a declining rate. This combination gave way to a recovery in the labor share of income until 2001. Since then, the economic crisis ended up in the unpegging from the US dollar, which brought about devaluation, price rises, recession and job losses, resulting in a collapse of real wages while labor productivity increased. As a consequence, labor share declined to levels below 35%. In 2003, the country began a new period in which the idle capacity made it possible to expand production without the need to invest, which was combined with a cycle of high-price commodities (main currency generator of the country). During this expansive period, nominal wages increased above inflation and at a more rapid pace than the productivity growth in most years until 2007, leading to a new recovery of the labor share of income.

Given the lack of official data, it is not possible to continue the analysis in the period until 2016. From that time onwards, and until 2018, a substantial drop in labor share of income is observed, associated with a loss in the purchasing power of wages, whose nominal increase has been way below price rises within a context of declining labor productivity.

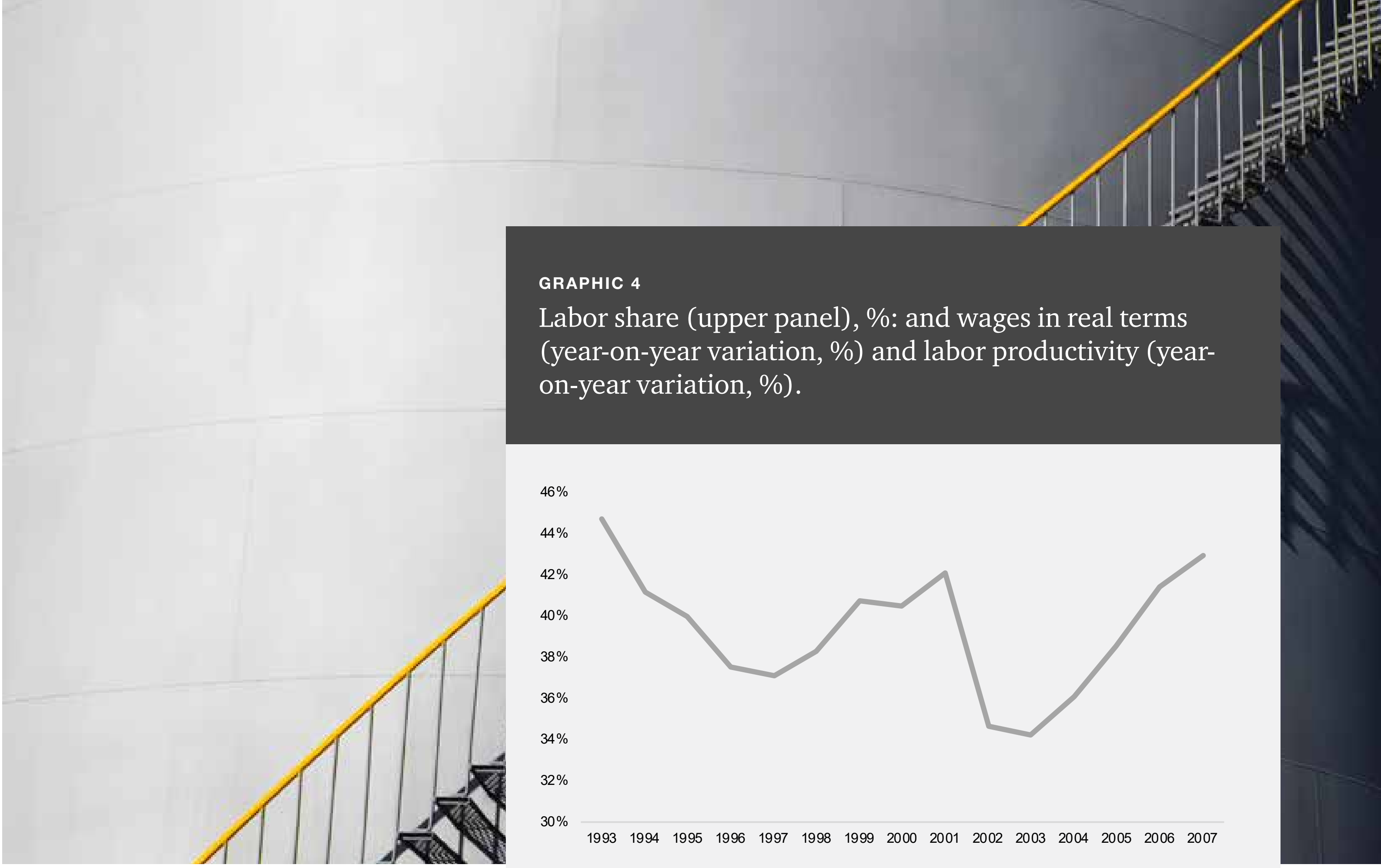
GRAPHIC 3

Labor share of income in total economy



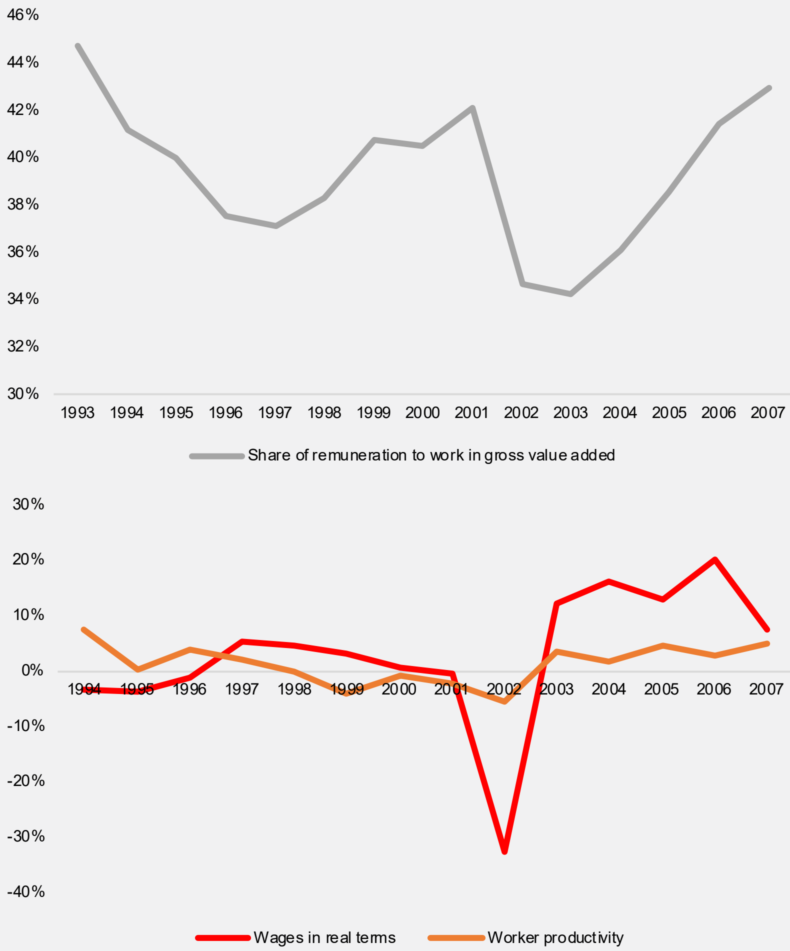
Source: Prepared by the authors based on INDEC.

[6] Labor share = WL/PY = (W/P)/(Y/L) where W represents wages obtained by workers, L is the amount of workers, Y is the product and P stands for the prices. While (W/P) is the real wage and (Y/L) labor productivity.



GRAPHIC 4

Labor share (upper panel), %: and wages in real terms (year-on-year variation, %) and labor productivity (year-on-year variation, %).



Source: Prepared by the authors based on INDEC official statistics

In connection with the economic sectors, for the 1993-1997 period, the sharpest declines in the labor share of income in Argentina were experienced in financial intermediation (-20.8%), the manufacturing industry (-15.5%), agriculture (-14.8%) and mining sectors (-12.3%), followed by a less marked slowdown for energy, gas and water (-9.7%), transportation, storage and communications (-8.8%) and hotels and restaurants (-1.2%). These figures are relevant since these economic sectors are labor-intensive and represent 42% of the GDP.

These findings on the Argentine case match with those of the labor share studies for the emerging countries in the aggregate conducted by the IMF. As mentioned before, some of the reasons for the decline in the labor share in these sectors are improvements in technology that encourage and enable substituting labor for more capital-intensive processes (for instance, the automation of routine tasks). Argentina has evolved in the inclusion and innovation in the financial intermediation sector, reducing the number of branches and increasing the number of ATMs, as well as the expansion of digitalization to make online transactions. Technology has also played a leading role in agriculture. When observing the evolution of labor productivity for these sectors, they are relatively stable and show a rapid rise as from 2020 - as explained above at a national level. Energy, gas and water, as well as communications, were privatized in the 1990s, reducing staff and leading to significant drops in labor share in those sectors.

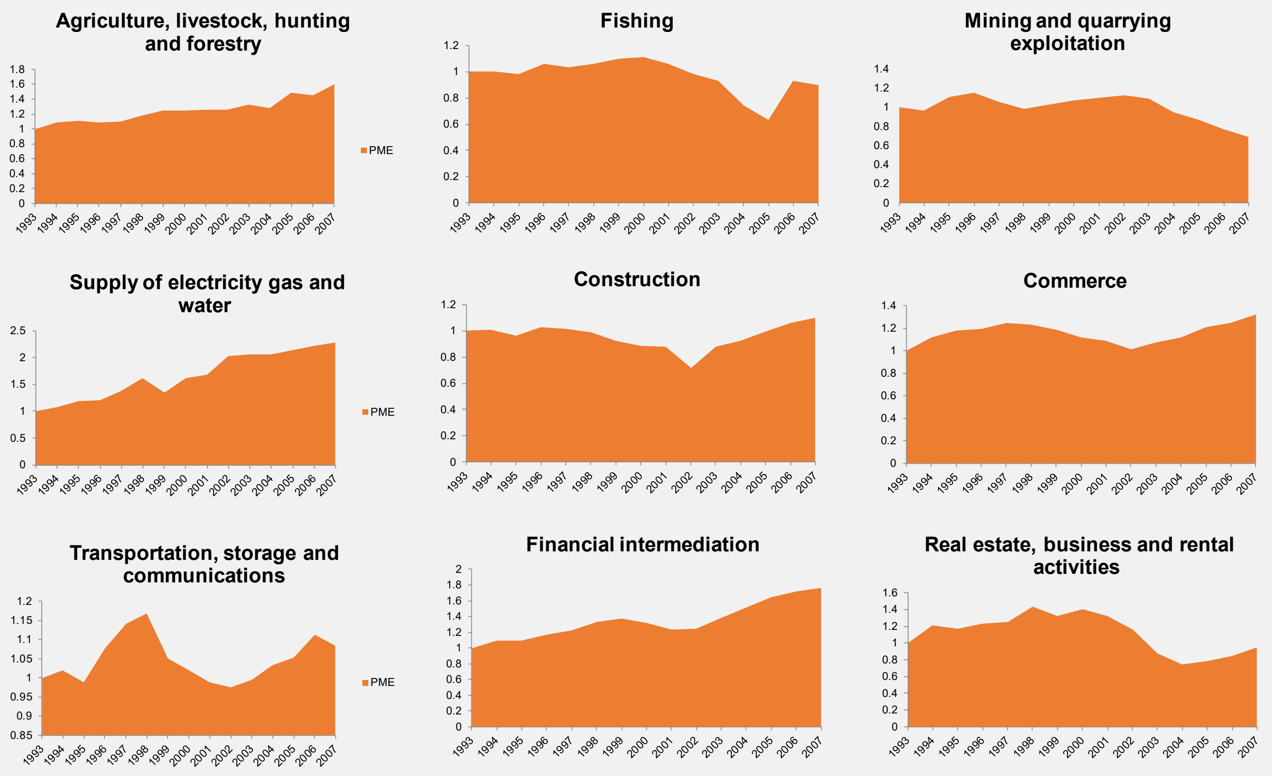
By contrast, sectors with an increased wage earners' share were those less tradable and/or with less elasticity of substitution between capital and labor; for instance, the rental, real estate and business activities (16.2%), trade (7%) and construction (3.3%) sectors.

In the sector analysis for the 2016-2018 period, all sectors experienced losses in the labor share of income. This seems to be more related to the context of Argentina, where inflation has surged, thus deteriorating the purchasing power of wages -even when labor productivity sector-wise has remained stable or fallen (although at a lower speed than real wages). The exception is the financial intermediation sector, which has experienced improvements. This can be due to the incorporation of technology and BCRA regulations in the same direction.

In emerging markets and developing economies, global integration has enabled a greater access to capital and technology and, by increasing productivity and growth, it has led to an improvement in living standards, although with a reduction in the wage earners' share of total income.
Unlike other countries, it would seem that in Argentina the economic situation defines almost systematically what happens with the labor share in the economy.

GRAPHIC 5

Evolution of labor productivity (index 1993=1)



Source: Prepared by the authors based on INDEC

Global Coordinates

How can companies be prepared to operate in a context of commercial and global dispute?

The trade war between the US and China, and the threat of a trade war between the US and the EU, require a well-considered response from companies. In order to avoid any immediate pain from customs tariffs, companies will need to prepare for various scenarios of global instability. Claudia Buysing Damsté, partner of PwC Rotterdam, The Netherlands, specialized in customs and international trade, shared her views on the commercial war, based on tariff barriers imposed lately and their effects on global economy.

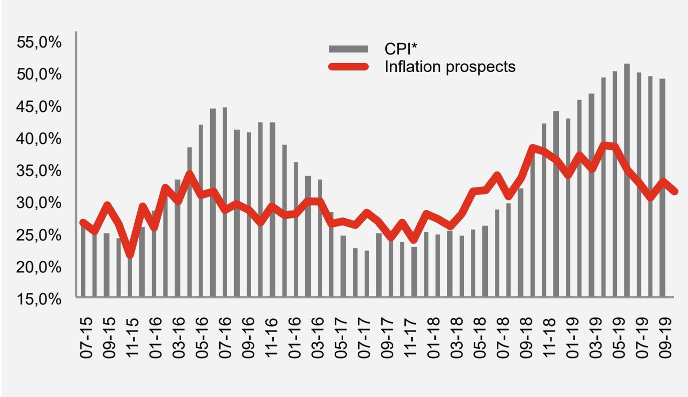
In accordance with the view of the specialist, when people talk about a trade war, they mostly mean import duties that countries or regions deploy as a political instrument to thwart one another. Threats to raise customs duties work in a similar way, rather like war rhetoric. Such threats are already resulting in disquiet among companies. An import tariff rate of 25%, like the US has implemented on Chinese products, and China's response to the tariff rate, immediately eat into company profit margins. But the EU and the US have also since exchanged threats regarding tariffs. Brexit is another factor causing uncertainty. At the same time, however, there are also positive developments. In late June the EU concluded a trade agreement with Mercosur, the trading bloc comprising Argentina, Brazil, Paraguay and Uruguay. And before that, the Union had reached a trade agreement with Japan.

In this context, one of the consequences of this type of conflict is the decision of companies on the relocation of their factories aimed at reducing losses. The trend in the past few decades of relocating production to Asia has now resulted in high customs costs for companies. While relocating again is possible, in many cases doing so will result in accelerated write-downs on investments in material and people. This will lead to even higher costs, in addition to the higher customs tariffs.

In view of the US elections, it is true that a different president could put an end to the levies. Furthermore, resumption of trade talks between the US and China could also bear fruit. But it is not just down to individuals. There is also a potential threat from the World Trade Organisation (WTO). In 2004, the US, on behalf of Boeing asserted that the European countries were illegally subsiding Airbus. And last year, the WTO concluded that the US was right in its assertion. As a sanction, the US has indicated its intention to levy additional customs tariffs on other product groups, such as European cheese, olive oil and wine. Consequently, we are dealing with a maze of disquiet and uncertainty that companies have to navigate.
In this regard, Damsté concludes that the way companies may deal with this disquiet is by conducting impact analyses and scenario planning. Furthermore, it is advisable to scrutinise all steps, from production through to delivery to the consumer or purchaser, by identifying the elements that are sensitive to commercial tariffs or those issues that might appear in the supply chain.

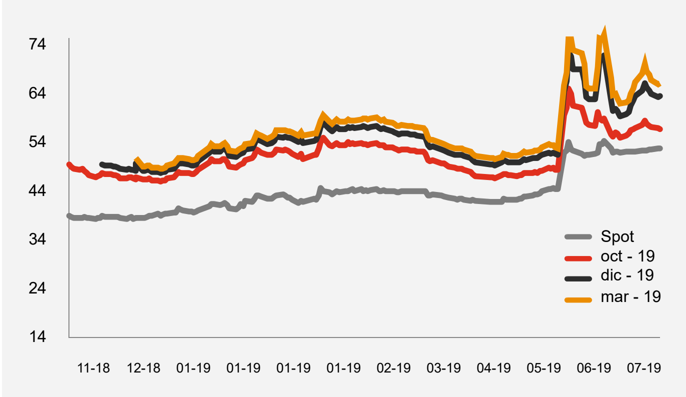
The world is growingly unpredictable. It is essential for each company to carry out their own analysis to better face the effects of trade disputes in view of global instability.

Inflation



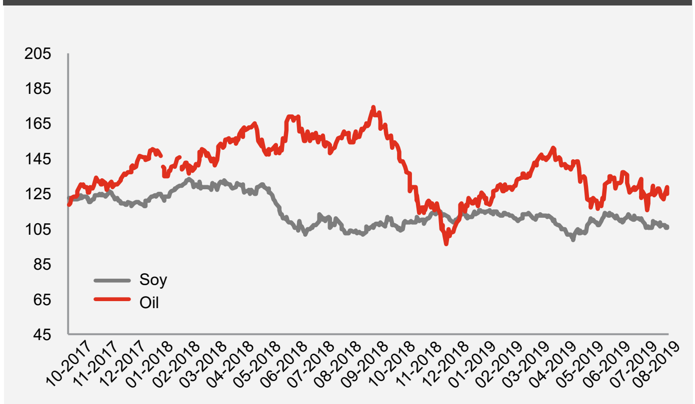
Source: Own calculations based on CPI Congress and UTD
*CPI Congress. As of November 2016 it is considered CPI City of Buenos Aires

Exchange rate: spot and futures



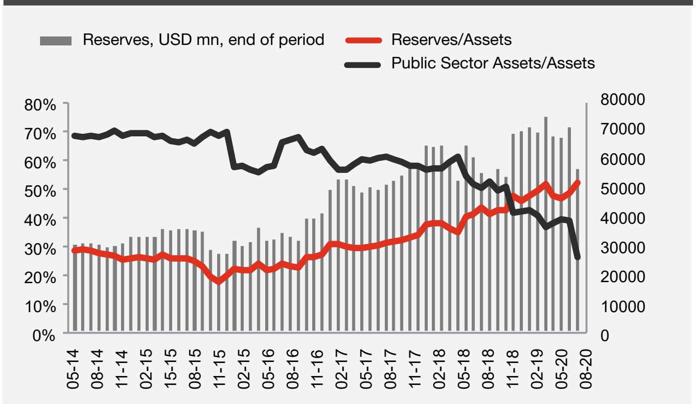
Source: Own calculations based on Rofex

Price of Soy and Oil, index2004=100



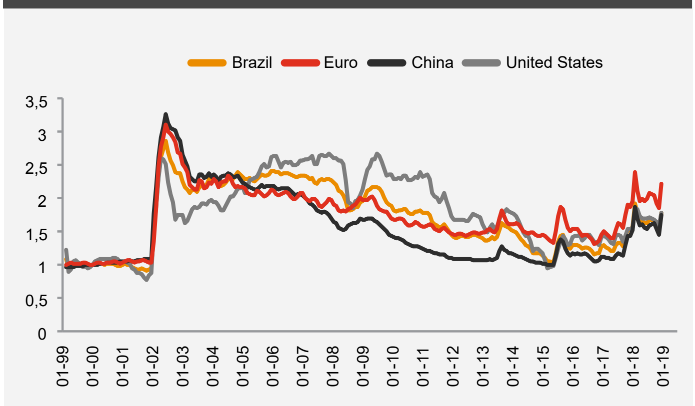
Source: own calculations based on CBOT y WTI NYMEX

Reserves and Central Bank Assets



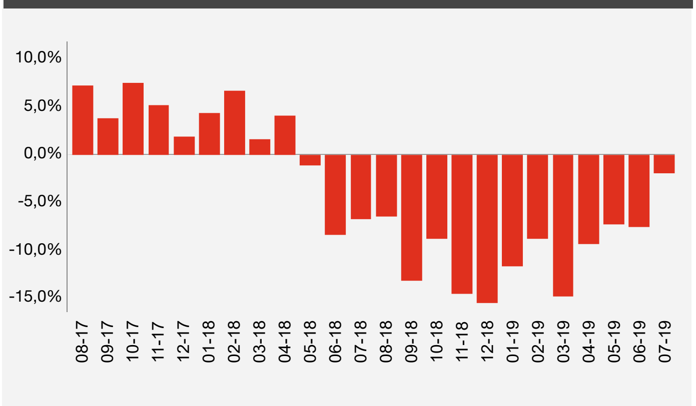
Source: own calculations based on Central Bank of Argentina

Real Exchange Rate Index: base Dec-99=1



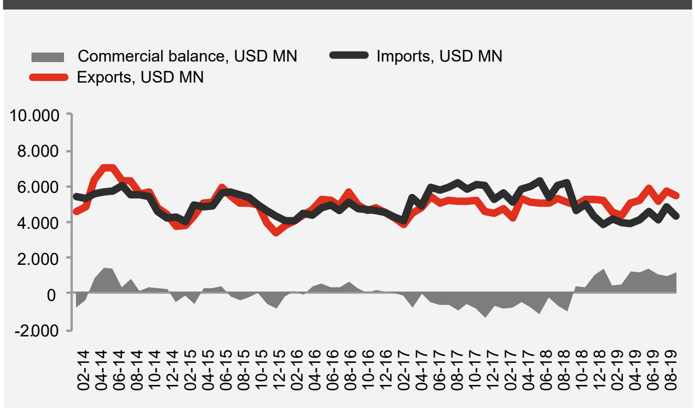
Source: own calculations based on the Central Bank of Argentina

Monthly Industrial Estimator



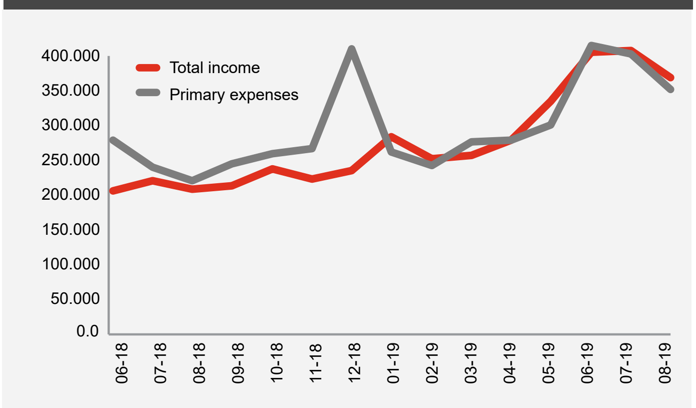
Source: own calculations based on INDEC

Foreign Trade



Source: own calculations based on INDEC

Income and Expenses of the National Non-Financial Public Sector



Source: own calculations based on Secretary of Finance

Activity and Prices	2016	2017	2018	may-19	jun-19	jul-19	aug-19
Real GDP, var % y/y	-1.8%	2.7%	-2.5%	-	0.6%	-	-
CPI Federal Capital, var % y/y	41.0%	26.1%	45.5%	53.4%	53.3%	52.6%	52.2%
CPI San Luis, var % y/y	31.4%	24.3%	50.0%	59.4%	58.1%	54.9%	57.1%
Industrial Production, var % y/y	nd	2.5%	-5.0%	-8.8%	-7.2%	-1.9%	nd
International Reserves (end period, USD mn)	39,308	55,055	65,806	71,663	64,278	67,899	54,100
Import Cover (month of reserves)	8.44	9.87	12.07	17.17	15.40	13.84	12.30
Implicit exchange rate (M0 / Reserves)	20.81	18.34	21.41	19.58	21.40	19.72	23.96
$/USD, end period	15.85	18.77	37.81	44.01	42.45	43.87	59.08

External Sector	2016	2017	2018	may-19	jun-19	jul-19	aug-19
Exports, USD mn	57,879	58,622	61,620	5,313	5,235	5,856	5,568
Imports, USD mn	55,911	66,930	65,443	4,174	4,174	4,905	4,400
Comercial Balance, USD mn	1,969	-8,308	-3,823	1,139	1,061	951	1,168
Currency liquidation by grain exporters, USD mn	23,910	21,399	20,202	1,915	2,219	2,254	2,266

Labor*	2016	2017	2018	may-19	jun-19	jul-19	aug-19
Unemployment, country (%)	7.6	7.2	9.1	-	10.6	-	-
Unemployment, Greater Buenos Aires (%)	8.5	8.4	10.5	-	11.9	-	-
Activity rate(%)	45.3	46.4	46.5	-	47.7	-	-

Fiscal	2016	2017	2018	may-19	jun-19	jul-19	aug-19
Income, $mn	2,070,154	2,578,609	3,382,644	357,362	454,442	450,910	458,495
VAT, $mn	583,217	765,336	1,104,580	117,200	127,408	131,014	141,395
Income tax, $mn	432,907	555,023	742,052	72,783	136,854	99,001	102,677
Social Security System, $mn	536,180	704,177	878,379	91,289	92,133	124,561	97,519
Export Tax, $mn	71,509	66,121	114,160	23,820	28,223	29,326	39,384
Primary expenses, $mn	1,790,789	2,194,291	2,729,251	260,669	359,095	350,394	308,680
Primary result, $mn	-343,526	-404,142	-338,987	499	-6,598	4,293	13,746
Primary result, $mn	185,253	308,048	513,872	78,173	82,480	100,707	30,288
Fiscal results, $mn	-474,786	-629,050	-727,927	-66,073	-67,712	-77,867	-14,798

Financial - interest rates***	2016	2017	2018	may-19	jun-19	jul-19	aug-19
Badlar - Privates (%)	20.04	23.18	48.57	48.50	51.05	48.52	55.17
Term deposits $ (30-59d Private banks) (%)	19.51	21.80	46.22	46.18	49.15	47.01	52.86
Mortgages (%)	19.70	18.61	47.70	43.81	45.50	52.96	48.39
Pledge (%)	20.82	17.42	24.88	23.11	23.23	23.38	26.73
Credit Cards (%)	44.45	42.21	61.11	63.29	67.35	71.87	70.54

Commodities****	2016	2017	2018	may-19	jun-19	jul-19	aug-19
Soy (USD/Tn)	362.6	358.9	342.3	324.2	326.6	325.5	314.6
Corn (USD/Tn)	141.1	141.4	145.0	140.8	171.3	168.1	148.1
Wheat (USD/Tn)	160.3	160.2	182.1	165.5	192.8	186.0	174.7
Oil (USD/Barrel)	43.3	50.9	64.9	63.9	54.7	57.5	54.8

* Quarterly figure. The year corresponds to Q4
** includes intrasector public interest
*** data 2012/13/14 corresponds to the daily weighted average of December
**** One moth Future contracts, period average
p: provisional

Source: INDEC, Secretary of Finance, Ministy of Economy, BCRA, AFIP, Unión por Todos, CIARA, CBOT, NYMEX

Our services

Macroeconomic analysis	Sectorial/Quantitative	Litigation	Regulatory
Monthly/quarterly report	Follow up and projection by sector	Support of experts' reports relating to economic matters	Tax benefits
Conferences	Quantification of demand	Dumping	Benefit/price structure
Projections and data	Applied econometrics	Antitrust	Quantification of impacts
	Revenue forecast		
	Surveys		

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