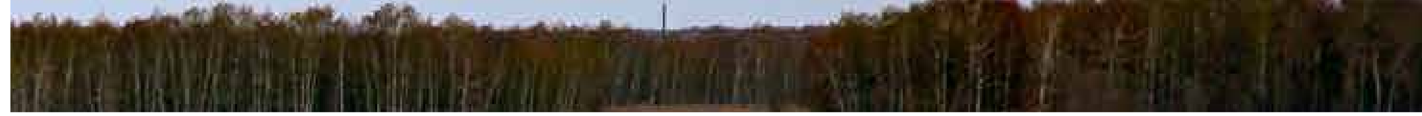
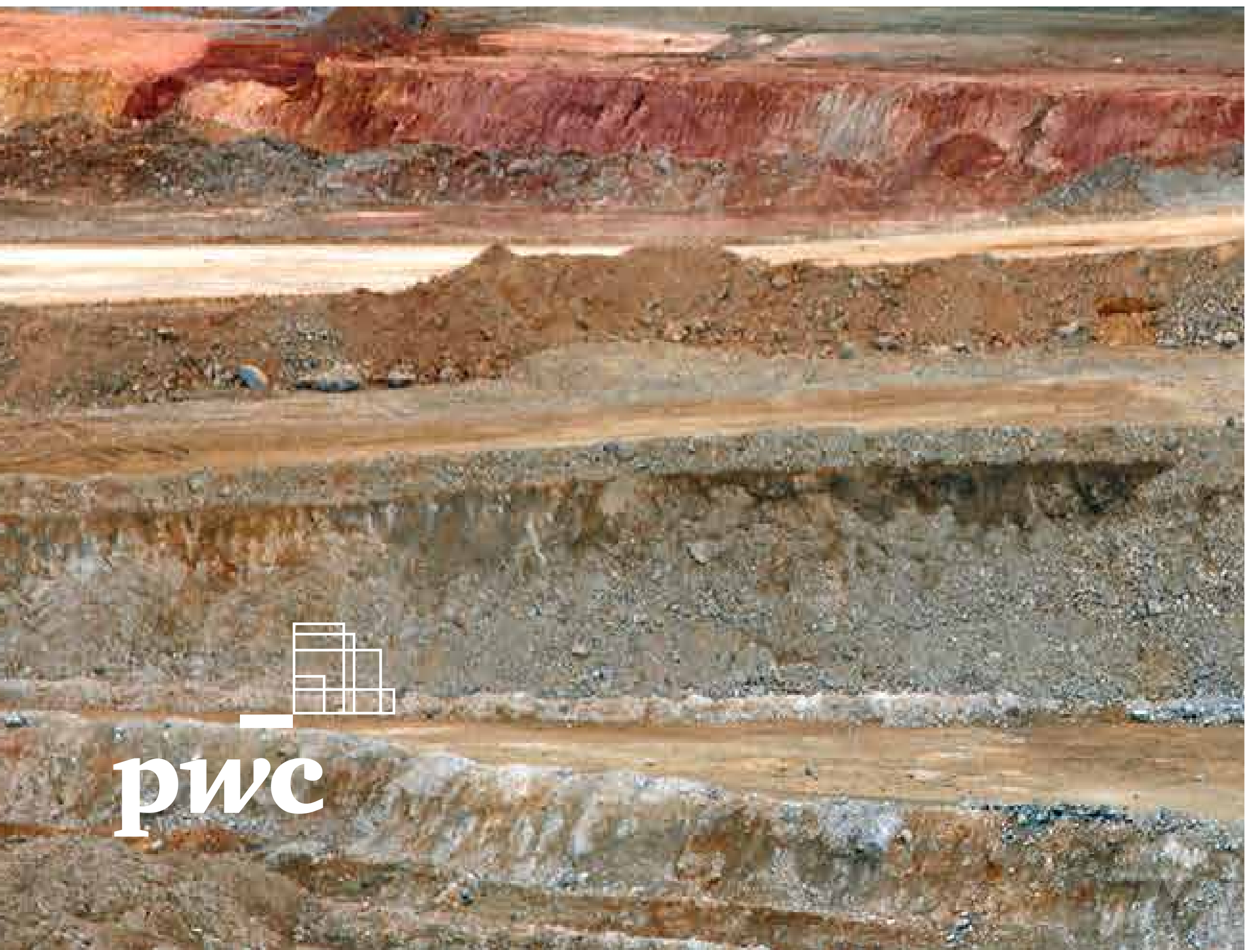



N° 61 - May 2020

Economic GPS



Editorial

Possible post COVID-19 scenarios

The urgency to implement protection measures in the face of the COVID-19 outbreak modified the priorities of social and economic policies in most countries worldwide. Nevertheless, the fiscal situation with which each economy meets these challenges is very diverse. In the case of Argentina, it is very limited. In fact, the pandemic found the local economy, once again, struggling to solve its fiscal and debt scenarios for the next years. In this respect, the way in which these scenarios unfold may create highly varied medium- and long-term paths for the local economy.

The grace period for the payment of USD 503 million interest on international bonds, whose original due date was last April, expired on May 22. However, the Government announced that it would continue negotiating with the creditors until June 2, aiming to reach an agreement. Whether or not Argentina reaches an agreement in the renegotiation with the bond holders is not irrelevant to the future of the Argentine economy, especially in the current COVID-19 scenario.

As explained in detail in the Tracking of this edition, fiscal accounts will be significantly hit by the increase in public spending, as a result of the measures adopted to compensate the income of a large part of the population and to support businesses, as well as by the decrease in tax revenue, which have been affected due to a downturn in economic activity. Financing this bulging primary fiscal deficit raises great concerns.

Therefore, the outcome of the debt renegotiation is key as it sets different courses, about which it is possible to speculate. If we analyze two variables, for example, an agreement with creditors and an economic plan, we can construct four scenarios.

If the Government reaches an agreement with the creditors on debt renegotiation, no significant payments would be expected in the next years. At the same time, there would be a possibility to access the voluntary debt market at reasonable rates to finance short-term fiscal expansion. However, the economic path in the mid and long term will not depend on the outcome of a renegotiation with foreign creditors but rather on the decisions made in terms of economic policy. If a comprehensive macroeconomic program is also established, aimed at achieving fiscal balance, by introducing structural changes that allow for a sustained recovery of confidence and investment and a boost in international trade (subject to the consequences of the pandemic), it would be possible to imagine a scenario of relatively rapid recovery and subsequent growth. On the contrary, an agreement with creditors facilitating access to the credit market and reducing the need of money issuance, but not combined with a sustainable plan that leads to larger and sound investments, could give way to a certain balance of macroeconomic variables and recovery. However, at best, the country would achieve an economic growth far below its potential level and go through volatility cycles that, as in the past, could increase during electoral processes.

Conversely, if the Government does not reach an agreement with foreign creditors, by definition there would not be foreign debt payments (at least not in the short term), but, at the same time, there would not be any chances of accessing the voluntary debt market (including the private sector). In this case, the mid-term possibilities can also split into two scenarios: either to develop a limited economic program for protecting and managing flows, or to move forward without program or adjustments. Within the current international context, unlike the events that took place in the first decade of the millennium, the first scenario —a kind of extreme model of “living with our means”— may result in great amount of effort and demands that question social support. In the second scenario, the only source of financing of an increasing deficit is money issuance, which builds pressure on the exchange rate gap and price levels, and, in the mid-term, drives devaluation and price hikes, with consequences already known in the history of the country.

The price fluctuation of Argentine bonds in the last days allows us to infer that negotiations are still running and an agreement cannot be ruled out. If market signals are confirmed, we would still need to see which decisions will be adopted from then on in terms of policy.

José María Segura
Economista Jefe de PwC Argentina

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The pandemic broke in Argentina in a time when the economy was fragile, going through its second year of recession and facing the challenge posed by debt renegotiation. These issues still remain, although new challenges have arisen as a result of the shock caused by the epidemiological situation. Among these challenges, the most relevant is how the Treasury is going to balance its spending needs and its financing options.

Industry Roadmap

Mining – putting paradigms to the test

The global uncertainty created by the COVID-19 pandemic affects each and every industry, generating difficulties for business management and putting every existing paradigm to the test, even in the mining activity.

Federal Landscape

Province: Salta

The province of Salta is located in the North-West region of the Argentine Republic. Its productive structure shows a significant share of tobacco, sugar cane and bean manufacture. Likewise, other relevant manufactures stand out: hydrocarbons, wine business, citrus sector and mining.

Tracking

The challenges of the Argentine economy in times of COVID-19

The pandemic broke in Argentina in a time when the economy was fragile, going through its second year of recession and facing the challenge posed by debt renegotiation. These issues still remain, although new challenges have arisen as a result of the shock caused by the epidemiological situation. Among these challenges, the most relevant is how the Treasury is going to balance its spending needs and its financing options.

During the first quarter of the year, the National Public Sector recorded a primary deficit of ARS 155.9 billion compared with the surplus of ARS 10.3 billion reached in the same period of the prior year. Although the three months showed a deficit, 80% of it materialized in March, the month in which the social, preventive and mandatory isolation period began, halting a large part of the economic activity. In March, such fiscal imbalance stemmed from increases in current expenditure (most notably the 267% rise in transfers to the provinces, 125% in subsidies and 67% in welfare payments, as against the same period of the prior year) and a tax collection well below inflation.

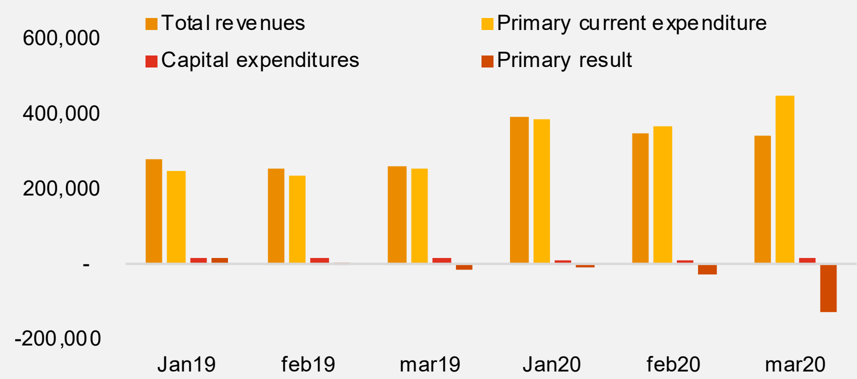
Given the extension of the limitations on productive activities that continued, during April and May, though subject to some changes, the National Government implemented policies to partially contain the economic crisis of the different social actors. According to a detailed analysis published by the Argentine Budget Office, as of April 28, the measures designed to support vulnerable sectors and private companies, and other measures specific to the health sector, amounted to ARS 576 billion, representing around 2.1% of GDP. In turn, tax exemptions would result in a lower tax revenue of approximately ARS 51.5 billion (0.2% of GDP), while financial facilities would hover around ARS 571.7 billion (another 2 percentage points of GDP).

The national authorities indicated that the national emergency family allowance (IFE, for its acronym in Spanish) and the payment of 50% of the private sector employee wages (up to a ceiling of two minimum wages) will be extended for an additional month. These, added to other smaller benefits[1], will imply an additional increase in public spending of about ARS 319 billion, which could reach ARS 490 billion, if these benefits remain for another month. In addition, at least in May and June, there will be a loss of tax revenue as a result of the slowdown in economic activity. According to data from the Federal Administration of Public Revenue (AFIP), total revenue in March was 12 percentage points below the average growth for the period between September 2019 and February 2020, which was already showing negative values in real terms, whereas in April, revenue fell by 36% as against the same period. As previously mentioned, this situation is likely to repeat while restrictions on circulation due to the health measures continue and may result in additional revenue losses ranging from ARS 227,000 to ARS 508,000 in the coming months. Thus, Treasury total spending needs could reach ARS 998 billion in the next two months.

[1]Food card, extraordinary payment to pensioners, bonus to beneficiaries of the Universal Child Allowance (UAH), a grace period for debts held by pensioners, guarantees for bank lending to MSMEs provided by the Argentine Guarantee Fund (FOGAR), zero-rate loans.

GRAPHIC 1

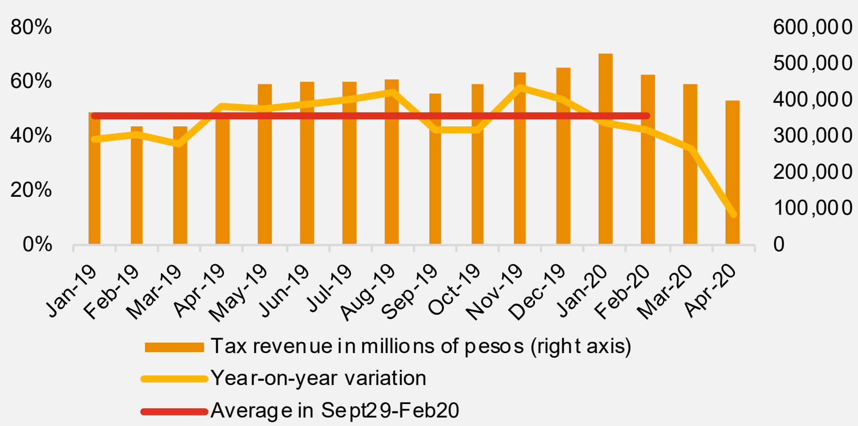
Revenues, expenditure and results of the Non-Financial National Public Sector, in millions of pesos



Source: Prepared by the authors based on statistics from the Ministry of Finance

GRAPHIC 2

Tax revenue



Source: Prepared by the authors based on AFIP data.

The complexity of the situation is that the National Government has no access to credit; therefore, in a context of revenue losses and increase in expenditure, the only possible alternative in the short term is financing through money issuance by the Central Bank. Based on data as of May 12, so far this year, the Central Bank transferred temporary advances and profit transfers for ARS 912 billion to the National Treasury, which represent around 3% of GDP. An amount of ARS 730 billion of the total mentioned above was transferred after the beginning of the quarantine period.

Hence, considering the behavior of the Central Bank liabilities, the average value of the monetary base in the first 12 days of May is 36% above that of December 2019, while the value of the stock of Leliqs is 65% above the levels of said month. Even though one might infer a higher precautionary demand for cash within a context in which banks are not operating normally due to the health measures, the increased amount of pesos in circulation — against a backdrop of negative real interest rates and a regulated foreign exchange market— gave way to a widening of the exchange rate gap (difference between official and parallel market rates).

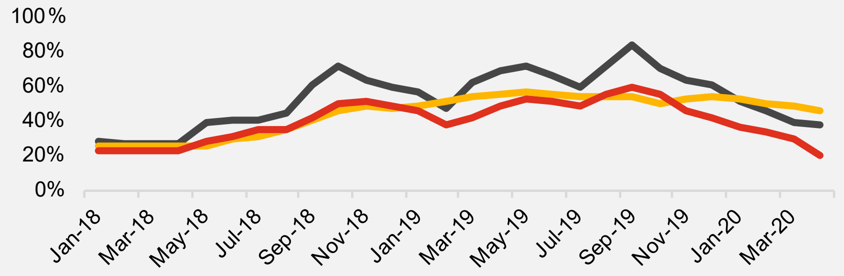
Besides from generating disruptions in the economy and signals that are difficult to internalize, the widening of the exchange rate gap may lead to new and higher inflationary pressures in the medium term, especially if there is an excess of liquidity that exerts even more pressure on the parallel foreign exchange rate, thus widening the gap even more.
In the very short term, an inflationary spiral seems less unlikely, as there are many prices fixed by the Government, for example, public utilities fees, fuel and some food product prices, added to the strong impact caused by COVID-19, which has practically paralyzed economic activity since March 20. Even with all these elements, the monthly Consumer Price Index (CPI) hit 1.5% in April, its lowest level since January 2018. If the wide exchange rate gap and high liquidity remain unchanged, future devaluation expectations may arise and, given the lack of a comprehensive program that provides post-pandemic economic measures, inflationary pressures may materialize.

At this point, the answer to most of the concerns caused by the macroeconomic situation depends mainly on the outcome of the debt renegotiation, which has been postponed until June 2, rather than on the extension of the quarantine —although this is no minor issue. If Argentina reaches a payment agreement that paves the way for fiscal slack over the next years and allows it to return to volunteer capital markets at reasonable rates, it could be possible to anticipate that financing would not be an issue in the short term; therefore, it could reduce the need for money issuance involved in the fiscal expansion, in the face of this pandemic. Furthermore, even though creditors may have certain tolerance in the short term, such agreement is expected to be associated with some commitment to cutting deficit in the medium and long term, which would reduce future financing needs and the risk of inflation ratcheting up.

In contrast, a sustained increase in spending financed exclusively through money issuance may lead the Argentine economy to exacerbate economic imbalances. To date, as negotiations have not yet concluded, the intention to reach an agreement seems to prevail.

GRAPHIC 3

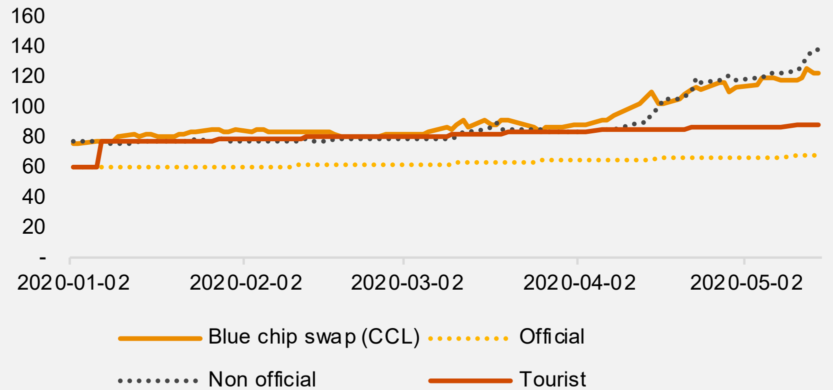
Interest and inflation rates



Source: Prepared by the authors based on BCRA and INDEC official statistics

GRAPHIC 4

Exchange rates



Source: Prepared by the authors based on BCRA, Reuters and Ambito.com official data

Industry Roadmap

Mining – putting paradigms to the test

By Leonardo Viglione, partner at PwC Argentina, Mining Industry Leader.

The global uncertainty created by the COVID-19 pandemic affects each and every industry, generating difficulties for business management and putting every existing paradigm to the test, even in the mining activity.

It is common knowledge that technology is becoming a critical differentiator. Automation and digitalization have been gaining great impetus due to the significant and differentiating benefits of digital leadership. The current situation generates an opportunity to step-up and take an additional leap in the automation and robotization of many processes (such as the use of autonomous means of transport, remote operation of heavy machinery, the use of blockchain to track materials from their extraction to the point of sale, commercial applications for drones to replace humans in hazardous work, to cite a few examples).

As the old adage says, in the midst of every crisis lies great opportunity. Increased use of technology would minimize interruptions in the productive chain and help maintain production volumes. Exceptional situations, such as the one we currently face, force organizations to rethink operational risk scenarios that were deemed unlikely or not assessed in the past.

The quarantine imposed by governments to safeguard populations from the effects of the pandemic will very likely generate declines in production and drops in prices of raw materials and minerals in the short term as a result of saturated storage capacities. In the medium and long term, this will translate into a shortfall in supply as a result of the suspension of continuous production cycles and consumption of safety stocks.

Speaking of facts that were probably not analyzed until recently, we may note, by way of example, that India is the world's leading market for gold for jewelry-making. As many other countries, India has put its entire population in quarantine, which will probably cause the normally high demand for this type of gold to suffer a decline in the present context. The same applies to other minerals, such as copper or iron, which will be hit by a drop in demand in their markets.

Exceptional situations such as the ones we are currently experiencing will clearly require reconsidering the very foundations of business as we know it. Industries like mining will probably change in unprecedented ways; however, the essentials of efficiency, profitability, suitable use of resources, sustainability, social license and community relations will remain, and the industry will continue to work on them as it evolves.

Federal Landscape

Province: Salta

Province: Salta

Region: Northwest

The province of Salta borders with the province of Jujuy and Bolivia to the north; with the Republic of Paraguay and the provinces of Formosa and Chaco to the east; with the provinces of Santiago del Estero, Tucumán and Catamarca to the south, and with the province of Jujuy and the Republic of Chile to the west.

It is the 7th most populated jurisdiction in Argentina, concentrating 3.1% of the country's population.

The provincial Gross Geographic Product (GGP) represented 1.5% in the country's total share, according to the most recent statistics (2012) with homogeneous methodology (ECLAC, 2005).

1,214,441
Population

7.8
Population density (pob/km²)

155,488
Area in km2

Employment and income indexes

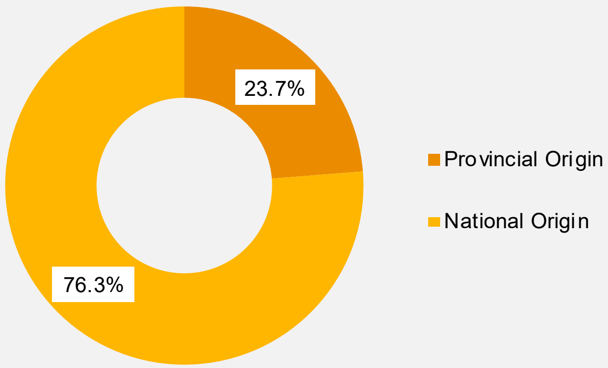
	Province	Region	Nation
Employment rate	42.7%	41.4%	43.0%
Unemployment	10.3%	8.3%	8.9%
Activity rate	47.6%	45.1%	47.2%
Employment* (in thousands)	118	449	6,042

*Registered private sector employees by province.

Note 1 (rates): Ministerio de Economía, https://www.minhacienda.gob.ar/datos/.
Note 2 (employment): Ministry of Labor, Employment and Social Security. Report of the work registered.

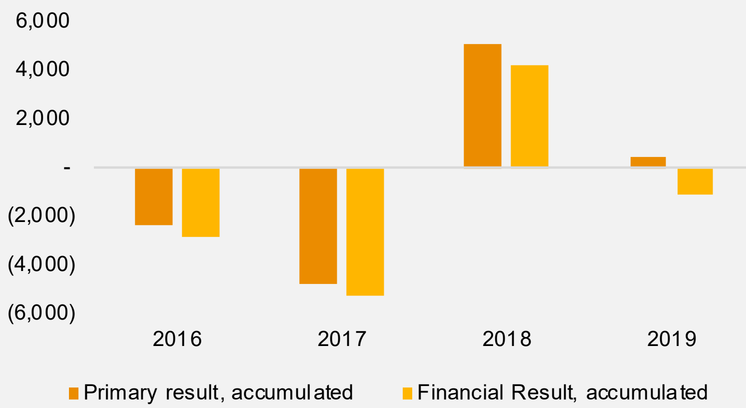
Fiscal indicators

Tax revenue by origin, 2019



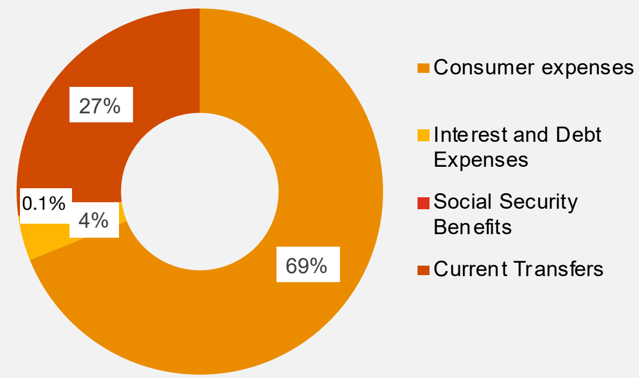
Source: Prepared by PwC Argentina based on Ministry of Economy, Secretary of Finance, Official Budget Office, Government of the Province of Salta.

Fiscal Result, millions of pesos



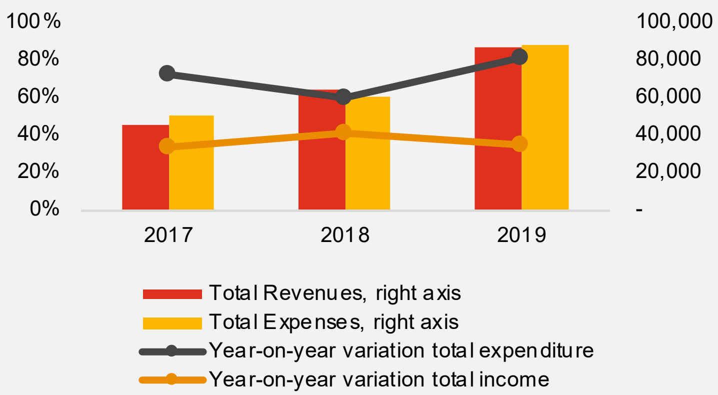
Source: Prepared by PwC Argentina based on Ministry of Economy, Secretary of Finance, Official Budget Office, Government of the Province of Salta.

Composition of current expenditure, 2019



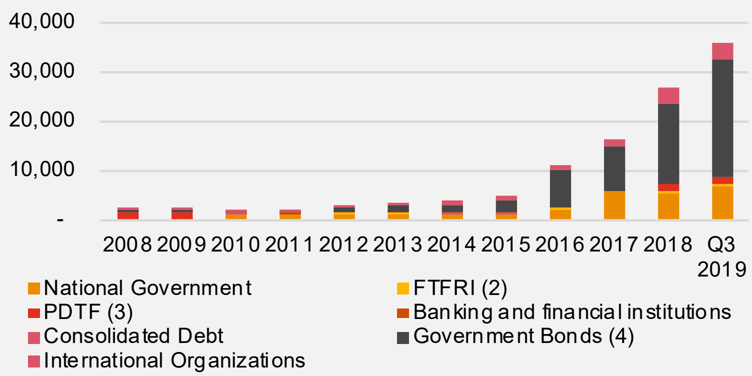
Source: Prepared by PwC Argentina based on Ministry of Economy, Secretary of Finance, Official Budget Office, Government of the Province of Salta.

Total income and expenses, millions of pesos



Source: Prepared by PwC Argentina based on Ministry of Economy, Secretary of Finance, Official Budget Office, Government of the Province of Salta.

Public Debt, in million of pesos[1]



Source: General Directorate of Fiscal Relations, Fiscal Responsibility System, Ministry of Economy.

Notes:

(1) All data are preliminary and subject to revision. Floating Debt is not included.
(2) Federal Trust Fund for Regional Infrastructure
(3) Provincial Development Trust Fund
(4) Securities expressed at Residual Value

In 2019, the Central Administration and Decentralized Bodies of the province of Salta recorded a financial loss amounting to ARS 1.2 billion, resulting from an income of ARS 86.4 billion and expenses amounting to ARS 87.5 billion.

Total income increased 34.9% compared to the previous year. In turn, expenses for the previous year rose 46.26% compared to the ARS 59.8 billion incurred in 2018.

Total provincial public debt, excluding floating debt, at September 30, 2019 amounted to ARS 35.6 billion.

Exports

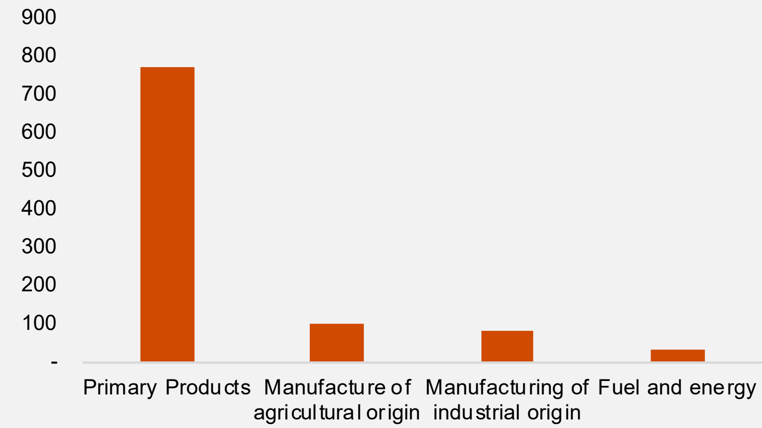
Salta	2019	2018
Ranking position	11	12
Amount	993	854
Regional participation	25.2%	21.8%
National participation	1.52%	1.38%

Source: Prepared by PwC Argentina based on INDEC statistics.

Throughout 2019, exports from the province of Salta grew 16.3% compared to the previous year, amounting to USD 993 million and representing 1.5% of Argentina's total exports.

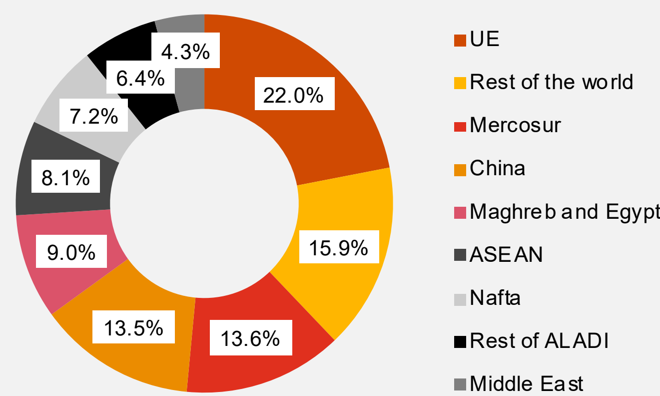
The most relevant products exported were unprocessed pulses and vegetables–but mostly pulses–, which represented 28.2% of total provincial exports and recorded a 17.2% rise; followed by cereals –corn–, with a 22.5% share and 52.7% growth; and unmanufactured tobacco, accounting for 14.0% of provincial exports. Main export destinations were the European Union, Mercosur states, China, Magreb and Egypt and ASEAN states.

Main exports



Source: Prepared by PwC Argentina based on INDEC statistics.

Main destinations



Source: Prepared by PwC Argentina based on INDEC statistics.

	Amount	Year-on-year variation	Province vs Nation
Cement Consumption (Mar-2020)			
• Bag	14,226	-6.53%	353,858 / 14,226
• Bulk	1,151	-79.85%	49,795 / 1.151
Car Patenting (Mar-2020), quantity	220	-73.14%	4,335 / 220
Supermarket Sales (Feb-2020), million pesos	1,598	15.84%	86,773 / 1,598
Electricity Demand (Dec-19), in GWh/Centigrade/MW	180	9.15%	9,272 / 180
Credits*			
• Non-Financial Loans. Personal	13,975	-4.73%	398,764 / 13,975
• Non-Financial Loans. Cards	7,096	39.72%	599,347 / 7,096
Deposits*			
• Current account deposits	6,284	67.64%	695,311 / 6,284
• Deposits in the savings bank	18,523	31.94%	1,580,641 / 18,523
• Fixed-term deposits	20,147	10.70%	1,495,428 / 20,147

*In national currency and foreign currency, in thousands of pesos, 4th quarter 2019

Nation Salta

Province activity

In the productive structure of Salta, tobacco manufacture shows a significant share (28.3% of Argentina's total), along with sugar cane (11.6%) and bean (75.3%) manufacture.

Likewise, other relevant manufactures stand out: hydrocarbons, wine business (Torrontés), citrus sector (grapefruit) and mining (borates), among others.

According to the latest information available, services accounted for 61% with four of its components reaching 43.3% of the provincial GGP share: education (13.9%), public administration (11.4%), trade (10.7%) and transport, storage and communication services (7.3%). In turn, within industrial products (39% of GGP), the following sectors stand out: primary sector activities (21.6%), manufacturing industry (9.7%), followed by construction (4.9%) and energy, gas and water (2.8%).

Note cement
Source: Portland Cement Manufacturers Association, https://www.afcp.org.ar/copia-de-despacho-total-de-cemento-.

Note Car Patenting
Source: SIOMAA, http://www.siomaa.com/InformeSector/Reportes.

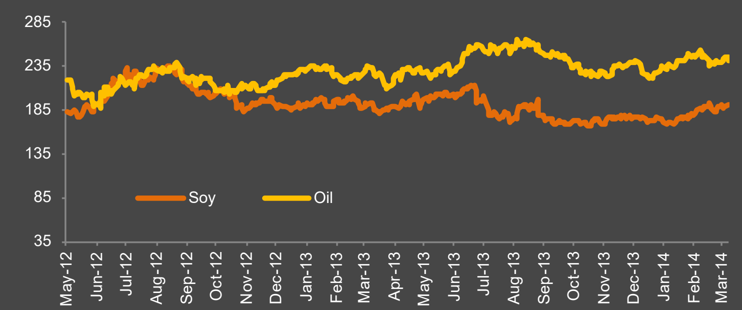
Note Supermarket Sales
Source: INDEC, National Directorate of Statistics and Prices of Production and Trade.

Note deposits y credits
Source: Central Bank of Argentina.

Note Demand for Electricity:
Source: Ministry of Economy. The distribution company Salta energy distribution company is considered

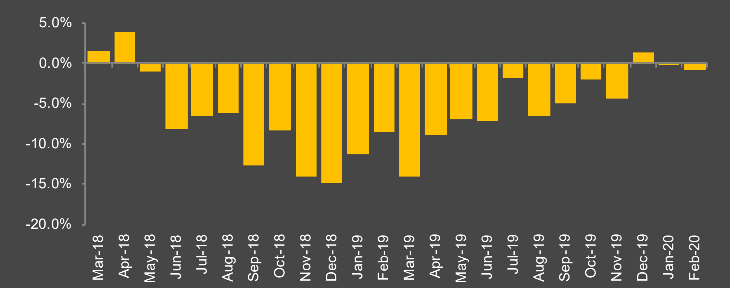
Macro Monitors

Price of Soy and Oil, index 2004=100



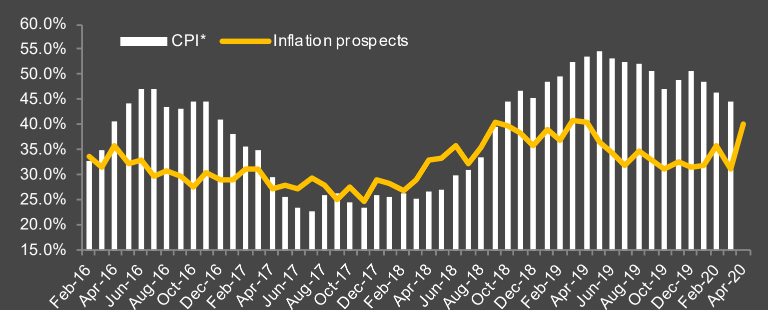
Source: Own calculations based on CBOT and WTI NYMEX

Monthly Industrial Estimator



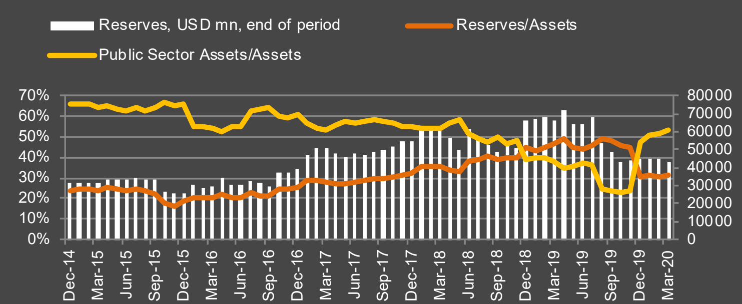
Source: Own calculations based on INDEC

Inflation



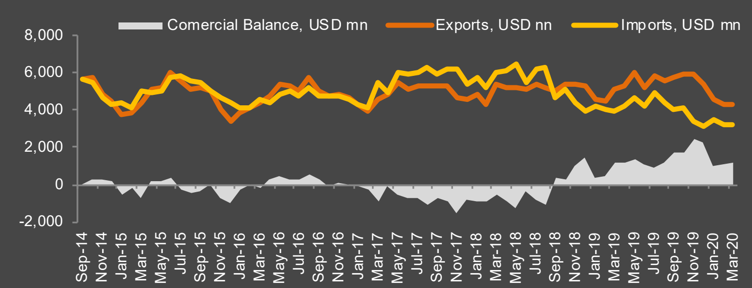
Source: Own calculations based on CPI of City of Buenos Aires and UTD

Reserves and Central Bank Assets



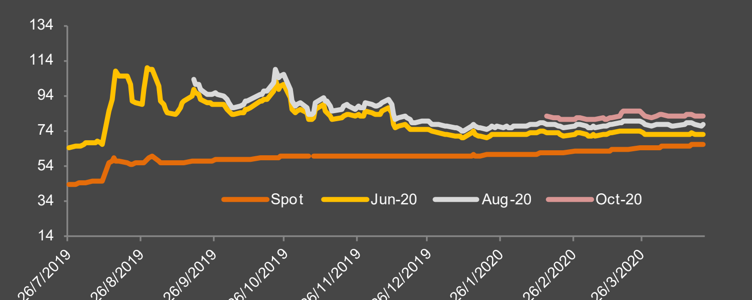
Source: Own calculations based on Central Bank of Argentina

Foreign Trade



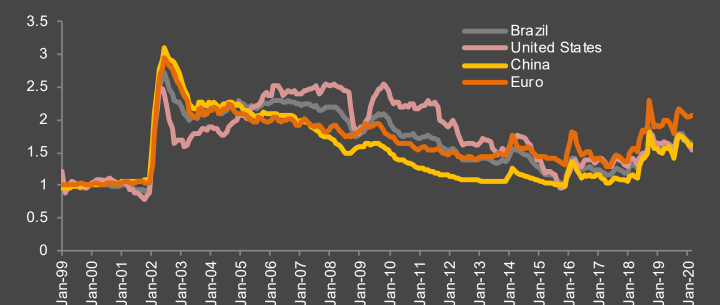
Source: Own calculations based on INDEC

Exchange rate: Spot and Futures



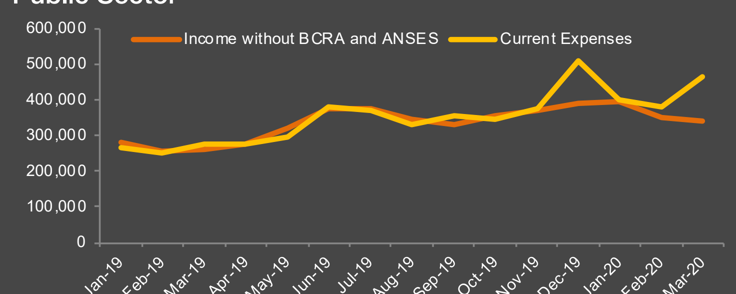
Source: Own calculations based on Rofex

Real exchange rate index: Dec-99=1



Source: Own calculations based on the Central Bank of Argentina

Income and Expenses of the National Non-Financial Public Sector



Source: Own calculations based on Secretary of Finance

Table of indicators

Activity and Prices	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20
Real GDP, var % y/y	2.7%	-2.5%	-2.2%	-	-	nd	-
CPI Federal Capital, var % y/y	26.1%	45.5%	50.6%	48.6%	46.4%	44.6%	42.2%
CPI San Luis, var % y/y	24.3%	50.0%	57.6%	56.7%	55.1%	52.2%	50.0%
Industrial Production, var % y/y	1.9%	-14.8%	1.4%	-0.3%	-1.0%	-16.8%	nd
International Reserves (end period, USD mn)	55,055	65,806	44,781	44,917	44,791	43,561	43,568
Import Cover (month of reserves)	9.87	12.06	10.94	12.71	14.02	13.72	14.93
Implicit exchange rate (M0 / Reserves)	18.34	21.41	42.33	38.04	38.31	52.62	42.86
$/USD, end period	18.77	37.81	59.90	60.33	62.21	64.47	66.84

External Sector	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20
Exports, USD mn	58,622	61,781	65,116	4,556	4,324	4,333	4,329
Imports, USD mn	66,930	65,482	49,124	3,534	3,195	3,175	2,918
Comercial Balance, USD mn	-8,308	-3,701	15,992	1,022	1,129	1,158	1,411
Currency liquidation by grain exporters, USD mn	21,399	20,202	23,720	1,614	815	1,064	1,524

Laboral*	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20
Unemployment, country (%)	7.2	9.1	8.9	-	-	nd	-
Unemployment, Greater Buenos Aires (%)	8.4	10.5	10.0	-	-	nd	-
Activity rate(%)	46.4	46.5	47.2	-	-	nd	-

Fiscal**	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20
Income, $mn	2,578,609	3,382,644	5,023,566	527,284	471,693	443,637	398,659
VAT, $mn	765,336	1,104,580	1,532,597	170,696	141,997	136,170	126,884
Income tax, $mn	555,023	742,052	1,096,521	96,142	93,116	79,462	73,483
Social Security System, $mn	704,177	878,379	1,175,793	151,026	122,536	119,929	100,421
Export Tax, $mn	66,121	114,160	398,312	23,979	21,100	28,999	28,172
Primary expenses, $mn	2,194,291	2,729,251	3,795,834	387,510	365,255	449,646	521,426
Primary result, $mn	-404,142	-338,987	-95,122	-3,766	-27,497	-124,728	-228,822
Primary result, $mn	308,048	513,872	914,760	109,203	62,706	50,778	46,288
Fiscal results, $mn	-629,050	-727,927	-819,407	-90,818	-67,578	-166,305	-266,050

Financial - Interest rate***	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20
Badlar - Privates (%)	23.18	48.57	41.75	36.48	33.52	29.49	20.84
Term deposits $ (30-59d Private banks) (%)	21.80	46.22	40.80	35.85	32.94	29.23	21.37
Mortgages (%)	18.61	47.70	47.51	44.08	38.34	30.59	28.93
Pledge (%)	17.42	24.88	30.54	31.54	24.01	23.88	23.54
Credit Cards (%)	42.21	61.11	76.28	76.46	73.41	57.46	47.81

Commodities****	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20
Soy (USD/Tn)	358.9	342.3	326.9	337.1	325.4	319.3	310.0
Corn (USD/Tn)	141.4	145.0	150.9	151.9	148.6	141.7	126.3
Wheat (USD/Tn)	160.2	182.1	181.5	207.6	201.8	196.6	198.9
Oil (USD/Barrel)	50.9	64.9	57.0	57.5	50.5	30.4	16.7

* 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, Ministry of Treasury and Finance of the City of Buenos Aires, CIARA, CBOT, NYMEX

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Conferences	Quantification of demand	Dumping	Benefit/price structure
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