Two months after the new monetary regime

Export of Knowledge-based Services (KBS)

Current account dynamics and its determinants

Does indebtedness in US dollars involve a risk for emerging markets?
Another year in Argentina ends, once again, with significant macroeconomic and financial volatility. 2018 began with promising growth following the positive dynamic of the second half of 2017, even with high inflation, thought dropping, and a government winning the mid-term elections more easily than expected.

Still, as of April, the combination of certain external events -like the reversal in international financial flows as a consequence of higher interest rates in the United States that translated into a strengthening of the dollar worldwide, with a devaluation of most currencies-, and internal events –an adjustment of inflationary targets, income tax on income from financial transactions newly in effect, a lower harvest due to drought- triggered the risks inherent in the gradual adjustment model and led to a credibility crisis resulting in an initial run on the dollar that accelerated inflation and caused a negative impact on the pace of business activity.

Thus, the expectation generated at the beginning of the year that the zigzag that began in 2011 could be broken, with growth in odd years and drops in even years, were thus frustrated.

The macro-financial stability achieved in recent months was the result of a combination of very restrictive monetary policies, sustainable with difficulty for a long period. The key to balancing financial variables at more compatible levels with the growth of the economy is that inflation drops significantly in the coming months.

Thus, 2019 begins as a year with more uncertainties than could have been expected at the beginning of 2018, adding the turmoil of an election year and an increasingly more volatile international world.

It is likely that the recovery of the agricultural sector, the boost of energy-related industries and of other growing sectors related to the Brazilian economy -particularly, growth in the industrial sector that requires Argentine goods- will contribute to reverse in certain measure the downturn of business activity. So let us toast to a 2019 as a year of recovery, with less volatility and an Argentina strengthened by the challenges it faces. Happy New Year!

José María Segura
Chief Economist PwC Argentina
Tracking

Two months after the new monetary regime

The Central Bank introduced the new monetary policy just two months ago, and the policy is far more restrictive than previously, with the immediate aim of stabilizing the exchange rate, while looking to the short and medium terms to begin to hold down inflation.

Industry Roadmap

Export of Knowledge-based Services (KBS)

The knowledge economy and the economy of digital technologies are robust and progressing, creating an increasing market demand for high-quality KBS offer in our country. Leading countries have consistent annual growth rates of around 10%.

Zooming

Current account dynamics and its determinants

Argentina showed a current account deficit in 39 of the last 57 years, with the 2017 current account deficit relative to GDP being the largest deficit in the last 20 years. Below is a description of some of the main drivers that have had an impact on the current account balance.

Global Coordinates

Does indebtedness in US dollars involve a risk for emerging markets?

Current contractionary monetary policy implemented by the United States Federal Reserve (the Fed) resulted in a strengthening of the dollar. This could have a significant impact on emerging markets. In this regard, PwC UK has analyzed the level of exposure of the main emerging countries in the face of the rise of the American currency and its effect on economic performance.

Summary

Two months after the new monetary regime 04
Export of Knowledge-based Services (KBS) 07
Current account dynamics and its determinants 08
Does indebtedness in US dollars involve a risk for emerging markets? 12
Monitors 14
Table of indicators 15
Our services. Contacts 16
Tracking
Two months after the new monetary regime

The Central Bank introduced the new monetary policy just two months ago, and the policy is far more restrictive than previously, with the immediate aim of stabilizing the exchange rate, while looking to the short and medium terms to begin to hold down inflation.

On October 1, the BCRA abandoned the inflation-targeting regime to recoup expectations and continue on a path toward disinflation setting in motion a monetary aggregate control plan. In particular, the monetary authorities committed to not increase the monetary base until June 2019. In addition, areas of intervention and no exchange intervention were set for the exchange rate until the end of 2018. This area was defined on October 1 for an exchange rate of 34 pesos per dollar at the lower limit and 44 pesos per dollar at the upper limit: these limits are adjusted daily at a monthly rate of 3%.

Next, we inquire about the first results obtained after the application of the new regime, implemented by the new authorities. As already mentioned in our previous juncture reports, one of the priorities has been to stabilize the exchange market, which in the months prior to October had been volatile. One of the consequences of this fluctuation was its transfer to prices. In September, the national CPI had a 5.4% increase compared to the previous month.

The exchange rate has seemed to begin to stabilize in light of the first results. In October, the North American currency fell, with appreciation of the peso at 3.8% with respect to September; while in the month of November the appreciation was 1.8% compared to October. In addition, during this period, the value was closer to the lower band of the non-intervention zone.

Different underlying factors are behind the exchange calm. On the one hand, it may be that the new policy, the agreement with the IMF and the commitment of zero primary fiscal deficit (in a context where the government is over-complying with the deficit target for 2018, which is set at 2.7% of GDP), have had some positive effects on expectations. But no less was the combination of the withdrawal of pesos from the market and the rise in the interest rate, in a recessive context. In the first scenario, the monetary base\(^1\) not only did not increase (which was the objective) but shrank, on the monthly average, in the first two months of application of the policy. The expansion rate (on a monthly average) went from 46% year-on-year in September to 41% in October and 39% in November. If the September expansion rate had continued, an additional $41.337 billion in October and an additional $22.122 billion would have been added in November. The impact of the new policy was even more severe in the M2 aggregate\(^2\), which fell from 20% year-on-year in October to 16% last month.

This result occurred even in a context of dismantling the LEBACs. Thus, the BCRA continued with the program to eradicate these bank notes for the remainder of the year. While, during the first half of the year, the stock of LEBACs exceeded the amount of the monetary base, by November it represented only 12%.

However, the downside was the behavior of the LELIQ, the instrument chosen to regulate the stock of the monetary base. It is through the issuance of the LELIQ, that only financial institutions have access to for 7 days, that the BCRA withdrew pesos from the market. Since October, this financial asset increased its average monthly stock by 62%, by representing 25% of the monetary base in September to 41% in October and 51% in November. This bank note that had as a floor an interest rate of 60%, reached a maximum of 73.52%.

The logic behind this was that the high rates received by the banks led to an increase in the rates of fund raising by the banks, again attracting pesos to obtain profitability in pesos at a positive real rate.

Therefore, what allowed for the exchange rate stability for the moment was the conjunction of an economy in recession (without available resources to overturn the dollar); and the lack of pesos as a result of the policy of the BCRA, plus any remaining pesos being used to obtain interest rates (for example, time deposits in pesos increased 18% in October compared to the previous month and 85% year-on-year, while in November these variations were 11% and 99% respectively).

\(^1\) Monetary base includes monetary circulation plus deposits in pesos in the current account in the BCRA.  
\(^2\) M2: Means of payment, includes cash with the public, cancellation checks in pesos and demand deposits in pesos from the public and private non-financial sectors.

4
In this context of exchange rate stability, in the first days of December the BCRA authorities made known the decisions adopted by the monetary policy committee. The committee confirmed the course of monetary policy, establishing explanations on its actions in the matter of management of monetary aggregates and exchange intervention. The committee decided to eliminate the floor of the interest rate of the monetary policy, which since the end of August was at 60% in order to anchor expectations and contain the sudden variations of the exchange rate. This measure could have a positive effect on the real economy, the continuance of high interest rates restrict access to the productive sectors, and an important tool to revive the activity. The committee also stated that, in December, if the exchange rate remains below the non-intervention zone, the BCRA would buy dollars through tenders of up to a maximum amount of US$ 50 million per day, provided that the expansion of pesos generated does not exceed 2% of the objective (which provides for around 687 million dollars). Finally, details were provided on how the non-intervention band will continue to vary, which during the first quarter of 2019 will do so at a rate of 2% per month (one percentage point lower than the prevailing rate until December), using the current limits as of December 31, 2018 (37,117 and 48,034, respectively). These announcements would signal that the convergence rates of the macro variables are being harmonized, meaning that the short-term equilibriums are normalizing.

Under this scenario, which seems to be heading as far as financial variables are concerned, certain alerts should be closely monitored. As mentioned, LELIQs have become a key piece for the operation of the model, since the surplus pesos have been turned over to that bank note. In addition, the BCRA, to further restrict the monetary supply and take pressure off the exchange rate raised in subsequent opportunities the mandatory reserve requirements that banks must have on hand, allowing their set up in that instrument. However, the LELIQ constitutes the future issue of pesos, which, if their stock does not decrease in the short term and the demand for money does not increase to allow reabsorbing the currently restrained pesos, this could generate a new run against the peso as occurred with the LEBACs months ago. This instrument currently has an interest rate of approximately 60% yearly, so that its weekly renewal, with no reduction of its stock, would cause it to grow at that rate, but in dollars the instrument is made liquid by the devaluation rate.
The other key factor in the success of the model is that inflation effectively begins to subside. If this does not occur, the interest rate demanded by the public will be higher while the demand for money will be lower (people do not want an asset that loses value in a sustained way): the first leading to greater recession and encouraging the second demand for foreign currency.

Finally, the path for risk in the country should be monitored (figure 5). Showing no signs of going down, this is an indicator of investor confidence. It is important that in the short term this variable starts to decrease and generates investments in the country.

To sum up, it seems that the year will end with a certain stability in financial variables, with a more balanced exchange rate and lower interest rates. From that point comes the delicate task of reversing the drop in activity and rebuilding trust so that in comes investments. The challenges are many, but as of now, they seem to be on the right track.
Industry Roadmap

Export of Knowledge-based Services (KBS)

By Mario Julio

Partner of PwC Argentina and General Manager of the Service Delivery Center

The knowledge economy and the economy of digital technologies are robust and progressing, creating an increasing demand’s market for high-quality KBS offer in our country. Leading countries have consistent annual growth rates of around 10%.

However, the particularities of Argentina make it difficult to take advantage of the global growth of the KBS. Economic measures recently taken by the National Government (increasing tax burden due to the withholding tax on exports) lead to certain volatility and uncertainty, so we believe that the business scenario will develop more clearly in the coming months.

In the case of Argentina, KBS exports constitute the third foreign currency generator after the soy and automotive sectors, representing around 8.3% of total exports, according to information from the Argencon1.

Even though the recent devaluation of the Argentine peso has generated a certain level of competitiveness of the sector, the industry needs specific initiatives and measures that enable an improvement apart from the abrupt movements of the exchange rate. The recently announced Bill on Knowledge Economy is a clear example of this, a significant first step in addressing the needs of this industry. It will certainly enhance local possibilities for existing and future investors, thus fostering the creation of jobs.

Recent economic efforts have somehow/in some way stopped the growth of KBS exports. After eight consecutive quarters of growth, KBS exports measured in US dollars dropped 8% in the second quarter of 2018 as a consequence of the devaluation of the Argentine peso, among other factors2. However, employment and the level of activity have not decreased (but quite the opposite).

The employment base is growing consistently in the first quarter of 2018; private companies of KBS hired 435,000 registered employees and created 9,852 new jobs compared to the same period in 2017 (+2.3%). The quantity of positions held increased in all categories. KBS still are more dynamic than total employment and represent 6.5% of private employees registered in all the economy.

Strong reduction of labor costs in US dollars after reaching a peak during the first quarter of this year, the hourly cost in dollars started decreasing due to the devaluation. In this type of industry, ongoing training is key not only because it provides quality and excellence, thus increasing added value to the final product, but also helps developing technical and leadership skills, which encourages a positive work environment. This, in turn, contributes to a new diversity in talent acquisition and favors a space for work and exchange of experiences leading to an endless generator of new ideas for organizations.

Regarding the industry outlook for next year, we are optimistic about moving forward in the recovery of certainty and stability. Once the Bill on Knowledge Economy has been enacted into law, the companies within its scope will be granted certain tax benefits and incentives for the creation of new jobs, which will enable strengthening the trust of foreign investors when making decisions. The potential is enormous and we cannot miss this opportunity.

Composition of KBS exports per cluster

Source: Prepared by the authors based upon statistics obtained from Argencon.

---

1 Argencon is an institution formed by foreign market-related knowledge-based service companies.
2 This drop is due to the fact that the industry invoices the local cost plus a margin in pesos, which, in terms of a more appreciated dollar, translates into a lower export price.
Zooming

Current account dynamics and its determinants

Argentina showed a current account deficit in 39 of the last 57 years, with the 2017 current account deficit relative to GDP being the largest deficit in the last 20 years. Below is a description of some of the main drivers that have had an impact on the current account balance.

To address this issue, it is necessary to define the concept of balance of payments and its main components: (i) current account, (ii) capital account and (iii) financial account. The balance of payments is a statistical statement that summarizes transactions between residents and nonresidents during a period. It consists of the current account, the capital account, and the financial account.

- The current account shows flows of goods, services, primary income (compensation of employees and return on investment), and secondary income (personal transfers and other current transfers) between residents and nonresidents.
- The capital account shows capital transfers and acquisitions and disposals of nonproduced nonfinancial assets between residents and nonresidents.
- The financial account records transactions that involve financial assets and liabilities and that take place between residents and nonresidents.

The current account summarizes all transactions of goods and services by a nation with the rest of the world. More precisely, is measured as the difference between exports and imports of goods and services plus the payment received for national factors of production from abroad, less the payment made to foreign factors producing in the nation. If a positive difference is found when considering all this, the current account will be in surplus; otherwise, it will be in deficit.

\[
\text{Current Account} = (X - M) + (Ipri R_t - Ipri NR_t) + (Isec R_t - Isec NR_t)
\]

- \(X\): Exports of goods and services
- \(M\): Imports of goods and services
- \(Ipri\): Primary income
- \(Isec\): Secondary income
- \(R\): Residents
- \(NR\): Nonresidents
- \(t\): period of analysis
What does a current account in deficit mean?

A deficit shows that an economy's expenditure exceeds income and such deficit must therefore be financed with savings from the rest of the world (external savings). As it occurs with people, a nation's spending in excess of its income must be financed with debt.

The current account can also be interpreted as the difference between savings and domestic investment. Public and private investment by a nation requires financing, postponing some type of present consumption. For this reason, the balance between income and expenditure can be described as the balance between savings and investment. Thus, a surplus in the current account relates to internal savings or external dissaving, while a deficit can be defined as the use of external savings or internal dissaving.

Unlike other macroeconomic variables that may have a more clearly defined impact on the domestic economy, such as production and/or inflation, a current account deficit cannot be considered as negative or positive by itself, because it may sometimes be beneficial for a country and detrimental to another, depending on the specific economic circumstances faced by each of the countries. The temporal nature of the current account balances is very important in this case. Thus, the intertemporal approach to the current account shows what level of imbalance or deficit can be sustained in the long term. This is directly related to the notion of external solvency.

A nation’s external solvency is primarily determined by its level of external debt, that is, its stock of assets and liabilities with the rest of the world. A current account deficit increases an economy’s stock of external liabilities and therefore impairs the nation’s external solvency. In consequence, to evaluate long-term sustainability of a current account deficit, its contribution to the increase in the current stock of external liabilities versus the possibility of generating external assets in the future ought to be considered. The present value of the future current account balances must equal the stock of external debt.

Determining the dynamics of the future current account balances may be almost impossible in view of the large number of variables and circumstances that must be considered and evaluated, without mentioning its great uncertainty. Although there is no widespread definition of when a current account deficit is sustainable or not, the economic authorities tend to use a wide range of macroeconomic and structural indicators that are considered important when it comes to assessing and valuing external sustainability.

From a practical viewpoint, economists and policy makers use the following macroeconomic indicators, among others, to assess sustainability of external deficits: (i) consumption; (ii) investment; (iii) the degree of economic openness; (iv) deficit financing and (v) fiscal policy.

A current account deficit may be attributed to excessive consumption (a lack of internal savings), where a nation can maintain expenditure above its production levels thanks to resources from external debt. Thus, if the current consumption expenditure persists over time without the possibility of generating foreign currency for the repayment of the debt, the current account deficit could be unsustainable.
Conversely, an imbalance in the external accounts associated with a higher internal investment expenditure, instead of a higher public and/or private consumption expenditure, would allow increasing the level of activity in the future, and thus the new enlarged productive capacity could increase exports, whether directly or indirectly, and consequently generate foreign currency to offset the current deficits. In this regard, financing through long-term capital flows of the current account deficit caused by the expansion of investment and the consequent increase in exports would ensure sustainability of external accounts.

Historically, the Argentine economy’s GDP on the demand side has had consumption as one of its major components. As shown by graphic 2, consumption in the last 20 years has exceeded 75% of GDP. Investment has ranged between 14.3% and 21.1%, except in 2002, when it plummeted 11.28%. Thus, one of the characteristics of the Argentine economy is that consumption has been above the domestic productive capacity during a significant period of time, which has required external savings (external financing).

Commercial factors, such as persistent favorable terms of trade and, similarly, an increasing economic openness, may increase exports and improve access to international financial markets, easing fluctuations in the current account.

The countries with competitive exporting sectors will be able to repay the external debt more easily than those with a smaller exporting sector, since the debt service will absorb a small portion of total income from exports.

As shown by graphic 5, Argentina recorded an improvement in its terms of trade up to 2012, which coincided with the currency devaluation as from 2002. This combination enabled reaching current account surpluses for eight years in a row. Once the favorable terms of trade came to an end, and the real exchange rate started to rise, the country’s exporting capacity diminished significantly compared to other countries in the region. This could be attributable, among other reasons, to the reduced productive capacity of relevant sectors of the economy.

---

1 Includes the public and private sectors.
2 A term used to measure the relative variations in the prices of a nation’s exports and imports. It expresses the variations in the price of goods exported by the countries, calculated, based on the price of imported goods during a period, to know whether there are increases or decreases. Deterioration in terms of trade occurs when the price of a nation’s exports decreases relative to the price of its imports.
3 Measured as the aggregate of exports and imports relative to GDP.
4 Includes goods and services.
Lastly, among the indicators under consideration, a negative fiscal balance is usually associated with current account deficits caused by excessive government spending and its effects on aggregate demand. Its persistence may result in a higher level of private consumption and investment, depending on the interaction between complementary effects and crowding out (displacement from investment financing to treasury financing). Argentina has structurally faced fiscal deficits. In addition, the deficits and surpluses have coincided in the two accounts in the last twenty years.

**Conclusion**

In general, beyond certain accounting errors and omissions, the world must have a balanced current account. So, if some nations have deficits, others should have surpluses. Thus, it is of the utmost importance at a global level to monitor sustainability (which is not immediate in many cases) of the current account balances and its counterpart in the capital and financial accounts, to avoid new crises due to restrictions on the external sector, with the consequent impact of those imbalances on the economy and social welfare.

In a context of significant and changing financial flows, current account deficits do not provide sufficient information on the immediate risks to financial stability. In view of this, not only should the level of deficit on the current account be considered to conclude whether an economy is vulnerable or not, but the different determinants affecting the economy as well.

This is very important in the case of Argentina. Historically, Argentina has had persistent current account deficits, which has in many cases led to balance-of-payments crises. While the domestic economy is not capable of generating sufficient internal savings, or does not change the investment and consumption components in favor of savings, current account deficits will tend to show signs of imbalance unsustainable in the short term.
Global Coordinates

Does indebtedness in US dollars involve a risk for emerging markets?

Current contractionary monetary policy implemented by the United States Federal Reserve (the Fed) resulted in a strengthening of the dollar. This could have a significant impact on emerging markets. In this regard, PwC UK has analyzed the level of exposure of the main emerging countries in the face of the rise of the American currency and its effect on economic performance.

The monetary expansion program started by the Fed nearly 10 years ago produced, as a side effect, a capital flow out of the United States, destined in particular to emerging markets with the greatest growth. As a result, governments, companies and households availed of the possibility of going into debt in US dollars, remaining exposed to the risk of exchange fluctuations in this currency.

However, the high performance of American economy lately led the Fed to contract its monetary policy and to terminate its bond-purchasing program (known as Quantitative Easing or QE), which had it as a consequence that capital flows reverted towards the United States from emerging countries. The result of this reversal was the weakening of some emerging countries’ currencies relative to the US dollar.

The stronger dollar induced a contraction in the financial situation of the emerging economies that are indebted in this currency. For the purpose of understanding the risks faced by the debtors, PwC UK created a risk ranking of the biggest emerging economies. As can be seen in Table 1, from this analysis it follows that:

- The countries at the top of the risk ranking are Turkey and Argentina. In both these economies, the country’s current account is under heavy pressure. While Argentina sought the assistance of the IMF for USD 56 billion, Turkey announced a plan for reducing its fiscal imbalance, augmenting productivity and increasing exports.
- The third place in the ranking is for Chile, due to its high levels of indebtedness in dollars. Even so, this country has certain coverage against the appreciation of US currency, as it is one of the major exporters of copper, a metal traded in US dollars.
- Mexico is another country presenting high risk; yet, it was mitigated after ensuring renewal of the commercial treaty with the United States.

From the analysis above, we can conclude that the emerging economies with the greatest stock of debt in US dollars will tend to reduce expenses in correspondence with the Fed’s raising interest rates. Depending on the magnitude of the adjustment, it is possible that the economic growth of these countries is affected. In turn, the devaluation of their currencies should foster exports, which would counteract the initial drop in economic activity.

The analysis also suggests that the more vulnerable to strengthening of the dollar the economy is, the greater the reduction in economic activity, as the impulse to exports is not enough to compensate adjustment through expenditure.

By way of conclusion, Argentina and Turkey would be the two economies most vulnerable to the strengthening of the US dollar caused by the contractionary monetary policy in the United States. In general terms, it is also possible that the emerging economies with highest exposure to this risk experience deceleration in economic growth.
Economic GPS

*defined as total USD credit extended by banks and purchases of debt securities by both banks and non-banks.
For each indicator, we have allocated a red, amber or green color based on how many standard deviations away they are from the sample mean.

Sources: PwC analysis of data from the BIS Global Liquidity Indicators, Refinitiv and the IMF

<table>
<thead>
<tr>
<th>Country</th>
<th>Vulnerability</th>
<th>USD debt* (% of GDP)</th>
<th>Nov.16 – Nov.18 Currency movement (%)</th>
<th>Current account balance (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>High</td>
<td>27%</td>
<td>-44%</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Argentina</td>
<td>High</td>
<td>25%</td>
<td>-58%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Chile</td>
<td>Medium</td>
<td>34%</td>
<td>-6%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Mexico</td>
<td>Medium</td>
<td>22%</td>
<td>-5%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>S. Africa</td>
<td>Medium</td>
<td>10%</td>
<td>-7%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>India</td>
<td>Medium</td>
<td>4%</td>
<td>-9%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>Medium</td>
<td>10%</td>
<td>-13%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Medium</td>
<td>17%</td>
<td>-14%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>China</td>
<td>Low</td>
<td>4%</td>
<td>-3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Russia</td>
<td>Low</td>
<td>12%</td>
<td>-4%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Low</td>
<td>12%</td>
<td>-</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Table 1: PwC’s US dollar debt vulnerability risk dashboard
### Activity and Prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP, var % y/y</td>
<td>2.6%</td>
<td>-1.8%</td>
<td>2.9%</td>
<td>-</td>
<td>-3.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CPI Federal Capital, var % y/y</td>
<td>26.9%</td>
<td>41.0%</td>
<td>26.1%</td>
<td>33.6%</td>
<td>39.5%</td>
<td>44.6%</td>
<td>46.8%</td>
</tr>
<tr>
<td>CPI San Luis, var % y/y</td>
<td>31.6%</td>
<td>31.4%</td>
<td>24.3%</td>
<td>35.5%</td>
<td>43.3%</td>
<td>48.3%</td>
<td>51.3%</td>
</tr>
<tr>
<td>Industrial Production, var % y/y</td>
<td>nd</td>
<td>-4.6%</td>
<td>1.8%</td>
<td>-5.6%</td>
<td>-11.5%</td>
<td>-6.8%</td>
<td>nd</td>
</tr>
<tr>
<td>International Reserves (end period, USD mn)</td>
<td>25,563</td>
<td>39,308</td>
<td>55,055</td>
<td>52,658</td>
<td>49,003</td>
<td>53,955</td>
<td>51,193</td>
</tr>
<tr>
<td>Import Cover (month of reserves)</td>
<td>5.10</td>
<td>8.44</td>
<td>9.88</td>
<td>8.35</td>
<td>10.43</td>
<td>10.63</td>
<td>11.73</td>
</tr>
<tr>
<td>Implicit exchange rate (M0 / Reserves)</td>
<td>24.41</td>
<td>20.90</td>
<td>18.18</td>
<td>22.95</td>
<td>25.50</td>
<td>21.41</td>
<td>24.20</td>
</tr>
<tr>
<td>$/USD, end period</td>
<td>13.01</td>
<td>15.85</td>
<td>18.77</td>
<td>37.13</td>
<td>38.03</td>
<td>39.23</td>
<td>38.81</td>
</tr>
</tbody>
</table>

### External Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports, USD mn</td>
<td>56,784</td>
<td>57,879</td>
<td>58,427</td>
<td>5,179</td>
<td>5,013</td>
<td>5,354</td>
<td>5,344</td>
</tr>
<tr>
<td>Imports, USD mn</td>
<td>60,203</td>
<td>55,911</td>
<td>66,899</td>
<td>6,310</td>
<td>4,699</td>
<td>5,077</td>
<td>4,365</td>
</tr>
<tr>
<td>Commerical Balance, USD mn</td>
<td>-3,419</td>
<td>1,969</td>
<td>-8,472</td>
<td>-1,131</td>
<td>314</td>
<td>277</td>
<td>979</td>
</tr>
<tr>
<td>Currency liquidation by grain exporters, USD mn</td>
<td>19,953</td>
<td>23,910</td>
<td>21,399</td>
<td>1,605</td>
<td>1,311</td>
<td>1,184</td>
<td>810</td>
</tr>
</tbody>
</table>

### Labor*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment, country (%)</td>
<td>nd</td>
<td>7.6</td>
<td>7.2</td>
<td>-</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unemployment, Greater Buenos Aires (%)</td>
<td>nd</td>
<td>8.5</td>
<td>8.4</td>
<td>-</td>
<td>10.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Activity rate(%)</td>
<td>nd</td>
<td>45.3</td>
<td>46.4</td>
<td>-</td>
<td>46.7</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Fiscal

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income, $mn</td>
<td>1,537,948</td>
<td>2,070,154</td>
<td>2,578,609</td>
<td>293,418</td>
<td>295,818</td>
<td>312,509</td>
<td>300,119</td>
</tr>
<tr>
<td>VAT, $mn</td>
<td>433,076</td>
<td>583,217</td>
<td>765,336</td>
<td>98,116</td>
<td>103,570</td>
<td>110,762</td>
<td>96,792</td>
</tr>
<tr>
<td>Income tax, $mn</td>
<td>381,463</td>
<td>432,907</td>
<td>555,023</td>
<td>68,701</td>
<td>59,398</td>
<td>63,743</td>
<td>65,415</td>
</tr>
<tr>
<td>Social Security System, $mn</td>
<td>401,045</td>
<td>536,180</td>
<td>704,177</td>
<td>69,916</td>
<td>70,650</td>
<td>74,624</td>
<td>74,592</td>
</tr>
<tr>
<td>Export Tax, $mn</td>
<td>34,822</td>
<td>55,305</td>
<td>69,259</td>
<td>10,787</td>
<td>10,249</td>
<td>11,326</td>
<td>8,818</td>
</tr>
<tr>
<td>Primary expenses, $mn</td>
<td>1,427,990</td>
<td>1,790,789</td>
<td>2,194,291</td>
<td>213,504</td>
<td>229,933</td>
<td>238,604</td>
<td>nd</td>
</tr>
<tr>
<td>Primary result, $mn</td>
<td>-291,660</td>
<td>-343,526</td>
<td>-404,142</td>
<td>-10,356</td>
<td>-22,854</td>
<td>-16,586</td>
<td>nd</td>
</tr>
<tr>
<td>Interest, $mn**</td>
<td>120,840</td>
<td>185,253</td>
<td>208,048</td>
<td>6,504</td>
<td>53,535</td>
<td>72,113</td>
<td>53,842</td>
</tr>
<tr>
<td>Fiscal results, $mn</td>
<td>-282,180</td>
<td>-474,786</td>
<td>-569,050</td>
<td>-14,517</td>
<td>-55,858</td>
<td>-78,327</td>
<td>nd</td>
</tr>
</tbody>
</table>

### Financial - Interest rates***

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Badlar - Privates (%)</td>
<td>27.54</td>
<td>20.04</td>
<td>23.18</td>
<td>35.15</td>
<td>41.75</td>
<td>50.68</td>
<td>51.27</td>
</tr>
<tr>
<td>Term deposits $ (30-59d Private banks) (%)</td>
<td>27.95</td>
<td>19.51</td>
<td>21.80</td>
<td>33.42</td>
<td>39.78</td>
<td>48.05</td>
<td>48.52</td>
</tr>
<tr>
<td>Mortgages (%)</td>
<td>22.85</td>
<td>19.70</td>
<td>18.61</td>
<td>33.95</td>
<td>36.94</td>
<td>41.66</td>
<td>44.93</td>
</tr>
<tr>
<td>Pledge (%)</td>
<td>26.03</td>
<td>20.82</td>
<td>17.42</td>
<td>21.31</td>
<td>24.84</td>
<td>29.46</td>
<td>28.52</td>
</tr>
<tr>
<td>Credit Cards (%)</td>
<td>39.97</td>
<td>44.45</td>
<td>42.21</td>
<td>47.31</td>
<td>50.54</td>
<td>53.84</td>
<td>56.24</td>
</tr>
</tbody>
</table>

### Commodities****

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Soy (USD/Tn)</td>
<td>347.3</td>
<td>362.6</td>
<td>358.9</td>
<td>316.7</td>
<td>306.4</td>
<td>315.8</td>
<td>322.3</td>
</tr>
<tr>
<td>Corn (USD/Tn)</td>
<td>148.3</td>
<td>141.1</td>
<td>141.4</td>
<td>141.1</td>
<td>138.7</td>
<td>144.9</td>
<td>144.0</td>
</tr>
<tr>
<td>Wheat (USD/Tn)</td>
<td>186.4</td>
<td>160.3</td>
<td>160.2</td>
<td>197.8</td>
<td>185.1</td>
<td>187.8</td>
<td>185.7</td>
</tr>
<tr>
<td>Oil (USD/Barrel)</td>
<td>48.8</td>
<td>43.3</td>
<td>50.9</td>
<td>67.8</td>
<td>70.1</td>
<td>70.8</td>
<td>56.7</td>
</tr>
</tbody>
</table>

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

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

Macroeconomic analysis
- Monthly/quarterly report
- Conferences
- Projections and data

Sectorial/Quantitative
- Follow up and projection by sector
- Quantification of demand
- Applied econometrics
- Revenue forecast
- Surveys

Litigation
- Support of experts’ reports relating to economic matters
- Dumping
- Antitrust

Regulatory
- Tax benefits
- Benefit/price structure
- Quantification of impacts

Contacts

José María Segura
jose.maria.segura@ar.pwc.com
+54 11 4850 6718

Leandro Romano
leandro.romano@ar.pwc.com
+54 11 4850 6713

Paula Lima
paula.lima@ar.pwc.com
+54 11 4850 6000 int. 4128

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, Price Waterhouse & Co. Asesores de Empresas S.R.L., its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2018 In Argentina, the member firms of the global network of PricewaterhouseCoopers International Limited are Price Waterhouse & Co. S.R.L., Price Waterhouse & Co. Asesores de Empresas S.R.L. and PwC Legal S.R.L., each of which, either separately or jointly, are identified as PwC Argentina.