ECONVIEWS
ECONOMÍA Y FINANZAS

Monthly Report - Issue #112

The agricultural sector: from high growth to stagnation

November, 2013

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The month at a Glance

RECENT DEVELOPMENTS

- National Elections were a defeat for the Government, though the official party obtained 33% of the votes and remains as the first minority
- In October, the monthly depreciation was 2.1% and it reached 24.0% y/y.
- Reserves fell USD 1,509 million in October, reaching USD 33,232 million.
- Economic activity continues growing but at a slower pace, while consumption remains anemic.

FIGURE OF THE MONTH

Country risk

Global EMBI

841 bps.

(1,300 bps. in May)

TO BE ALERT

23.6%

Tax revenues decelerated strongly in October and grew below private inflation estimates

WHAT'S COMING NEXT?

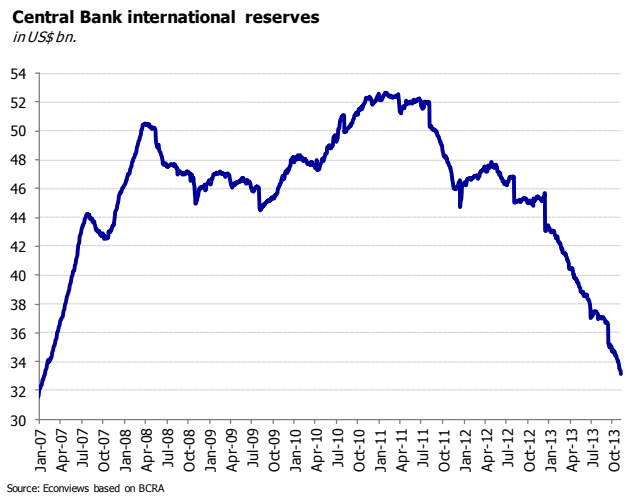
- Our base scenario predicts an exchange rate of AR$ 6.30 to the dollar by December, implying a 28.1% annual devaluation and a new acceleration in the pace of depreciation.
- In the meantime, there may be changes to curb the loss of reserves by tourism, but we will have to wait until Cristina returns.
- Holdouts saga: the market is expectant about rumors of negotiations with holdouts but there will be no news until 2015.
- According to official figures, economic activity grew 5.5% during the first eight months of the year: however, the market is cautious about the GDP Warrant payment in 2014 because of the uncertainty caused by the change in the GDP base calculations and revisions in the historical series.

SUMMARY OF MAIN INDICATORS

Economic activity		Financial variables	
Economic Activity	→	Inflation	→
Consumer Confidence	→	Spread parallel Dollar	→
Industrial activity	→	Country Risk	→
External accounts		**External variables**	
Current account	↓	Soybean price	↓
Reserves BCRA	↓	Brazilian GDP	→
Fiscal balance	→	**Confidence in the Government**	→

Note: traffic lights refer to "current status" and arrows to "short term outlook"

GRAPH OF THE MONTH



I. The elections: A setback for the government, but it is still in command

Sergio Massa was the big winner in the mid-term elections, and today he appears to be the front runner in the 2015 presidential race. Scioli's positive image suffered as he accompanied the government in the elections but his Presidential dream is still alive. Massa and Scioli at this moment are the top candidates for 2015, though two years in politics is a long time in general and in Argentina in particular.

Despite the defeat in the elections, the government maintains a majority in the upper and lower chambers of Congress, though it is fragile as we expect that members of Congress could "migrate" to other parties over time. In addition, it will be difficult for the government to pass controversial laws as it might not get the necessary quorum or the votes that it needs.

Both candidates are likely to make a shift in economic policies towards moderation, a view that the markets appear to share and are reflected in the change in investors' sentiment towards Argentina. The most obvious changes are expected in macroeconomic policies, namely an improvement in debt management that brings back Argentina to the financial markets, resolves the Paris Club and takes measures to address the holdouts issue, an eventual unification of the foreign exchange market, and the adoption of a monetary policy aimed at gradually reducing the rate of inflation.

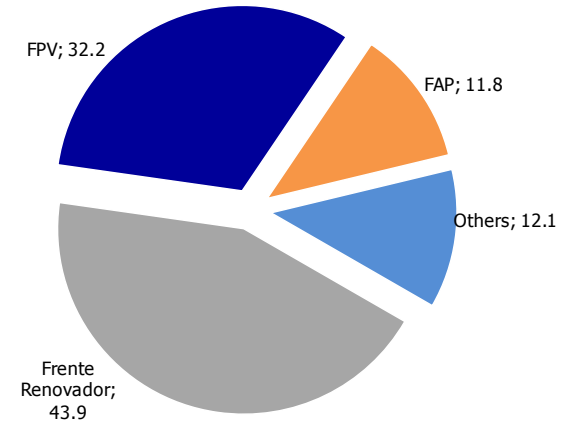
These policy initiatives should lead to capital inflows and increases in international reserves that would allow the next administration to remove the foreign exchange controls (cepo), to relax the import controls and to normalize the payments of dividends, royalties and payments abroad.

There will also be new opportunities to invest in energy, in mining, in utilities and infrastructure, in agriculture and in other sectors where there has been underinvestment due to concerns about policies and property rights.

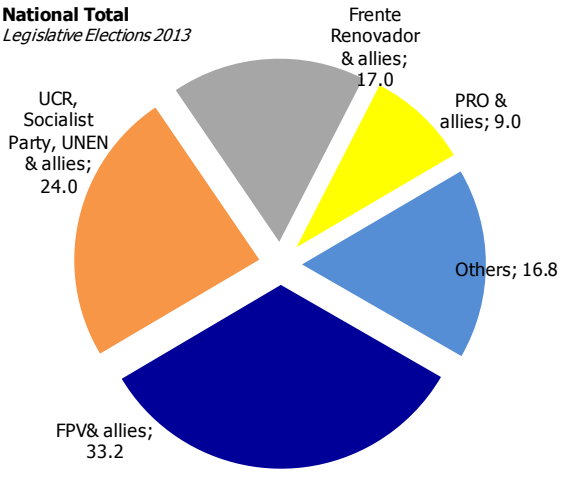
In other aspects the medium-term outlook is less clear. The large number of regulations and restrictions that have been introduced with the excuse to protect specific sectors, to control inflation or to try to avoid losses in international reserves might be difficult to remove and in some places they might even stay in place. Likewise, it could be politically difficult to remove many of the existing subsidies or to reduce the existing very high tax pressure (which has reached 42% of GDP).

All in all our view is constructive in the medium term, though it will be a combination of reasonable macroeconomic policies, a high

Legislative elections - Province of Buenos Aires
2013



National Total
Legislative Elections 2013



tax burden and some degree of intervention in many sectors of the economy (i.e. protectionism and regulation).

This constructive view about Argentina's medium term outlook contrasts with some degree of uncertainty and concerns about economic management in the next two years. There are risks especially in the international reserves front and on exchange rate policy, and the big question is whether Cristina will be pragmatic or dogmatic at the time of key policy decisions.

If we look at the historical record of her six years presidency and the "DNA" of her policy decisions in the past the verdict is for dogmatism. However, some recent signals on the external front, such as the payment of the lost arbitrages at ICSID (CIADI), the progress that we are seeing in the construction of the new national CPI suggests that in the end she will be more pragmatic than in the past.

The outlook is complicated at the moment by the uncertainty surrounding Cristina's health problems, especially regarding whether she will be able to reassume the Presidency and be 100% in charge.

There are more questions than answers at the moment. The next steps to watch are possible changes in the economic team and whether there is a split in the foreign exchange market with the introduction of a tourist rate.

Confidence in the Government
Between 1 & 5 - UTDT

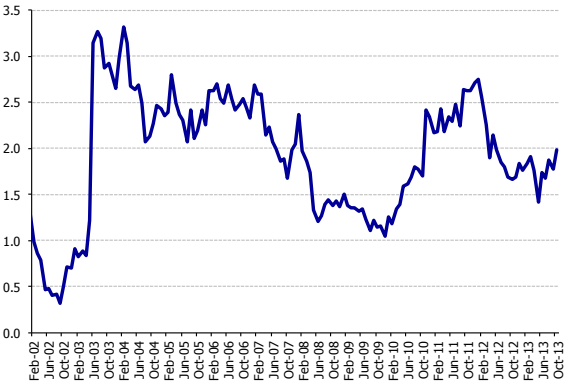
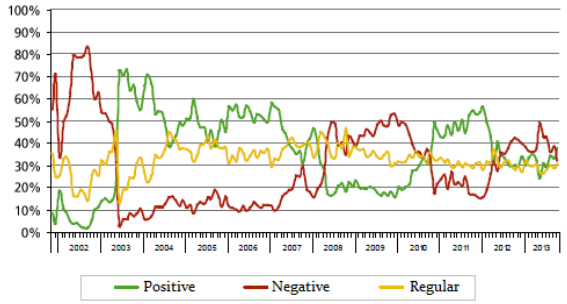


Image of the Government



II. Some unpleasant international reserves arithmetic

The main concern at the moment is the speed of the losses of international reserves, as they dropped 1.5 billion dollars in October, in spite of some creative accounting that helped to disguise a loss of 2.0 billion dollars.

What's the unpleasant reserves arithmetic? A simple extrapolation of the current trend would mean that reserves would fall below ten billion dollars by the end of 2015, an amount that would imply a balance of payment crisis as it lies below whichever critical level one could define, as the Central Bank would not have the ability to fix the exchange rate any more.

Nevertheless, we strongly believe that the government will adopt policy measures to avoid this extreme scenario. Among the options one can think the introduction of a special exchange rate for tourism in order to a stop a bleeding, the issuance of one or more dollar bonds (under Argentine legislation) to beef up the stock of reserves, and some additional restrictions on payments abroad (perhaps of financial loans).

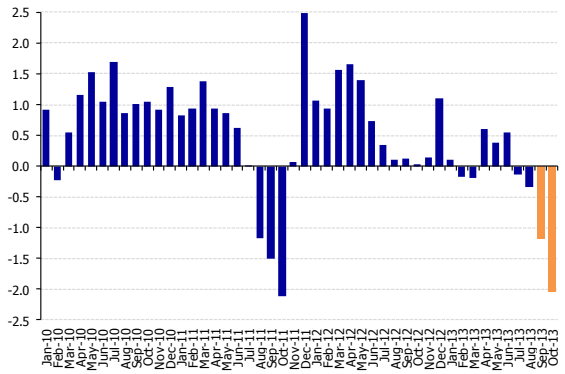
Central Bank international reserves
in US$ bn.

Source: Econviews based on BCRA

So far the government has been resisting taking any of these alternatives, though we think that in the end it will need to "swallow the pill" even if it means some political costs. There are always ways to rationalize a change in policies; for instance, one can justify borrowing again in the financial markets if the proceeds are used to finance investments in infrastructure or to refinance maturing bonds, rather than to finance current expenditures.

The cost of not going this route is that Argentina could run out of reserves in late 2015 and face significant difficulties to make the principal payment on the Boden 15 that matures in October, just a few days before the Presidential elections. Our view is that the current administration would prefer to swallow a bitter pill rather than to face a default on the debt that it issued.

Central Bank's foreign currency purchases
in US$ bn.



Source: Econviews based on BCRA

III. Exchange rate policy: The dilemmas continue

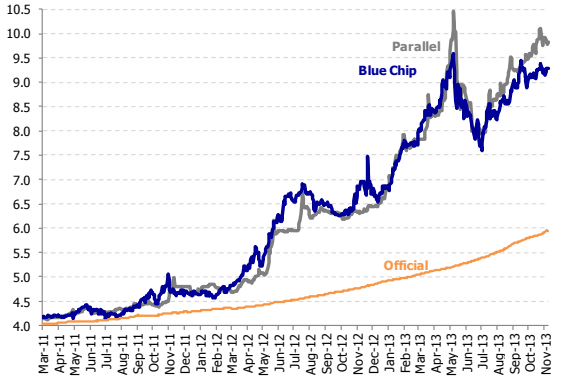
Exchange rate policy represents the main policy dilemma at the moment. Something needs to be done soon to address the drop in international reserves and the large spread between the official and the parallel exchange rates.

Some government officials are leaning towards splitting the foreign exchange market and creating a tourist exchange rate. This alternative seems the simplest and most obvious way to put an end to the widespread use of credit cards abroad that is leading to a loss in the order of 800 million dollars month, and rising.

The way to do it is to maintain one exchange rate that would be managed in a similar way to the current official exchange rate (which could be called the official or commercial exchange rate) and a second tourist rate for tourism that would float and whose level should be expected to be similar to the one of the parallel exchange rate. True, splitting the foreign exchange market is an only short-term solution, but in recent years, this was not a concern for a government that makes policies with a one-week horizon.

Why would the government resist an obvious and simple way out to the problem? There are several reasons, though in the end it is likely to do it for lack of other options. First, it would be a public acknowledgement of a "devaluation", though at this stage it should not come as a surprise to anybody. Second, and more important, it could open the door for other sectors to lobby for a obtaining a similar devaluation for them. We could see governors lobbying for a depreciation for exports from the provinces, or the industrial sector to ask to be able to sell part of their export proceeds at the tourist rate. In other words, it could be seen as the first step towards the

Parallel exchange rate
USD/ARS



Source: Econviews based on Reuters

Spread Official vs Parallel Dollar
in %

much needed devaluation of the currency, and some government officials are concerned about this outcome.

In the meantime, the main response has been an increase in the rate of depreciation which is likely to be accelerated in the near to around 3% per month to achieve an annual rate of depreciation in the 32 to 35 percent per annum range.

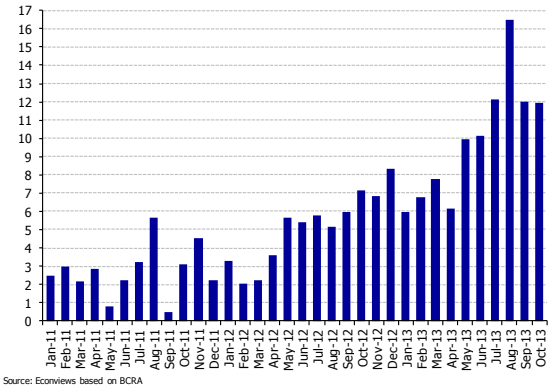
In addition, the Central Bank has been tightening monetary policy by reducing the rate of growth of money supply from 40 to 25 percent per annum y raising interest rates from 14 to almost 20 percent. The main reason for this tightening in monetary policy is the need to avoid a further depreciation of the parallel exchange rate.

The Central Bank under Marcó del Pont has been arguing for a long time that the increases in money supply had no impact on prices and that raising interest rates was not an effective policy to bring down inflation. The fact that money supply was growing at 40 percent was not a concern for those holding this view.

The trigger for the new policy was not a change in the underlying economic model; instead, it was prompted by the inability to avoid a runaway depreciation of the parallel exchange rate that led back in April to a premium of almost 100% over the official exchange rate. It became then clear that one of the main forces driving the depreciation of the parallel rate was a large excess supply of pesos and very low interest rates, and that this premium could not be reduced simply by making phone calls to the foreign exchange dealers or creating trading holidays in the parallel foreign exchange market (which was in fact illegal).

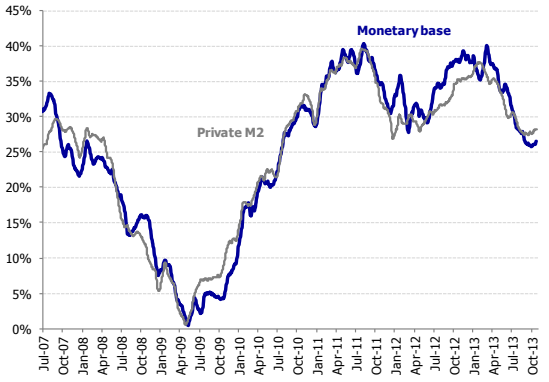
The implication for the future is that the government is likely to maintain a tighter monetary stance in the future, and the guiding principle will be the spread between the official and the parallel exchange rates. The Central Bank will try to reduce this spread through a two way strategy: on the one hand it is likely to accelerate the rate of depreciation of the official exchange rate while on the other it will use monetary policy to target the evolution of the parallel rate.

Exchange rate depreciation
monthly depreciation, in cents



Source: Econviews based on BCRA

Monetary aggregates
yearly variations- moving average 21 days



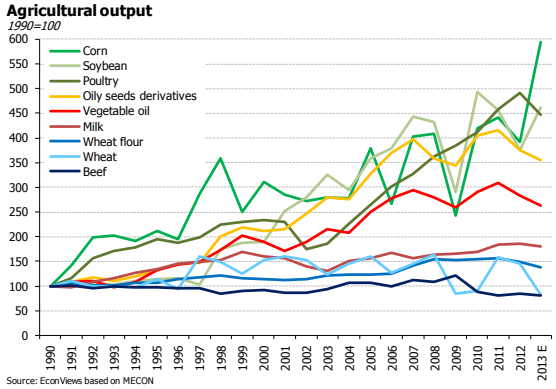
Source: Econviews based on BCRA

IV. The farming sector in Argentina

i. Introduction

The agricultural and livestock sector generates around 50% of total exports and is one of the most dynamic and competitive sectors of the economy.

Agricultural output
1990=100



Source: EconViews based on MECON

The sector experienced a significant jump in productivity and output in the last decades. However, in recent years it has remained relatively stagnated, as several factors have been hampering new improvements. First, the tax pressure is very high and is damaging new developments. Second, the government intervention in some markets (such as wheat, milk and beef) has worsened incentives and therefore production. Third, the current infrastructure is unable to sustain higher level of production. As a result, a new set of policies is required in order to boost the sector into a new round of expansion.

Agriculture in Argentina between 1990 and 2013 grew around 50% in harvested area and 200% in production. Today the oily seeds sector represents around 60% of the harvested area and 50% of total output. The agricultural frontier expanded from around 20 million hectares in 1990 to 30 million hectares nowadays, but production almost tripled during the period, slightly overcoming the barrier of 100 million tons in 2011. This is highlighting a significant productivity jump.

This process was registered with a simultaneous increase in the production of milk, from less than 6.0 billion liters to more than 11 billion, and a slight increase in the cattle stock and the production of beef, from 13 million heads up to 15 million in 2007 (policy mistakes later make that figure fell down to the current 11.5 million heads), despite a reduction in the area occupied by the livestock during the period. Indeed, the area fell from around 8 million hectares in the early nineties down to currently 5 million, which also indicates productivity increases within these activities.

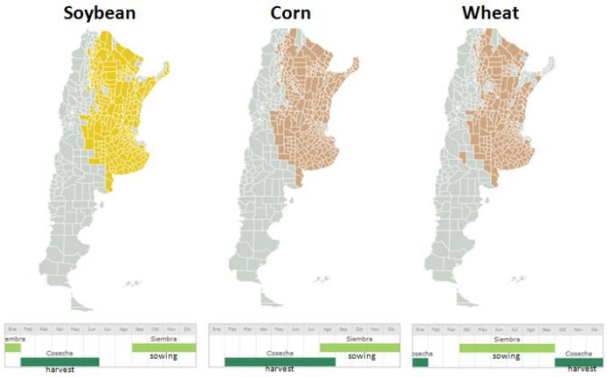
Evidently, the agricultural sector underwent radical changes during the period, which cannot be explained by a single cause. The combination of factors that led to this change can be addressed only from a systemic point of view, considering how various factors interacted in such a way to feed back between each other and also, in turn, feedback the change itself.

Harvest

In million tons

	2010	2011	2012	2013 E
Soybean	**52.7**	**49.2**	**40.1**	**49.3**
Corn	22.7	23.0	21.2	32.1
Wheat	8.8	14.5	14.5	8.2
Sunflower	2.2	3.7	3.3	3.1
Others	7.5	10.8	12.4	6.3
Total	**93.9**	**101.2**	**91.5**	**99.0**

Source: EconViews based on several sources

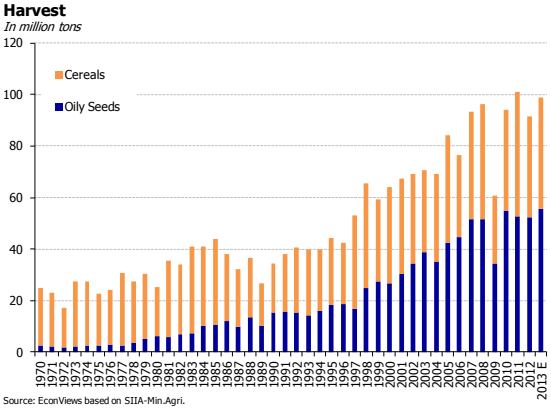


ii. Long term outlook

Output, harvested area and other KPI's

The agricultural sector has been experiencing a rapid expansion in the last decades, as total production has increased from an average of 57 million tons in the 1995/99 period to a level of 99 million tons in the 2012/13 campaign, after reaching a record of 101 million tons in 2010/11.

This round of expansion has been led by the rapid growth of oily seeds, basically soybean. While this grain represented around 20% of total grain production in the eighties, it represents around 50% nowadays. The production of cereals, based on the traditional ones



Source: EconViews based on SIIA-Min.Agri.

such as corn and wheat, which today represent respectively around 30% and 10% of total grain production, also displayed a jump, but since the late nineties it has remained relatively stable; and in the case of wheat it fell strongly this year due to poor economic policies.

Argentina has been rapidly increasing its grain production since the early nineties, and consistently raising its share in world agriculture output. The amount of land devoted to the production of soybeans also increased much more rapidly in Argentina than in the rest of the world. The highest rate of growth in production was in soybeans, which accumulated 6.3% per year in the nineties and 5.2% since 2001, greatly exceeding the GDP growth rate of 4.2% between 2001 and 2013 and the world rate of growth for this product, although slightly below the rate of growth in Brazil. At the same time, Brazilian exports of soybean also increased faster and are considerably higher than, although this is explained by the importance of the ulterior industrial processing in Argentina, as around 75% of soybeans are processed and become essentially oil, but also flour, pellets and expellers, adding value to the production.

The processed products are the more dynamic components of the soybean sector, and are mainly exported to China, India and the Euro Zone. The producers are vertically integrated and can improve efficiency and reduce the tax burden, especially, the export taxes, by producing and exporting goods that include more domestic value added. This is not the case in wheat and corn, where the grains still represent the bulk of the exports.

In the cases of corn and wheat, the performance was very different in the nineties relative to the subsequent period. In the nineties their production grew very fast and clearly outperformed world output. This trend, however, changed since 1999, as corn production decelerated and even fell in the case of wheat, as less land has been dedicated to the production of these two crops, and as a final result Argentina lost ground in world production. While corn production recovered in last years, since it matches with soybean in terms of sowing/harvesting period and its properties for soil maintenance are important, wheat production collapsed this year, affected by government intervention. However, the complete picture still shows that Argentina almost doubled its share in world grain production, up to around 5% today, compared with 2.9% in 1990.

These numbers indicate that soybean has gradually but steadily become the dominating crop in Argentina. While during the nineties the dominance of soybean was achieved simply by growing faster than other crops, in recent years it became clearer that soybean has been displacing the production of wheat and corn. Indeed, while in 1991 soybean represented 28% of total harvested area, this amount increased to around 60% in recent years.

Soybean production, consumption and external trade

Million tons - Exclude soybean oil and other derivatives

		Area Harvested	Production	Imports	Exports
ARGENTINA	2000/01	10.4	27.8	0.3	7.4
	2013/14	19.7	53.5	0.0	12.3
	CAGR	5.0%	5.2%	-31.8%	4.0%
BRAZIL	2000/01	13.9	39.5	0.9	15.5
	2013/14	28.9	88.0	0.1	43.0
	CAGR	5.8%	6.4%	-15.2%	8.2%
USA	2000/01	29.3	75.1	0.1	27.1
	2013/14	30.9	85.7	0.4	37.3
	CAGR	0.4%	1.0%	11.7%	2.5%

CAGR: compound annual growth rate

Source: EconViews based on USDA

Harvested area, yield and production

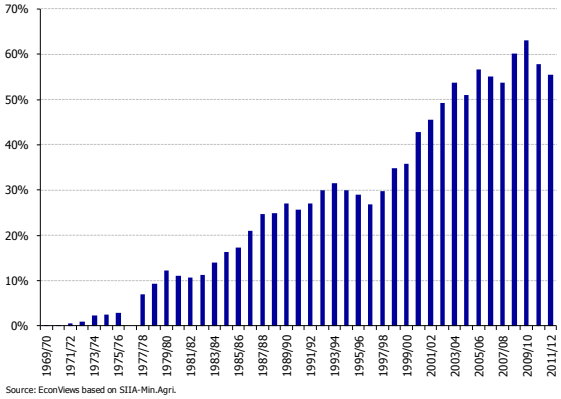
Preliminary 2012/2013

		Area	Yield	Production
		Million hectares	*Tons per hectare*	*Million tons*
Soybean	World	108.6	2.5	267.5
	United States	30.8	2.7	82.1
	Brazil	27.7	3.0	82.0
	Argentina	19.4	2.5	49.3
Corn	World	175.5	4.9	860.1
	United States	35.4	7.7	273.8
	Brazil	15.9	5.1	81.0
	Argentina	4.8	6.6	32.1
Wheat	World	215.8	3.0	655.2
	United States	19.8	3.1	61.8
	Argentina	3.0	2.7	8.2

Source: EconViews based on USDA and SIIA for Argentina

Soybean dominance

Soybean harvested area over total



Source: EconViews based on SIIA-Min.Agri.

External trade

Total exports and agriculture exports increased significantly during the last decade. But much of the growth was due to price increases. In fact, total and agricultural exported volumes grew much faster during the nineties. And this is very important to highlight, since it is usually understated.

In the last decade agricultural exports in value increased more than other exports. Indeed, while total exports grew 215% between 2000 and 2013, agricultural grew 284% and non agricultural 170%. The difference is explained by the significant increase in agricultural commodity prices. In fact, measured in volumes total exports grew by 35% in the same period, in agriculture by 40% but while industrial exports increased by 89%.

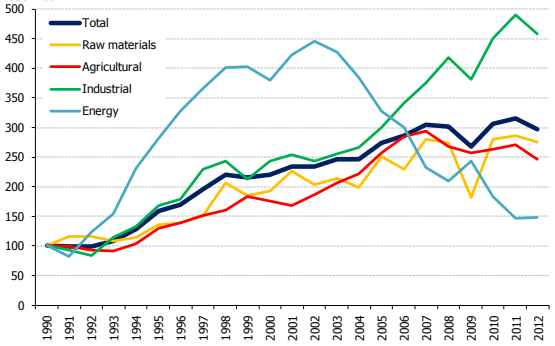
In summary, in the last decade agricultural exports grew significantly faster in value than during the nineties and relative to other exports in same period, but this is mainly explained by the notable increase in commodity prices. Indeed, the total harvest grew at an annual average rate of 3.4% between 2000 and 2013, considerably below the rate of 6.4% between 1990 and 2000. The large price increases of the last decade more than compensated that difference. For example, between 2000 and 2013 soybean prices in US dollars increased 186%, wheat 177% and corn 120%. Despite these significant increases, agricultural commodity prices did not enjoy the boom that has been observed for other commodities, as metals or oil and gas.

But this strong growth in production and exports was not always favored by high international prices. In fact, soybean prices did not show an upward trend until 2007. Instead, they underwent some fluctuations and enjoyed only short good periods. During the nineties, they firmed-up in 1996-97, but then almost collapsed between 1999 and 2002, and then they started to recover again. In summary, between 1990 and 2000 soybean prices did not increase, in fact they fell slightly. The story for wheat and corn was relatively similar during the period.

The role of agricultural prices to offset the effect of the energy crunch on the external accounts during the last years has been crucial. While the trade surplus in 2012 was almost the same than in 2006, in both cases of around US$ 12 billion, there have been significant changes if the surplus is decomposed by sector. Indeed, in the last years the increase in the trade deficit in the energy sector and industrial sector has been astonishing. The energy sector shifted from a surplus of USD 5.8 billion in 2006 to a deficit of around USD 7 billion expected for 2013. At the same time, the deficit in the industrial sector increased from USD 16.5 billion in 2006 up to USD 34 billion expected for 2013.

Exported volumes

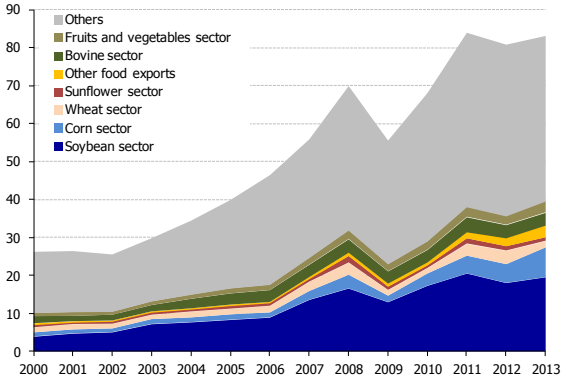
1990=100



Source: EconViews based on MECON

Exports of selected sectors

In billion USD



Exports of goods

In billion USD

	2008	2009	2010	2011	2012	2013 E	yoy
Food products and others	**38.2**	**28.8**	**35.5**	**45.9**	**44.6**	**46.9**	**5%**
Soybean and sunflower	18.4	13.9	18.0	23.0	21.5	22.8	6%
Wheat, corn and other cereals	6.4	2.8	4.6	8.3	8.7	9.2	6%
Other foods and others	13.4	12.0	12.9	14.6	14.4	14.9	4%
Industrial products	**21.2**	**17.4**	**21.0**	**25.3**	**23.7**	**24.9**	**5%**
Mining products	**2.8**	**3.0**	**5.1**	**6.1**	**6.4**	**6.8**	**6%**
Energy and fuels	**7.9**	**6.4**	**6.5**	**6.6**	**6.5**	**5.0**	**-23%**
Total	**70.0**	**55.7**	**68.2**	**84.0**	**81.2**	**83.6**	**3%**

Source: EconViews based on several sources

Trade balance by sector

In billion USD

	2006	2010	2011	2012	2013 E	2013 E vs. 2006
Energy	**5.8**	**1.1**	**-3.6**	**-4.3**	**-7.0**	**-12.8**
Natural gas	0.4	-1.2	-2.6	-4.0	-4.8	-5.2
"Gas oil" or diesel fuel	-0.3	-2.1	-3.3	-3.9	-4.5	-4.2
Others	5.7	4.4	2.3	3.6	2.3	-3.4
Industry	**-16.5**	**-28.9**	**-36.8**	**-31.4**	**-34.2**	**-17.7**
Automotive	-4.5	-5.8	-6.5	-6.0	-6.8	-2.3
Electronics and machinery	-4.6	-7.0	-9.2	-7.5	-8.5	-3.9
Chemicals	-2.7	-4.4	-5.0	-4.5	-5.0	-2.3
Coke	2.9	-0.1	-3.1	-2.4	-2.6	-5.5
Others	-7.6	-11.6	-13.0	-11.0	-11.3	-3.7
Food and primary products	**23.1**	**39.2**	**50.4**	**48.3**	**49.7**	**26.6**
Soybean complex	8.9	17.3	20.5	18.0	20.0	11.1
Mining	1.9	3.8	4.6	4.6	5.0	3.1
Others	12.3	18.1	25.3	25.7	24.7	12.4
Total	**12.4**	**11.4**	**10.0**	**12.7**	**8.5**	**-3.9**

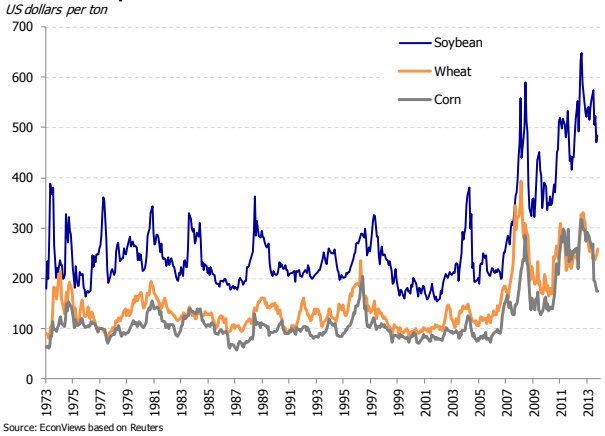
Source: own estimations based on INDEC and other sources

However, the increase in the trade deficit in the energy sector and industrial sector was offset by the increase in the trade surplus in the food and primary products sector. In a big extent, thanks to the increase in the soybean price, that more than double during the period, from USD 250 the ton in 2006 up to USD 540 in 2012. In this context, the trade surplus in the food and primary products sector increased from USD 23.1 billion in 2006 up to around USD 50 billion expected for 2013.

To sum up, between 2006 and 2013, the energy sector will exhibit a decrease of around USD 13 billion and the industrial sector of around USD 18 billion, which has been mostly offset thanks to the increase of around USD 27 billion in the food and primary products sector surplus. And this happened, into a big extent, thanks to the increases in commodity prices since 2007.

Commodities prices

US dollars per ton



Source: EconViews based on Reuters

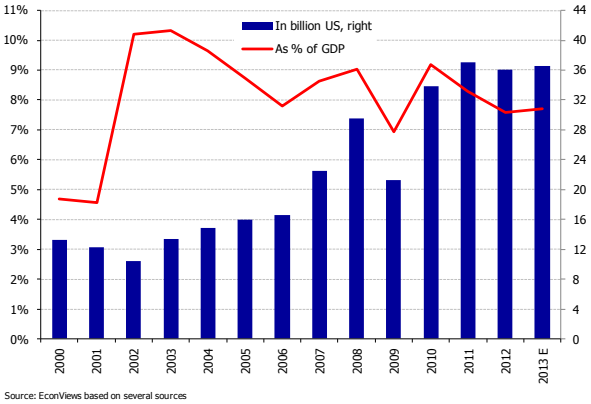
Incidence on GDP and employment

The agricultural sector alone, understood only as the primary sector itself, represent around 4% of GDP. However, this excludes very important linkages as the oil and other processing industry, the transportation, etc. While there are no official figures for the total incidence of agricultural sector as a whole, a good estimate can be constructed by adding the different vertical and horizontal linkages.

The primary sector has strong industrial linkages, as the case of the oil industry, which is very important for soybean, and also for sunflower, among others. To picture its relevance, Argentina is the first world producer and exporter of soybean oil. At the same time, agriculture has also strong linkages with other sectors, such as agricultural machinery, seeds and other supplies and with the transportation sector, mainly by trucks and ships. When these linkages and the agro-industrial branches are included, the total contribution of the agriculture sector as a whole could increase up to around 20% of GDP.

Value added of farming sector only

As % of GDP



Source: EconViews based on several sources

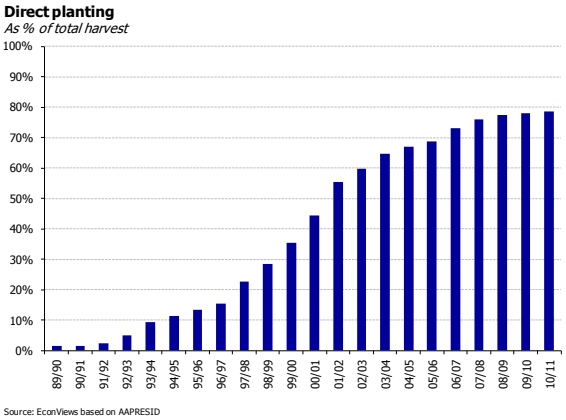
iii. The engines of growth

Several factors interacted since the early nineties to boost the growth of agriculture activity in Argentina. The large increase in production has been explained by the incentives generated by the higher international prices for soybeans and other agricultural products, the improvements in productivity, especially in the soybean complex, thanks to the incorporation of new technologies, as the direct planting, new fertilizers, modern machinery and genetically modified seeds, among other factors. The macroeconomic environment also played a role. In the nineties the elimination of the export taxes and other regulations that discriminated the sector were

very important. After the 2001 crisis, the export taxes introduced just partially offset the improvements in relative prices relevant for producers left by the devaluation and subsequent rise in commodity prices. In what follows, we analyze these factors more in detail.

Direct planting

Direct planting is a conservation system that leaves over the soil surface the stubble of the previous crop. No significant movement of soil is performed, except the movement made by the discs drill cutters to open the furrow where the seed will be located. Direct seeding allows producing without degrading the soil, and improving in many cases the physical, chemical and biological characteristics of it. Also it allows a more efficient use of water, a resource which in dry crops is usually the limiting factor for production. Thus, the system achieves high production levels with temporal stability and harmony with the environment. The main benefits from direct seeding are: 96% less soil erosion, 66% less fuel, incorporation of new areas for production, lower production costs and increased water quality, biological activity, soil fertility, production and yield stability.



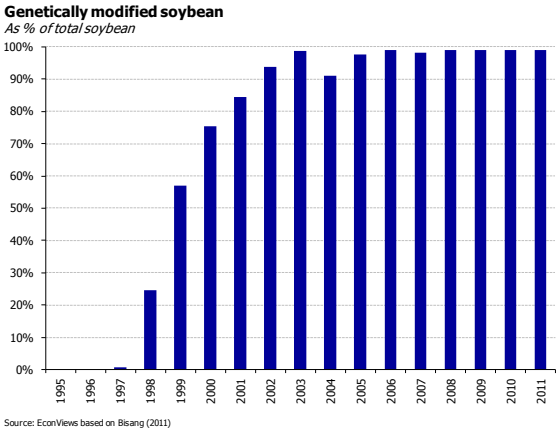
Source: EconViews based on AAPRESID

The more sustainable agriculture in template environments is direct planting, accompanied by proper nutritional management, fertilizers and herbicides and a crop rotation suitable for each production area. This gives the growing crop the amount of nutrients necessary for their development, while makes more efficient the use of agrochemicals, applying only the required doses at key moments.

The evolution of the area under direct planting (also known as direct seeding or no-till farming) for the four major crops of Argentina in the last 30 years increased exponentially. Currently, almost 80% of agriculture in Argentina is under this system and this proportion is expected to continue rising. This places the Argentine farming among the leaders on the adoption of a new technology package, focused on direct planting, transgenic seeds and increasing (and almost unavoidable) use of fertilizers and herbicides.

Transgenic seeds and multinational companies

Important innovations began to articulate since 1996, when it was released the commercial sale of transgenic soybean resistant to glyphosate or RR soybean, and also BT corn. In the case of the former, it is a seed containing a gene that makes it tolerant to the glyphosate, which is an herbicide that eliminates (temporarily) any competition to the transgenic plant. This was a key element to allow the massive dissemination of direct planting, it also demanded the associated use of herbicides, boosted the application of herbicide packages and induced a greater use of fertilizers to make sustainable the intensive production.



Source: EconViews based on Bisang (2011)

The RR soybean allowed replacing the complete package of herbicides by another very simple with only two applications of glyphosate. In line with the introduction of transgenic seeds and as a complementary part of the process of cost reduction, the direct planting started to be implemented with greater intensity. In this sense, the launch of this tillage technique was inversely proportional to the decline in agricultural commodity prices registered in the second half of the nineties.

Thus, the new technological package, which was latent but was activated with the entry of the transgenic seeds, was promoted as a solution to an unfavorable scenario caused by the fall in international prices. The response was the adoption of a cost saving package. Estimates for 1997 indicated that the implementation cost of the conventional package was around USD 115 per hectare, while the RR seed technique and glyphosate reduced the cost down to around USD 90. The reduction in the case of corn was similar.

In this context began to be evident the presence of a new and very important player: the suppliers of inputs, especially those linked to multinational capital. Their strategy is oriented to the selling of inputs in the form of a package, which include seeds, fertilizers and herbicides, but also with the corresponding technical support in the context of a new and now disseminated national network of the so called "Service Centers".

The entry of international mega-corporations in the form of direct investments, which occurred during the second half of the nineties, was directed to the launch of herbicides plants and the buy of local companies that had the national networks distribution. Thus, Monsanto, Syngenta, Bayer and other companies, locally replicated the process of concentration, mergers and takeovers operated at international level.

The main objective of these companies is to work in the first link in the chain of agribusiness: the provision of seeds as main inputs to produce agricultural goods. These are large companies that come from the fine chemical or pharmaceutical industry, which exerting the control of biotechnology assets applied to plant breeding, absorb seeds suppliers to achieve complete technical packages deals.

They offer a wide range of agricultural inputs and additionally technical services. In this context, and in the form of advancement of supplies on account for the future harvest, the financing of producers was the tool that allowed them to complete the integration scheme of these companies in the agricultural chain, especially when the bank credit started to be restricted during the years before and after the 2001 crisis.

	Herbicides	Machinery	Seeds
Seventies	PARAQUATT	Conventional sowing	Introduction (INTA/Privates)
Eighties	GLYPHOSATE	1st No-till farming with machinery	Local varieties of seeds
Nineties	GLYPHOSATE	Mechanized No-Till farming	Genetically Modified Soybean

New Technological Package

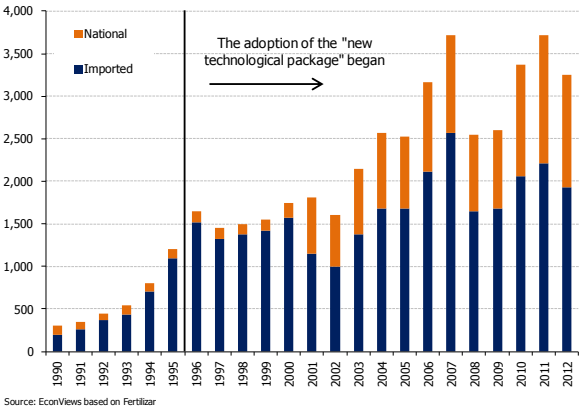
Source: EconViews based on Bisang (2007)

Fertilizers and herbicides

As expected, the adoption of the new technological package implied that the consumption of fertilizers and herbicides also increased steadily. In fact, a sustainable agricultural production, which may pretend to reach again and surpass the 100 million tons of grain, requires improved soil nutrient balances. Crop fertilization is the main tool to get high yields and improve the current nutrient balances in grain crop production.

Several studies had proven that some nutrients are generally deficient in the pampas and in other regions, as nitrogen, phosphorus and, in the last years, sulfur. Moreover, those studies indicate that current soil nutrient balances are inadequate for sustainable crop production, as a result, not only fertilizer consumption should rapidly grow next years, they also have provided strong support for the adoption of more ambitious fertilization programs aimed to provide a better soil nutrient balance.

Consumption of Fertilizers in Argentina
In thousand tons

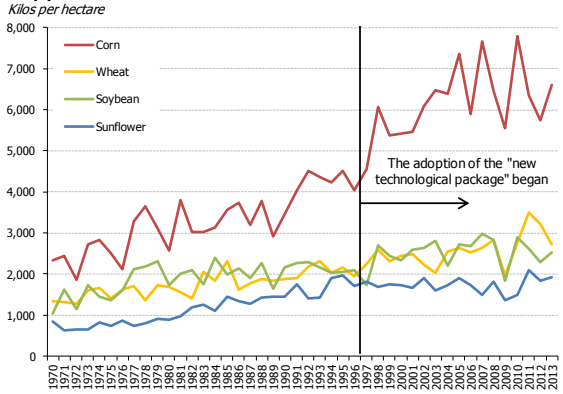


Source: EconViews based on Fertilizar

As expected, the massive adoption of the new technical package implied, beyond climate swings, a significant improvement in average yields. Obviously, this was consistent with the pressure that the system supported in favor of improving profitability and making it compatible and sustainable with the debt levels and the introduction of technologies that improve costs and productivity.

On one hand, the increasing introduction of double cropping meant that yield per hectare grew substantially. On the other hand, the incorporation of new more disadvantaged areas (away from the basic farming core) necessarily implied lower yields relative to core areas. This means that the average yield increase observed across the activity during the period implies a significant increase in yields in the more favored or core areas.

Crop yields
Kilos per hectare



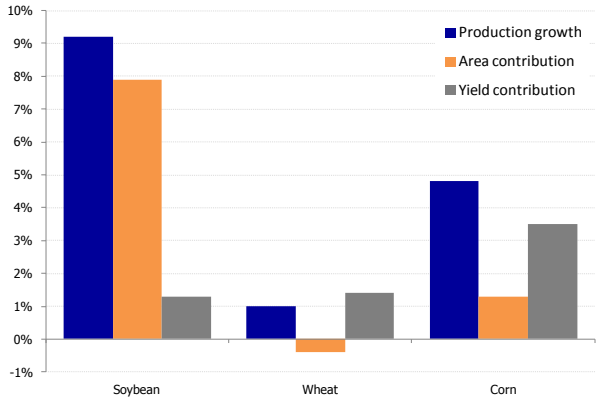
Source: EconViews based on USDA

Agricultural machinery

In the last years the sales and local production of agricultural machinery experienced a significant growth. Within the sector are included the four major groups of machines that are relevant for the production and harvesting of cereals and oilseeds: harvesters, tractors, planters and implements. The latter includes harvester heads, hopper trailers, self-propelled sprayers and towed, harrows, implements for primary tillage, cultivators, fertilizer spreaders and rakes, among others.

The sector today employs around 13 thousand workers, relative to around 8 thousand in 2003, which implies an average growth of 5% per year. At the same time, the value added of the sector represent around USD 650 million or around 0.15% of GDP, and exhibited an average growth of 9% per year in the last years. While the trade balance of the sector is still negative by around USD 400

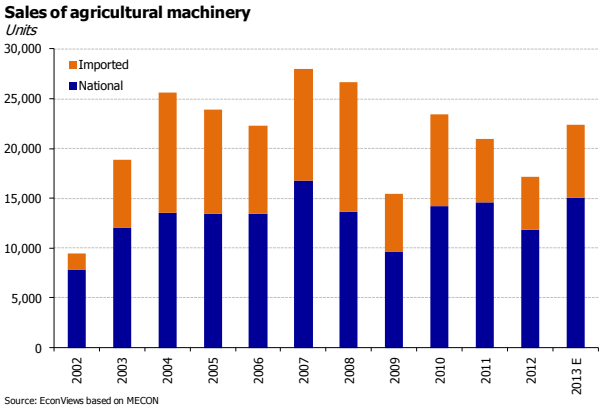
Contribution of land and productivity in production growth
Last 20 years



Source: Econviews based on Mecon

million, it has been reducing during the last years, both by higher exports as well as import substitution. Around 75% of exports go to Mercosur and Bolivia.

Indeed, another aspect of the sector has been the import substitution during the last years, also with the support of some government policies, as the so called Bicentennial Loans Program. As a result, in some years the participation of national harvesters and tractors tripled up. While in 2003 only 16% of harvesters and 13% of tractors were of national origin, today these numbers tripled and reached 45% and 39% of total, respectively.



iv. The incidence of macroeconomic environment

The economic openness of the early nineties

The economic openness implemented in the early nineties substantially changed the scenario for the agricultural sector, as well as for other sectors, in different ways. It made it through prices (for input and output), through changes in the structural composition of the supply of some inputs and through improvements in the regulatory "environment". Some relevant inputs, as diesel fuel or glyphosate lowered their prices. Indeed, the set of relative prices -inputs versus products- that the sector faced in the early nineties was perceived as highly favorable and profitable.

There were several factors behind that result, as the increase in international prices of cereals or their first derivatives (as soybean oil), the stability or even reduction in the price of inputs caused by liberalization and deregulation, and the lower prices for machinery and equipment as a result of the trade liberalization, especially the zero tax rate established for imported capital goods.

The 2001 crisis

While the step devaluation after 2001 crisis did help the agricultural sector, especially in the early times after the crisis as during 2002-03 through a significant increase in the margins for the main crops, it did not provide such a substantial incentive to the production of grains during the last years as many people think.

Agriculture activities in Argentina require a large amount of tradable goods whose prices are linked to the official exchange rate. Also the potential “rents” are usually appropriated by the owners of the land through higher rents and not necessarily by the producer. This is relevant since the rental of the land increased during the period. And also the fact that the government after the devaluation introduced significant export taxes that worsened the business

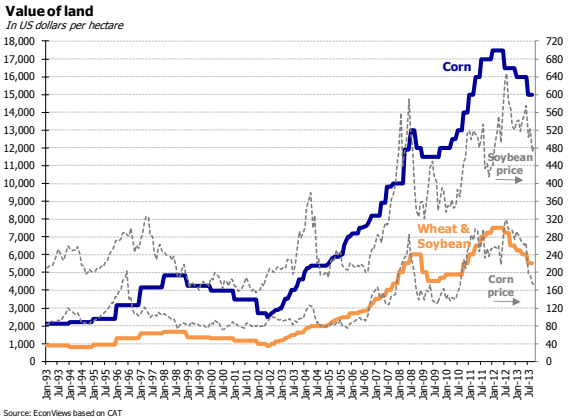
equation. The main benefits were labor costs and domestic services, which remained lower than prior to the devaluation.

However, the 2001 crisis was very important for the agricultural sector, as well as other sectors, since it implied a significant reduction in the stock of debt. The debt with the banking sector was pesified at a favorable exchange rate, which in practice implied a significant haircut. The primary activities as a whole were favored by a reduction in the stocks of liabilities. The debt relief, which implied a significant redistribution from other sectors, prevented widespread bankruptcies and a higher concentration in the sector, while prepared the fertile ground for a new model more based on self-financing and on alternative sources other than banking, such as the "Services Centers" of the big multinationals.

The increase in commodity prices since 2007 and the wealth effect from land revaluation

The increase in agricultural commodity prices, especially since 2007, was also a very important factor that boosted the activity and profitability during the last years. Price increases were very significant for the main crops. Up to date, soybean price in US dollars increased 120%, wheat around 78% and corn 65%.

The increase in commodity prices supported a significant revaluation in the price of land. This generated a significant wealth effect and the big winners have been the landowners, as the price of land has increased around three times since 2007. Moreover, the price of a hectare in the premium agricultural areas of Argentina increased from USD 2,500 in 2002 to over USD 15,000 today. The devaluation, the higher commodity prices and the worldwide boom in real estate have been a blessing for the landowners.



v. Government policies: just a drag on growth

Export taxes

After the 2001 crisis and devaluation, there was at that time a rationale for export taxes over agricultural exports. The activity was still profitable and the public sector used those resources to buffer the social costs of the crisis. In fact, the sector proved to be able to afford them and also to manage to grow at a fast speed after the crisis, despite the export taxes. The scheme seemed to work at least until the infamous 125 resolution, a new attempt to increase export taxes, which generated a sever lock out of the farming sector in the first quarter of 2008.

When farmers talk about the export taxes today, most of them may even argue in favor of the existence of the export tax for

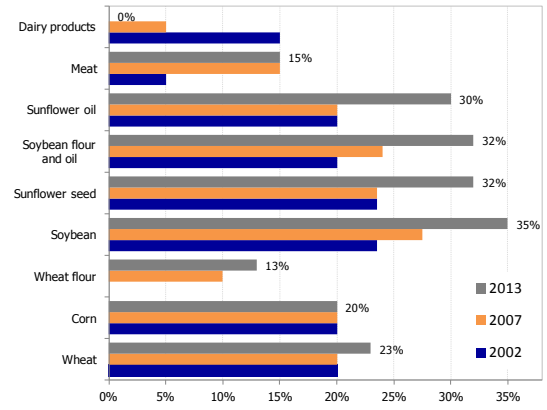
soybeans. However, they criticize the taxes on wheat and corn, as well as other products. They argue that those taxes hurt profitability and distort the incentives to produce wheat and corn, despite are not as important as soybean taxes for tax revenues.

Indeed, export taxes over soybean and soybean flour and oil represent around 75% of total export taxes. Total export taxes this year would reach around 2.2% of GDP, considerably below the 3.5% reached in 2008. Several factors explain this, as the lower commodity prices, the significant fall in energy exports and the lower exports of wheat and derivatives, among other factors.

Since export taxes over soybean and soybean flour and oil represent the bulk of revenues, and considering the significant dominance of soybean over other crops, is hard to argue today in favor of the export taxes on corn, wheat, sunflower and their derivatives, as well as over beef and dairy products. On the other hand, it is also hard to understand the fact that tax rates over derivatives as flour or oil, which are processed products that have more added value, are higher than rates over raw goods.

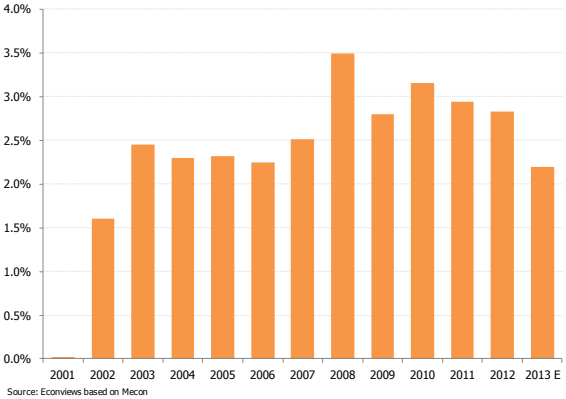
As a whole, it is estimated that every USD 100 produced by an average hectare in Argentina, the public sector receives USD 75, in the form of effective tax revenues (export taxes, income, provincial taxes, etc.) or indirect subsidies to other activities by reducing the sale price of the agricultural products.

Export tax rates
As % of exported value



Source: Econviews based on Mecon

Export taxes
As % of GDP



Source: Econviews based on Mecon

Market intervention: the failures of wheat, beef and milk

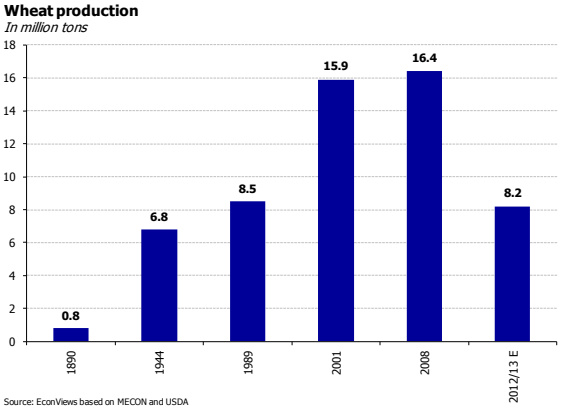
Probably the case of wheat is the most significant one to illustrate the failure of the government policies and market intervention to control domestic prices. The government intervention on beef and milk markets tell a similar story. Measures initially aimed to control domestic prices ended up hurting supply and increasing their prices even more.

In response to the overall rise in international prices of primary goods since 2006/07, the government decided to intervene the wheat market, in order to decouple the local prices from the international price increases, without focusing too much on instruments, a general idea against it was difficult to argue at that time. Particularly considering the "noble" objective set by the government to protect consumers from the "excessive" price increases, plus the immediate proliferation of advocates of these measures. This approach was extended to other markets with similar approaches, such as meat, poultry, pork and milk, among many others.

This way the government started establishing price agreements with various actors in the chain, a system of reference prices, and from May 2006 an administration of exports with absolutely discretionary permits under the alleged purpose of "ensuring domestic supply". From May 2008 through a new resolution was formalized a system of quantitative export restrictions by creating a register of affidavits, the infamous green ROE.

The lack of incentives to produce wheat began to reduce the supply. Soon, the supply was at level that was not profitable, except for very few producers, to produce wheat for export and then the price ended up above the import price. During that period there were price increases, declining production and vanishing exports and, now at the end, given the refusal to open the market for imports, domestic prices are higher than international prices for all the products in the chain.

These emblematic facts are a particular case of more general policies that have generated crisis in several markets of goods and services. They are the direct result of a combination of a central aspect of populism with its exclusive interest in the very short term, combined with serious technical deficiencies in the design of policies, ignoring the fundamental functioning of market and price mechanisms.



These cases reflect the Government distrust and lack of understanding of market mechanisms and incentives. They also highlight the partial equilibrium approach to the price increases in food and other sectors, instead understanding them as inflation from a general equilibrium point of view.

Recent news state that the ton of wheat in the local market trades, in a country that has been traditionally a big producer, at USD 90 or 36% more than in Chicago, due to its scarcity. The harvested area during the last two seasons has barely exceed 3.6 million hectares, a value similar than the achieved in 1903. A bag of wheat flour is today sold at 250 pesos, against a cost of around 100 at the beginning of the year, which generated a severe crisis in the local millers that are also unable to import cheaper wheat from Uruguay. The bread that cost 2 pesos per kilo in 2002 and should not exceed 10 pesos according to the instructions issued by Moreno in July this year, under the threat of applying the “Supply Law” (Ley de Abastecimiento), today locates close to 30 pesos, which is 14 times more than in 2002.

Infrastructure

Besides the market intervention, the export taxes and the increase in the cost of inputs due to the currency appreciation, a poor infrastructure hinders the movement and export of products with high costs, risks and bottlenecks on the roads.

Achieving a higher production of grains in the coming years will require undoubtedly a logistics and a structure consistent with this objective and this translates into the need for new investment in storage (mainly in origin), in industrial processing capacity (for grains and oilseeds) and especially in achieve substantial improvements in the means of transportation (trucks and trains) and on the roads and the rail network within the country and to the ports.

A recent survey published by "Fundación Producir Conservando" categorized 80% of the roads and routes in regular and/or poor conditions. Furthermore, in recent years an average of 850 thousand new cars per year joined the road network. In contrast, only 29 kilometers of highway per year are constructed, which is the vital format to transport in optimal conditions to ports or export markets. The data reflect the road infrastructure deficit affecting Argentina, which locates in the position 103 of the 140 countries included in the ranking of quality routes, which is part of the study on World Economic Forum's Competitiveness. Several African countries, such as Namibia, Mali and Senegal, rank better on that item.

An agro-exporting country as Argentina, which transports by truck 85% of the nearly 100 million tons produced each year, lack of an oiled network of arteries to the main ports. The Port of Rosario, where almost 80% of total soybean and sunflower and its derivatives is shipped, still suffers from the lack of a bypass highway, without considering the routes 33, 34 and 9 who converge there and get saturated with cars and trucks since they are not highways today. The Gran Rosario is one of the most important nodes of cargo transportation in the country, not only because of port terminals located there, but also because the oil industries that process 20,000 ton per day are located near there.

A recent study published by the newspaper "La Nación" stated that it is essential to transform the entire network of 13,500 kilometers of roads into intelligent highways. But at the current rate of 29 kilometers per year, this integration would require 448 years. One highway kilometer, with all the high-tech signage and with a lifespan of 60 years, cost on average USD 2 million. This means that in the long run the investment required reaches around USD 27,000 million or 6% of GDP.

Investments in road infrastructure in Argentina, as in other Latin American countries, locate below 2% of GDP. That figure is far from that in developed nations, which reaches up to 8% of GDP and on average represents 50 % of total public investment.

The issue is important since the efficiency of transport infrastructure is one of the issues affecting the competitiveness of an economy. At a time when the economy is less price competitive due to currency appreciation and higher domestic costs, improvement in capital goods, among them the infrastructure, cheapen the cost of companies in freight and enable them to improve their business

equation. It is considered that transportation infrastructure is the third factor which determines competitiveness, after the exchange rate and the fiscal pressure.

The relevance of transforming the routs has to do with cost reduction. Since only 11% to 15% of the grains are moved by trains, the impact of transport on prices can be half the value of the grain sold. The same study establishes that transportation costs of a ton of corn from Salta to Rosario represent 48 % of the gross price. In soybean, the weight is 30% at a distance of 950 kilometers. This makes today that some areas produce under losses, due to the distance between the areas and ports.

Since trucks will remain as the main mean of transportation, there is also the need to adapt and improve the park of trucks. A study of "Fundación Producir Conservando" establishes that by 2020 it is estimated that will be necessary 50% of more trucks. Today the average age of the trucks used is 22 years, with a standard deviation of 13 years, and a limit of obsolescence that is located around 20 years in average. Only 25% of trucks have an age of 10 years or less. So investments on trucks are also required.

Another important issue is the storage capacity, especially at origin. The relationship between the production and the installed capacity is between 75% and 106%, depending on the time of year. In other countries this ratio exceeds 120/150%, with most capacity available in origin. The same study estimates that in the last years there were used silo bags by over 30 million tons, which temporarily overcomes bottlenecks, although in the future the additional storage needs should reach 40 million ton. Otherwise, the usage of silo bags should expand in more than 60 million ton.

In summary, it is clear that the current infrastructure cannot achieve sustainability for 100 million ton of production and much less to reach 135 million in 2020. These challenges arise in a context of constraints, where the government cannot devalue the currency, has a really poor access to external finance and bad reputation. That is, the current institutional framework of Argentina does not promote this type of long term investments. While the agricultural sector in Argentina is extremely competitive and can produce significantly higher volumes and exports, current policies are penalizing the activity and hampering new developments in a field where Argentina can be clearly a worldwide leader.

National Accounts

	Last available data	q/q		y/y	Accumulated y/y		2011	2010
		Current	Previous		2012	2011		
Real GDP								
Real GDP ECONVIEWS*	*II Q-13*	**1.6%**	**0.8%**	**3.0%**	**1.3%**	**2.0%**	**0.5%**	**6.5%**
Real GDP INDEC*	*II Q-13*	**2.6%**	**1.5%**	**8.3%**	**5.8%**	**2.4%**	**1.9%**	**8.9%**
Investment	*II Q-13*	3.7%	-1.0%	16.2%	9.0%	-7.3%	-5.0%	16.6%
Private consumption	*II Q-13*	2.6%	3.3%	9.2%	7.7%	5.6%	4.4%	10.7%
Public consumption	*II Q-13*	2.9%	1.8%	8.6%	7.6%	7.8%	6.4%	10.9%
Exports of goods and services	*II Q-13*	4.7%	-3.4%	4.4%	-1.9%	-3.3%	-6.9%	4.3%
Imports of goods and services	*II Q-13*	4.5%	2.2%	21.3%	13.6%	-6.7%	-5.6%	17.8%

*Non-stacionary data

Source: MECON, unless the contrary is indicated

Activity and Prices

	Last available data	m/m*			y/y	Accumulated y/y		2012
		Last	1 m ago	2 m ago		2013	2012	
Economic Activity								
Economic Activity EMAE	*Aug-13*	**0.4%**	**-1.2%**	**-0.5%**	**4.0%**	**5.5%**	**2.2%**	**1.9%**
Leading Index (UTDT)	*Sep-13*	2.5%	3.2%	2.6%	11.4%	1.5%	-13.6%	-13.5%
Industrial Activity (EMI)	*Sep-13*	**-0.8%**	**-1.5%**	**0.2%**	**-0.2%**	**1.0%**	**-0.8%**	**-1.2%**
Industrial Activity (FIEL)	*Sep-13*	**1.9%**	**-0.7%**	**1.5%**	**5.7%**	**0.3%**	**-0.1%**	**-0.8%**
Automobiles	*Sep-13*	1.9%	-1.5%	12.9%	5.1%	12.6%	-13.5%	-8.4%
Iron and steel industry	*Sep-13*	-2.5%	4.3%	5.8%	12.2%	1.2%	-7.6%	-8.5%
Food and beverages	*Sep-13*	1.7%	-0.4%	10.0%	3.1%	0.8%	3.5%	2.4%
Construction (ISAC-INDEC)	*Sep-13*	**0.7%**	**0.1%**	**-0.9%**	**7.4%**	**4.6%**	**-2.7%**	**-3.2%**
Construction (ECONVIEWS)	*Sep-13*	**-**	**-**	**-**	**3.5%**	**0.2%**	**-4.1%**	**-4.5%**
Construction permits	*Sep-13*	-5.8%	-3.0%	16.5%	-10.8%	-10.0%	2.9%	3.3%
Cement consumption	*Sep-13*	-2.8%	6.6%	10.0%	17.0%	10.3%	-7.4%	-7.8%
Consumption Indicators								
Retail sales (CAME)	*Oct-13*	-	-	-	2.7%	-1.9%	-3.0%	-2.4%
Home appliances	*Oct-13*	-	-	-	4.5%	1.2%	-1.5%	-0.8%
Shopping centers sales**	*Sep-13*	-11.8%	-9.3%	-3.8%	-1.9%	1.8%	0.1%	-0.8%
Supermarkets sales**	*Sep-13*	-7.2%	2.1%	-1.5%	-2.2%	0.0%	2.5%	1.8%
Automobiles sales	*Oct-13*	-4.6%	-4.1%	9.2%	20.3%	19.1%	-7.3%	-6.0%
Consumer Confidence (UTDT)	*Oct-13*	6.6%	-2.8%	5.4%	19.4%	0.6%	-17.4%	-17.6%
Prices and wages								
Price indicator ECONVIEWS *	*Sep-13*	**2.1%**	**2.1%**	**2.6%**	**25.4%**	**24.8%**	**23.9%**	**25.2%**
CPI INDEC	*Sep-13*	**0.8%**	**0.8%**	**0.9%**	**10.5%**	**10.6%**	**9.9%**	**10.8%**
Wholesale prices	*Sep-13*	1.0%	1.1%	1.1%	13.8%	13.4%	12.8%	13.1%
GDP deflator	*II Q-13*	-	-	-	18.1%	18.1%	14.4%	15.3%
Registered private wages	*Sep-13*	1.7%	1.9%	2.6%	25.4%	24.5%	31.9%	30.3%
Public wages	*Sep-13*	3.8%	2.6%	2.1%	26.7%	22.3%	12.9%	13.9%

*Seasonally adjusted monthly variations for activity series

** Series at current prices (INDEC) deflacted by Price indicator ECONVIEWS (estimation based on several public sources)

*** Based on inflation of provinces

Source: INDEC, unless otherwise is indicated

Fiscal and External Accounts

In million AR pesos

	Last available data	In million AR$		y/y		Accumulated y/y		2012
		Current	Accum.	Last	A year ago	2013	2012	
Tax Revenues of the Central Government								
Total Tax Revenues	*Oct-13*	**74,292**	**709,190**	**23.6%**	**26.4%**	**27.3%**	**25.4%**	**679,799**
Total VAT (excludes refunds)	*Oct-13*	23,077	203,358	31.4%	34.5%	31.6%	23.3%	190,497
VAT DGI	*Oct-13*	15,486	139,203	39.4%	28.7%	28.0%	33.2%	133,816
VAT DGA	*Oct-13*	7,692	66,498	19.3%	28.8%	40.5%	0.4%	59,251
Social security	*Oct-13*	19,424	191,503	26.9%	30.5%	32.1%	30.6%	175,590
Income	*Oct-13*	14,859	151,258	19.0%	40.0%	36.2%	24.2%	138,440
Financial transactions tax	*Oct-13*	5,201	45,780	41.7%	16.7%	29.0%	20.6%	43,931
Exports tax	*Oct-13*	3,957	49,786	-12.0%	-22.8%	-7.5%	15.8%	61,316
Imports tax	*Oct-13*	2,389	19,253	34.4%	29.0%	46.2%	11.3%	16,640
Fuels	*Oct-13*	1,297	11,780	36.9%	16.4%	29.2%	44.7%	11,349
Others	*Oct-13*	4,088	36,471	5.3%	45.0%	4.9%	43.9%	42,037
Fiscal Accounts of the Central Government								
Total revenues*	*Jul-13*	**67,163**	**397,017**	**36.6%**	**25.0%**	**30.1%**	**27.1%**	**26.6%**
Primary expenditures	*Jul-13*	**66,359**	**391,487**	**36.5%**	**24.9%**	**30.6%**	**31.0%**	**29.0%**
Wages and consumption	*Jul-13*	13,489	72,291	34.3%	20.5%	27.3%	29.9%	27.3%
Social security	*Jul-13*	20,842	146,800	34.9%	37.1%	32.3%	41.0%	39.1%
Transfers to private sector	*Jul-13*	15,570	78,623	38.1%	30.7%	20.1%	19.9%	15.3%
Capital expenditures	*Jul-13*	7,602	47,180	44.4%	-13.4%	39.0%	18.3%	15.5%
Transfers to provinces	*Jul-13*	1,290	7,663	30.0%	-26.9%	14.7%	1.0%	3.2%
Transfers to universities	*Jul-13*	2,930	14,306	22.9%	31.6%	24.0%	27.8%	28.3%
Other current expenditures	*Jul-13*	4,637	24,625	43.9%	119.1%	69.8%	89.6%	102.1%
Primary surplus	*Jul-13*	**804**	**5,531**	**-**	**-**	**-**	**-**	**-4,375**
Fiscal surplus	*Jul-13*	**-2,725**	**-16,514**	**-**	**-**	**-**	**-**	**-55,565**
Automatic transfers to provinces	*Jul-13*	**18,631**	**122,073**	**39.0%**	**22.4%**	**33.9%**	**23.3%**	**26.9%**
External Accounts								
Trade balance	*Sep-13*	**849**	**7,141**	**-4.4%**	**-2.4%**	**-30.0%**	**30.9%**	**12,420**
Exports (FOB)	*Sep-13*	6,995	63,479	3.0%	-12.9%	3.9%	-3.9%	80,927
Imports (CIF)	*Sep-13*	6,146	56,338	4.1%	-14.3%	10.7%	-8.8%	68,508
Current Account	*II Q-13*	**650**	**-1,720**	**-**	**-**	**-**	**-**	**-57**
Nominal GDP								
Nominal GDP in AR$	*II Q-13*	**2,907,278**	**2,593,384**	**27.9%**	**15.0%**	**27.9%**	**15.0%**	**2,164,246**
Nominal GDP in USD	*II Q-13*	**554,663**	**504,619**	**8.5%**	**5.5%**	**8.5%**	**5.5%**	**475,162**

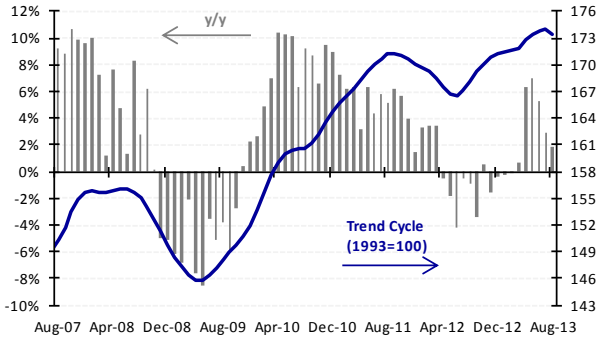
* Excludes automatic transferences to provinces and includes DEG in 2009, utilities of BCRA and rent FGS-ANSES, among others

MM = Millions (MM AR$ for fiscal accounts and MM US$ for external accounts)

Source: MECON

Economic Activity

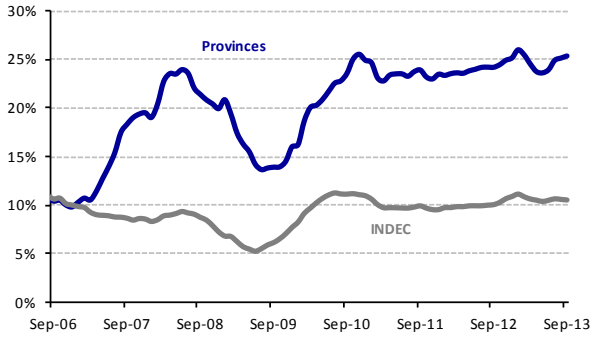
Non-official data



Source: EconViews based on several sources.

Inflation

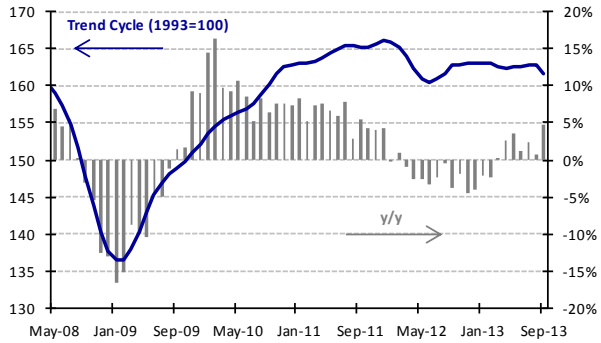
Annual variations



Source: EconViews based on INDEC, provincial statistics official institutions and other sources.

Industrial Activity

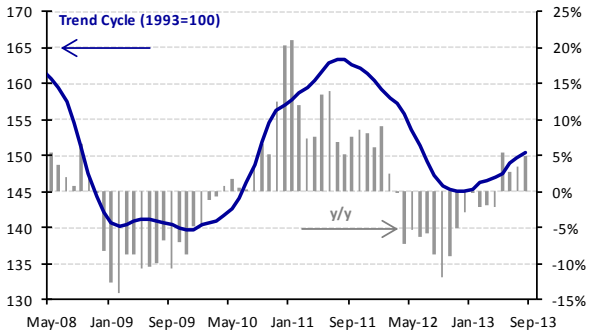
Non-official data



Source: EconViews based on FIEL.

Construction

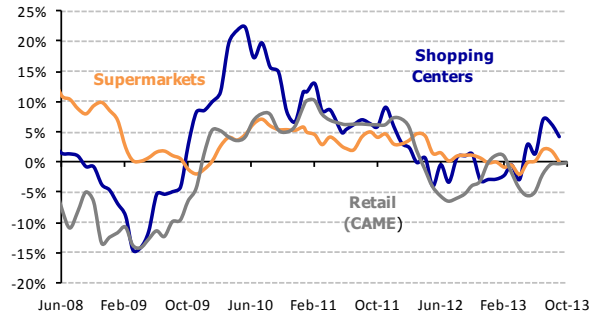
Non-official figures since 2006



Source: EconViews

Sales indicators in volume

Interannual variations - 3 months moving average



Note: supermarkets and shoppings nominal sales deflated with EconViews estimation of CPI inflation
Source: EconViews based on INDEC and CAME

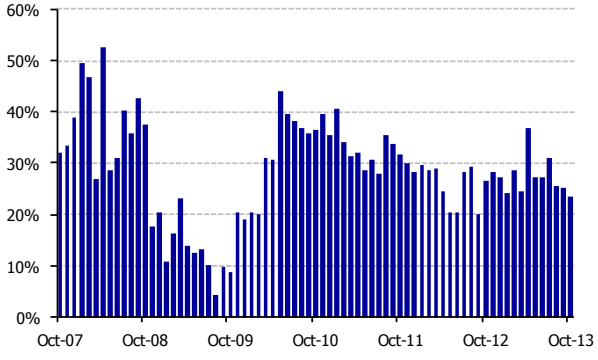
Consumer confidence

Index

Source: EconViews based on UTDT

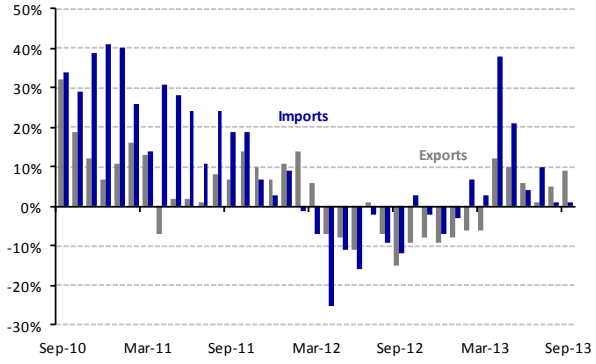
Tax Revenues

Annual changes- Central Government



Foreign trade volumes

Annual variations



Monetary Aggregates

In million pesos - As of Oct 25, 2013

	Last date	Monthly Variation			Annual Variation					YTD Var.	
		Oct-13	Sep-13	Aug-13	Oct-13	Sep-13	Aug-13	2012	2011	2013	2012
Monetary Base											
Monetary base	**337,008**	**2.2%**	**0.9%**	**1.2%**	**27.1%**	**26.0%**	**26.7%**	**39.0%**	**35.2%**	**15.0%**	**25.9%**
Held by the public	234,709	1.4%	0.9%	1.4%	27.8%	28.0%	28.5%	37.9%	34.9%	18.0%	27.5%
In banks	102,296	3.8%	0.9%	0.9%	25.5%	21.4%	22.5%	41.5%	36.0%	8.6%	22.4%
Drawed checks	3	101.0%	9.5%	-35.8%	40.3%	26.1%	-30.8%	67.0%	-84.8%	-10.3%	-5.8%
Sources of Monetary Base Exp. (Mlns. of AR$)		**2,367**	**6,241**	**3,064**	**22,449**	**20,082**	**13,841**	**84,430**	**62,514**	**22,449**	**42,043**
Dollar Purchases		-8,717	-6,673	-1,936	-11,351	-2,633	4,039	41,086	13,315	-11,351	35,132
Government		1,394	19,094	6,477	46,715	45,321	26,227	47,495	32,575	46,715	21,975
Reverse repos		10,197	-1,332	1,268	4,897	-5,300	-3,968	715	3,822	4,897	-3,331
Lebac / Nobac		168	-4,072	-2,892	-15,114	-15,282	-11,210	-3,320	14,977	-15,114	-10,770
Other		-674	-776	147	-2,698	-2,024	-1,248	-1,546	-2,175	-2,698	-963
Monetary Agreggates											
Total M1	**406,155**	**0.8%**	**1.4%**	**2.8%**	**29.7%**	**30.8%**	**26.7%**	**38.2%**	**29.6%**	**16.0%**	**22.7%**
Held by the public	234,709	1.4%	0.9%	1.4%	27.8%	28.0%	28.5%	37.9%	34.9%	18.0%	27.5%
Current accounts	171,443	-0.2%	2.2%	4.8%	32.2%	34.7%	24.2%	38.6%	23.2%	12.4%	21.4%
Total M2	**534,893**	**1.2%**	**1.5%**	**1.7%**	**31.8%**	**31.9%**	**28.3%**	**39.6%**	**29.6%**	**17.3%**	**23.7%**
Saving deposits in pesos	128,738	2.5%	1.7%	-1.6%	39.3%	35.8%	33.7%	44.6%	29.9%	20.8%	24.4%
Total M3	**874,919**	**1.8%**	**1.8%**	**2.5%**	**29.3%**	**29.0%**	**29.0%**	**37.1%**	**30.7%**	**20.7%**	**27.6%**
Time deposits	314,810	2.6%	2.4%	4.0%	24.9%	24.5%	30.6%	34.0%	33.7%	32.7%	43.1%
Total deposits	640,207	2.0%	2.2%	2.9%	29.9%	29.4%	29.2%	36.8%	29.2%	21.8%	27.7%
Private M1	**347,627**	**1.4%**	**1.6%**	**0.9%**	**26.2%**	**26.7%**	**26.4%**	**36.5%**	**31.2%**	**16.1%**	**25.4%**
Held by the public	234,709	1.4%	0.9%	1.4%	27.8%	28.0%	28.5%	37.9%	34.9%	18.0%	27.5%
Current accounts	112,915	1.3%	3.2%	-0.1%	22.9%	24.1%	22.1%	33.8%	24.6%	12.4%	21.4%
Private M2	**462,477**	**1.7%**	**1.4%**	**0.1%**	**28.3%**	**27.7%**	**27.5%**	**36.9%**	**30.9%**	**17.3%**	**25.2%**
Saving deposits in pesos	114,850	2.7%	0.8%	-2.3%	35.1%	31.0%	31.1%	38.1%	30.0%	20.8%	24.4%
Private M3	**693,736**	**1.9%**	**1.9%**	**1.4%**	**31.6%**	**31.5%**	**31.7%**	**40.3%**	**30.7%**	**21.6%**	**29.6%**
Time deposits	215,162	2.1%	2.8%	4.5%	39.5%	41.0%	42.5%	51.2%	31.6%	32.7%	43.1%
Total deposits	459,024	2.1%	2.4%	1.5%	33.7%	33.4%	33.4%	41.7%	28.5%	23.6%	30.8%

International Reserves

In billion dollars - As of Oct 25, 2013

	Last Date	Monthly Variation			YTD Var.			Annual Variation		
		Sep-13	Aug-13	Jul-13	2013	2012	2011	2012	2011	2010
Stock - *end of period*	**33,971**	**34,741**	**36,678**	**37,049**	**33,971**	**45,274**	**47,523**	**43,290**	**46,376**	**52,190**
Factors of variation	**-770**	**-1,937**	**-370**	**43**	**-9,319**	**-1,063**	**-4,422**	**-3,086**	**-5,814**	**4,222**
BCRA FX Purchases	-1,494	-1,161	-345	-129	-1,857	7,976	1,397	9,200	3,335	11,805
International organisms	121	72	-10	8	166	-186	211	98	516	300
Government	-420	-2,271	9,418	-175	1,690	-266	7,474	-2,390	6,076	-1,224
Reserve requirements	156	228	-85	117	-854	730	-3,810	878	-6,384	-879
Other	867	1,195	-9,349	223	-8,464	-9,317	-9,694	-10,872	-9,357	-5,780

Deposits

In million pesos - As of Oct 25, 2013

	Last Date	Monthly Variation			Annual Variation					YTD Var.	
		Oct-13	Sep-13	Aug-13	Oct-13	Sep-13	Aug-13	2012	2011	2013	2012
Deposits in Pesos											
Total deposits	**638,950**	**2.4%**	**2.2%**	**2.9%**	**29.9%**	**29.4%**	**29.4%**	**36.5%**	**35.5%**	**21.9%**	**27.5%**
Public sector deposits	**179,926**	**2.8%**	**1.7%**	**6.7%**	**21.2%**	**20.3%**	**20.1%**	**-2.6%**	**34.5%**	**17.9%**	**-6.4%**
Private sector deposits	**459,024**	**2.3%**	**2.4%**	**1.5%**	**33.7%**	**33.4%**	**33.4%**	**41.7%**	**28.5%**	**23.6%**	**30.8%**
Current accounts	112,915	1.7%	3.2%	-0.1%	22.9%	24.1%	22.1%	33.8%	24.6%	12.4%	21.4%
Saving deposits	114,850	2.7%	0.8%	-2.3%	35.1%	31.0%	31.1%	38.1%	30.0%	20.8%	24.4%
Time deposits	215,162	2.2%	2.8%	4.5%	39.5%	41.0%	42.5%	51.2%	31.6%	32.7%	43.1%
More than $1 million	*116,775*	*2.1%*	*3.1%*	*5.2%*	*47.1%*	*47.5%*	*52.3%*	*65.5%*	*45.2%*	37.4%	*53.8%*
Less than $1 million	*98,388*	*2.3%*	*2.6%*	*3.7%*	*31.6%*	*33.9%*	*32.5%*	*38.0%*	*21.1%*	27.4%	*33.2%*
Deposits in Dollars											
Total deposits	47,735	2.4%	4.3%	-0.7%	11.0%	10.9%	4.5%	-19.1%	-10.5%	3.7%	-25.4%
Private sector deposits	39,888	2.3%	3.0%	0.7%	6.1%	3.4%	-1.4%	-27.2%	12.6%	5.5%	-27.6%
Public sector deposits	7,846	2.7%	11.3%	-8.0%	45.2%	75.7%	56.2%	65.2%	-71.5%	-4.5%	-2.5%

Credit to the Private Sector

In Million Pesos - As of Oct 25, 2013

	Last Date	Monthly Variation (%)			Annual Variation (%)					YTD Var. (%)	
		Oct-13	Sep-13	Aug-13	Oct-13	Sep-13	Aug-13	2012	2011	2013	2012
Total loans	**459,293**	**2.6%**	**2.6%**	**2.3%**	**33.3%**	**32.8%**	**32.3%**	**29.5%**	**48.3%**	**24.4%**	**20.4%**
Loans in Dollars	**24,230**	**-1.5%**	**-1.5%**	**-3.8%**	**-13.5%**	**-17.2%**	**-20.7%**	**-33.7%**	**41.0%**	**-10.6%**	**-31.3%**
Loans in Pesos	**435,063**	**2.8%**	**2.9%**	**2.7%**	**37.4%**	**37.6%**	**37.9%**	**40.0%**	**49.6%**	**27.2%**	**29.1%**
Commercial loans	**161,924**	**3.1%**	**4.1%**	**2.8%**	**44.2%**	**44.2%**	**44.5%**	**50.2%**	**47.3%**	**31.3%**	**36.5%**
Overdrafts	60,005	0.9%	4.0%	3.5%	31.3%	28.4%	27.6%	53.9%	39.8%	26.3%	48.7%
Documents	101,919	4.4%	4.1%	2.5%	53.2%	55.8%	57.1%	48.0%	52.2%	34.4%	29.1%
Mortgage and pledge loans	**70,784**	**2.2%**	**2.1%**	**1.9%**	**34.3%**	**35.2%**	**35.8%**	**30.2%**	**48.0%**	**25.2%**	**20.9%**
Mortgages	41,189	1.4%	1.5%	1.6%	27.1%	28.3%	29.1%	28.4%	34.5%	19.6%	20.5%
Pledge loans	29,595	3.3%	2.9%	2.4%	45.7%	46.5%	46.6%	33.0%	76.5%	33.8%	21.7%
Consumer loans	**164,088**	**2.9%**	**2.3%**	**3.6%**	**34.4%**	**34.9%**	**35.4%**	**34.0%**	**49.0%**	**25.0%**	**23.7%**
Personal loans	93,387	2.8%	2.7%	2.3%	30.9%	30.9%	30.6%	29.0%	47.7%	24.5%	22.3%
Credit cards	70,700	3.0%	1.7%	5.2%	39.4%	40.5%	42.3%	41.4%	51.1%	25.7%	25.7%

Bank Liquidity in Pesos

Monthly averages, in % - As of Oct 25, 2013

	Last Date	Monthly Evolution			Variation (bps.)		End of Period		
		Sep-13	Aug-13	Jul-13	MTD	YTD	2012	2011	2010
As % of total deposits									
Liquidity*	**17.8%**	**18.0%**	**18.3%**	**17.9%**	**-26**	**-329**	**21.1%**	**20.5%**	**20.6%**
Cash	3.7%	3.7%	3.8%	3.9%	5	-1	4.8%	5.5%	4.5%
Current accounts in BCRA	12.3%	12.1%	12.1%	12.3%	22	-1	13.2%	11.8%	12.8%
Reverse repos	1.8%	2.3%	2.4%	1.7%	-52	-1	3.1%	3.1%	3.3%
Broad liquidity**	**32.2%**	**32.3%**	**32.2%**	**32.0%**	**-14**	**-3**	**34.8%**	**36.0%**	**42.4%**
Lebacs & Nobacs	14.4%	14.3%	13.9%	14.0%	12	1	13.7%	15.5%	21.8%
Memo:									
Stock of reverse repos	11,387	14,450	14,759	10,139	-21.2%	-30.0%	16,265	11,973	9,355
Stock of Lebacs & Nobacs	102,293	99,470	94,669	92,949	2.8%	27.3%	80,368	65,191	70,755

* Liquidity: cash in banks + current accounts in BCRA + reverse repos

** Broad liquidity: cash in banks + current accounts in BCRA + reverse repos with the CB + Lebacs & Nobacs

Interest rates

Monthly averages, in % - As of Nov 04, 2013

	Last Date	Monthly Evolution			Variation (bps.)		End of Period		
		Sep-13	Aug-13	Jul-13	MTD	YTD	2012	2011	2010
Badlar Rate									
Total banks	16.9%	15.2%	14.8%	15.7%	173	348	13.4%	14.8%	10.3%
Private Banks	18.8%	18.1%	17.7%	17.3%	70	342	15.4%	18.8%	11.1%
Public Banks	13.7%	11.4%	11.5%	13.1%	226	316	10.5%	10.9%	9.2%
Time deposits - *30 days in pesos*	17.7%	17.1%	16.6%	16.3%	63	310	14.6%	16.9%	10.1%
BCRA									
Reverse repos - *1 day*	9.0%	9.0%	9.0%	9.0%	0	0	9.0%	9.0%	9.0%
Reverse repos - *7 days*	9.5%	9.5%	9.5%	9.5%	0	0	9.5%	9.5%	9.5%
Repos - *7 days*	11.5%	11.5%	11.5%	11.5%	0	0	11.5%	11.5%	11.5%
Interbank loans									
Call rate	11.6%	11.8%	11.8%	13.3%	-20	129	10.3%	9.9%	9.6%
Overdraft to corporations									
Overdrafts - *7 days and more than $10 mill.*	18.7%	17.4%	16.9%	17.3%	134	429	14.4%	22.6%	11.1%

Exchange Rate

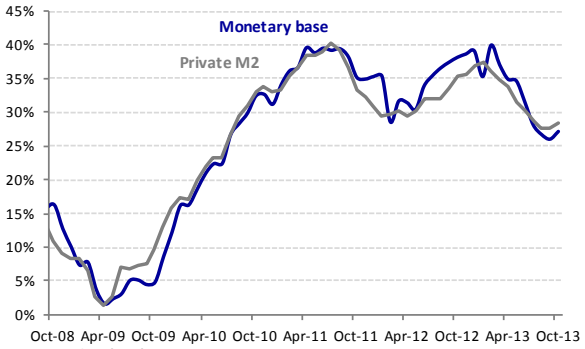
As of Nov 05, 2013

	Last Date	Monthly Devaluation (% an.)			Annual Devaluation (%)				
		Oct-13	Sep-13	Aug-13	Oct-13	Sep-13	Aug-13	2012	2011
Official exchange rate									
BCRA Reference exchange rate	5.95	29.1%	28.0%	43.2%	24.0%	23.4%	22.4%	14.2%	8.4%

	Last Date	Last day of each month				
		Oct-13	Sep-13	Aug-13	Dec-12	Dec-11
Parallel exchange rate						
Informal	9.83	9.55	9.27	8.72	6.44	4.79
spread vs. official	65.1%	64.3%	62.4%	58.0%	33.2%	11.8%
Blue chip	9.27	9.09	8.97	8.41	6.71	4.69
spread vs. official	55.8%	56.4%	57.2%	52.4%	38.7%	9.4%

Monetary Aggregates

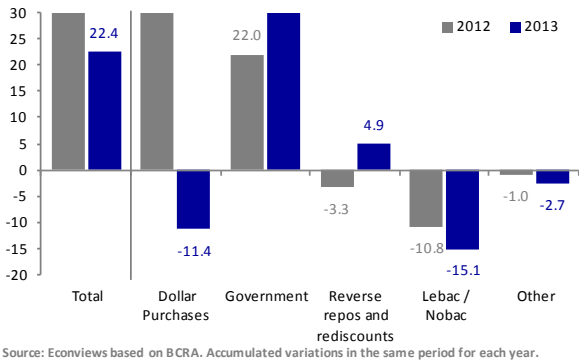
y/y growth



Source: Econviews based on BCRA

Monetary Base

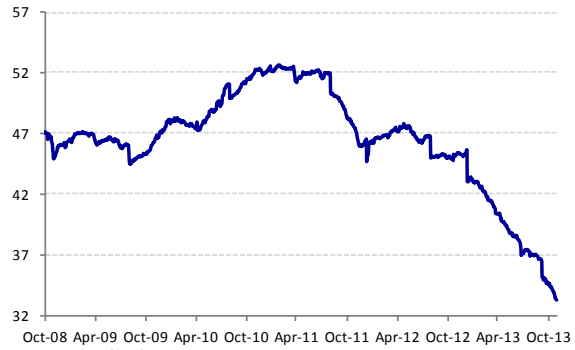
factors of expansion, in AR$ bn.



Source: Econviews based on BCRA. Accumulated variations in the same period for each year.

International Reserves

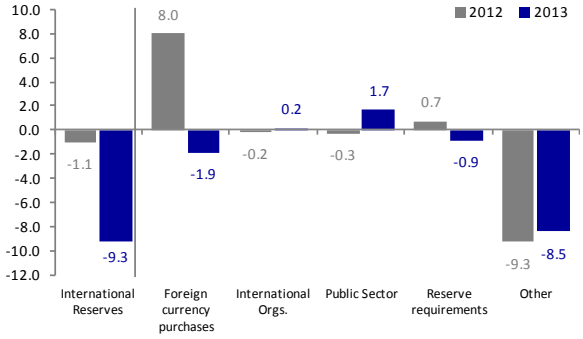
stock, in US$ bn.



Source: Econviews based on BCRA

International Reserves

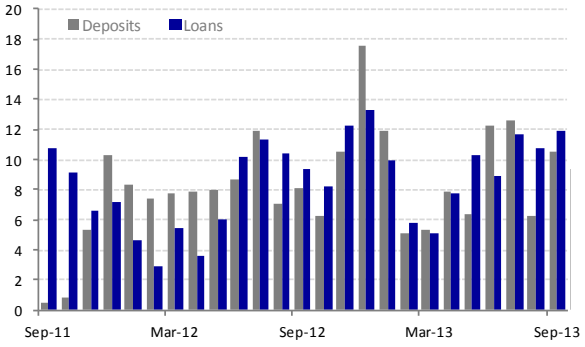
factors of variation, in US$ bn.



Source: Econviews based on BCRA. Accumulated variations in the same period for each year.

Private sector financial intermediation in pesos

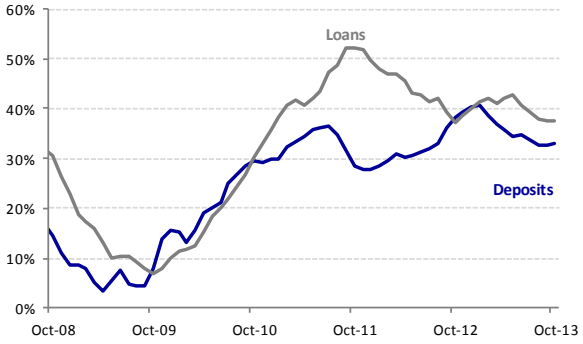
monthly variation of deposits and loans, in AR$ mill.



Sourcce: Econviews based on BCRA

Private sector financial intermediation in pesos

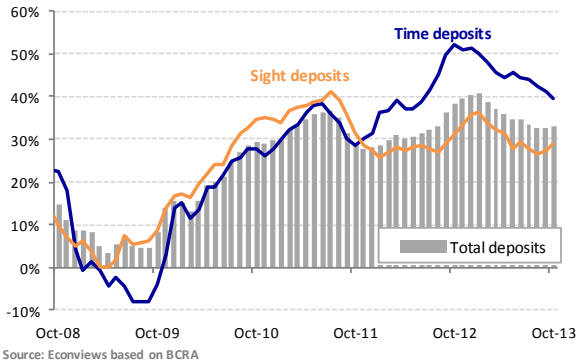
y/y growth



Source: Econviews based on BCRA

Private sector deposits in pesos

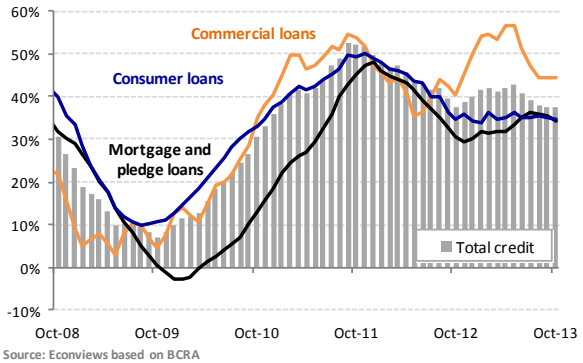
y/y growth



Source: Econviews based on BCRA

Credit to the private sector in pesos

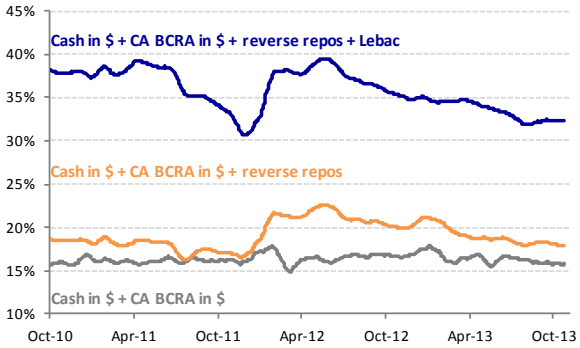
y/y growth



Source: Econviews based on BCRA

Banking system liquidity

as % of total deposits, moving average 21 days



Source: Econviews based on BCRA

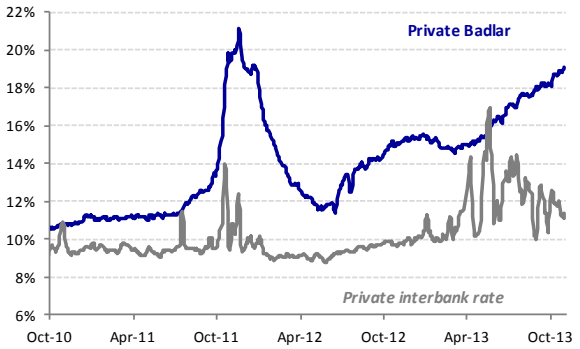
Banking system liquidity

stock of reverse repos as % of total deposits, moving average 21 days

Source: based on BCRA

Reference rates

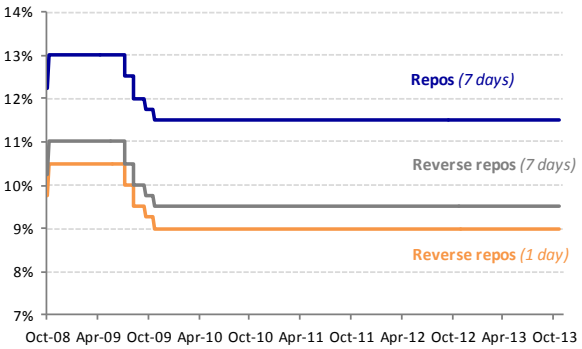
moving average 5 days



Source: Econviews based on BCRA

Reference rates

reverse repos and repos with the CB



Source: Econviews based on BCRA

Reference exchange rate

annualized cummulative devaluation rate of the last 60 d.

Source: Econviews based on BCRA

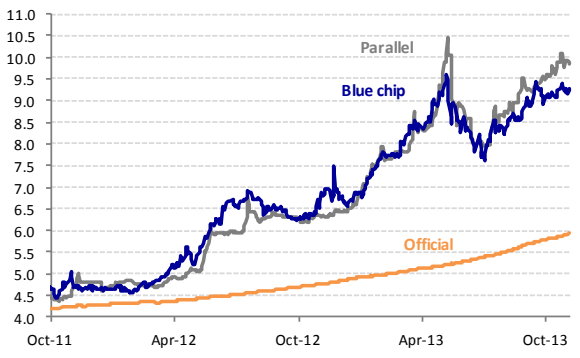
Dollar futures (ROFEX)

implicit devaluation rate in 1-year contracts

Source: Econviews based on Reuters

Parallel exchange rate

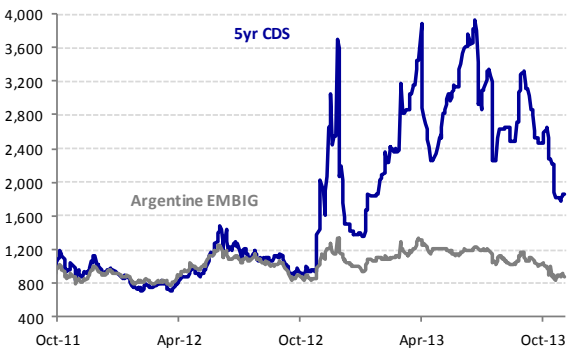
AR$ per US$



Source: Econviews based on Reuters and own calculations

5 year CDS and EMBI Argentina

spread, in bps



Source: Econviews based on JP Morgan

EconViews Macroeconomic Forecasts

Base Scenario

National accounts

	2008	2009	2010	2011	2012	2013F	2014F	2015F
GDP INDEC-official (yoy)	6.8%	0.9%	9.2%	8.9%	1.9%	n/d	n/d	n/d
GDP EconViews (yoy)	5.5%	-3.2%	8.1%	6.5%	0.5%	2.2%	1.5%	0.5%
Private consumption (yoy)	6.1%	-3.6%	8.4%	6.7%	1.5%	2.5%	2.0%	0.7%
Investment (yoy)	9.1%	-12.5%	15.9%	13.5%	-6.0%	5.5%	-3.0%	-2.5%
Unemployment rate (in %)	7.6%	8.5%	7.6%	7.0%	7.0%	7.6%	8.4%	9.2%

Prices and monetary variables

	2008	2009	2010	2011	2012	2013F	2014F	2015F
Official CPI inflation (dec/dec.)	7.2%	7.7%	10.9%	9.5%	n/a	n/a	n/a	n/a
Actual CPI inflation (dec./dec.)	20.0%	16.0%	25.0%	23.5%	25.2%	27.0%	28.0%	30.0%
Private formal wages (dec./dec.)	23.4%	17.3%	29.3%	35.8%	24.8%	27.9%	28.2%	29.3%
Official exchange rate USD (31-dec)	3.45	3.80	3.98	4.30	4.92	6.30	8.40	11.40
Informal exchange rate USD (31-dec)	n/a	n/a	n/a	4.74	6.80	10.84	14.03	16.53
Real exchange rate* USD (1998=100)	169.8	165.4	140.6	127.1	118.1	121.6	129.8	138.9
Multilateral real exchange rate* (1998=100)	148.1	163.3	144.6	125.4	115.9	120.2	129.7	140.3
Badlar rate* (private banks)	19.1%	9.8%	11.1%	18.9%	15.4%	20.0%	25.0%	27.0%
EMBI Global Argentina (spread in %, dec)	18.29	7.20	5.21	9.27	10.36	8.00	8.00	8.00
Gross international reserves* BCRA (USD Bn)	46.4	48.0	52.2	46.4	43.3	32.3	25.4	13.4

* December average. Real exchange rate measured with actual CPI inflation based on provinces

Fiscal accounts of Central Government

	2008	2009	2010	2011	2012	2013F	2014F	2015F
Total revenues* (% of GDP)	27.8%	29.2%	31.2%	30.7%	33.1%	35.4%	35.6%	35.0%
Primary expenditures* (% of GDP)	24.6%	27.7%	29.4%	30.5%	33.3%	35.6%	36.3%	35.8%
Primary balance (% of GDP)	3.1%	1.5%	1.7%	0.3%	-0.2%	-0.3%	-0.6%	-0.8%
Fiscal balance (% of GDP)	1.4%	-0.6%	0.2%	-1.7%	-2.6%	-1.6%	-3.1%	-2.4%
Financial gap NET (USD Bn)	-3.5	-7.0	-5.0	-13.5	-14.5	-11.0	-15.0	-14.3
Fiscal balance of Provinces (% of GDP)	-0.4%	-1.0%	0.4%	-0.6%	-0.8%	-0.8%	-0.8%	-0.8%
Net public debt** (% of GDP)	34%	33%	26%	20%	19%	17%	17%	16%

* Include transfers to Provinces ("Coparticipación")

** Excludes intra-public sector debt and include private sector holdings of GDP warrants at market prices and since 2008 the nationalization of private pension funds

External accounts

	2008	2009	2010	2011	2012	2013F	2014F	2015F
Exports of goods (FOB, USD Bn)	70.0	55.7	68.2	84.0	81.2	83.2	77.8	77.1
Imports of goods (CIF, USD Bn)	57.5	38.8	56.8	73.9	68.5	74.6	72.9	73.5
Trade balance (USD Bn)	12.6	16.9	11.4	10.0	12.7	8.5	5.0	3.5
Soybean price (USD per ton, average)	453	379	386	484	539	530	465	450
Terms of trade (2001=100)	134.4	133.9	134.0	142.3	141.7	143.1	137.4	133.4
Current account (% of GDP)	2.1%	3.6%	0.8%	-0.4%	0.1%	-1.3%	-1.4%	-1.7%