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| eu flag | **DELEGATION OF THE EUROPEAN UNION**  **TO ARGENTINA** |

**Minutes**

**Trade Counsellors meeting**

**16 June 2020**

*Virtual meeting via webex (host: EUD)*

*Participants: MS - CZ, DE, DK, FR, IE, IT, NL, PL, SL; Eurocámara; EUD*

*The only points of the agenda was the presentation of* ***Mr. Diego Coatz****, Executive Director and chief economist UIA, which provided his view on the situation of the industrial sector and foreign trade in Argentina. It was followed by an animated Q&A session.*

Summary:

**On the impact of COVID 19 on the economy**

* The 90-day-long lockdown in a country like Argentina, with its vast extension and federal power, poses a big challenge for companies.
* During the first 15 days of the lockdown, the main goal was to guarantee supply in essential sectors. Companies worked hard to guarantee supply at competitive prices and they were successful to avoid supply problems, with the help of a fluid dialogue with trade unions.
* After the first 15 days, the main goal was to provide support to companies through compensatory measures targeted at the most affected sectors.
* Since the first day of the lockdown, UIA has worked on a plan addressing its economic impact. The objective was to sustain employment and activity. The plan covers three issues:
  + Labour market (supporting regulations, prohibition to lay off employees);
  + Financing/ credit (need to reinvent it, since they are insufficient, small and expensive); and
  + Taxes (huge fiscal pressure suffocating companies).
* The government implemented measures based on UIA’s agenda:
  + ATP (government pays 50% of salaries); framework to pay 75% of net salaries for suspended workers (agreement 223 bis.), including the reduction of labour taxes;
  + 24% interest rate from the central bank; and
  + AFIP deferred taxes in general to provide tranquillity during the first month of the lockdown.
* It should however be noted that many companies decided not to accept the Government’s help due its conditionality (companies that accept the help cannot buy USD at the stock exchange or send profits abroad for years, etc).
* April was the worst economic month since 2002 (-35% in industrial activity). In May, the decline continued. Companies were still closed or not working at full capacity, and the fall in sales and activity continued. In June, there is a slow recovery, due to the partial reopening of the quarantine.
* In the last 45 days, the goals were to reopen activities and sectors, and to apply an economic policy sustaining those activities. However, last month the central bank raised again interest rates. The conservative policy in form of limited financing, fiscal restrictions, foreign exchange restrictions affected industrial production.
* The agenda turned to be more “tense”. Since the economy is more vulnerable, debt renegotiations extended, and there is no consistent macroeconomic programme.

**On Employment**

* Employment dynamics are very complex.
* There are many rigidities in the labour market (double severance payments, high labour taxes). These heavy burdens for employers are effective in the short term, but ineffective in the long term, as nobody would want to employ new people and there are internal agreements on job cuts.
* Companies that do not have the financial resources just do not pay and go bankrupt. Unemployment numbers can therefore jump unexpectedly. Part of the trade unions are responsible for this situation.
* Lack of sufficient public transportation complicates the restart of many sectors and employment.

**On Exports and imports**

* Exports are inelastic, and imports elastic.
* The wide gap between the official foreign exchange rate and the parallel exchange rate severely affected industrial exports.
* Car exports to Brazil have been severely affected (they are now at the level of 2004). Food exports to Brazil suffered less.
* In services, exports continue being high. The reform of the promotion law of the software/knowledge sector is still is not ready, but it could provide a boost to the services sector.

**On Vicentin’s intervention**

* Business is very concerned about the government´s decision to expropriate the agro company group Vicentin.
* Though there is no belief that there will now be a wave of expropriations, in the absence of any legal framework, this decision creates a lot of uncertainty and puts companies in a defensive position.
* The coalition structure of the government makes consensus on complex decisions almost impossible.
* UIA does not expect the outcome to be so negative, but is worried about the legality and property rights.
* The approach of the Minister of Economy is in general more pro-business and pro-investment than the one of the political government wing. Governors are in general against the expropriation.

**The next 30 days are very important for the future**

* Dialogue does not imply agreement. In the first days of the lockdown there were agreements. But the last month showed frictions and unsolved issues: Vincentin, forex measures, lack of resolution of the debt negotiation, etc.
* The next 30 days will be key, as debt renegotiation must be solved, together with other issues (financing, fiscal policy, macro plan), in order to provide a push to the economy after the pandemics.
* The debt renegotiation will alleviate the need of USD, which will give to the government margin to draft a macroeconomic plan that provides certainty for some years.
* The availability of USD has conditioned growth during the last government of C. Kirchner and Mauricio Macri. The government will not repeat the mistake of the Macri government to focus too much on the mid-term elections.
* If debt negotiations are successful, the Central bank will be able to alleviate exchange controls and margin for public investments will increase (lower country risk, financing lines9.
* During the last month, the widening gap between the various USD exchange rates fuelled speculation. Within 2 weeks, the Central Bank lost USD 1Bn in reserves. After the tightening of restrictions, the Central Bank managed to recover the lost reserves and loosened some restrictions.
* If debt negotiation are not successful, capital controls will be increased. The persisting gap between the USD exchange rates will severely affect the economy (supply restrictions, price increases, etc.). In this scenario, they will look for a scapegoat and attack the symptoms, as they did with the tightening of the foreign exchange restriction weeks ago.
* The government faces the challenge to need for 2021 elections both good economic and sanitary results. If the economy and the pandemics go to the wrong side, it could be very bad. At least one has to go to the right side.
* To exit the recession, the following is needed: a successful debt negotiation, a consistent macroeconomic plan, and a scheme of guarantees to finance working capital.
* The lack of USD due to debt negotiations, recession, and the effect of the pandemics on industrial production and tourism is the key problem.
* More fiscal margin should focus on investments and exports in food, oil, mining, new technologies, digitalisation, and knowledge services.
* Vicentin and the acceleration of the pandemics pace have overshadowed the discussion of policies to exit from the recession.

**On Argentina’s relations with Brazil and MERCOSUR**

* There are worries about Brazil’s situation.
* Brazil has a better financial situation, but its management of the pandemics is worse.
* Brazil and Argentina have experienced sharp declines in GDP growth, which reflected in lower mutual trade.
* He is in favour of MERCOSUR and the political and economic platform it provides. There are many things to improve and there should be progress with the agreement with the EU.
* However, he is not in favour of accelerating negotiations with South Korea, in view of the existing symmetries.
* In this time of uncertainty about the future of the WTO, he expects that Argentina’s short-term tense relationship with Brasil does not affect its long-term vision.