Macro scenario - Argentina

April 16, 2025

Boom! Floating within an exchange rate band

- Argentina's central bank surprised by announcing important changes to its exchange rate framework that have the objective of further reducing inflation, and boost investment, employment and activity over time. We have revised our exchange rate forecast for YE25 to ARS/USD 1,375 from ARS/USD 1,175 in our previous scenario. We now foresee inflation at 37.5% for YE25, from 25% in our previous scenario given the weaker currency.
- In this context, the IMF approved a USD 20 billion program, of which USD 12 billion will be immediately disbursed. Argentina has expressed its intention to use these resources to pay down the Ministry of Finance's debt held by the central bank, thereby strengthening its balance sheet.
- We have maintained our 2025 GDP growth forecast at 4.5%, despite rising global uncertainties, supported by a high carryover. However, it will be key to monitor the performance of real wages in the coming months amid higher expected inflation.

Big-time support from the IMF and other international financial institutions.

The IMF's Board of Executive Directors swiftly approved the USD 20 billion program following sustained pressure in recent weeks in the FX market and heightened global volatility. A total of USD 12 billion will be immediately disbursed, with an additional USD 2 billion following a June 2025 review. Argentina has expressed its intention to use these resources to pay down the Ministry of Finance's debt held by the central bank, thereby strengthening its balance sheet. In parallel, the World Bank Group approved a USD 12 billion package that also supports Milei's economic reform program. This program combines sovereign support (USD 5 billion), private sector development (up to USD 5.5 billion), and guarantees to expand credit access (USD 1.5 billion). The IDB issued a statement that it would provide up to USD 10 billion over the next three years, of which USD 7 billion would be for the public sector and USD 3 billion to boost private sector activity. The BCRA also renewed the USD 5 billion swap line with the PBOC.

Liquid available resources and new financing

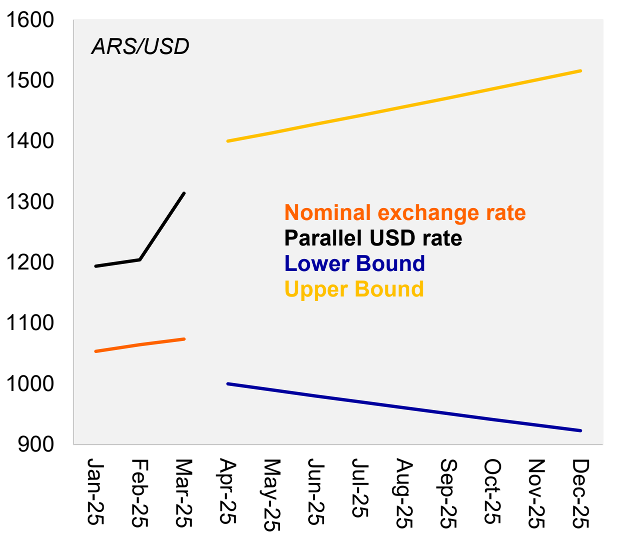
USD Billion	Total	IMF	Other IFIs	Repo
Total 2025	23.1	15.0	6.1	2.0
Immediately	15.5	12.0	1.5	2.0
June 2025	4.1	2.0	2.1	-
Rest 2025	3.5	1.0	2.5	-

Source: BCRA

New exchange rate framework

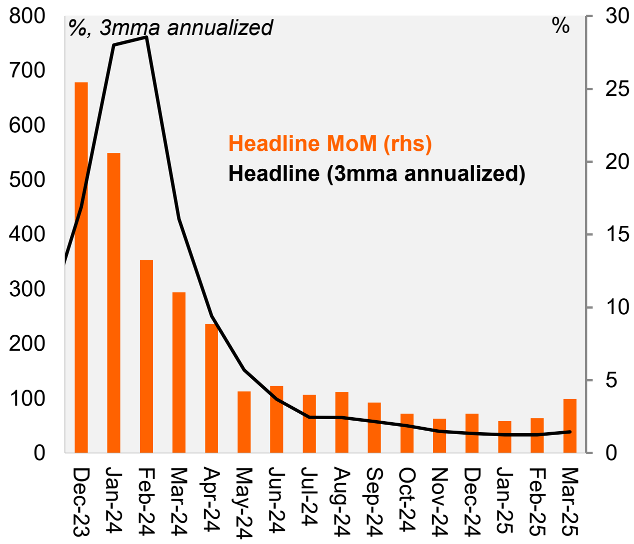
The USD/ARS, which had been devaluing at a steady 1% monthly pace since February, is now allowed to float within a wide exchange rate band between ARS1,000 and ARS1,400. The band's limits will widen at a 1% monthly pace. When the exchange rate reaches the upper or lower bound of the band, the BCRA will defend it by selling or buying dollars from reserves. Within the band, the BCRA may also intervene to mitigate volatility. Separately, the so-called dollar blend was eliminated, while exchange rate restrictions on natural persons were also removed, and profits are allowed to be distributed to shareholders offshore starting with the financial year 2025. Payments on the foreign trade of goods were facilitated. The nominal anchor is strengthened with no BCRA issuance to finance the fiscal deficit or for the remuneration of monetary liabilities.

Exchange rate market



Source: BCRA, Bloomberg

Inflation



Source: Indec, Itaú

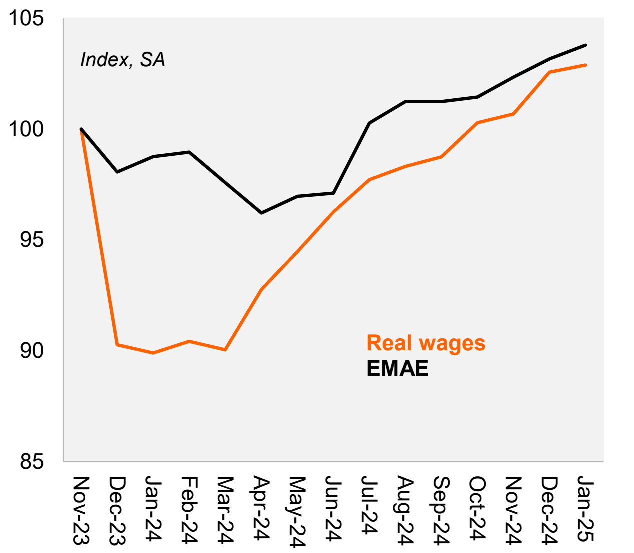
A pause in the disinflationary trend, before the new exchange rate regime

Consumer prices rose by 3.7% MoM in March, up from 2.4% MoM in February and 2.2% MoM in January. The print was well above the central bank survey median of 2.6% MoM. While the disinflation trend has been non-linear since the beginning of last year, this was the first time that the monthly CPI reading has accelerated for two months in a row. On an annual basis, inflation declined to 55.9%, from 66.9% in February helped by an annual base effect. Annualized quarterly inflation in March rose to 38.7%, up from 33.4% in the previous month. The monthly core measure rose by 3.2% MoM in March, accelerating from the previous month (2.4% MoM) driven by higher meat prices. A depreciation of the ARS within the new exchange-rate regime is likely to accelerate inflation, at least in the coming quarter.

Activity maintains momentum at the start of 2025

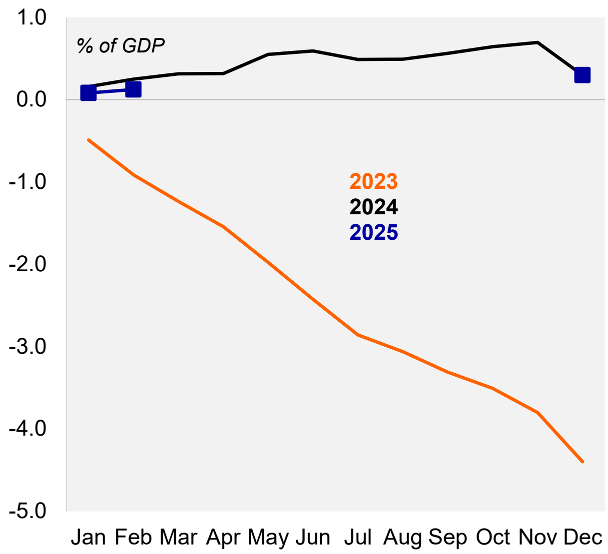
Activity showed sequential growth in January, marking the fourth consecutive gain. According to the EMAE (official monthly GDP proxy), economic activity expanded by 0.6% MoM/SA in January, following a revised gain of 0.8% MoM/SA in December. Thus, activity expanded by 1.8% QoQ/SA in January, up from 1.4% QoQ/SA in the previous month. On an annual basis, activity rose by 6.5% in January and 4.3% in the quarter ended in January (+2.1% YoY in 4Q24). Most sectors posted annual growth. Primary activities rose by 32.0% YoY in the quarter ended in January (vs. +16.3% YoY in 4Q24), while manufacturing expanded by 3.4% YoY in the same period (vs. a gain of 0.7% YoY in 4Q24). Services, including the commerce sector, rose by 0.7% YoY in the period (vs. -0.4% in 4Q24), likely supported by the recovery of real wages. In fact, real wages expanded by 8.6% YoY during the quarter ended in January, up from a 0.4% expansion in 4Q24.

Activity and Real Wages



Source: Indec, Itaú

Nominal fiscal balance



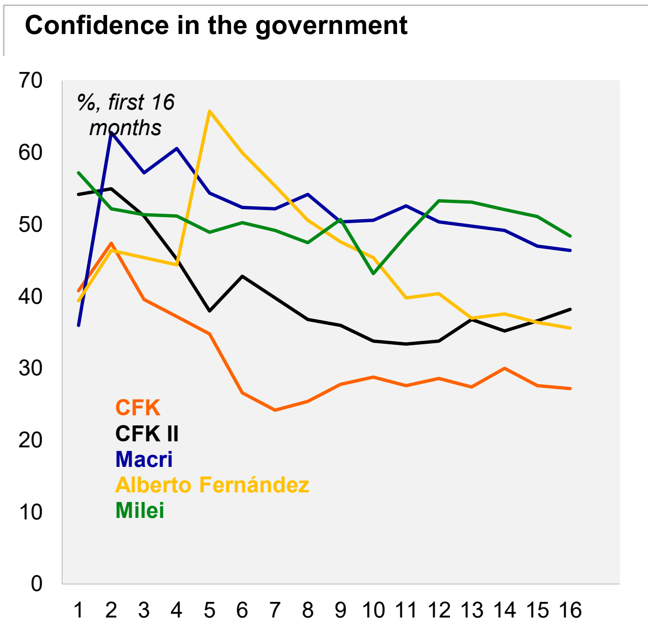
Source: Ministry of Economy, Itaú

The fiscal anchor: raising the bar

The primary balance through February reached an estimated surplus of 0.5% of GDP, while the nominal balance was at +0.1% of GDP. Total real revenues increased by 3.2% YoY during the period, after falling by 2.3% in 4Q24. Tax collection rose by 5.1% YoY in real terms during the period, after growing by 3.9% in 4Q24, driven by improvements in the collection of income tax, VAT, and social security contributions. Primary expenditures grew by 3.5% YoY in the quarter ended in February, due to an annual base effect caused by significant spending cuts early last year when the current administration took office. Looking ahead, the administration will likely double down on spending cuts, strengthen the fiscal anchor, and moderate the upward pressure on inflation expectations stemming from projected exchange rate dynamics. In fact, the authorities revised the primary balance target for 2025 to a surplus of 1.6% of GDP, up from 1.3% previously.

Government confidence remained high in March, despite the cryptocurrency scandal

According to the monthly survey conducted by the Universidad Torcuato Di Tella, confidence in the government fell by 5.4% mom in March, to 48.4%, marking the fourth consecutive monthly decline. Confidence in the government is now 15.4% below its peak when the government took office in December 2023. Note, however, that the survey was conducted between March 5 and March 14, after the cryptocurrency scandal on February 14. Confidence in President Milei's government remains high, despite the impact of the cryptocurrency scandal and the ongoing macro adjustment. Maintaining a high approval rating is key for the administration, given the upcoming midterm elections scheduled for October 26.



Source: UTDT

Rising uncertainties on the nominal front

We have maintained our 2025 GDP growth forecast at 4.5%, due to a high carryover, despite the more challenging global scenario. Looking ahead, it will be important to monitor the performance of real wages in the coming months amid higher expected inflation.

We revised our primary budget surplus forecast for this year to 1.6% of GDP, up from 1.3% of GDP previously. The positive expansion of tax revenues in 1Q25, estimated at around +9.0% YoY in real terms, amid solid GDP growth and the government's disciplined fiscal management, supports our projection.

Finally, with a high level of uncertainty on the nominal side of the economy we now forecast an official exchange rate of ARS/USD 1,375 for YE25, stable in real terms relative to YE24 (ARS/USD 1,175 in our previous scenario). We have therefore revised our YE25 inflation forecast to 37.5%, from 25% previously. We now envisage the policy rate at 35% by YE25, up from 25% in our previous scenario amid a weaker ARS and higher expected inflation.

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Argentina | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-9.9	10.4	5.3	-1.6	-1.7	**4.5**	4.5	**4.0**	3.0
Nominal GDP - USD bn	385.3	487.3	632.3	602.7	632.2	**737.9**	773.6	**738.9**	850.3
Population (millions)	45.4	45.8	46.2	46.6	47.1	**47.5**	47.5	**47.9**	47.9
Per Capita GDP - USD	8,490	10,640	13,679	12,920	13,431	**15,545**	16	**15,436**	18
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	8.2	**8.0**	8.0	**7.8**	7.8
Inflation									
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	**37.5**	25.0	**20.0**	18.0
Interest Rate									
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	**35.0**	25.0	**20.0**	20.0
Balance of Payments									
ARS / USD - eop	84.15	102.75	177.10	809	1033	**1375**	1175	**1600**	1324
Trade Balance - USD bn	12.5	14.8	6.9	-6.9	18.9	**12.0**	12.0	**15.0**	15.0
Current Account - % GDP	0.9	1.4	-0.7	-3.5	1.0	**-0.5**	-0.5	**-1.0**	-1.0
Foreign Direct Investment - % GDP	1.1	1.4	2.4	4.0	1.8	**2.5**	2.0	**3.0**	3.0
International Reserves - USD bn	39.3	39.6	44.6	23.1	29.6	**47.7**	33.0	**56.4**	34.0
Public Finances									
Primary Balance - % GDP (**)	-6.5	-3.0	-2.4	-2.7	1.8	**1.6**	1.3	**2.2**	1.3
Nominal Balance - % GDP (**)	-8.5	-4.5	-4.2	-4.4	0.3	**0.3**	0.0	**0.0**	0.0
Gross Public Debt - % GDP	108.0	82.8	87.7	161.9	85.4	**83.8**	81.2	**81.2**	79.9
Net Public Debt - % GDP (***)	66.4	48.1	48.7	91.8	47.1	**47.2**	45.2	**46.0**	45.0

(*) National CPI since 2017.
(**) Excludes central bank transfer of profits from 2016.
(***) Excludes central bank and social security holding.
Source: Central Bank, INDEC and Itaú

Macro Research – Itaú

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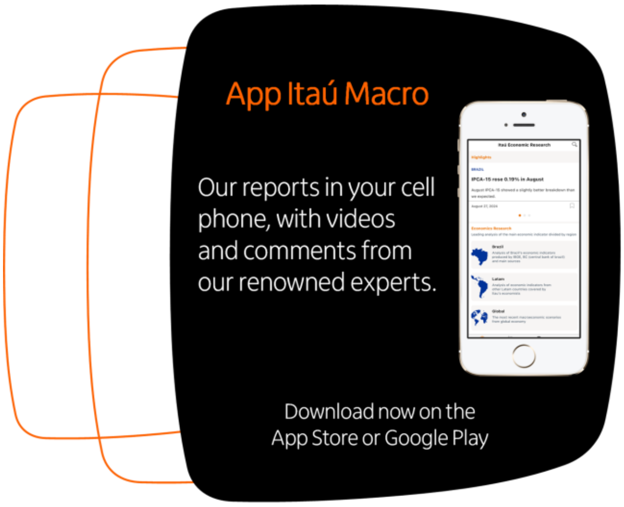

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