Macro scenario - Argentina

February 17, 2025

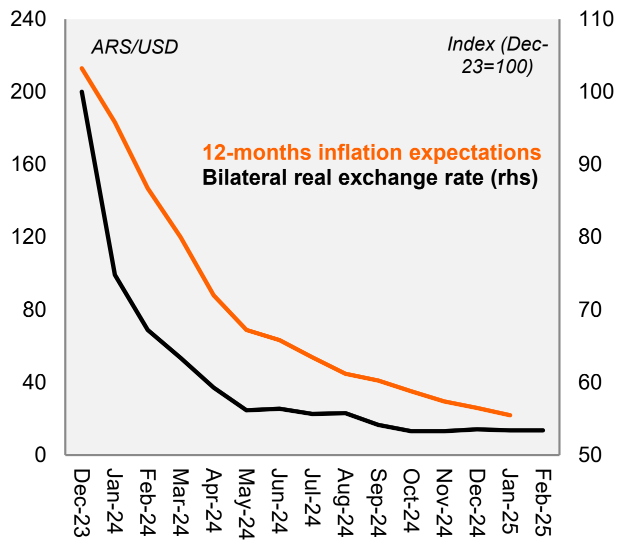
Fighting inflation is still the only game in town

- The central bank slowed the crawling peg pace to 1.0% mom, down from the 2.0% monthly pace of the last twelve months. The government intends to double down on its strategy in 2025, at the cost of further currency appreciation and loss of competitiveness.
- We see inflation at 25% by YE25, well below the 117.8% registered in 2024, as inflation expectations continue to edge downward. Our YE25 policy rate forecast stands at 25%, with downside risks.
- Economic activity posted a sequential rebound in 4Q24, while the recovery in real wages is expected to support growth in 2025 amid an improved inflation outlook. We expect GDP to expand by 4.5% in 2025, following a contraction of 2.6% in 2024.

Doubling down on last year's plan

Strong ARS to tame inflation expectations. The central bank slowed the monthly crawling peg pace to 1.0% mom in February, down from the monthly pace of 2.0% mom of the last twelve months. According to the administration, the crawling peg policy plays a key role in anchoring inflation expectations, and it plans to continue to use the measure in 2025, at the expense of further currency appreciation and fiscal costs. Indeed, the government temporarily lowered export taxes for the first half of the year, while maintaining the "USD blend" – a special regime for exporters under which 80% of their exports are liquidated at the official exchange rate and 20% at the blue-chip swap rate. Untangling the multiple layers of capital controls appears unlikely in the near term. President Javier Milei recently stated that currency and capital controls will be terminated on January 1, 2026.

Keeping an eye on inflation

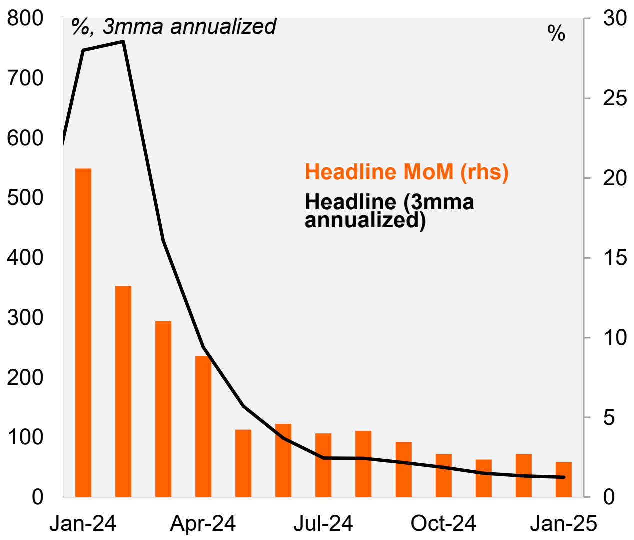


Source: BCRA

New target: monthly inflation starting with a 1

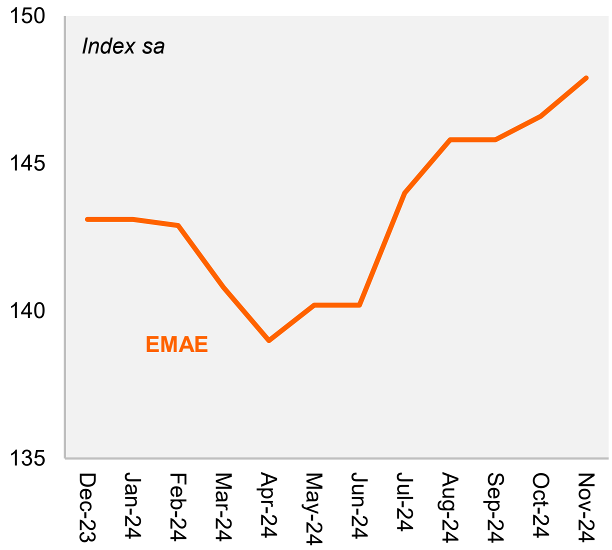
Disinflation process continued in January. Consumer prices rose by 2.2% MoM in January, from 2.7% MoM in the previous month. Annualized quarterly inflation fell to 33.2% during the quarter ending in January, from 35.9% in the previous month. On an annual basis, inflation declined to 84.5%, well below the 117.8% registered in 2024, partly due to base effects. According to the latest central bank survey, analysts expect a CPI print of 2.1% mom (84.7% yoy) for February. We expect the reduced pace of the crawling peg to contribute to the continuation of the disinflation process this year; the outcome of the wage negotiations will also be a key trigger.

Falling inflation



Source: Indec, Itaú

Recovering lost ground



Source: Indec, Itaú

Slower crawling peg and interest rates

The central bank cut the monetary policy rate to 29%, from 32% at the end of January, citing lower inflation expectations. The decision came a few weeks after the central bank announced the reduction of the crawling peg pace to 1% mom. We believe that cementing even lower inflation expectations is key for the central bank, but the decision also suggests a reduction in carry-trade incentives (1% crawling peg vs. 2.4% monthly rate), so we cannot rule out further rate cuts in the coming months.

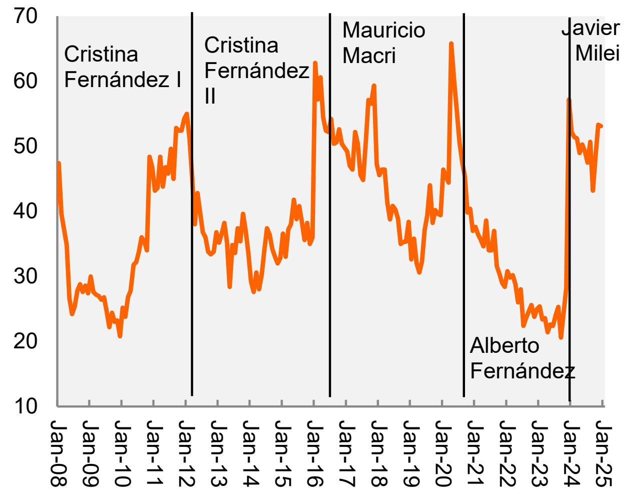
The recession is over

Economic activity posted a second-consecutive quarter of sequential expansion in 4Q24. According to the EMAE (official monthly GDP proxy), economic activity increased by 2.4% QoQ/SA in November, following a 3.9% MoM/SA increase in 3Q24. On an annualized basis, activity rose by 0.1% in November. Leading indicators point to a new sequential gain in December, led by retail sales (4.2% mom/sa), manufacturing (0.2% mom/sa) and construction (3.1% mom/sa).

Government confidence remains high in early 2025

According to the Universidad Torcuato Di Tella's monthly survey, confidence in the government slipped by 1.9% mom at the margin, to 52.1% in January, after remaining stable in December. Confidence in the government remains high, only 8.9% below its peak when the new administration took office in December 2023. Despite the slight dip in January, confidence in Milei's government remains high. Maintaining a high approval rating is, in our view, key for President Milei and his deregulation agenda, given his minority position in Congress – especially with the mid-term elections looming in October. More recently, President Milei has been embroiled in a scandal over his initial promotion of the $LIBRA cryptocurrency. Members of the opposition are calling for the president to be impeached, while the anti-corruption office will open an investigation at the president's request.

Confidence on the Government Index



Source: UTDT

Improving outlook, albeit fragile and subject to macro and political risks

We believe that the current crawling peg policy is likely to remain in place for the rest of the year, leading to a nominal exchange rate of ARS 1,175/USD for YE25.

We expect inflation to end 2025 at 25% YoY, well below last year's rate of 117.8% YoY. Our baseline scenario assumes that the central bank will also cut the policy rate by 400 bps, to 25%, before year-end. A rapid drop in inflation and a contained gap in the parallel foreign exchange market could accelerate the timing of such a decision.

For 2025, we estimate GDP growth of 4.5%. High carryover from last year sets the stage for a significant jump in GDP this year. On the demand front, the recovery in real wages and lower borrowing rates are expected to support private consumption.

2025 risk map. On the macro-financial front, risks from a potential drought loom over activity and the supply of dollars (agricultural exports represent about 60% of total exports). The central bank, whose net international reserves remain negative, needs dollars to sustain its current crawling peg policy, given the external debt obligations it faces this year. On the political front, while confidence in the government remains high, all eyes are on the October mid-term elections, which could either give the administration greater bargaining power or generate headwinds for the presidential election in 2027. The recent cryptocurrency scandal and its potential consequences for the government is a new chapter for the political arena.

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Argentina | Forecasts and Data

	2020	2021	2022	2023F	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	-9.9	10.4	5.3	-1.6	**-2.6**	-2.6	**4.5**	4.5	**3.0**	3.0
Nominal GDP - USD bn	385.3	487.3	630.6	597.6	**645.4**	646.1	**773.6**	788.4	**850.3**	850.4
Population (millions)	45.4	45.8	46.2	46.6	**47.1**	47.1	**47.5**	47.5	**47.9**	47.9
Per Capita GDP - USD	8,490	10,640	13,643	12,810	**13,710**	13,726	**16,295**	16,607	**17,762**	17,764
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	**8.2**	8.2	**8.0**	8.0	**7.8**	7.8
Inflation										
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	-	**25.0**	25.0	**18.0**	18.0
Interest Rate										
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	-	**25.0**	25.0	**20.0**	20.0
Balance of Payments										
ARS / USD - eop	84.15	102.75	177.10	809	1033	-	**1175**	1220	**1324**	1400
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	-3.4	**0.8**	0.8	**-0.5**	-0.5	**-1.0**	-1.0
Foreign Direct Investment - % GDP	1.1	1.4	2.4	3.8	**1.5**	1.5	**2.0**	2.0	**3.0**	3.0
International Reserves - USD bn	39.3	39.6	44.6	23.1	29.6	-	**33.0**	33.0	**34.0**	34.0
Public Finances										
Primary Balance - % GDP (**)	-6.5	-3.0	-2.4	-2.7	1.8	-	**1.3**	1.3	**1.3**	1.3
Nominal Balance - % GDP (**)	-8.5	-4.5	-4.2	-4.4	0.3	-	**0.0**	0.0	**0.0**	0.0
Gross Public Debt - % GDP	108.7	82.8	87.7	163.3	**83.0**	82.9	**81.2**	81.1	**79.9**	78.4
Net Public Debt - % GDP (***)	66.9	48.1	48.7	92.6	**45.8**	45.7	**45.2**	45.2	**45.0**	44.1

(*) 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

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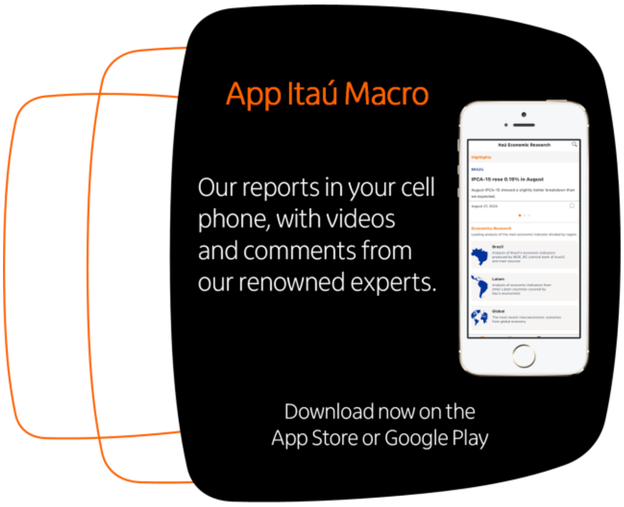

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