Macro scenario - Argentina

May 16, 2025

Learning to float

- So far, so good. Following the liberation of the "cepo" on April 11, the exchange rate has floated within the band, albeit with considerable volatility, despite absence of BCRA intervention/reserve accumulation.
- We revised our exchange rate forecast down slightly to ARS/USD 1,300 by year-end, compared to ARS/USD 1,375 in our previous scenario. As a result, we revised our inflation forecast for YE25 to 30%, down from 37.5% in our previous scenario. We now envisage the monetary policy rate at 29% for YE25, from 35.0%.
- We believe the gradual activity recovery will continue and raised our 2025 GDP forecast to 5.2% from 4.5%.

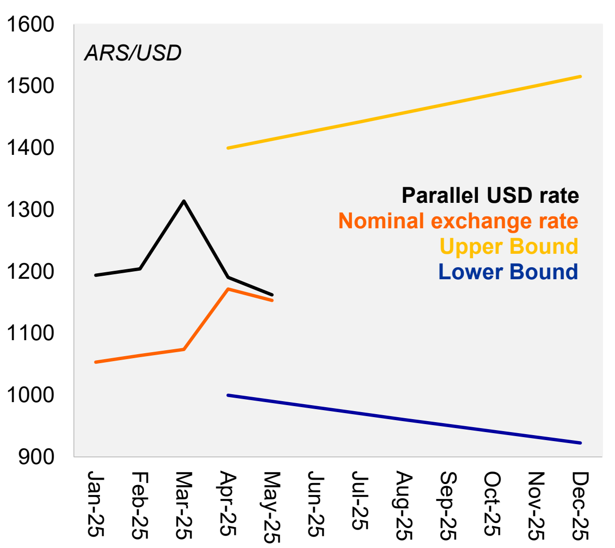
Navigating more volatility

So far, so good. Since the liberation of the "cepo" on April 11 (see our note), the official exchange rate has experienced pronounced swings peaking slightly above 1,200 and reaching a low slightly below 1100, always within the BCRA's band (1,000 – 1,400). As was expected, floating within a band has led to a surge in exchange rate volatility, contrasting with the previous crawling peg framework. The BCRA has refrained from selling or accumulating reserves, so far. Importantly, the swift decline in the blue-chip has led to a sharp reduction in the spread with respect to the official exchange rate, dropping from 24% under the previous regime to 2.0%. The BCRA's analyst survey, published a few days ago, reveals an expectation for a weaker exchange rate through the year with respect to the previous survey.

First test: reserve accumulation

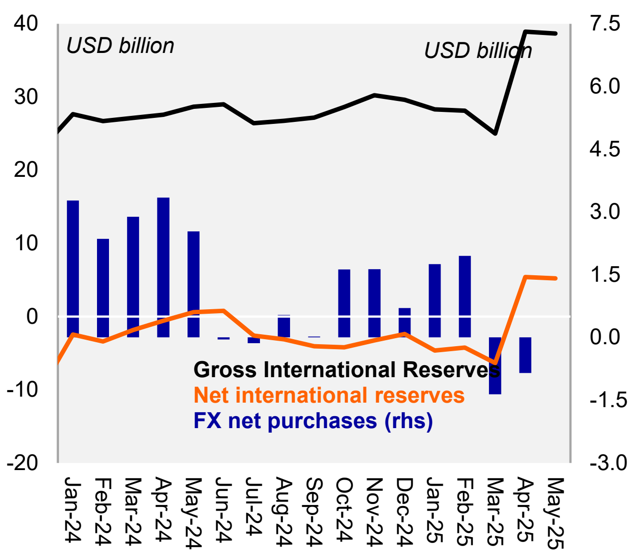
The IMF is scheduled to review the program's progress in June, requiring a net reserve accumulation of around USD 4.5 billion by then, excluding IMF disbursements. Even though the BCRA may purchase dollars in the spot market when the official exchange rate is within the band, the authorities have stated they will only purchase dollars in the spot market when the exchange rate edges to the floor of the band. The latter seems challenging, considering recent exchange rate dynamics. The BCRA could, alternatively, issue debt. Separately, even though the June review does not consider a primary balance target, the authorities doubled down on their fiscal commitment by raising this year's primary balance forecast to +1.6% of GDP, above the +1.3% agreed in the program.

Exchange rate market



Source: BCRA, Bloomberg

International reserves

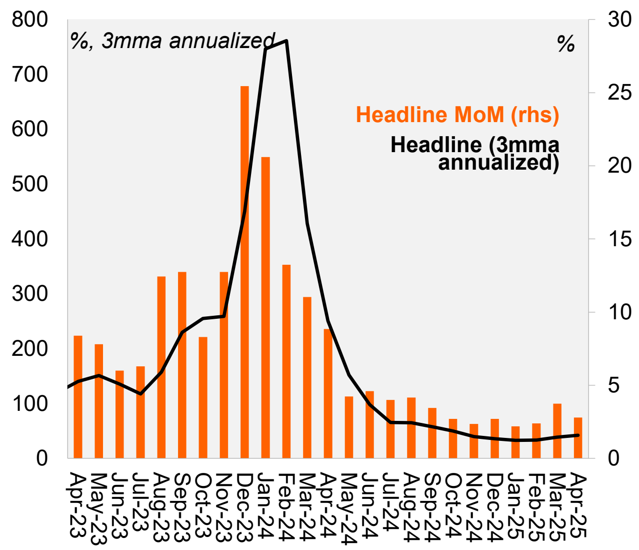


Source: BCRA, Itaú

Pummeling inflation is still the top priority

Consumer prices rose by 2.8% MoM in April, down from 3.7% MoM in March despite a weaker official exchange rate but likely offset by stronger blue-chip-swap. While monthly inflation remains above the 4Q24 average, April's figure is positive news, given the changes to the exchange rate framework. On an annual basis, inflation fell to 47.3% from 55.9% in March, helped by an annual base effect. Annualized quarterly inflation in April rose to 42.2%, up from 38.9% in the previous month.

Inflation

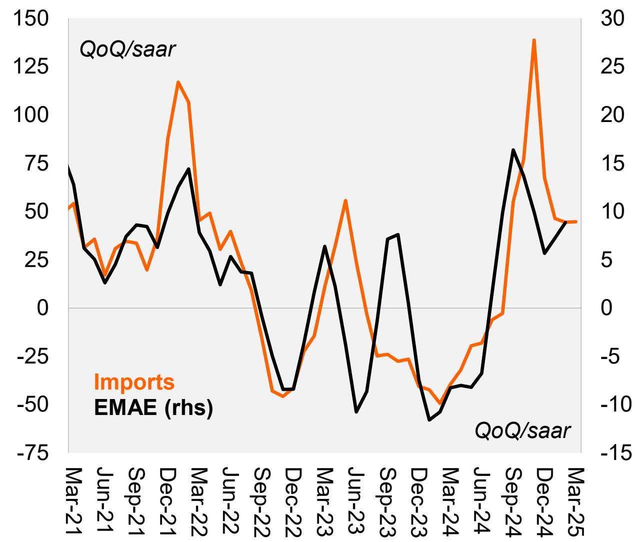


Source: Indec, Itaú

Activity is gradually improving

Activity expanded on a sequential basis in February, marking the fifth consecutive gain. According to the monthly GDP proxy, activity expanded by 0.8% MoM/SA in February, following +0.6% in January. As a result, activity rose by 2.1% QoQ/SA in February, after growing 1.8% QoQ/SA in the previous month. On an annual basis, activity rose by 5.7% in February and by 6.2% in the quarter ended in that month (+2.1% yoy in 4Q24), mainly driven by the primary sector and manufacturing, while services rose at a more moderate pace. In contrast, construction fell by 0.5% YoY in the period (from -12.4% YoY in 4Q24), due to strict control of public works. Moreover, the solid growth of imports confirms the strong momentum of economic activity.

Activity and Imports



Source: INDEC

Higher growth and lower inflation

We revised our 2025 GDP growth forecast to 5.2% from 4.5%, mainly due to tracking in 1Q25. Weaker than expected manufacturing and construction during March is projected to be transitory. We expect 4.0% GDP growth in 2026, in the expectation that the removal of certain capital controls and changes to the exchange rate framework led to more investment, and falling inflation contribute to greater private consumption.

We lowered our YE25 inflation forecast to 30.0% from 37.5% due to a lower-than-expected pass-through following the lifting of capital controls in April. We now forecast an official exchange rate of ARS/USD 1,300 for YE25, which remains stable in real terms relative to YE24 (ARS/USD 1,375 in our previous scenario). We now see the policy rate at 29% in YE25, down from 35% in our previous scenario, amid a stronger ARS and lower 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	**5.2**	4.5	**4.0**	4.0
Nominal GDP - USD bn	385.3	487.3	632.3	602.7	632.2	**733.8**	737.9	**745.4**	738.9
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	**15,457**	15,545	**15,570**	15,436
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	7.2	**7.0**	8.0	**7.0**	7.8
Inflation									
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	**30.0**	37.5	**20.0**	20.0
Interest Rate									
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	**29.0**	35.0	**20.0**	20.0
Balance of Payments									
ARS / USD - eop	84.15	102.75	177.10	809	1033	**1300**	1375	**1515**	1600
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**	2.5	**3.0**	3.0
International Reserves - USD bn	39.3	39.6	44.6	23.1	29.6	**47.7**	47.7	**56.4**	56.4
Public Finances									
Primary Balance - % GDP (**)	-6.5	-3.0	-2.4	-2.7	1.8	**1.6**	1.6	**2.2**	2.2
Nominal Balance - % GDP (**)	-8.5	-4.5	-4.2	-4.4	0.3	**0.3**	0.3	**0.0**	0.0
Gross Public Debt - % GDP	108.0	82.8	87.7	161.9	85.4	**83.0**	83.8	**80.8**	81.2
Net Public Debt - % GDP (***)	66.4	48.1	48.7	91.8	47.1	**46.7**	47.2	**45.8**	46.0

(*) 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

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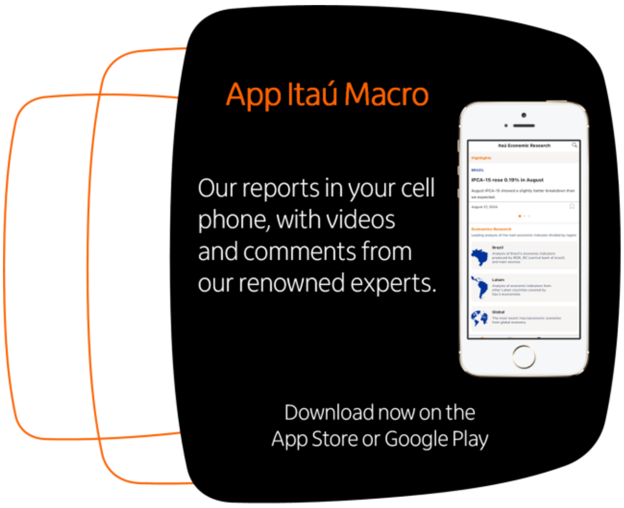

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