Macro scenario - Argentina

June 10, 2024

Macro adjustments continue, and the government retains high public support

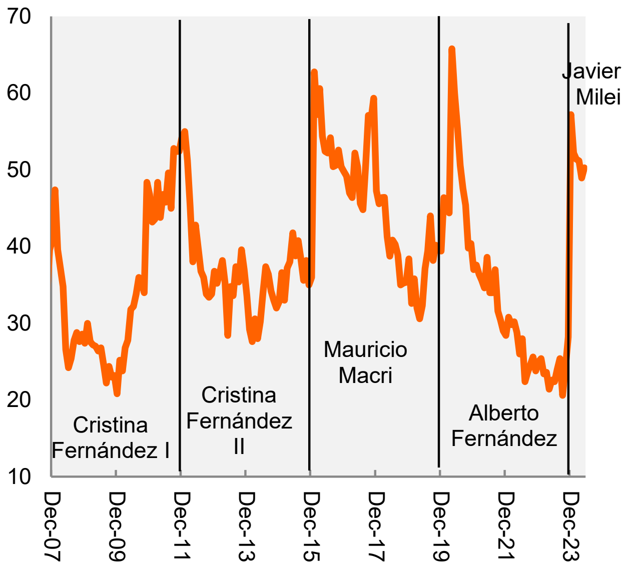
- With confidence in the administration still riding high, the approval of the administration's "Bases" bill by Congress should be a turning point for the ambitious deregulation agenda proposed by President Milei, which should trigger an improvement in the subdued investment and further improve our fiscal projections (2024 primary fiscal surplus of 0.5% of GDP).
- Swift adjustment in the nominal side of the economy continues, and we now see inflation at 140% for YE24 (vs. 160% in our previous scenario) and the nominal exchange rate at ARS 1,150/USD (from 1,200 in our previous scenario). Still, lower inflation has come partly at the expense of a significant, and probably unsustainable, real exchange rate appreciation.
- In the aftermath of the significant contraction in economic activity in 1Q24, all eyes are now on the speed of the recovery. Although some leading indicators point to an early improvement in 2Q24 and a normalization of the agriculture sector, we kept our 2024 GDP growth forecast at -3.0%, with downside risks.

Senate negotiations reach the last mile

The government continues to negotiate the "Bases" bill in Congress, which includes sections on the powers delegated to the government, privatizations, policies to foster investment, and labor reform, among others. On the fiscal side, the bill proposes changes in personal income taxes and tax amnesty measures that could increase revenues by ~0.5% of GDP, which is key to fiscal consolidation and the targets agreed to with the IMF, consistent with a primary surplus of 2.0% of GDP in 2024 (from a deficit of 2.7% in 2023).

Confidence in the administration remains strong despite the severe macro adjustment. Confidence in the administration has become a key watchpoint, given that it may signal the population's willingness to tolerate the effects of the shock therapy stabilization program and, hence, the administration's bargaining power in Congress. According to the Universidad Torcuato Di Tella's monthly survey, confidence in the government remained virtually unchanged in May, at a high 50% (vs. 49% in April), interrupting a string of four consecutive declines. Importantly, the survey was taken after the large protests at public universities in late April, and in the wake of the deteriorating activity and real wage indicators.

Confidence in the Government



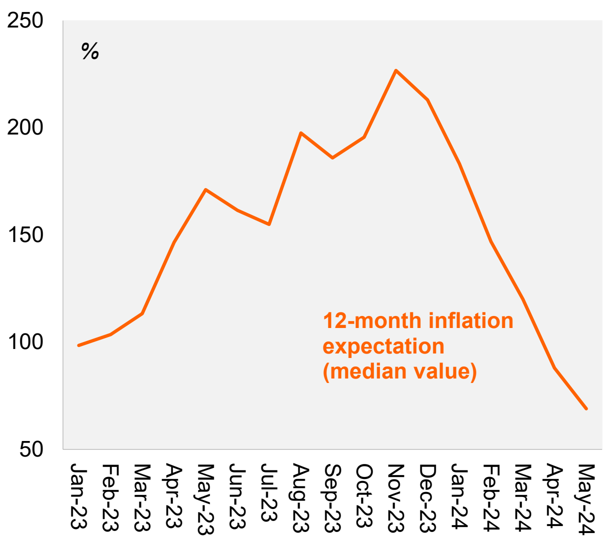
Source: UTDT

Another monthly fiscal surplus in April. The primary (nominal) balance reached 0.7% (up 0.2%) of GDP in the first four months of the year. Based on these figures, we estimate a consolidated nominal deficit of around 1.6% of GDP (including net interest payments from the central bank), narrowing from 3.5% in the same period of 2023. The monthly fiscal surplus continued in May, according to statements by economic authorities, although the mid-year bonus on wages and pensions could swing the balance to a deficit in June.

Single digit (monthly) inflation appears to be the new normal

Disinflation continues to be supported by the real appreciation of the ARS and the decline in economic activity. Consumer prices rose by 8.8% MoM in April (from 11.0% in March), the first single-digit reading since October 2023. The 12-month inflation reading rose to 289.4% in April, from 287.9% in March. The Eco Go price tracker estimates inflation of 4.9% MoM for May. In our view, real appreciation of the currency and weaker consumption, contributed to the slowdown in monthly inflation. Inflation expectations continue to fall, with analysts surveyed by the central bank expecting 68.9% inflation over the next 12 months (down from 88% in the previous survey).

U-Turn

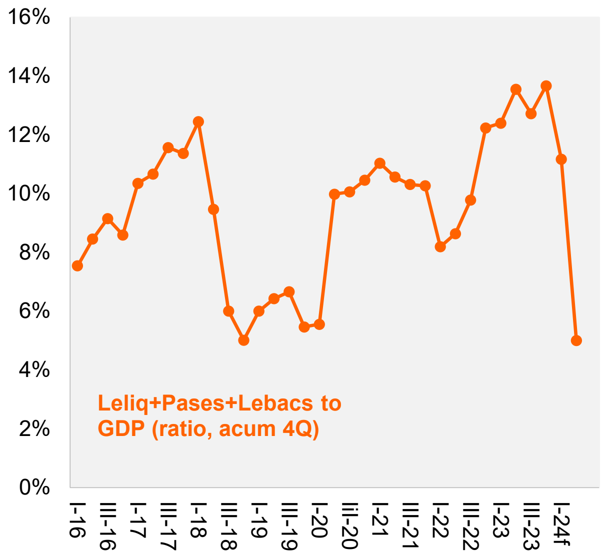


Source: BCRA, Itaú

Central bank balance sheet shows gradual improvement

The central bank cut the monetary policy rate by 2000 bps in May, to 40%. Facing a faster-than-expected disinflation process and falling inflation expectations, the BCRA has accelerated policy rate cuts, for a total reduction of 9,300 bps in seven consecutive cuts since the new administration took office in December 2023. On a separate note, the Treasury started to issue short terms bills (Lecaps at 25, 42, 67 and 102 days) with a higher yield than the central bank reference rate (average of 4% mom vs. 3.3% mom, respectively). Real interest rates remain in very negative territory, still above the official exchange-rate depreciation pace of 2.0% mom, favoring the carry amid the sharp contraction in activity. Expectations of an extended 2.0% mom crawling peg could make room for additional rate cuts, allowing the central bank to continue to improve its balance sheet. In fact, we estimate that the ratio of central bank interest-bearing liabilities to GDP fell to 5.0% at the end of May (from 13.7% at YE23). Still, real exchange rate appreciation should not go on indefinitely, which poses a risk to the disinflation path.

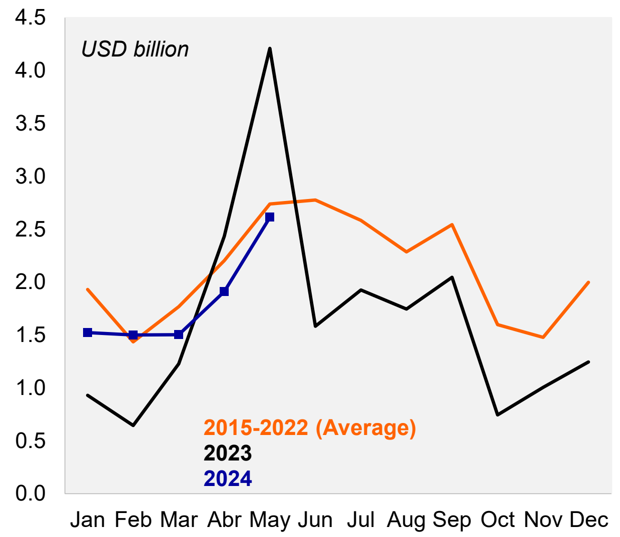
Central bank liabilities



Source: BCRA, Indec, Itaú

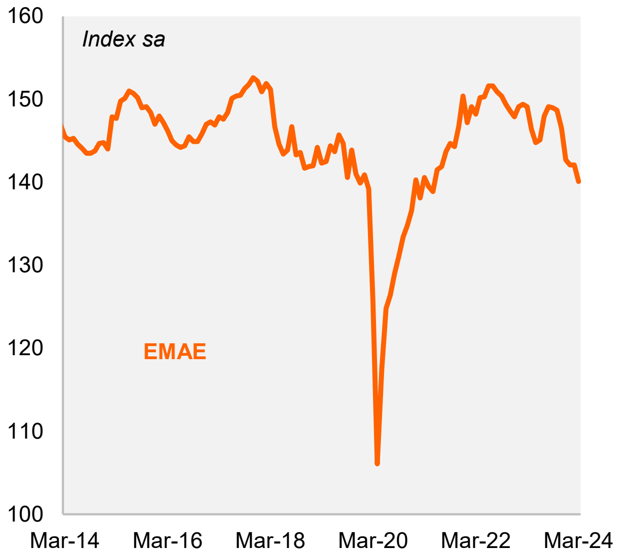
Higher reserves. The central bank has purchased USD 14.4 billion in the first five months of the year, boosting reserves. Net international reserves ended May at close to zero, compared with a negative balance of USD 10.4 billion before the new administration took office. Looking ahead, we expect the central bank to continue to purchase USD in the coming months, given expectations of a seasonal increase in foreign exchange liquidations in the agriculture sector. As a result, the quantitative target established in the seventh review of the IMF's Extended Fund Facility (cumulative net reserves of USD 7.6 billion by YE24) seems achievable. However, the expected recovery of economic activity would result in increased imports in the coming months (leading to higher demand for foreign currency), while multiple exchange rates (such as the so-called USD-blend) work against reserve accumulation in 2H24, given that the central bank can purchase 80% of exports.

Liquidation of Cereal and Oilseeds Exports



Source: CIARA-CEC

Economic activity. GDP proxy



Source: INDEC

Sharp decline in 1Q24 activity

Activity showed a sequential contraction in March. According to the EMAE (official monthly GDP proxy), activity fell by 1.4% MoM/SA in March, leading to a drop of 3.0% QoQ/SA in 1Q24 (down from -1.9% QoQ/SA in 4Q23). The March print represented the sharpest sequential decline of the year, and the largest since the 2.6% MoM/SA decline registered in December 2023. On an annual basis, activity fell by 8.4% in March and by 5.4% in 1Q24 (vs. -1.5% yoy in 4Q23). All sectors, except the primary sector, contracted in 1Q24. Construction fell by 21.5% yoy in 1Q24, affected by the freezing of public works, while manufacturing contracted by 14.0% yoy in the same period. Services (including commerce) fell by 0.8% yoy in 1Q24, affected by a steep 18.7% decline in real wages in the period. On a positive note, primary activities increased by 9.6% yoy in the quarter, reflecting the normalization of agriculture following last year's severe drought. The leading indicators for certain sectors also indicate sequential increases early in 2Q24.

Waiting for a recovery in activity

Activity contracted in 1Q24, affected by the fallout of the stabilization program, but there were some green shoots at the beginning of 2Q24. Although certain leading indicators point to a sequential improvement in economic activity in April, we kept our 2024 GDP growth forecast at -3.0%, given that the effects of the stabilization program are likely to weigh on activity in the near term. We lowered our nominal exchange-rate forecast for YE24 further, to ARS 1150/USD (from ARS 1,200 in our previous scenario), assuming a slower acceleration of the crawling peg policy, despite substantial real exchange rate appreciation. Faster-than-expected disinflation and a stronger ARS led to the downward revision of our inflation forecast for December 2024, to 140% (from 160% in our previous scenario). We also revised our policy rate forecast for YE24, to 30% from 40%, reflecting our lower inflation expectation and accounting for the higher yield on T-bills. We still envisage a primary fiscal surplus of 0.5% of GDP in 2024, but the approval of the fiscal package under discussion in the Senate could improve our fiscal projection.

Andrés Pérez M.
Diego Ciongo
Soledad Castagna

Argentina | Forecasts and Data

	2019	2020	2021	2022	2023F	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-2.0	-9.9	10.7	5.0	-1.6	**-3.0**	-3.0	**2.5**	2.5
Nominal GDP - USD bn	452.0	385.3	487.3	630.6	597.6	**639.9**	643.5	**702.5**	723.4
Population (millions)	44.9	45.4	45.8	46.2	46.6	**47.1**	47.1	**47.5**	47.5
Per Capita GDP - USD	10,057	8,490	10,640	13,643	13	**13,595**	14	**14,790**	15
Unemployment Rate - year avg	9.8	11.6	8.8	6.8	6.1	**8.5**	8.5	**8.0**	8.0
Inflation									
CPI - % (*)	53.8	36.1	50.9	94.8	211.4	**140.0**	160.0	**50.0**	60.0
Interest Rate									
Reference rate - eop - %	55.00	38.00	38.00	75.00	100.0	**30.0**	40.0	**30.0**	40.0
Balance of Payments									
ARS / USD - eop	59.90	84.15	102.75	177.10	809	**1150**	1200	**1700**	1900
Trade Balance - USD bn	16.0	12.5	14.8	6.9	-6.9	**15.0**	15.0	**15.0**	15.0
Current Account - % GDP	-0.9	0.9	1.4	-0.7	-3.6	**1.5**	1.5	**1.7**	1.7
Foreign Direct Investment - % GDP	1.5	1.1	1.4	2.4	3.8	**1.0**	1.0	**1.0**	1.0
International Reserves - USD bn	44.8	39.3	39.6	44.6	23.1	**31.0**	31.0	**35.0**	35.0
Public Finances									
Primary Balance - % GDP (**)	-0.4	-6.5	-3.0	-2.4	-2.7	**0.5**	0.5	**1.0**	1.0
Nominal Balance - % GDP (**)	-3.8	-8.5	-4.5	-4.2	-4.4	**-1.6**	-1.6	**-1.2**	-1.2
Gross Public Debt - % GDP	93.8	108.7	82.8	87.7	163.3	**169.5**	169.5	**166.4**	166.4
Net Public Debt - % GDP (***)	57.8	66.9	48.1	48.7	92.6	**96.6**	96.6	**95.3**	95.3

(*) National CPI since 2017.
(**) Excludes central bank transfer of profits from 201
(***) Excludes central bank and social security holding.
Sources: Central Bank, INDEC and Itaú

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis

Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.