

Macroeconomic Research
Macro Scenario – Argentina
August 2024

ARGENTINA: All hands on deck on the disinflationary battle

1. Building a fiscal anchor

- The cumulative nominal fiscal surplus surpassed the IMF's targets

2. Inflation has fallen faster than expected

- Inflation decelerates, as passthrough effects fade and inflation expectations fall

3. More signs on the monetary framework

- No more rate cuts penciled in

4. The stabilization program has expectedly weighted on activity

- Activity finally expanded sequentially in May, yet a steep contraction in the year seems inevitable

5. Central Bank's reserves gradually improved

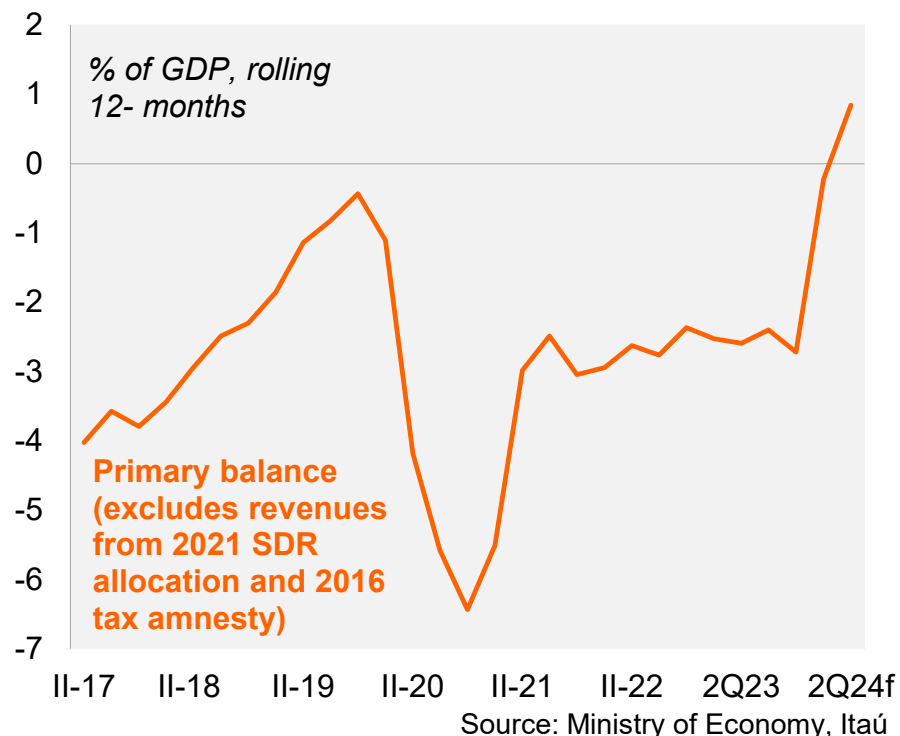
- Additional reserve accumulation seems challenging

1. Building a fiscal anchor

The cumulative nominal fiscal surplus surpassed the IMF's targets

- The primary fiscal surplus during 1H24 reached 1.1% of GDP, while the nominal balance stood at +0.4% of GDP.
- Primary expenditures declined by 30.2% yoy in real terms in 2Q24, after a 34.7% drop in 1Q24.
- Tax collection fell by 4.2% yoy in real terms in 2Q24, after declining by 4.8% in 1Q24.

Primary Balance



Fiscal accounts Jan-Jun 2024

Primary expenditures (YoY, in real terms)	-30.2
.Social security (pensions and assist. to families)	-18.5
.Subsidies	-43.2
.Payroll	-17.5
.Capital expenditures	-76.8
.Transfers to provinces	-73.3

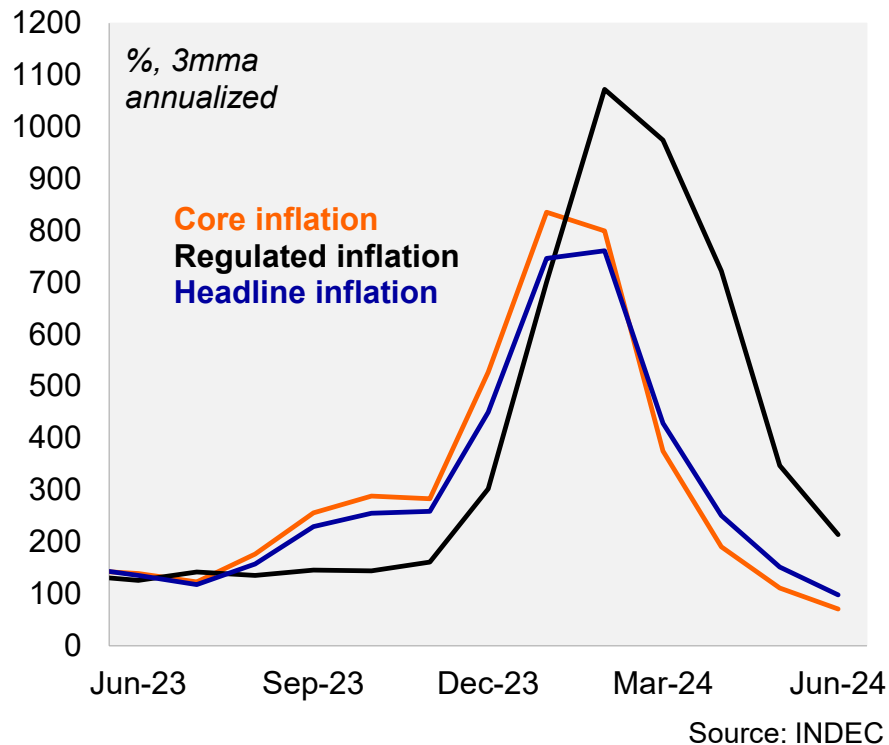
Source: Indec and Mecon

2. Inflation has fallen faster than expected

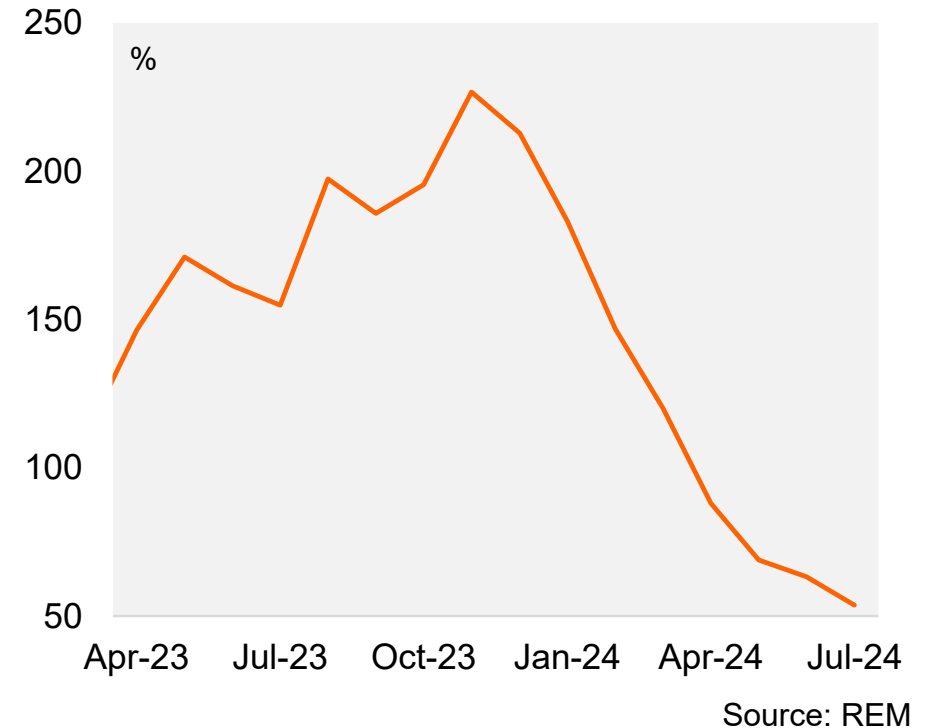
Inflation decelerates, as passthrough effects fade, and inflation expectations fall

- Inflation rose by 4.6% mom in June (from 25% mom in Dec-23). According to price trackers, inflation reached 4.1% mom in July.
- One-year ahead inflation expectations remain high (53.7%), yet have declined materially from the cycle peak (223%).

Inflation



12-month inflation expectation

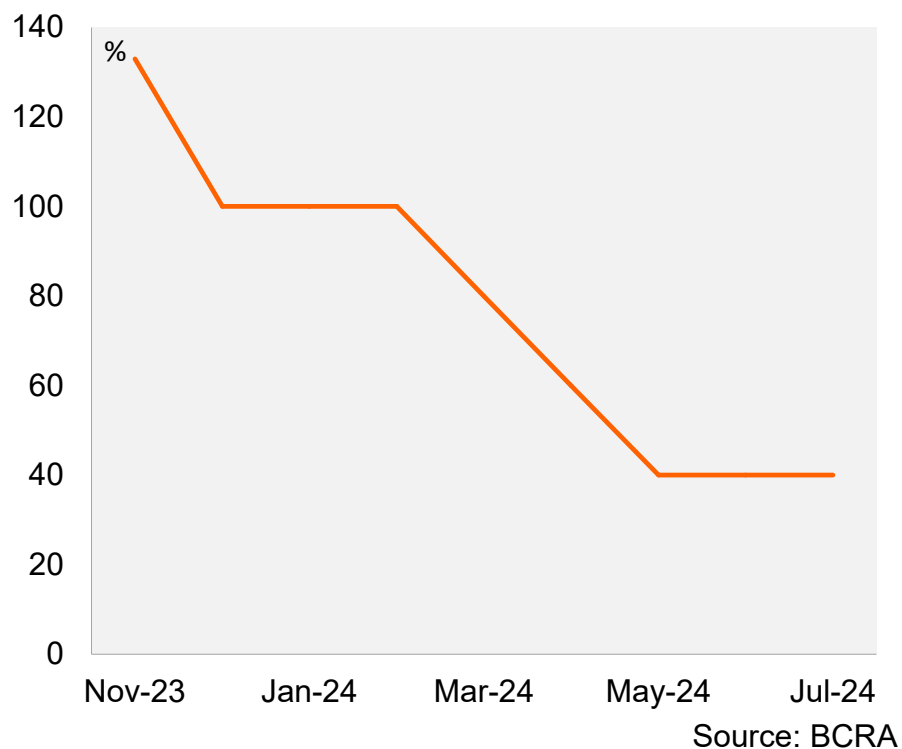


3. More signs on the monetary framework

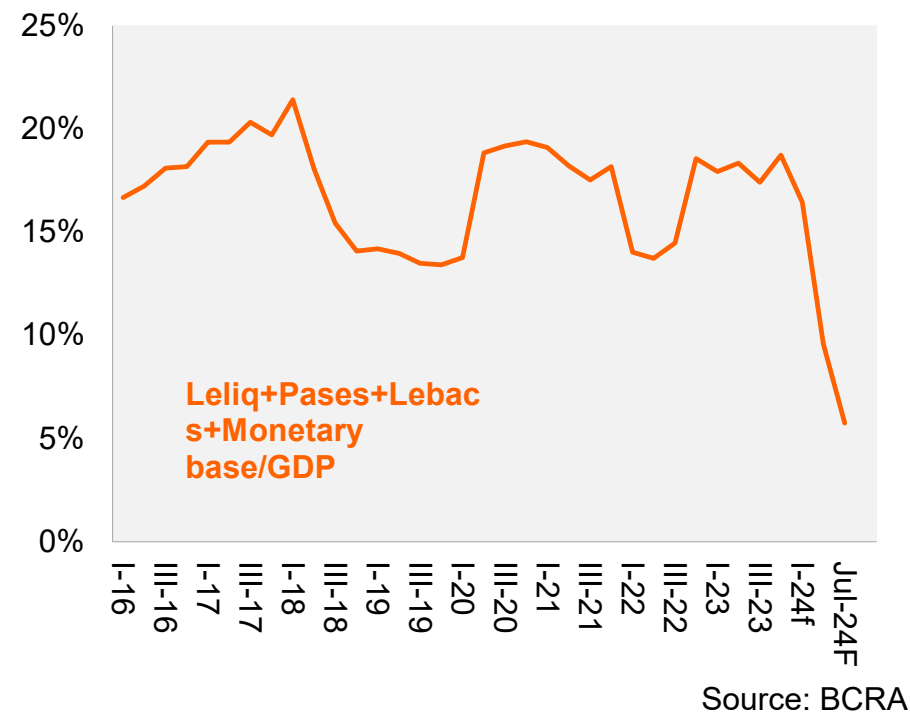
Inflation decelerates, as passthrough effects fade, and inflation expectations fall

- No more monetary financing for interest payments (liabilities of central bank), while the central bank points to keep the monetary base constant at April-24 levels.
- We now do not see more room for additional rate cuts this year.

Monetary policy rate



Central bank liabilities (GDP ratio)

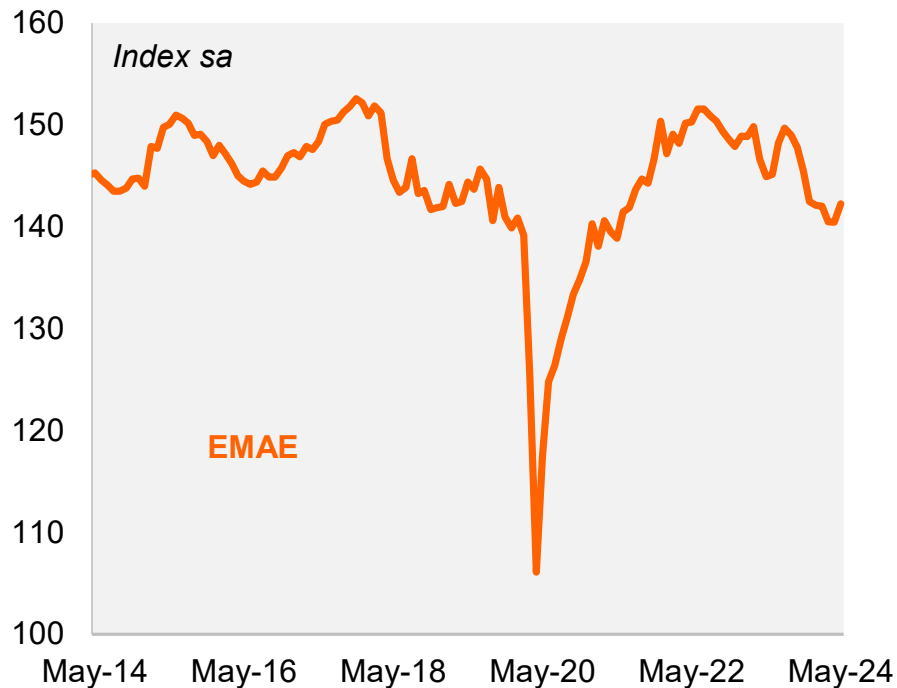


4. The stabilization program has expectedly weighted on activity

Activity finally expanded sequentially in May, yet a steep contraction in the year seems inevitable

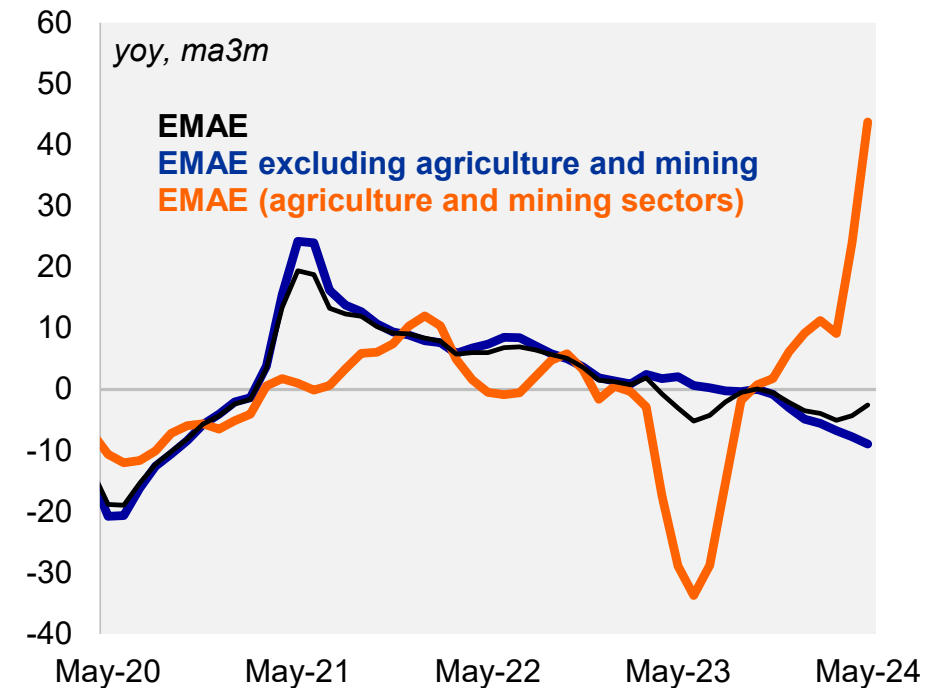
- The EMAE rose by 1.3% MoM/SA in May, leading to a contraction of 0.8% QoQ/SA.
- We expected a recovery of activity since 2Q24 due to the normalization of the agriculture sector. However, a steep contraction in the year seems inevitable.

Economic activity. GDP proxy



Source: INDEC

Economic Activity by Sectors



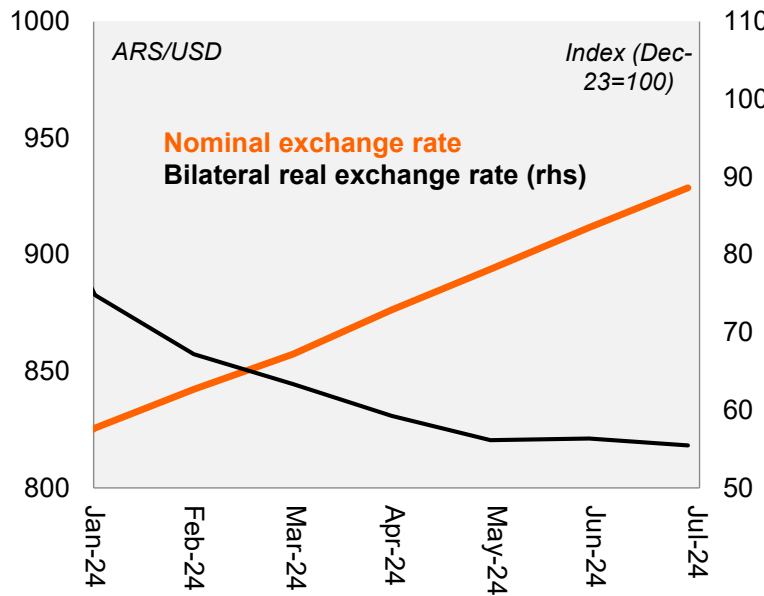
Source: INDEC

5. Central Bank's reserves gradually improved

Additional reserve accumulation seems challenging

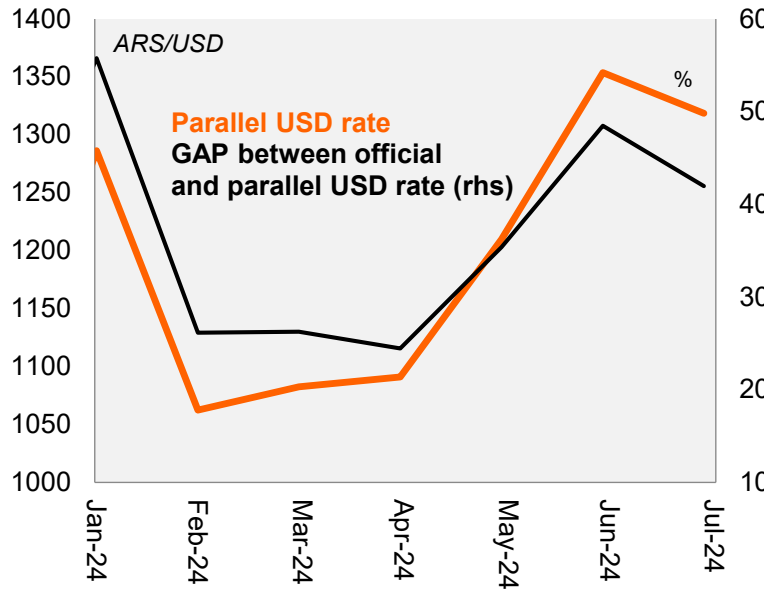
- The BCRA has maintained the 2% MoM depreciation of the ARS; leading to a sharp appreciation of the real exchange rate.
- The BCRA has purchased USD 17.2 billion in the exchange-rate market since the devaluation of the currency in December.
 - Thus, net international reserves stands at -USD 2.0 billion, up from -USD 10.5 billion in November 2023.
- The central bank announced interventions in the Blue-chip swap market, which could lead to lower reserve accumulation.

Official exchange rate market



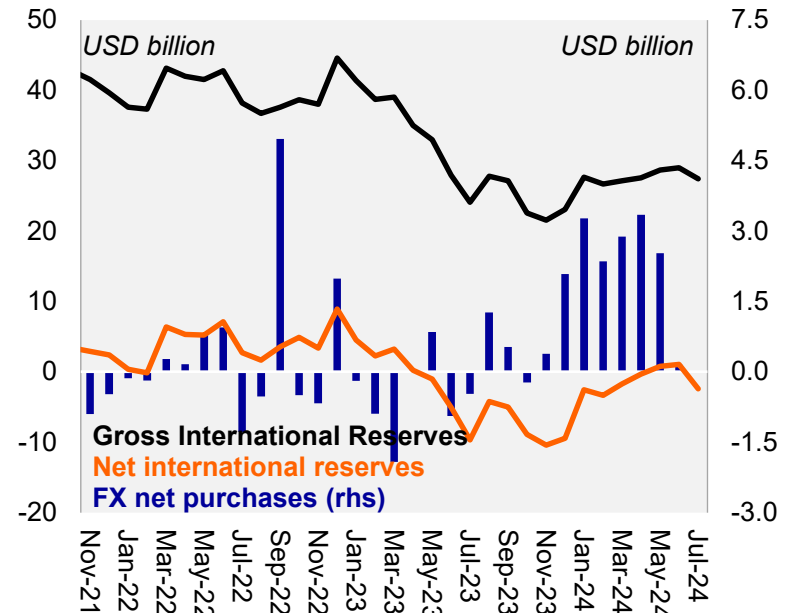
Source: BCRA

Parallel exchange rate market



Source: BCRA and Bloomberg

International reserves



Source: BCRA

Scenario

	2019	2020	2021	2022	2023F	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-2.0	-9.9	10.4	5.3	-1.6	-3.5	-3.5	3.5	3.5
Nominal GDP - USD bn	452.0	385.3	487.3	630.6	597.6	649.7	649.7	778.2	778.2
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	12,810	13,667	13,802	16,063	16,386
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	130.0	130.0	50.0	50.0
Interest Rate									
Reference rate - eop - %	55.00	38.00	38.00	75.00	100.0	40.0	30.0	40.0	30.0
Balance of Payments									
ARS / USD - eop	59.90	84.15	102.75	177.10	809	1027	1027	1500	1500
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	-3.4	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	2.0	2.0
International Reserves - USD bn	44.8	39.3	39.6	44.6	23.1	28.0	28.0	35.0	35.0
Public Finances									
Primary Balance - % GDP (**)	-0.4	-6.5	-3.0	-2.4	-2.7	1.0	1.0	1.0	1.0
Nominal Balance - % GDP (**)	-3.8	-8.5	-4.5	-4.2	-4.4	-1.1	-1.1	-1.2	-1.2
Gross Public Debt - % GDP	93.8	108.7	82.8	87.7	163.3	83.2	83.2	81.4	81.4
Net Public Debt - % GDP (***)	57.8	66.9	48.1	48.7	92.6	45.8	45.8	45.3	45.3

(*) National CPI since 2017.

(**) Excludes central bank transfer of profits from 2016

(***) Excludes central bank and social security holding.

Sources: Central Bank, INDEC and Itaú

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