



Macroeconomic Research

ARGENTINA: Top themes for 2025

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1. How much can the economy grow in 2025?

- A high statistical carryover supports a stronger recovery.

2. Will the ARS continue to appreciate in 2025? Will the government lift capital controls and unify the foreign exchange market in 2025?

- The slowdown in inflation so far has been driven by the real appreciation of the ARS. The government intends to double down on this strategy in 2025, and we expect capital controls to continue for most of the year.

3. Inflation plummeted in 2024, but how much farther will it fall in 2025?

- Further currency appreciation would allow for the disinflation process to continue.

4. What room does the government have to ease the fiscal balance?

- Absolutely none. The main anchor is the fiscal framework, with a strategy of nominal surpluses and non-monetary financing.

5. What are this year's main risks?

- A potential loss of confidence in the government (amid mid-term elections) and a drought loom as this year's main risks.

6. Scenario

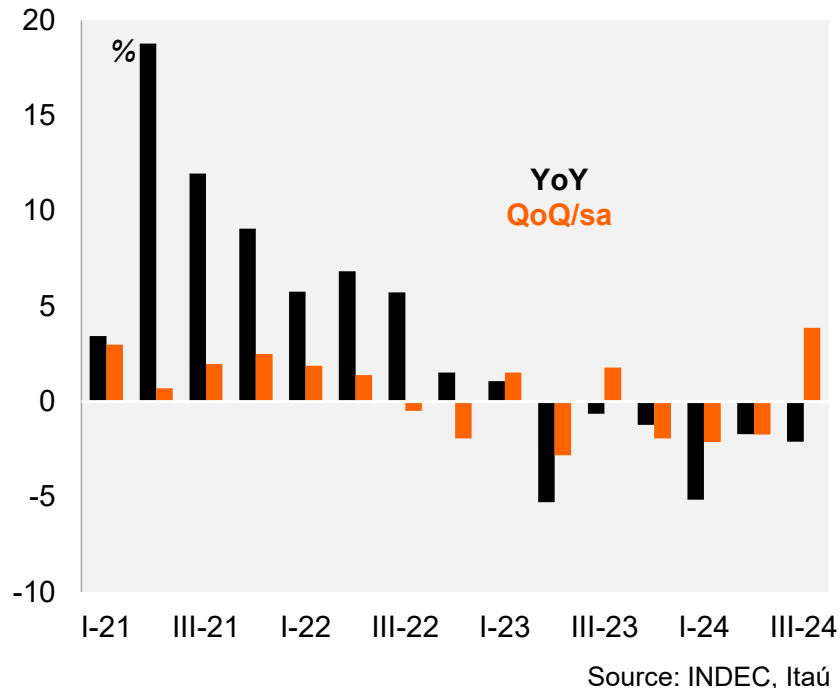
- A higher statistical carryover allows for higher GDP growth in 2025. A slowdown in the crawling peg policy from February 2025, contributing to lower both inflation and interest rates, at the expense of further real appreciation of the currency.

1. How much can the economy grow in 2025?

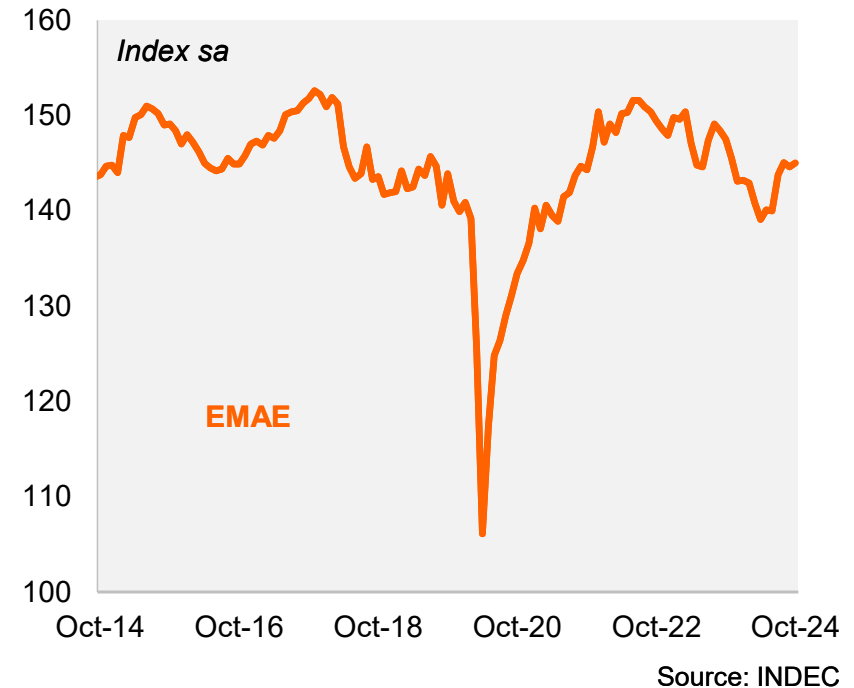
We forecast a high 2025 statistical carryover of 2.0%.

- The economy would have grown for the second consecutive quarter in 4Q24, leaving the recession behind.
- The recovery of real wages and lower interest rates should support private consumption growth in 2025.
- On the demand side, the normalization of the international trade amid lower capital controls should be positive for several sectors.
- All in all, the revision of the 2024 scenario leaves a higher statistical carryover leading us to raise our forecast for 2025 to 4.5%, from 4.2% previously.

GDP



Economic activity. GDP proxy

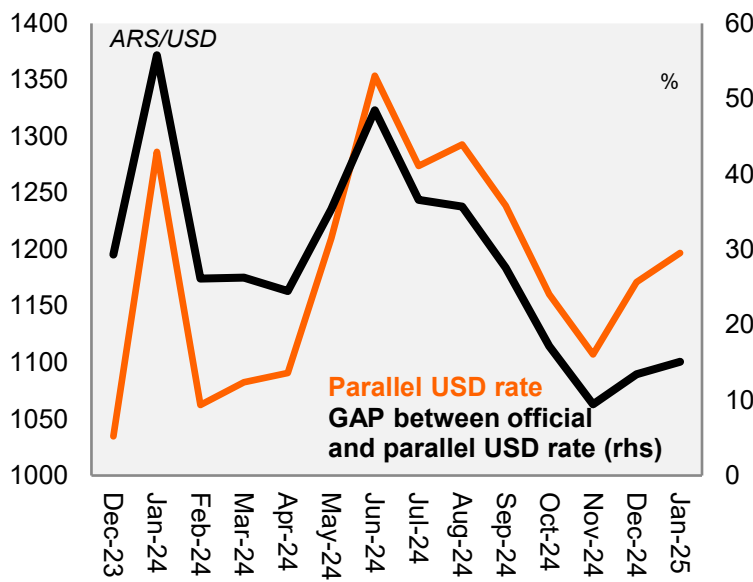


2. Will the ARS continue to appreciate in 2025? Will the government lift capital controls and unify the foreign exchange market by 2025?

The central bank recently announced will reduce the pace of the crawling peg.

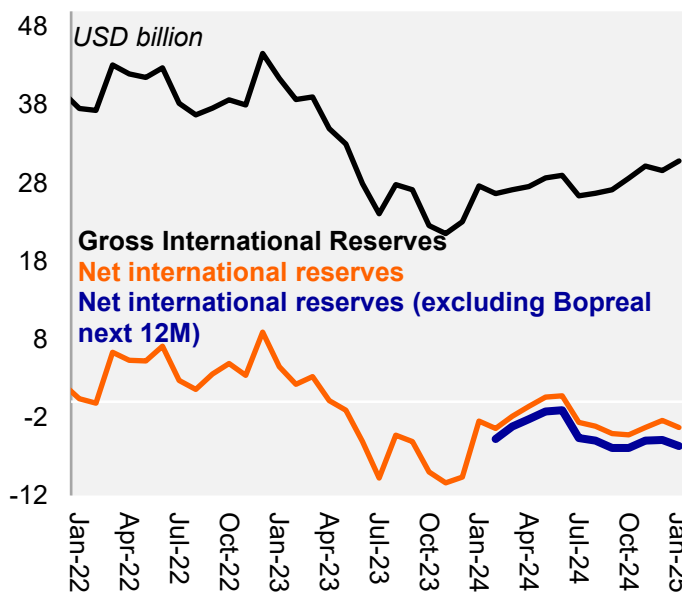
- The slowdown in inflation has been supported by the real appreciation of the ARS. The government aims to double down on this strategy in 2025.
- The central bank will need to continue buying USD in the FX market, as net international reserves remain negative.
- The government will need financing through the capital account (IMF, return to global markets, further repo lines?), as the current account is likely to turn into a deficit in 2025 and global bonds mature.
- The government seems satisfied with the results of the macroeconomic program so far to push capital controls all at once. The strategy of diversifying dollar funding may delay the elimination of multiple exchange rates in the short term.

Parallel exchange rate market



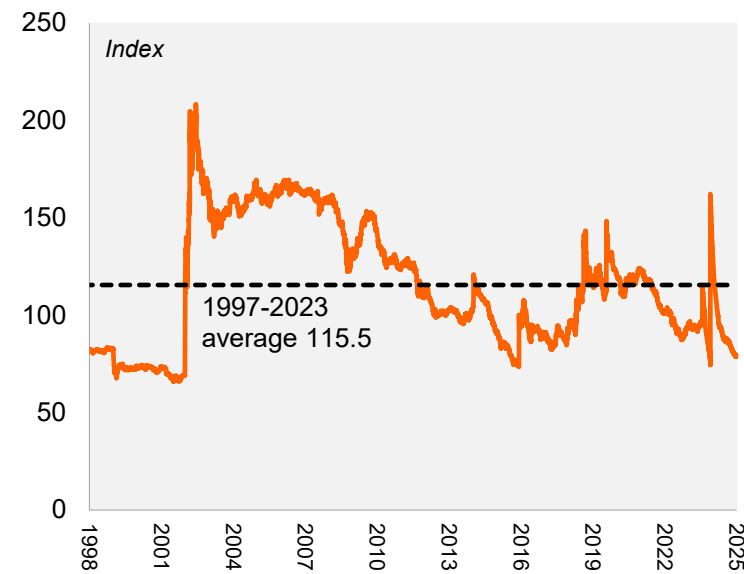
Source: BCRA and Bloomberg

International reserves



Source: BCRA

Multilateral real exchange rate



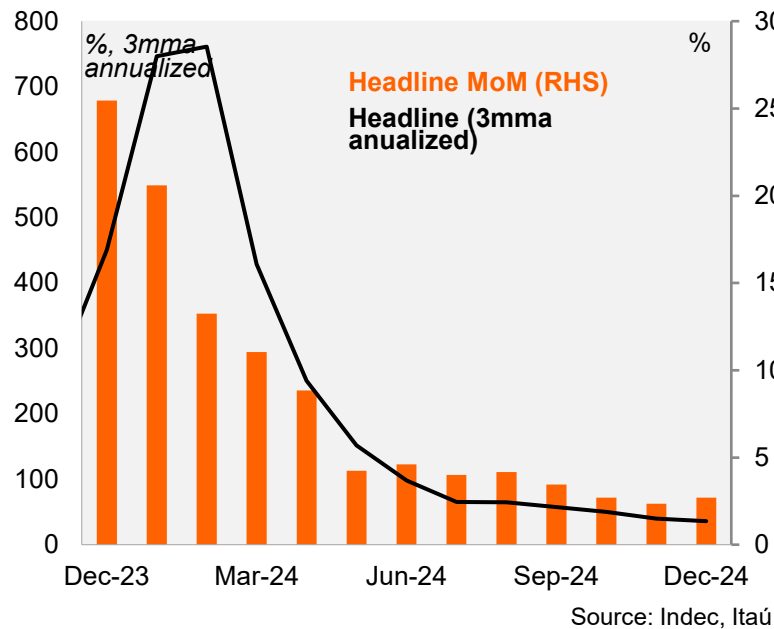
Source: BCRA

3. Inflation plummeted in 2024, but how much further will it fall in 2025?

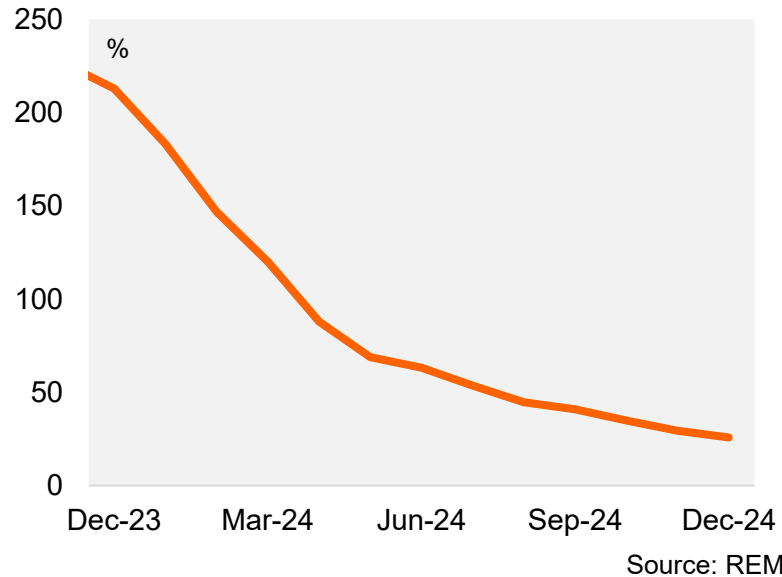
Further appreciation of the currency would allow for the disinflation process to continue.

- Inflation reached 117.8% yoy in 2024, down significantly from 211.4% in 2023, mainly due to the real appreciation of the ARS.
- The government's strategy of further real appreciation of the ARS, together with the strong commitment not to use monetary financing in the presence of a fiscal surplus and a lower adjustment of regulated prices, should reduce inflation in 2025.
- We revised our YE 2025 inflation forecast to 25%, from 30% in our previous scenario.

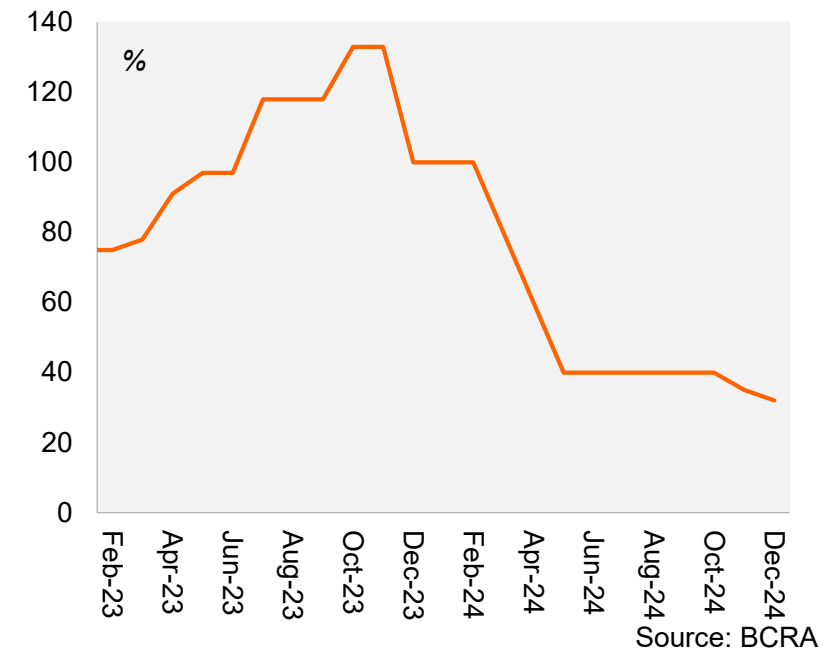
Inflation



12-month inflation expectation



Monetary policy rate



4. What room does the government have to ease the fiscal balance?

Absolutely none. The main anchor is the fiscal framework, with a strategy of nominal surpluses and non-monetary financing.

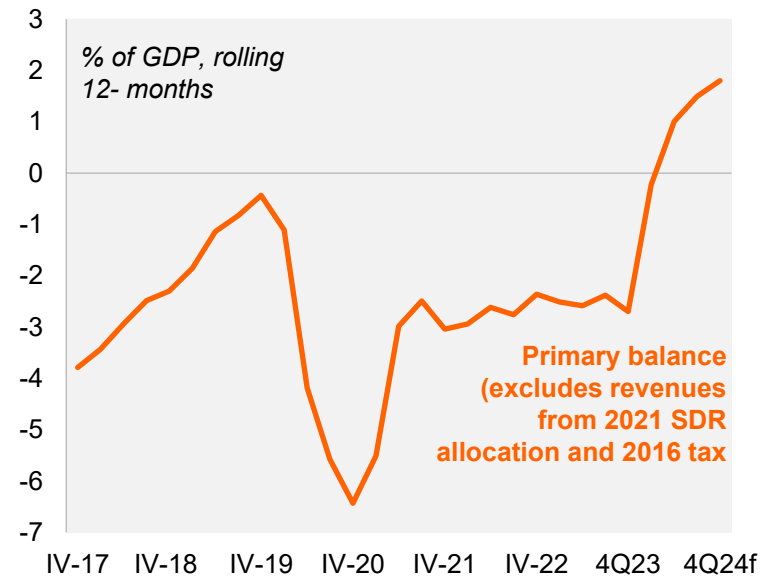
- The primary balance in 2024 reached an estimated surplus of 1.8% of GDP, while the nominal balance stood at +0.3% of GDP. This is the first fiscal surplus since 2010.
- The improvement in fiscal accounts last year has been mainly driven by a massive and unprecedented spending contraction.
- Argentine risk assets have reflected this improvement, with the EMBI+ falling sharply (600 bps from a peak of 2500 in YE23).

Fiscal accounts 2024

Primary expenditures (YoY, in real terms)	-26.9
.Social security (pensions and assist. to families)	-15.1
.Subsidies	-31.5
.Payroll	-21.9
.Capital expenditures	-75.9
.Transfers to provinces	-68.4

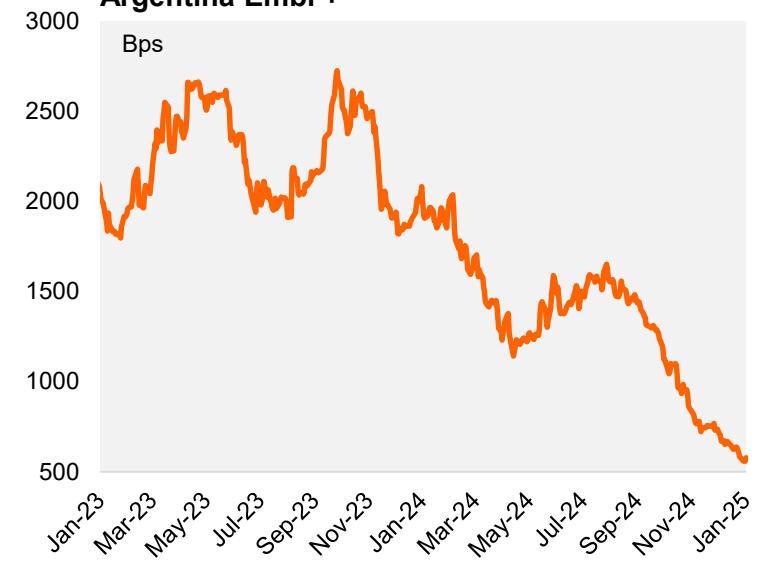
Source: Indec and Mecon

Primary Balance



Source: Ministry of Economy, Itaú

Argentina Embi +



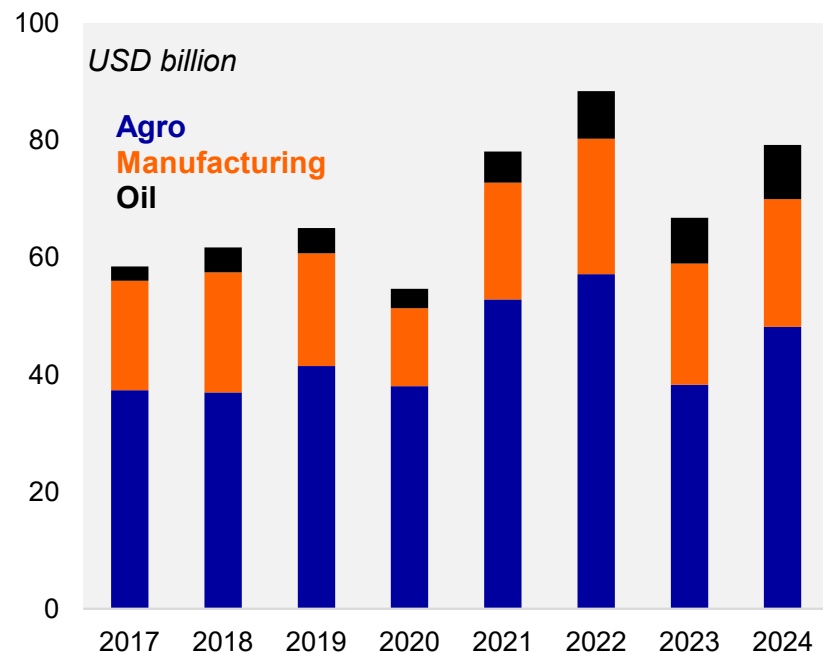
Source: JP Morgan

5. What are this year's main risks?

A potential drought and uncertainty regarding the mid-term elections

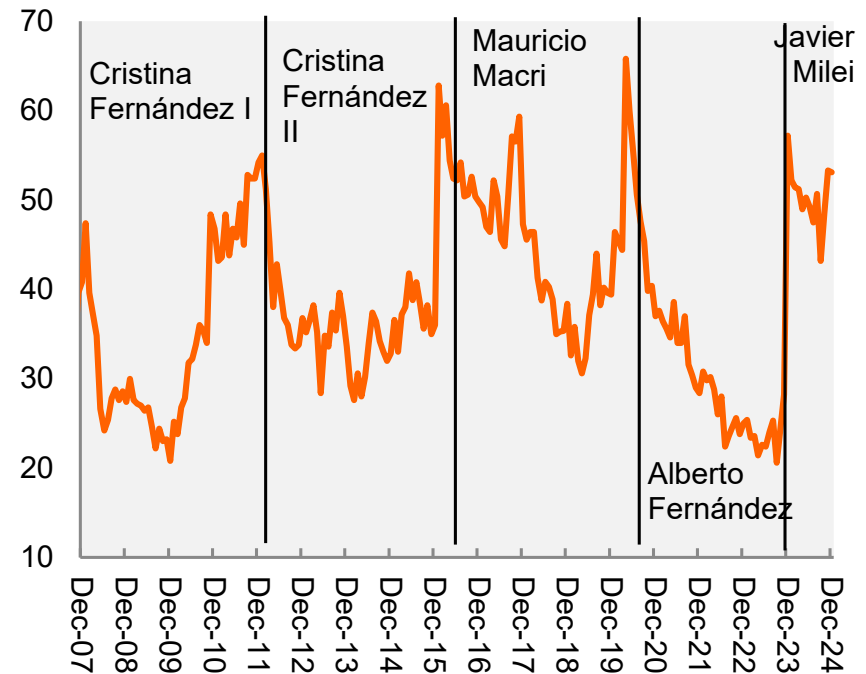
- On the macro-financial side, an eventual drought poses risks. Agricultural exports represented 60% of total exports in 2024. Primary products & industrial agriculture exports reached about USD 48 billion last year, up from USD 38.3 billion in 2023 amid the drought.
- On the political side, even though confidence in the administration remains elevated, all eyes are on the October mid-term elections, which could deliver greater bargaining power for the Executive branch or pose headwinds for the following presidential election (2027).

Exports



Source: INDEC

Confidence on the Government Index



Source: UTDT

ARGENTINA | Forecasts

	2019	2020	2021	2022	2023F	2024F		2025F		2026F	
						Current	Previous	Current	Previous	Current	Previous
Economic Activity											
Real GDP growth - %	-2.0	-9.9	10.4	5.3	-1.6	-2.6	-3.0	4.5	4.2	3.0	3.0
Nominal GDP - USD bn	452.0	385.3	487.3	630.6	597.6	646.1	637.3	788.4	775.6	850.4	823.0
Population (millions)	44.9	45.4	45.8	46.2	46.6	47.1	47.1	47.5	47.5	47.9	47.9
Per Capita GDP - USD	10,057	8,490	10,640	13,643	12,810	13,726	13,538	16,607	16,338	17,764	17,190
Unemployment Rate - year avg	9.8	11.6	8.8	6.8	6.1	8.2	8.2	8.0	8.0	7.8	7.8
Inflation											
CPI - % (*)	53.8	36.1	50.9	94.8	211.4	117.8	-	25.0	30.0	18.0	20.0
Interest Rate											
Reference rate - eop - %	55.00	38.00	38.00	75.00	100.0	32.0	-	25.0	25.0	20.0	20.0
Balance of Payments											
ARS / USD - eop	59.90	84.15	102.75	177.10	809	1033	-	1220	1235	1400	1445
Trade Balance - USD bn	16.0	12.5	14.8	6.9	-6.9	18.0	17.0	12.0	12.0	15.0	15.0
Current Account - % GDP	-0.9	0.9	1.4	-0.7	-3.4	0.8	0.6	-0.5	-0.5	-1.0	-1.0
Foreign Direct Investment - % GDP	1.5	1.1	1.4	2.4	3.8	1.5	1.0	2.0	2.0	3.0	3.0
International Reserves - USD bn	44.8	39.3	39.6	44.6	23.1	29.6	-	33.0	33.0	34.0	34.0
Public Finances											
Primary Balance - % GDP (**)	-0.4	-6.5	-3.0	-2.4	-2.7	1.8	-	1.3	1.3	1.3	1.3
Nominal Balance - % GDP (**)	-3.8	-8.5	-4.5	-4.2	-4.4	0.3	-	0.0	0.0	0.0	0.0
Gross Public Debt - % GDP	93.8	108.7	82.8	87.7	163.3	82.9	81.4	81.1	79.7	79.8	78.4
Net Public Debt - % GDP (***)	57.8	66.9	48.1	48.7	92.6	45.7	44.8	45.2	44.3	44.9	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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