Macro scenario - Argentina

July 14, 2025

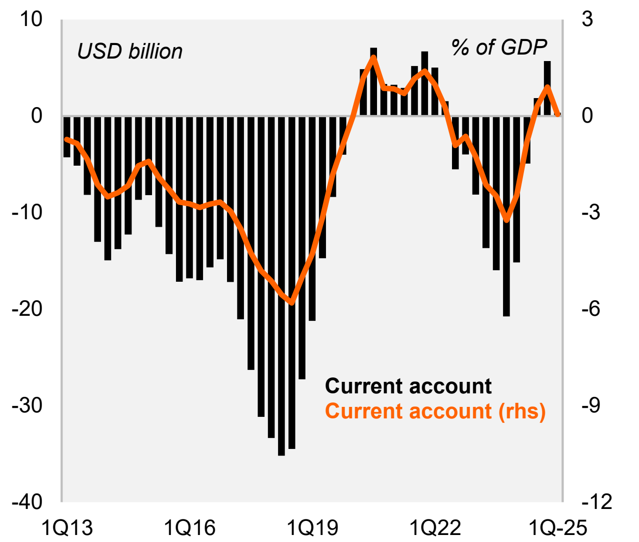
All eyes on the external accounts

- The current account swung to a large deficit in 1Q25 amid a steady appreciation of the inflation adjusted ARS, and rising imports. We now foresee the 2025 current account deficit rising to 1.9% of GDP, up from 1.3% in our previous scenario, primarily due to a greater tourism deficit.
- While we maintained our 2025 GDP growth forecast at 5.2%, a weaker than expected print in 1Q25, moderates prior upside risks to our forecast. We still foresee 2026 GDP growth at 4.0%.
- On the nominal side, we now forecast inflation ending the year at 28.5% and the exchange rate at ARS/USD 1,400, up from 27.5% and ARS/USD 1,300, respectively in our previous scenario.

Farewell twin surplus

An unexpectedly large current account deficit in 1Q25. The current account swung to a deficit of USD 5.2 billion in 1Q25, down from a surplus of USD 0.2 billion in the same quarter of 2024, driven by a small goods surplus and a large services deficit. The goods trade balance recorded a surplus of only USD 2.1 billion during the period, due to solid imports amid a strong recovery in economic activity. Conversely, the services account deficit widened to USD 4.5 billion, from USD 1.4 billion a year earlier, due to a deterioration in the travel accounts in the context of a stronger ARS. The deficit for the income balance (net interest bill and dividend payments) narrowed to USD 3.3 billion in 1Q25, from USD 4.1 billion in 1Q24. The recovery in activity and the appreciation of the ARS will likely further deteriorate the current account balance in the coming months. The negative current account swing, even in the face of strong fiscal adjustment, suggests that currency overvaluation may indeed be quite substantial.

External Accounts (rolling 4Q)



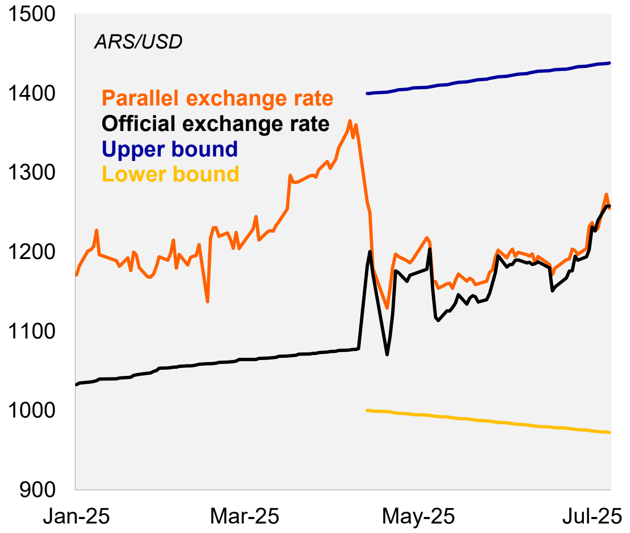
Source: INDEC

Greater trade services deficit offset by the agro sector and debt issuance

The agricultural sector's seasonal export liquidation reached USD 3.7 billion in June, an annual increase of 87%. Dollar liquidations by the primary sector also benefitted from the expiration of temporary lower export taxes on soybeans. Moreover, the Ministry of Finance issued a total of USD 1.5 billion in peso-denominated 5-year bonds (Bonte bonds). The province of Cordoba also returned to global markets with a 7-year USD bond issuance of 750 million, while the private sector, mainly the oil and banking sectors, also issued debt. Conversely, demand from individuals for savings and tourism purposes reached at least USD 3.2 billion in May.

A persistent currency depreciation in recent weeks. The ARS depreciated by roughly 10% with respect to the USD since mid-June lows up to the greatest levels in the year, yet still within the bands. Also, the gap between the official rate and the blue-chip swap rate has practically closed. The BCRA has intervened in the NDF market likely aiming to dispel expectations of a weaker ARS. However, the government missed the first review of net reserves in June and now needs to accumulate around USD 9.0 billion during the rest of the year to meet year-end targets. Although the government plans to issue more bonds to accumulate reserves, our base scenario includes a waiver from the IMF or even a target revision. Moreover, given the dynamics of the current account, debt maturities, and the strong demand for USD for saving purposes, the government will need to tap global markets sooner rather than later.

Exchange rate market

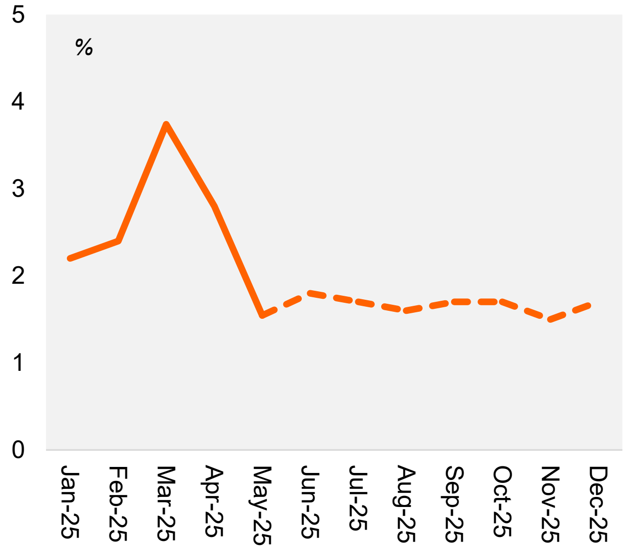


Source: BCRA, Bloomberg

A non-linear disinflation path

CPI rose by 1.5% MoM in May, marking the lowest increase since May 2020 during the pandemic. On an annual basis, inflation declined to 43.5% from 47.3% in April, also supported by an annual base effect. However, while annual inflation is projected to continue declining due to base effects, the monthly path is expected to be slightly bumpy. In fact, according to the latest central bank survey, analysts anticipate inflation to bounce back up to 1.8% in June, followed by moderately smaller prints for July (1.7%) and August (1.6%). Still, the speed of disinflation so far this year and its projected path is commendable.

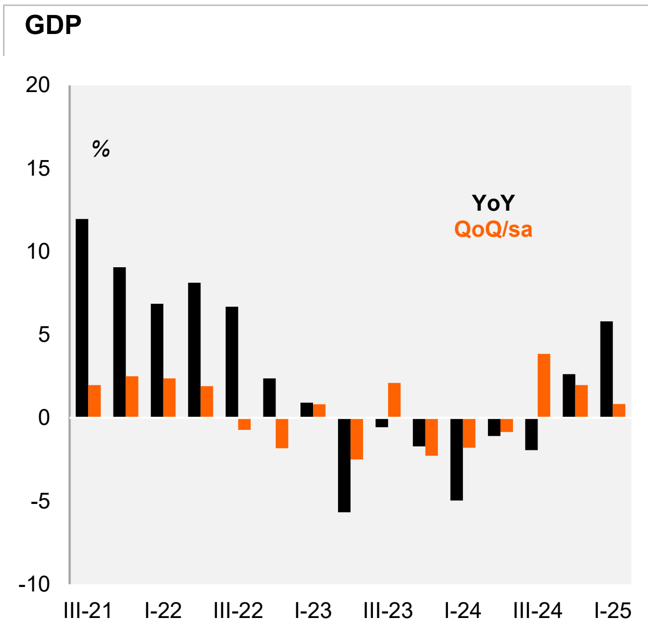
Month-over-Month inflation expectation



Source: REM

A bittersweet 1Q25 GDP

GDP data expanded sequentially for the third consecutive quarter in 1Q25, but underwhelmed expectations. In fact, GDP increased by 0.8% QoQ/SA, well below the 1.5% outlined by the monthly GDP proxy (EMAE). On an annual basis, GDP grew by 5.8% in 1Q25, marking the second consecutive annual expansion. Despite the disappointment in 1Q25, activity started on the right foot in 2Q25. According to the EMAE, economic activity bounced back by 1.9% MoM/SA in April, after a similar sized contraction in March. On an annual basis, activity rose by 7.7% in April and by 6.3% in the quarter ended in that month (+5.8% YoY in 1Q25). The statistical carryover for 2025 stood at 4.7%. On the other hand, imports of capital goods increased by 68% YoY in May, consumer confidence rose by 22% YoY, while total loans expanded by 100% YoY in June.



Source: INDEC, Itaú

Growth forecast unchanged: Downplaying the 1Q25 GDP disappointment

Following 1Q25 data, we revised our 2025 current account deficit forecast to 1.9% of GDP, up from 1.3% in our previous scenario. This adjustment is due to a wider-than-expected services balance, particularly in tourism, amid a stronger real ARS.

Even though GDP data underwhelmed in 1Q25 and has lost momentum sequentially over the past few quarters, we maintained our GDP growth forecast of 5.2% for 2025. As mentioned earlier, the annual statistical carryover through April already reaches 4.7% and leading indicators still point to an expansion of economic activity which may receive an additional post mid-term election boost. We still forecast a 4.0% GDP expansion in 2026.

A weaker ARS and higher inflation. Despite our call for a weaker global dollar, we revised our exchange rate forecast to ARS/USD 1,400 for the end of 2025 from 1,300 in our previous scenario. Elevated demand for USD for savings and tourism abroad could put pressure on the nominal exchange rate, following the end of the export liquidation season and the mid-term elections at the end of October. In the meantime, we now foresee inflation at 28.5% for YE25 from 27.5% before due to weaker ARS.

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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**	5.2	**4.0**	4.0
Nominal GDP - USD bn	385.3	487.3	632.3	602.7	632.2	**740.2**	733.8	**749.6**	745.4
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	**15,592**	15,457	**15,659**	15,570
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	7.2	**7.0**	7.0	**7.0**	7.0
Inflation									
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	**28.5**	27.5	**20.0**	20.0
Interest Rate									
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	**29.0**	29.0	**20.0**	20.0
Balance of Payments									
ARS / USD - eop	84.15	102.75	177.10	809	1033	**1400**	1300	**1630**	1515
Trade Balance - USD bn	12.5	14.8	6.9	-6.9	18.9	**8.0**	8.0	**8.0**	8.0
Current Account - % GDP	0.9	1.4	-0.7	-3.5	1.0	**-1.9**	-1.3	**-2.5**	-1.7
Foreign Direct Investment - % GDP	1.1	1.4	2.4	4.0	1.8	**2.0**	2.5	**3.0**	3.0
International Reserves - USD bn	39.3	39.6	44.6	23.1	29.6	**40.0**	44.0	**45.0**	50.0
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**	83.0	**80.8**	80.8
Net Public Debt - % GDP (***)	66.4	48.1	48.7	91.8	47.1	**46.7**	46.7	**45.8**	45.8

(*) 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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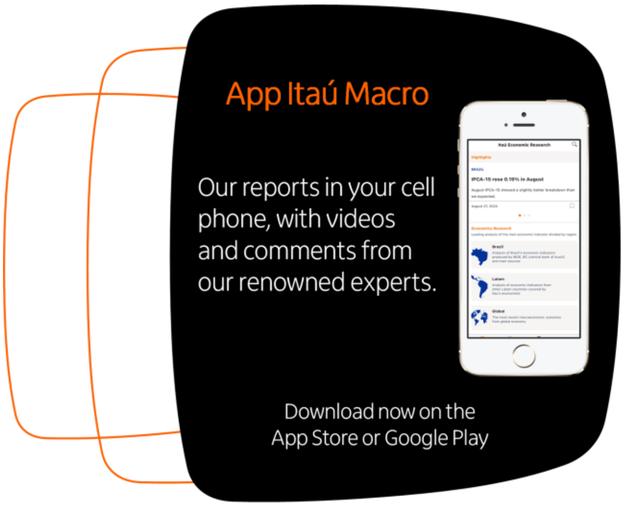

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