Macro scenario - Argentina

September 13, 2024

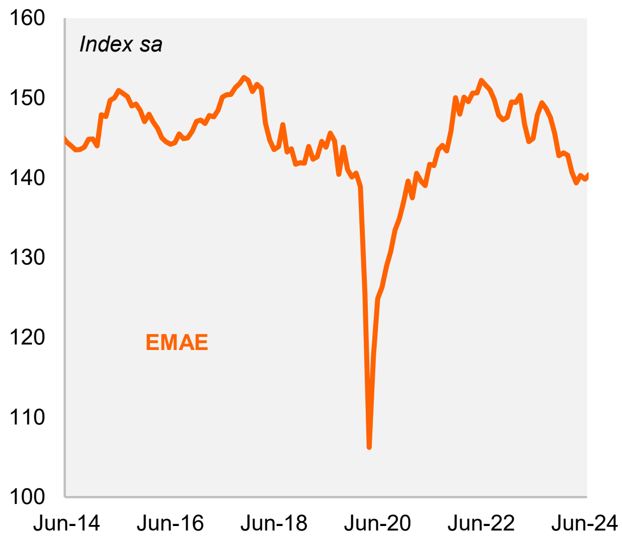
Recession deepens as disinflation continues

- Activity contracted sequentially for the third consecutive quarter in 2Q24, lowering 2024's statistical carryover to -4.7% and leading us to revise our 2024 GDP growth forecast to -4.0% (from -3.5% in our previous scenario). For 2025 we envisage a more gradual rebound of activity as uncertainty lingers regarding the lifting of capital controls.
- In the context of lower demand-side pressures and the continuation of the crawling-peg policy, we have lowered our inflation forecasts to 125% for YE24 (from 130% in our previous scenario) and to 45% for YE25 (from 50% previously). Our policy rate forecasts remain at 40% for both 2024 and 2025.
- Importantly, confidence in the government rebounded in August and remains high, despite the stagflationary scenario.

Sharp decline of activity in 2Q24, but some green shoots appear for 3Q24

Activity declined sequentially in June after a short-lived rebound in May. According to the EMAE (official monthly GDP proxy), activity fell by 0.3% MoM/SA in June after a 0.7% MoM/SA expansion in May. Thus, activity contracted by 1.7% QoQ/SA in 2Q24 (vs. -2.1% QoQ/SA in 1Q24), the third consecutive quarterly sequential decline. On an annual basis, activity fell by 3.9% in June and by 1.4% in 2Q24 (-5.1% YoY in 1Q24). The statistical carryover for 2024 stood at -4.7%. All sectors except agriculture showed declines in 2Q24. Construction activity fell by 23.6% YoY in 2Q24 (vs. -19.7% YoY in 1Q24), affected by the freeze on public works, while manufacturing activity contracted by 16.7% YoY in the same period (vs. a drop of 13.7% YoY in 1Q24). Services (including the commerce sector) fell by 4.8% YoY in the period (vs. -2.4% in 1Q24), likely affected by lower real wages in the same period. On the positive side, primary activities rose by 57.4% YoY in 2Q24 (vs.+9.2% YoY in 1Q24), reflecting the normalization of agriculture after last year's severe drought. However, activity has picked up in 3Q24 according to leading indicators such as personal loans, VAT collection, construction, manufacturing and car sales.

Economic activity. GDP proxy



Source: Indec, Itaú

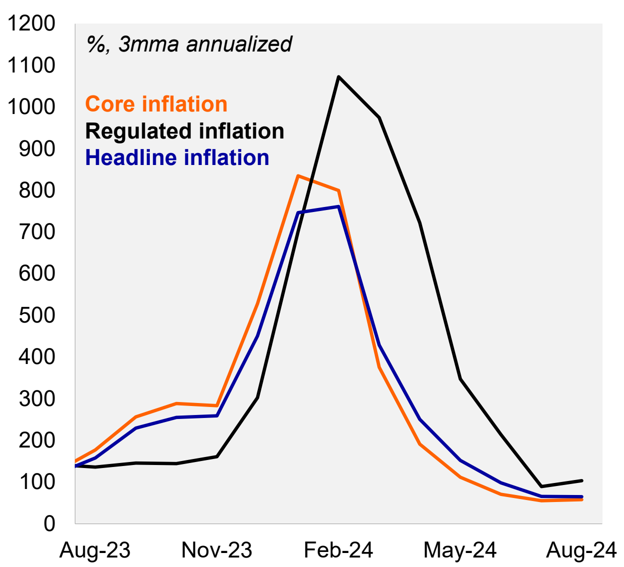
Higher-than-expected inflation in August

According to Argentina's INDEC, consumer prices rose by 4.2% MoM in August, up from 4.0% MoM in the previous month. Annualized quarterly inflation fell to 64.9% for the quarter ended in August, down from 65.3% in July. On an annual basis, inflation declined to 236.7% in August from 263.4% in July. The Eco Go price tracker estimates inflation rates of 3.4% for MoM for September, helped by the reduction of import tariffs and its impact on durable goods. In our view, the real appreciation of the ARS and weaker consumption contributed to the slowdown in monthly inflation. Meanwhile, inflation expectations continue to fall, with analysts surveyed by the central bank expecting 45% inflation over the next 12 months (down from 54% in the previous survey).

Crawling peg until YE24 and beyond?

The government has publicly reaffirmed its intention to maintain the crawling peg policy with a monthly devaluation pace of 2% (despite the significant appreciation of the ARS in 2024), with the main objective of bringing down inflation. Indeed, the real exchange rate has appreciated by 45% since the devaluation in December 2023. In our view, the extension of the crawling peg into next year seems challenging, especially if inflation does not also converge to 2.0% MoM in the near term, given the sizable debt maturities and the expected dynamics of the external accounts, all in a context of still negative net international reserves. Indeed, the Treasury faces USD 4.0 billion of global bond maturities in January 2025, amid the low season for agricultural exports and rising import demand due to the expected recovery of activity and the elimination of import tariffs by YE24. Thus, the Treasury will require net financing in early 2025, and a repo line with banks and financing from multilaterals appears today as the main option.

Inflation

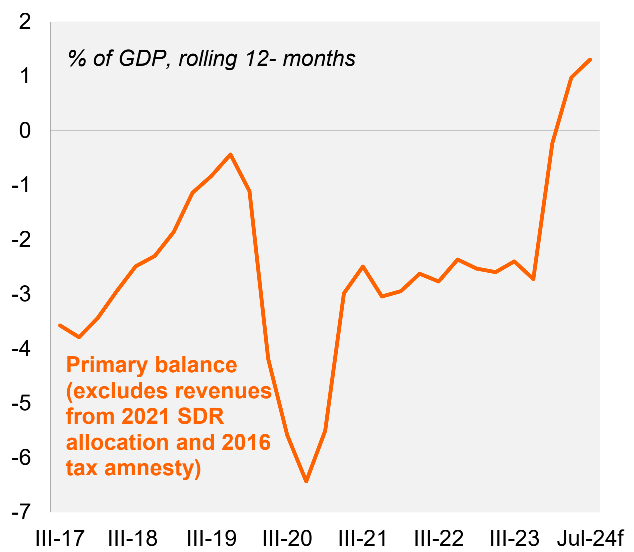


Source: Indec, Itaú

Fiscal framework is the anchor

Fiscal consolidation continues. In July the government posted another primary surplus, while the nominal balance registered a deficit for the first time this year. Thus, the primary balance for the first seven months of the year stood at a surplus of 1.4% of GDP, while the nominal balance stood at a surplus of 0.4% of GDP. Based on these figures, we estimate a consolidated nominal deficit of around 1.4% of GDP for the year to date (including net interest payments by the central bank), narrowing from 5.8% in the same period of 2023. Real tax revenues fell by 7.1% YoY in real terms in the quarter ended in July, affected by weak activity, while primary expenditures fell by 30.9% YoY in real terms over the period.

Primary Balance



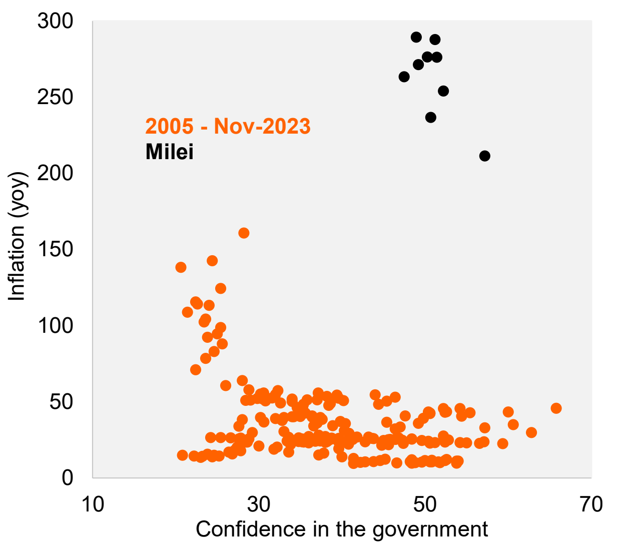
Source: Ministry of Economy, Itaú

Opposition shows its teeth, while Milei's support remains high

A large majority in the Senate approved changes to the pension adjustment formula with a fiscal cost of about 0.4% of GDP for the rest of the year and 1.2% of GDP in 2025. Following approval in Congress, President Milei vetoed the bill, which was later ratified by Congress as the opposition failed to muster a two-thirds majority in the chamber to override the veto. While this was a victory for the government, its minority position in Congress continues to pose challenges for the approval of new laws and progress on structural reforms.

Confidence in the government rebounded in August. According to a survey conducted by Universidad Torcuato di Tella, confidence in the government increased by 6.8% MoM in August after two consecutive monthly declines, rising to 50.7% from 47.5% in July. As a result, confidence in the government is now only 11.4% below its peak in December, when the government took office. Confidence in the government remains elevated despite the stagflationary scenario and erosion in real wages.

Inflation and confidence in the government



Source: Indec, UTDT

Deeper recession and lower inflation

We have revised our 2024 GDP growth forecast to -4.0% (from -3.5% in our previous scenario), mainly due to the sizable negative statistical carryover from 2Q24. For 2025 we envisage a more gradual rebound in economic activity to +3.0% (from +3.5% previously), due to a lower statistical carryover from 2024 and uncertainty on the timing of the lifting of capital controls. All eyes will be on the stabilization and recovery of economic activity in the coming months.

Separately, we have revised our inflation forecast for this year to 125% (from 130%) to account for weaker activity, the recent reduction of import tariffs and the assumption that the central bank will maintain the crawling peg policy through year-end. For 2025, we now expect 45% inflation (down from 50% in our previous scenario). We have revised our nominal exchange rate forecast for YE25 to 1,450 ARS/USD (from 1,500 ARS/USD), which is still stable in real terms. Our policy rate forecasts stand at 40% for both 2024 and 2025.

Andrés Pérez M.
Diego Ciongo
Soledad Castagna

Argentina | Forecasts and Data

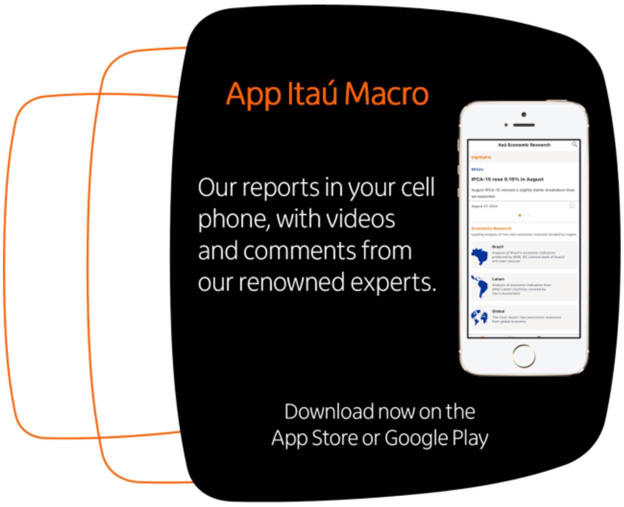
	2019	2020	2021	2022	2023F	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-2.0	-9.9	10.4	5.3	-1.6	**-4.0**	-3.5	**3.0**	3.5
Nominal GDP - USD bn	452.0	385.3	487.3	630.6	597.6	**639.2**	649.7	**771.6**	778.2
Population (millions)	44.9	45.4	45.8	46.2	46.6	**47.1**	47.1	**47.5**	47.5
Per Capita GDP - USD	10,057	8,490	10,640	13,643	12,810	**13,578**	13,667	**16,246**	16,063
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	**125.0**	130.0	**45.0**	50.0
Interest Rate									
Reference rate - eop - %	55.00	38.00	38.00	75.00	100.0	**40.0**	40.0	**40.0**	40.0
Balance of Payments									
ARS / USD - eop	59.90	84.15	102.75	177.10	809	**1030**	1027	**1450**	1500
Trade Balance - USD bn	16.0	12.5	14.8	6.9	-6.9	**15.0**	15.0	**12.0**	15.0
Current Account - % GDP	-0.9	0.9	1.4	-0.7	-3.4	**1.5**	1.5	**0.3**	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	**30.0**	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	**84.5**	83.2	**82.6**	81.4
Net Public Debt - % GDP (***)	57.8	66.9	48.1	48.7	92.6	**46.5**	45.8	**45.9**	45.3

(*) 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

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.