Macro scenario - Argentina

September 19, 2025

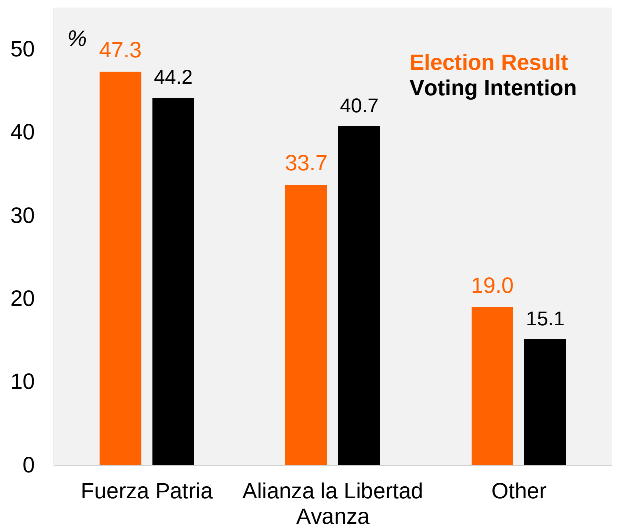
A fork in the road

- The governing coalition suffered a resounding defeat in the mid-term elections in Buenos Aires province, surpassing even most poll predictions. Attention will now turn to how the government manages exchange rate pressure and rising interest rates in the lead up to the national mid-terms on October 26.
- Following a loss in momentum since the end of 1Q25 and a sequential drop in 2Q25, leading indicators for 3Q25 point to a new contraction, likely due to higher interest rates and significant uncertainty regarding exchange rate dynamics. Our 2025 GDP growth forecast was marked down materially to 3.8%, down from 5.0% in our previous scenario. For 2026, we now pencil in GDP growth of 2.5%, from 3.5% in our review last month.
- We now foresee the exchange rate at ARS/USD 1,500 by YE25, with an upside risk due to election-related uncertainty. We forecast 29.5% inflation by YE25, up from 28.5% in our previous scenario, assuming limited passthrough during the rest of the year.

An election upset

The governing coalition suffered a resounding defeat in the provincial elections of Buenos Aires, which accounts for a sizable share of the national vote (37%). The opposition coalition "Fuerza Patria" (Kirchnerism + Peronism) won the election with 47.3% of the vote, followed by the governing coalition's "Alianza La Libertad Avanza" (La Libertad Avanza + PRO party) at 33.7%. At 14pp, the margin in favor of the winning coalition was significantly wider than the mid-single digits estimated by polls. The weaker-than-expected result for the governing coalition comes as surveys show confidence in the administration has gradually edged down, domestic interest rates have spiked, and the currency has depreciated. Economic activity has broadly underwhelmed for several months, leading to persistent downgrades in GDP growth forecasts. Now all eyes are squarely focused on the national legislative elections for the rest of the country, scheduled for October 26.

Result in Province of Buenos Aires



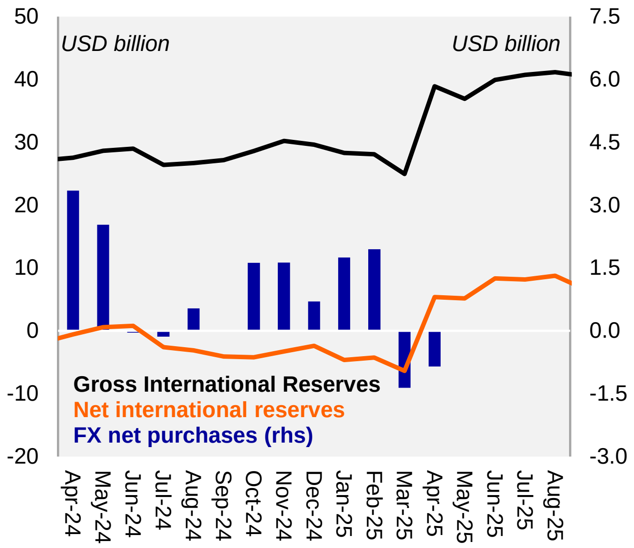
Source: Itaú based on several surveys

Markets bite the dust

Argentine assets suffered in the aftermath of the BA election. The country's risk premium (EMBI) reached 1,200 bps, the highest since Liberation Day in April. The exchange rate was also under pressure even before the election, leading the Treasury to intervene by selling dollars from its own USD deposits, with a view towards improving liquidity and stabilizing the market. Meanwhile, the central bank announced several incremental adjustments to bank reserve requirements.

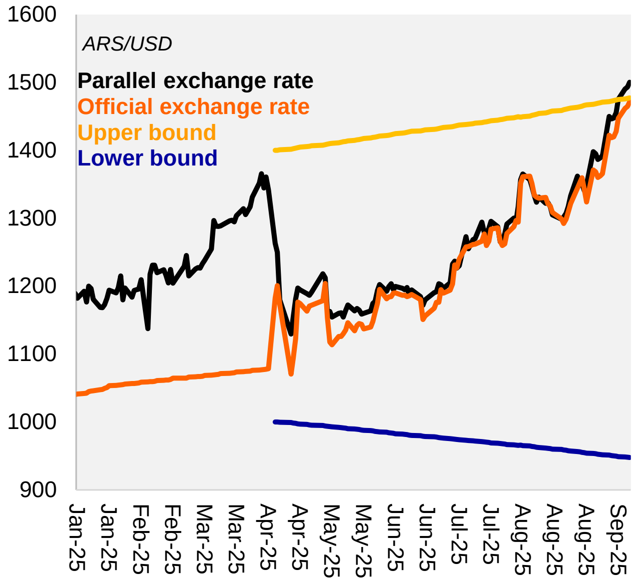
The BCRA also sold USD in the spot market as the nominal exchange rate reached the upper bound of the exchange rate regime (currently at ARS/USD 1,475). The question now is how much the Central Bank is willing to spend to defend the ARS given the scarcity of international reserves (gross reserves at USD 39.4 billion and net at USD 5.7 billion according to our estimate).

International reserves



Source: BCRA

Exchange rate market



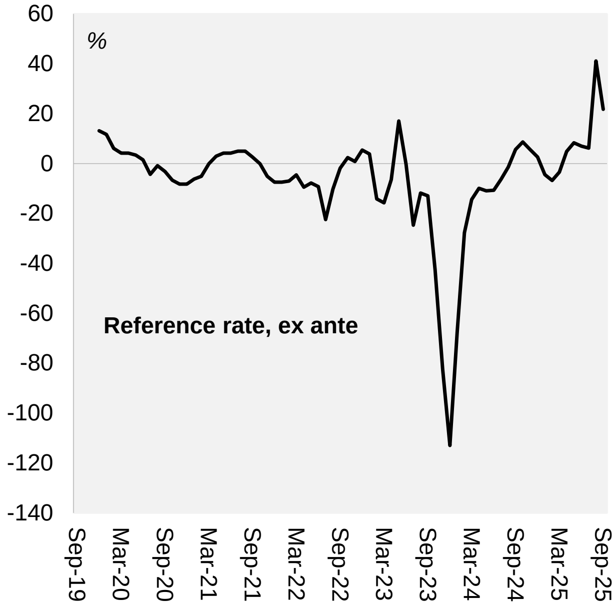
Source: BCRA and Bloomberg

No free lunch

Buying time with carry trade. The authorities face challenging trade-offs between defending the ceiling of the currency band amid scarce resources and already elevated domestic interest rates, which are required to guarantee the rollover of treasury notes yet dampen the activity outlook. Nominal domestic rates are at around 4.0% MoM, with expected inflation at 1.7% on average for the next three months, according to a central bank survey. These rates help to contain pressures in the exchange rate market. However, there is a drag on credit, and, sooner rather than later, on activity. Total loans decelerated significantly in 3Q25, with a 0.1% MoM increase in real terms in August compared to +1.9% in July and 3.6% MoM in June.

More signals of weak activity besides credit. Leading indicators such as manufacturing and construction declined sequentially in July (-2.3% MoM/SA and -1.8% MoM/SA, respectively), while tax collection dropped 2.0% year-over-year in real terms in August. On the other hand, according to the Universidad Torcuato Di Tella's monthly index, consumer confidence fell by 13.9% MoM in August driven by worsening macroeconomic prospects and reduced willingness to purchase durable goods and real estate.

Real interest rates



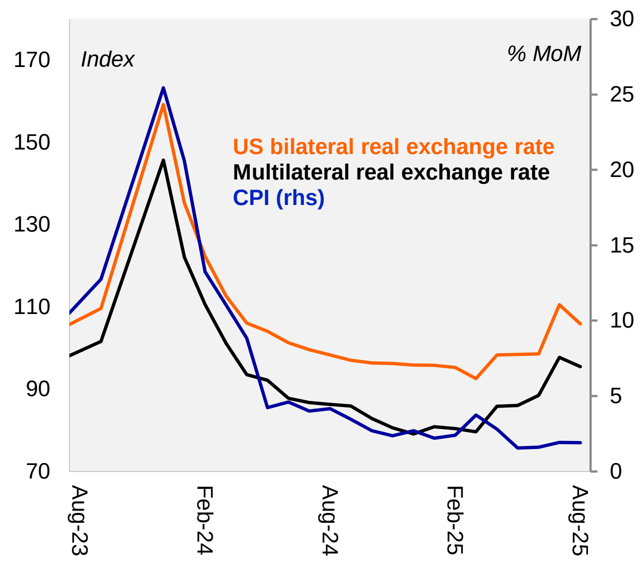
Source: Central Bank and INDEC

A bright spot (so far…): inflation hasn't accelerated despite the FX depreciation

Inflation rose by 1.9% MoM in August, repeating the pace from the previous month. The figure shows a limited passthrough as the ARS accumulated an 11% nominal depreciation against the USD in the last two months. On an annual basis, inflation declined to 33.6% from 36.6% in July, supported by an annual base effect. Annualized quarterly inflation in August rose to 24.0%, up from 22.3% in the previous month.

Waiting for the reaction of inflation expectations. The latest monthly survey published by the central bank suggests that monthly inflation is likely to range between 1.6% and 1.8% from September to December. However, this survey was published before recent ARS depreciation after the BA election. In our view, given recent events, the pass-through should be limited, aided by weaker economic activity and high real interest rates.

Real exchange rate



Source: BCRA and INDEC

Shuffle and deal again after the national mid-term elections

The end October national mid-term election represents a turning point for our scenario. A positive result for the forces supporting economic reform could boost market confidence. Conversely, an unfavorable outcome, similar to that observed in the BA election, could result in financial volatility, a delay in much-needed investment, and an even weaker growth outlook for 2025 and 2026.

Reserve accumulation to reach the IMF program's quantitative targets, coupled with the need to eventually reduce current local interest rates, will likely lead to a weaker ARS. Therefore, we now forecast the exchange rate at ARS/USD 1,500 and inflation at 29.5% (compared to ARS/USD 1,400 and 28.5% in our previous scenario), assuming a contained pass-through for the rest of the year. We now foresee the interest rate (wholesale rate TAMAR) at 45% by YE25, up from 35.0% in our previous scenario, but still below the current level of 60%.

In light of the recent pressure on the spot market and the BCRA's record daily sales to contain a further depreciation of the ARS, we cannot rule out changes to the current exchange rate regime before the mid-term October elections.

The damage has already been done. Activity fell sequentially in 2Q25 and will enter in a technical recession in 3Q25 according to the weak performance of leading indicators and the impact of high real interest rates on consumption amid political turmoil. Consequently, we have revised our GDP growth forecast for this year downward to 3.8% from 5.0% in our previous scenario. The low carryover for 2026 also leads us to revise our GDP growth forecast for 2026 downward to 2.5%, down from 3.5% in our previous scenario.

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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	**3.8**	5.0	**2.5**	3.5
Nominal GDP - USD bn	385.3	487.3	632.3	602.7	632.2	**690.3**	718.3	**630.8**	695.0
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	**14,542**	15,130	**13,176**	14,517
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	7.2	**7.2**	7.0	**7.5**	7.0
Inflation									
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	**29.5**	28.5	**20.0**	20.0
Interest Rate									
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	**45.0**	35.0	**35.0**	25.0
Balance of Payments									
ARS / USD - eop	84.15	102.75	177.10	809	1033	**1500**	1400	**1800**	1630
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**	-1.9	**-2.5**	-2.5
Foreign Direct Investment - % GDP	1.1	1.4	2.4	4.0	1.8	**2.0**	2.0	**3.0**	3.0
International Reserves - USD bn	39.3	39.6	44.6	23.1	29.6	**40.0**	40.0	**45.0**	45.0
Public Finances									
Primary Balance - % GDP (**)	-6.5	-3.0	-2.4	-2.7	1.8	**1.5**	1.6	**1.5**	2.2
Nominal Balance - % GDP (**)	-8.5	-4.5	-4.2	-4.4	0.3	**0.3**	0.3	**0.3**	0.0
Gross Public Debt - % GDP	108.0	82.8	87.7	161.9	85.4	**84.4**	83.0	**83.4**	81.3
Net Public Debt - % GDP (***)	66.4	48.1	48.7	91.8	47.1	**47.5**	46.7	**47.4**	46.2

(*) 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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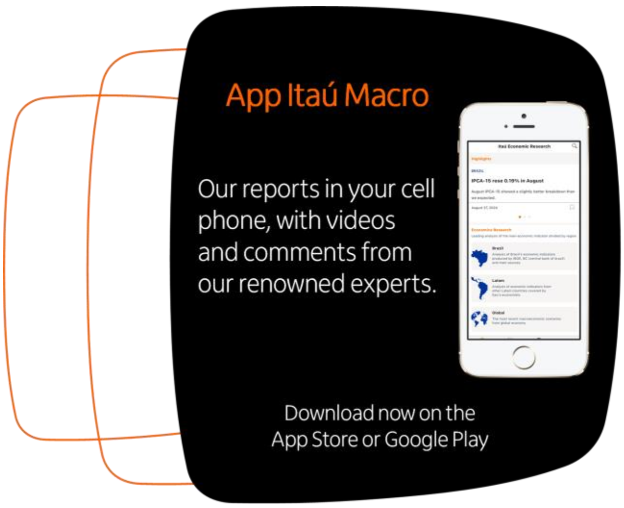

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