

Macroeconomic Research
Macro Scenario – Argentina
December 2024

Argentina: So far, so good ... a better outlook for 2025

1. Activity rebounded sequentially in 3Q24

- The monthly GDP proxy (SA) in September finally exceeded December 2023 levels.

2. Disinflation continues

- Annual inflation decelerates, supported by the appreciation of the ARS.

3. Exchange rate and international reserves

- The spread between the official exchange rate and the blue-chip swap has declined to below 10%.

4. Fiscal surpluses continued at the beginning of 4Q24

- The primary balance during the first ten months of the year reached a surplus of 1.8% of GDP.

5. Confidence in the government edges higher

- Polls show that confidence in the government remains high, despite the severe macro adjustment.

6. Scenario

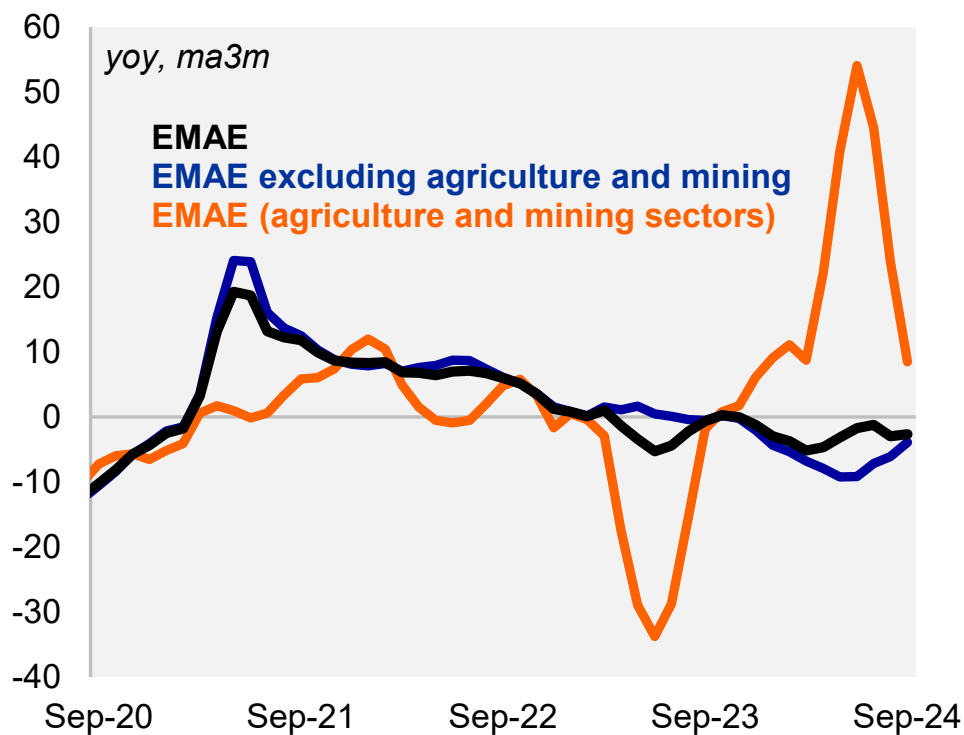
- We forecast a slowdown in the crawling peg policy from January 2025, contributing to lower both inflation and interest rates, at the expense of further real appreciation of the currency.

1. Activity rebounded sequentially in 3Q24

The monthly GDP proxy (SA) in September finally exceeded December 2023 levels.

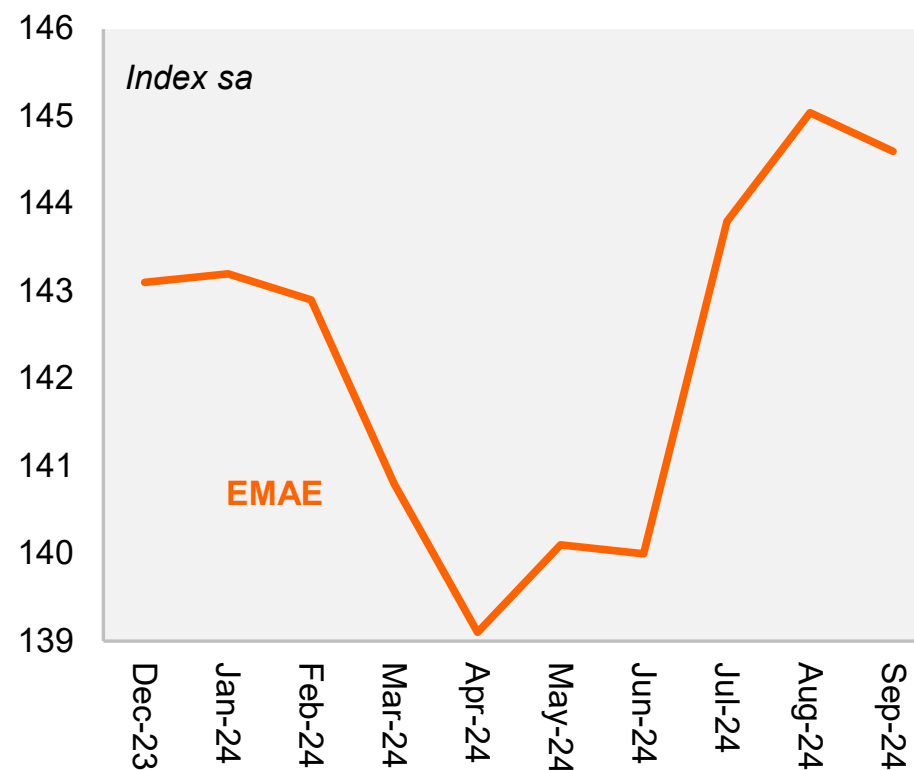
- Following several quarters of recession, economic activity has stabilized and begins to gradually pick up.
- On the demand-side, private consumption is supporting growth, driven by the recovery of real wages at the margin, while on the supply side, manufacturing and construction both expanded by around 10% QoQ/SA in 3Q24.

Economic Activity by Sectors



Source: INDEC

Recovering lost ground



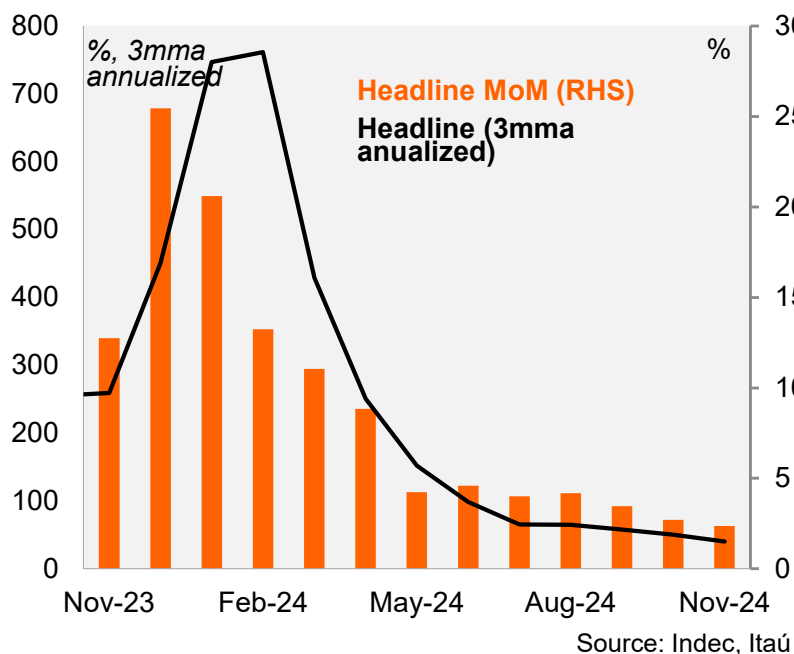
Source: INDEC

2. Disinflation continues

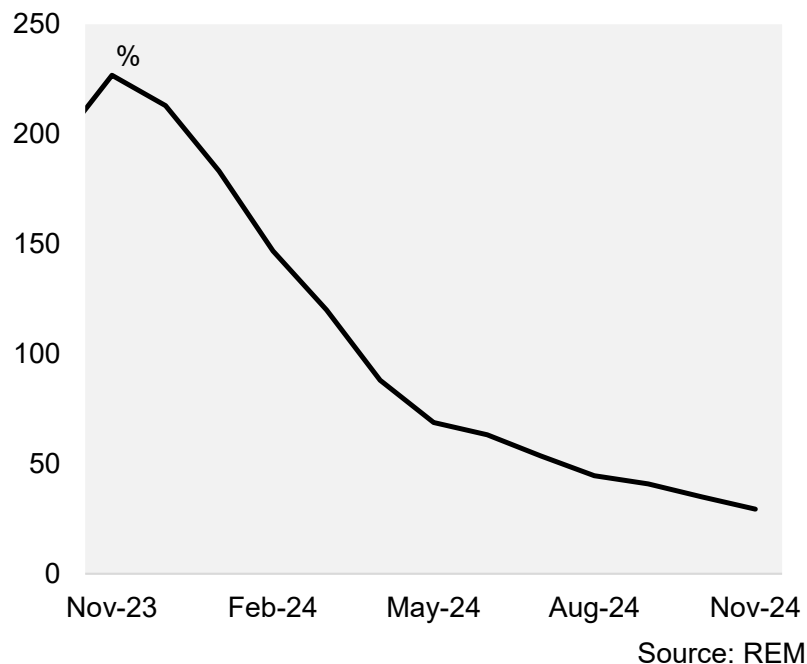
Annual inflation decelerates, supported by the appreciation of the ARS.

- In November, consumer prices rose by 2.4% MoM (from 2.7% in October) helped by the crawling peg policy. The 3mma annualized reading falls to 40%, from a peak of 760% in February 2024.
- The Central Bank cut the monetary policy rate by 300 bps to 32% in December, amid lower inflation expectations.

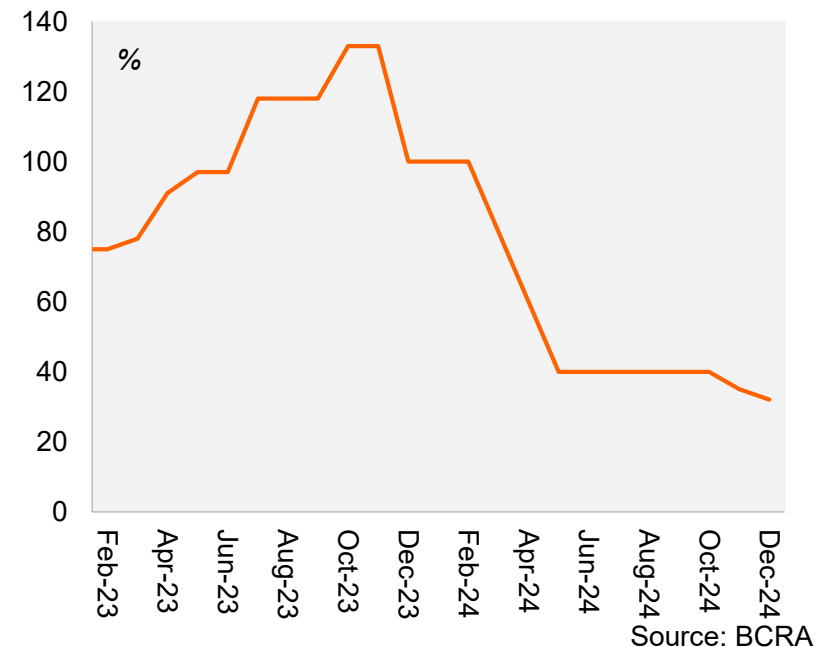
Inflation



12-month inflation expectation



Monetary policy rate

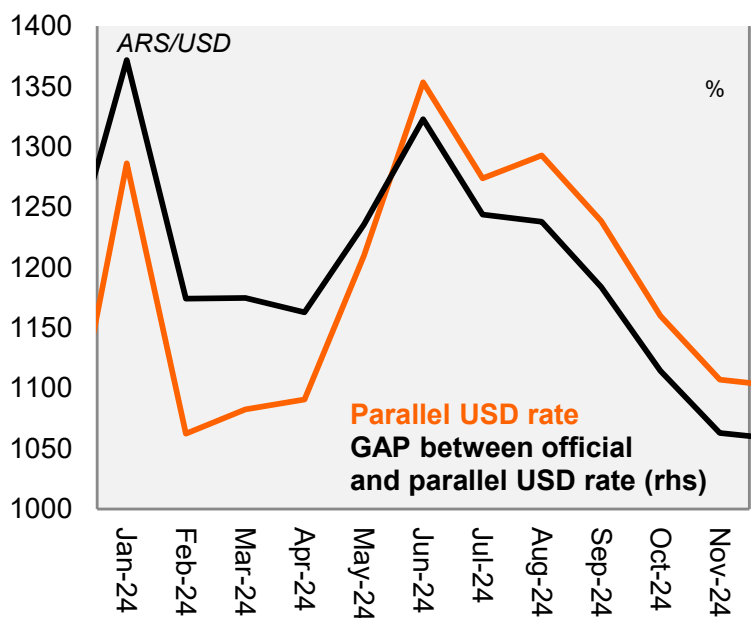


3. Exchange rate and international reserves

The spread between the official exchange rate and the blue-chip swap has declined to below 10%.

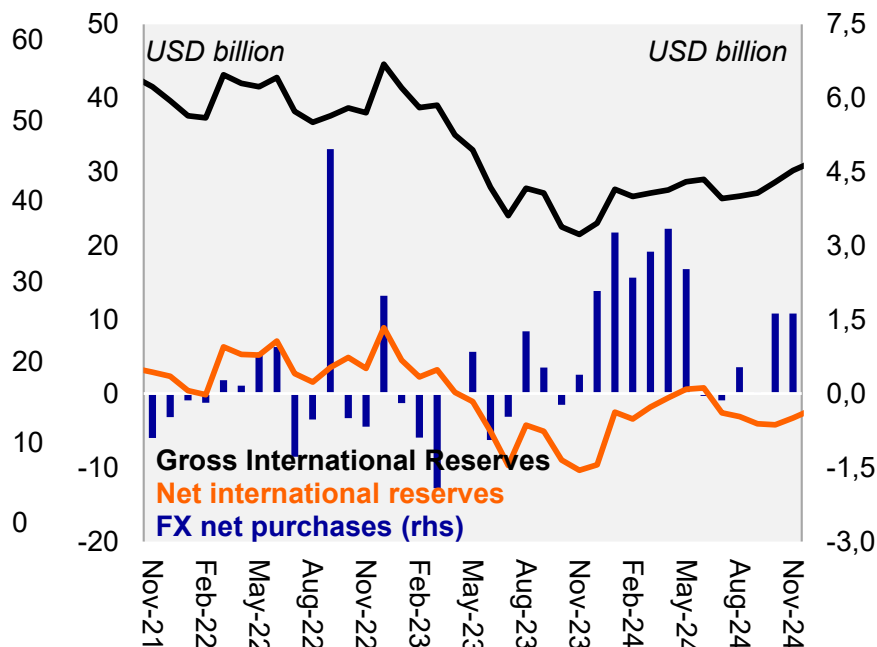
- Domestic interest rates at around 3% mom (treasury bills), with a crawling peg running at 2.0% contribute to reducing pressure on the exchange rate due to the carry trade.
- Net reserves remains negative, but the CB is purchasing USD despite the strong appreciation of the ARS in real terms.

Parallel exchange rate market



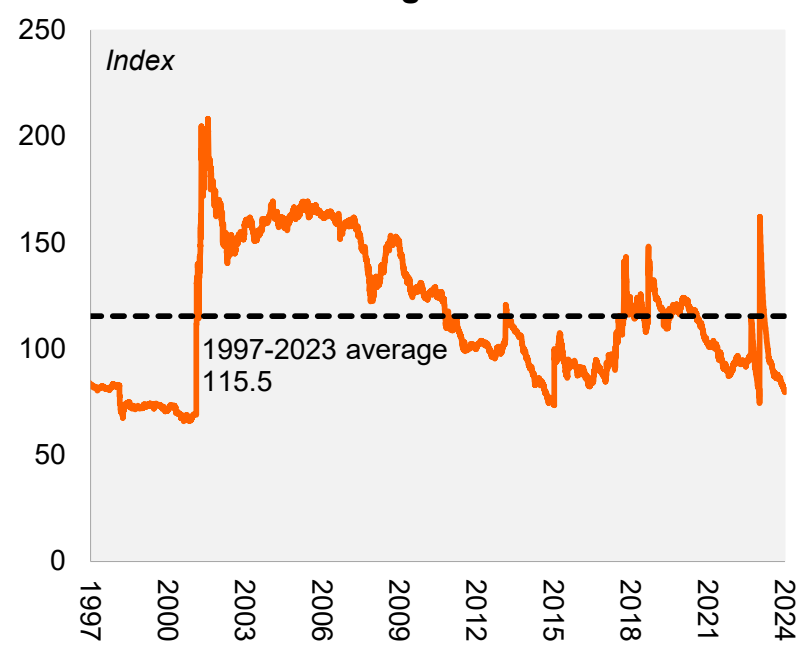
Source: BCRA and Bloomberg

International reserves



Source: BCRA

Multilateral real exchange rate



Source: BCRA

4. Fiscal surpluses continued at the beginning of 4Q24

Fiscal surplus in the first ten months of the year

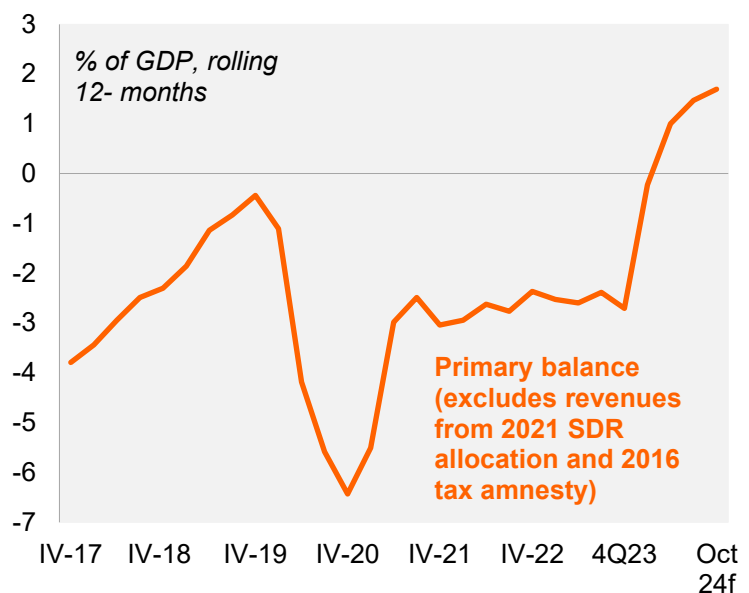
- The primary balance during the first ten months of the year reached a surplus of 1.8% of GDP, while the nominal balance stood at +0.5% of GDP. The improvement in fiscal accounts this year has been mainly driven by a massive and unprecedented expenditure contraction.
- Argentine risk assets reflect the improvement, with the EMBI+ falling sharply (750 bps from a peak of 2500 by YE23).

Fiscal accounts January-October 2024

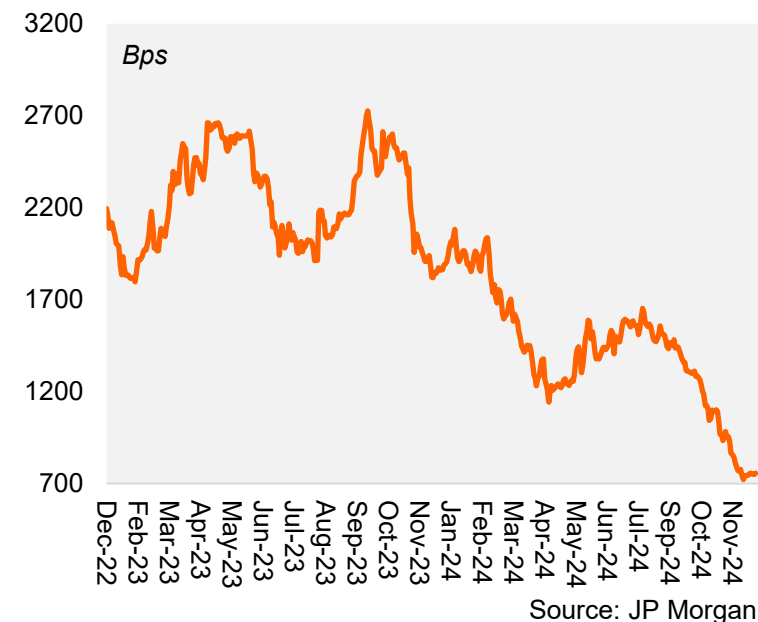
Primary expenditures (YoY, in real terms)	-28.1
.Social security (pensions and assist. to families)	-18.5
.Subsidies	-30.3
.Payroll	-19.2
.Capital expenditures	-77.6
.Transfers to provinces	-67.5

Source: Indec and Mecon

Primary Balance



Argentina Embi +

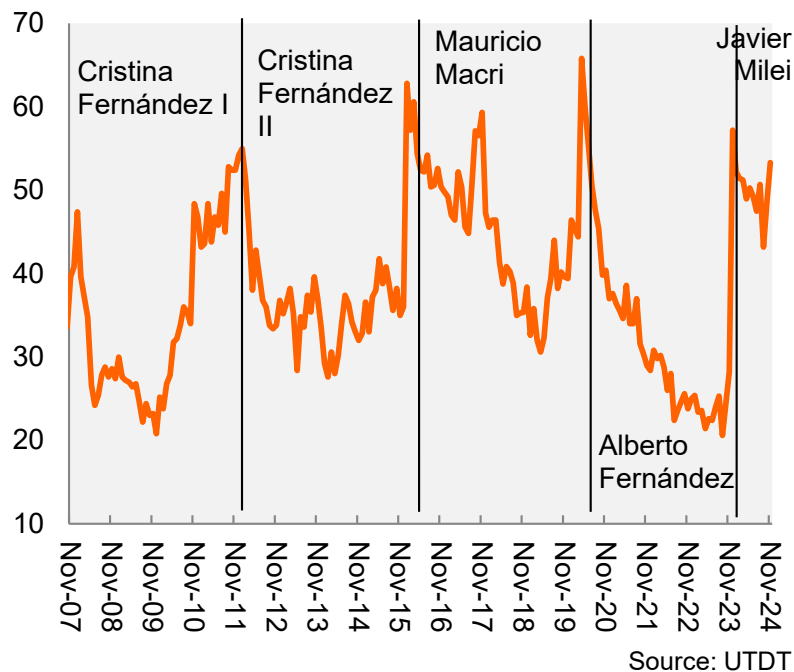


5. Against all odds: Confidence in the government edges higher

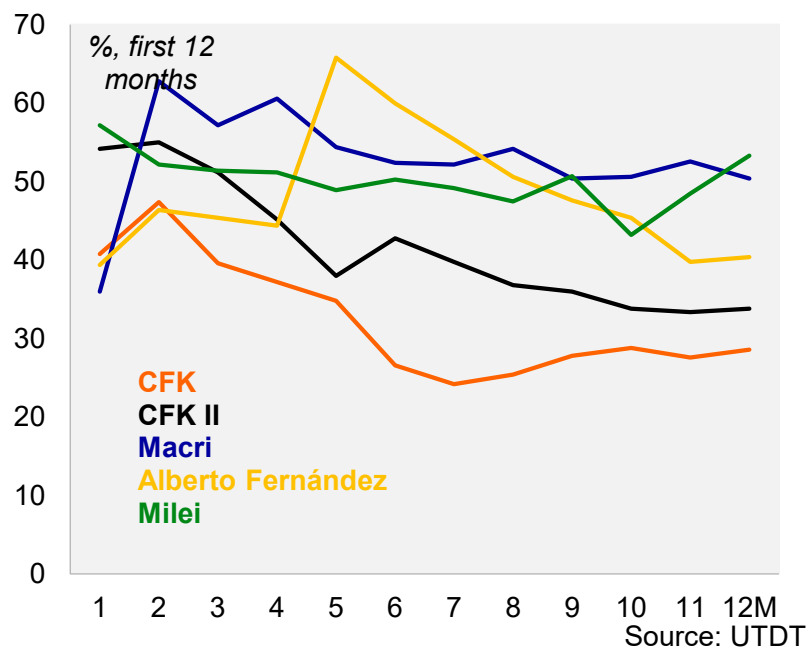
Confidence in the government reached 53.3% in November.

- Confidence in the government rose to 53.3% in November, up from 48.5% in October and only 6.8% below its peak when the government took office in December 2023.
- Households expect better days ahead... According to the survey, 85.2% of those surveyed expect the economy to improve over the next 12 months, the highest level since Milei took office.

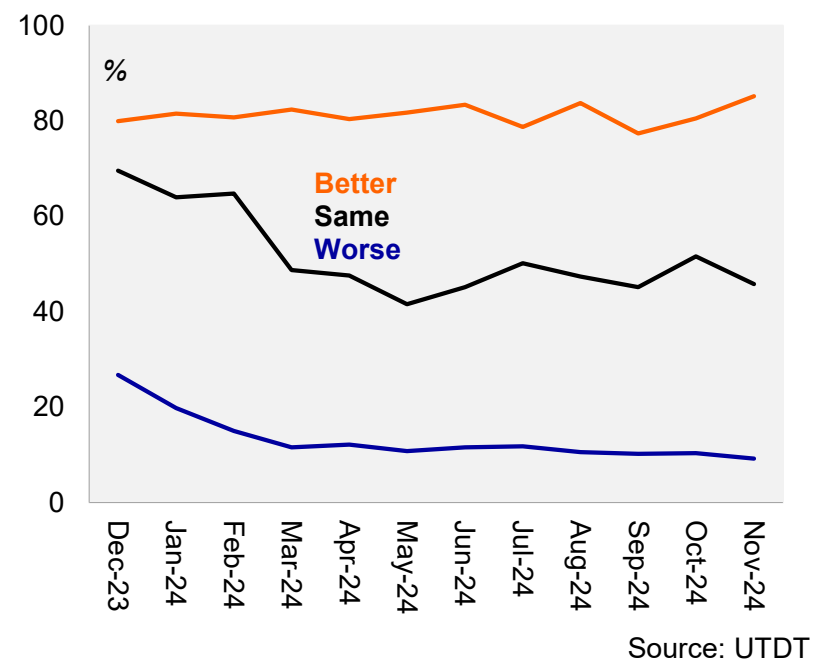
Confidence on the Government Index



Confidence in the government



One-year economic outlook



6. Argentina | Forecast

	2019	2020	2021	2022	2023F	2024F		2025F		2026F
						Current	Previous	Current	Previous	Current
Economic Activity										
Real GDP growth - %	-2.0	-9.9	10.4	5.3	-1.6	-3.0	-3.5	4.2	4.0	3.0
Nominal GDP - USD bn	452.0	385.3	487.3	630.6	597.6	637.3	634.7	775.6	750.4	823.0
Population (millions)	44.9	45.4	45.8	46.2	46.6	47.1	47.1	47.5	47.5	47.9
Per Capita GDP - USD	10,057	8,490	10,640	13,643	12,810	14	13,484	16	15,800	17
Unemployment Rate - year avg	9.8	11.6	8.8	6.8	6.1	8.2	8.2	8.0	8.0	7.8
Inflation										
CPI - % (*)	53.8	36.1	50.9	94.8	211.4	120.0	120.0	30.0	35.0	20.0
Interest Rate										
Reference rate - eop - %	55.00	38.00	38.00	75.00	100.0	32.0	30.0	25.0	30.0	20.0
Balance of Payments										
ARS / USD - eop	59.90	84.15	102.75	177.10	809	1032	1030	1235	1350	1445
Trade Balance - USD bn	16.0	12.5	14.8	6.9	-6.9	17.0	17.0	12.0	12.0	15.0
Current Account - % GDP	-0.9	0.9	1.4	-0.7	-3.4	0.6	1.6	-0.5	0.3	-1.0
Foreign Direct Investment - % GDP	1.5	1.1	1.4	2.4	3.8	1.0	1.0	2.0	2.0	3.0
International Reserves - USD bn	44.8	39.3	39.6	44.6	23.1	31.5	30.5	33.0	31.5	34.0
Public Finances										
Primary Balance - % GDP (**)	-0.4	-6.5	-3.0	-2.4	-2.7	1.5	1.5	1.3	1.3	1.3
Nominal Balance - % GDP (**)	-3.8	-8.5	-4.5	-4.2	-4.4	0.0	0.0	0.0	0.0	0.0
Gross Public Debt - % GDP	93.8	108.7	82.8	87.7	163.3	81.4	83.9	79.7	82.1	78.4
Net Public Debt - % GDP (***)	57.8	66.9	48.1	48.7	92.6	44.8	46.2	44.3	45.7	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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