Macro scenario - Argentina

October 10, 2025

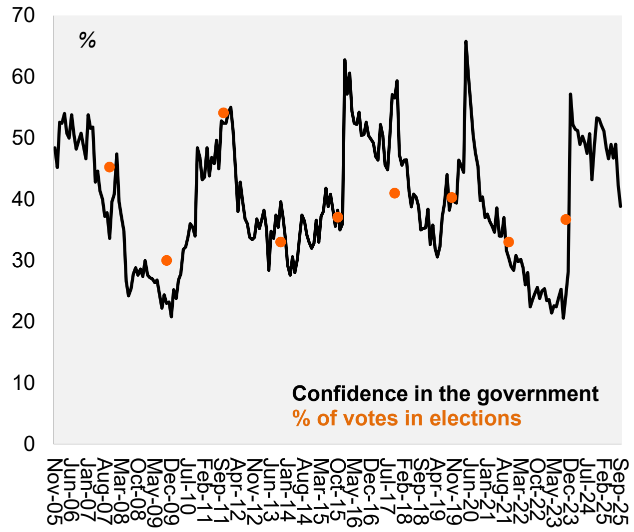
Tick tock, tick tock, to the election

- All eyes are on the national midterm elections on October 26. We now forecast the exchange rate to be ARS/USD 1,600 by YE25, compared to 1,500 in our previous scenario. Consequently, we foresee inflation reaching 30.5% by YE25, up from 29.5% previously, assuming a limited pass-through for the remainder of the year.
- We left our GDP growth forecasts for 2025 and 2026 at 3.8% and 2.5%, respectively. Ongoing weakness in leading indicators and high real interest rates are likely to weigh on activity through 4Q25, placing headwinds to growth for 2026.

Financial volatility increases as the national midterms approach

Following the midterm election in Buenos Aires province, where the opposition coalition defeated the government coalition, all eyes are now on the midterm election scheduled for October 26. Half of the lower house and a third of the senate will be renewed. Although the government is likely to strengthen its position in both chambers because few of its seats are up for renewal (see table below), the focus will be on how close it comes to achieving a simple majority with the support of allies. Importantly, the key threshold for the incumbent is achieving a third of both chambers, which would allow it to continue using emergency decrees and potentially maintain the government's vetoes on opposition proposals conflicting with the government agenda. Elections take place as confidence in the government has slipped in recent months.

Confidence in the government and performance of the incumbent in the elections



Source: Itaú and UTDT

Composition of the Congress

	Lower Chamber			Senate		
	Seats	%	to be renewed	Seats	%	to be renewed
Unión por la Patria	98	38	46	34	47	15
La Libertad avanza	**44**	17	12	**6**	8	
PRO	35	14	21	7	10	2
UCR	26	10	20	13	18	4
Provincial parties	40	16	17	7	10	2
Left	5	2	4			
Rest	9	4	7	5	7	1
Total	**257**	**100**	**127**	**72**	**100**	**24**
Quorum	**129**	**50**		**37**	**51**	

Source: Itaú

U.S. to the rescue

U.S. Treasury Secretary Scott Bessent announced strong, unprecedented support for Argentina. Options on the table include a standby line from the Exchange Stabilization Fund (ESF), a currency swap for USD 20 billion (a similar amount to what the Central Bank of Argentina has with the People's Bank of China), and the repurchase of Argentina's sovereign bonds in the primary or secondary market. While the conditions from the Treasury are still unknown, details should be announced prior to the midterms. Meanwhile, pressure on the currency market and volatility are prominent, leading the central bank to

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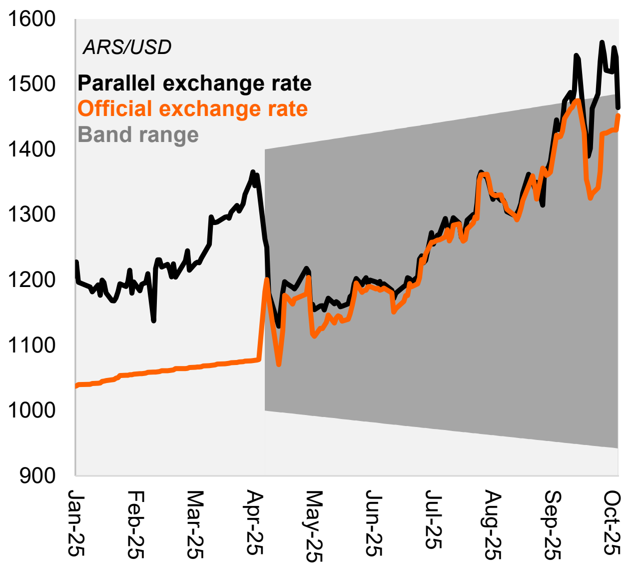
restore certain exchange rate controls, triggering a widening of the spread between the official and parallel FX rates. In fact, the government continues to defend the exchange regime through USD sales from the Treasury and the central bank to prevent the exchange rate from breaching the ceiling of the band (currently at ARS/USD 1,485), despite a temporary reduction in agro exports that led the BCRA to purchase USD 2.2 billion out of a total of USD 6.3 billion liquidated by exporters. However, the question remains as to how much the Central Bank is willing to spend to defend the ceiling, given the scarcity of international reserves (gross reserves at USD 42 billion and net at USD 8.5 billion, according to our estimate). Recent confirmation of ARS purchases by the U.S. Treasury are a strong first sign of the program.

Exchange rate market



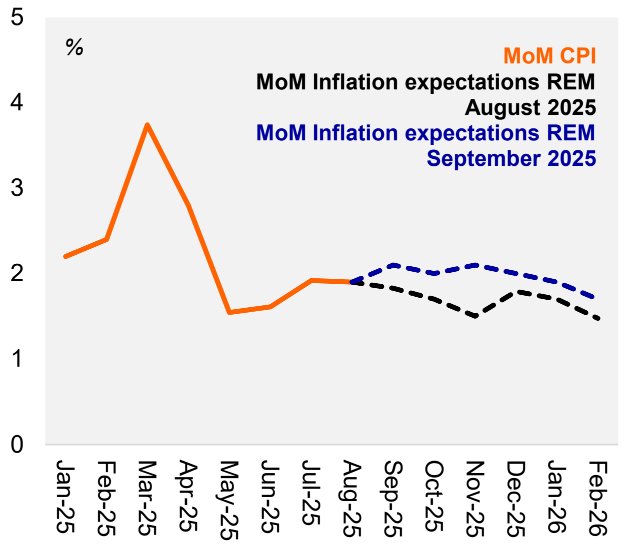
Source: BCRA, Bloomberg

A recession in sight

According to the EMAE (official monthly GDP proxy), activity fell slightly by 0.1% MoM/SA in July, following two consecutive sequential monthly contractions. Consequently, activity contracted by 0.5% QoQ/SA in the quarter ended in July, following a 0.1% decline in 2Q25. In parallel, leading activity indicators for 3Q25 suggest the activity outlook remains challenging. Inflation adjusted loans in ARS decreased by approximately 1.5% MoM in September, marking the second consecutive drop, while consumer confidence dropped by 0.3% MoM in September, following a 13.9% MoM decline in August. Following the sequential drop in 2Q25, a “technical” recession is likely in 3Q25.

Inflation expectations jolt. Following the financial turmoil of recent weeks, survey-based monthly inflation expectations jumped to a range between 2.0-2.1% from September to December, from 1.5-1.8% in the previous survey. In our view, exchange rate pass-through to inflation should be limited in the near term, given weak economic activity. In fact, August CPI rose by 1.9% MoM, repeating the pace from July. On an annual basis, inflation declined to 33.6% from 36.6% in July, supported by an annual base effect. However, annualized quarterly inflation in August rose to 24.0%, up from 22.3% in the previous month.

Month-over-month inflation expectations



Source: REM

FX and inflation revised higher

Although support from the US Treasury should stabilize the currency market rapidly, we expect a weaker ARS by the end of the year in order to encourage USD purchase and consequently rebuild international reserves. Credible commitment of large US financial support to Argentina is critical. The current country’s risk level (1,000 bps according to EMBI) delays the ability to tap global markets in the near term. Therefore, given sizable dollar-denominated maturities in 2026 and yearend IMF quantitative targets, reserve accumulation becomes a priority.

We now forecast the exchange rate at ARS/USD 1,600 by YE25, compared to ARS/USD 1,500 in our previous scenario, above the current upper bound set at ARS/USD 1,527 for that period. Consequently, we now foresee inflation at 30.5% by YE25, up from 29.5% previously, assuming a limited pass-through for the rest of the year. We still expect the interest rate (wholesale rate TAMAR) to be at 45% by YE25. We cannot rule out changes in the monetary policy framework, where the BCRA might return to setting a policy rate in addition to controlling monetary aggregates.

Finally, we maintained our GDP growth forecasts for 2025 and 2026 at 3.8% and 2.5%, respectively. Ongoing weakness in leading indicators and high real interest rates are likely to weigh on activity through 4Q25, placing headwinds to growth for 2026.

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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**	3.8	**2.5**	2.5
Nominal GDP - USD bn	385.3	487.3	632.3	602.7	632.2	**684.8**	690.3	**594.7**	630.8
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	**14,426**	14,542	**12,423**	13,176
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	7.2	**7.2**	7.2	**7.5**	7.5
Inflation									
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	**30.5**	29.5	**20.0**	20.0
Interest Rate									
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	**45.0**	45.0	**35.0**	35.0
Balance of Payments									
ARS / USD - eop	84.15	102.75	177.10	809	1033	**1600**	1500	**1900**	1800
Trade Balance - USD bn	12.5	14.8	6.9	-6.9	18.9	**8.0**	8.0	**10.0**	8.0
Current Account - % GDP	0.9	1.4	-0.7	-3.5	1.0	**-1.9**	-1.9	**-2.1**	-2.5
Foreign Direct Investment - % GDP	1.1	1.4	2.4	4.0	1.8	**1.5**	2.0	**2.0**	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**	1.5	**1.5**	1.5
Nominal Balance - % GDP (**)	-8.5	-4.5	-4.2	-4.4	0.3	**0.3**	0.3	**0.3**	0.3
Gross Public Debt - % GDP	108.0	82.8	87.7	161.9	85.4	**84.4**	84.4	**83.4**	83.4
Net Public Debt - % GDP (***)	66.4	48.1	48.7	91.8	47.1	**47.5**	47.5	**47.4**	47.4

(*) 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

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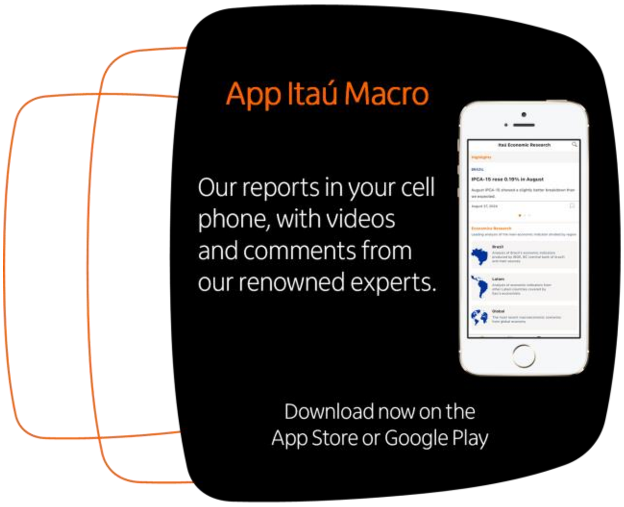

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