Macro scenario - Argentina

March 17, 2025

Navigating political noise

- We are penciling in a strong GDP recovery for Argentina this year, supported by a high carryover and the recovery in real wages, among other factors. We forecast 2025 GDP growth of 4.5%, with upside risks.
- Annual inflation will likely fall sharply this year due to base effects and currency appreciation. We envisage inflation ending 2025 at 25%, down from 117% in YE24.
- Political noise has increased following the cryptocurrency scandal and is likely to remain high this year as the October midterm elections approach. Meanwhile, the government has opted for an emergency decree to approve a new program with the IMF, bypassing congressional approval.

Waiting for the agreement with the IMF

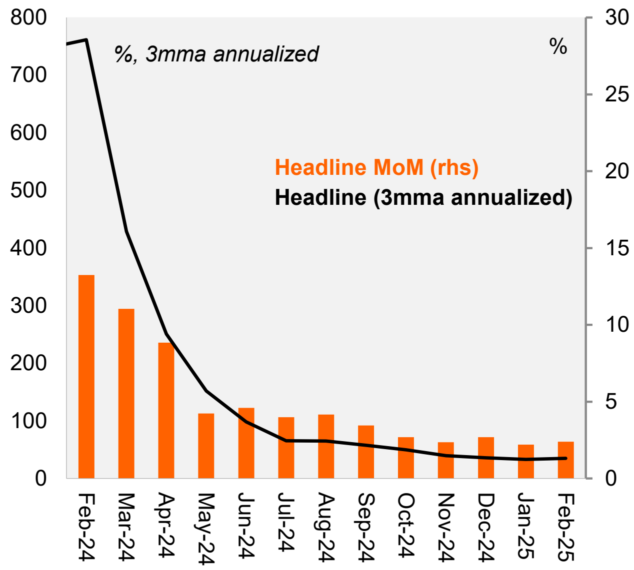
Argentine law requires that agreements with institutions such as the IMF need to be approved by Congress. The government opted, instead, to approve a new IMF program via an emergency decree. While details on the program's amount, disbursement schedule, and conditions have yet to be disclosed, the decree calls for the strengthening of the central bank's balance sheet, continuing the disinflation process and lifting foreign exchange restrictions. The emergency decree has the force of law and remains in effect unless both the Chamber of Deputies and the Senate reject it, which is unlikely, in our view. The probability of a new agreement has therefore increased significantly, but the decision to bypass Congress suggests that it may not have broad support from the political establishment.

Changes in the path to the midterm elections. The Senate approved the suspension of this year's primaries (originally scheduled for August 3), following the Lower House´s approval. As a result, the midterm elections (October 26) will renew half of the seats in the Lower House and one-third of the Senate. The suspension of the primaries was another win for the government; it will reduce fiscal costs and shorten the electoral calendar by moving the deadline for establishing alliances to August from May. The bill's approval was also a victory for the government in the aftermath of the cryptocurrency scandal, although polls show the scandal having a limited impact on Milei's support so far.

Temporary rebound in monthly inflation

Consumer prices rose by 2.4% MoM in February, up from 2.2% MoM in January. The print was slightly above the central bank survey median of 2.3% MoM. On an annual basis, inflation declined to 66.9%, from 84.5% in January helped by an annual base effect. Annualized quarterly inflation in February rose to 33.4%, up from 33.2% in the previous month. Locking ahead, we expect the slower pace of the crawling peg (1% since February) to contribute to the disinflation process this year, but the outcome of the wage negotiations in the coming *paritarias* will also be a key factor.

Inflation

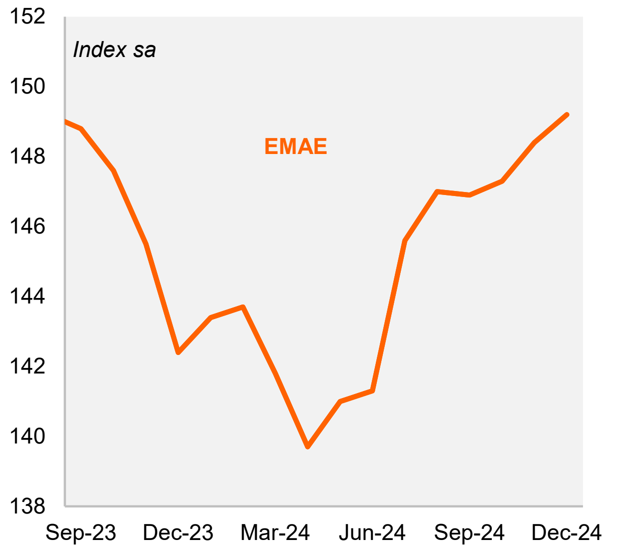


Source: Indec, Itaú

2024 activity ended on a high note

Activity rose sequentially in 4Q24, marking the second consecutive quarterly gain. According to the EMAE (official monthly GDP proxy), economic activity increased by 0.5% MoM/SA in December, following a 0.7% MoM/SA gain in November. Thus, activity increased by 1.2% QoQ/SA in December after growing by 4.1% QoQ/SA in September. On an annual basis, activity rose by 5.5% yoy in December and by 1.7% yoy in 4Q24 (vs. -2.1% yoy in 3Q24). The seasonally adjusted GDP proxy exceeded the level of December 2023, leaving the recession behind and leading to a very high statistical carryover of 2.6% for 2025.

A V-shaped recovery

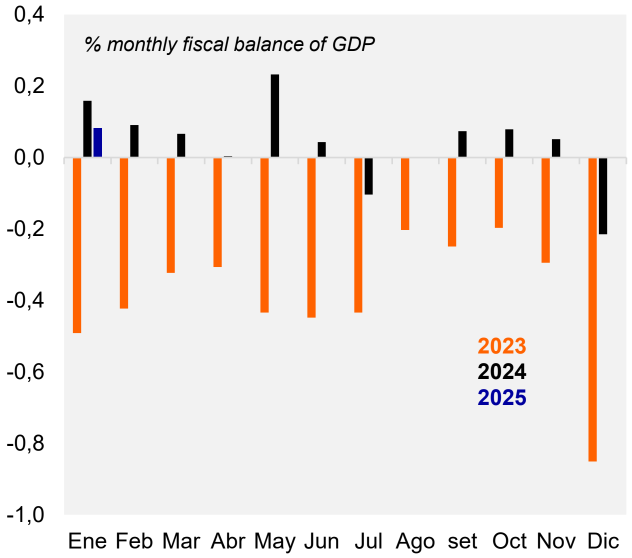


Source: Indec, Itaú

A fiscal surplus to start 2025

Argentina's treasury ran a primary surplus of 0.3% of GDP in January, while the nominal balance stood at +0.1% of GDP. Total real revenues decreased by 2.1% yoy in January (-3.9% yoy in 4Q24), while tax collection rose by 0.1% yoy in real terms after growing by 3.9% in 4Q24, affected by the poor performance of foreign trade taxes. On the other hand, primary expenditures increased by 13.5% yoy in real terms in January after falling by 22.1% yoy in 4Q24. The growth in spending is mainly due to a base effect, as in January of last year expenditure fell by 39% yoy in real terms in the current government's first month in office.

Fiscal balance



Source: Ministry of Economy, Itaú

Time to harvest

We forecast 2025 GDP growth at 4.5%, with upside risks due to a high carryover. On the demand side, the recovery in real wages and lower borrowing rates are likely to support private consumption. On the supply side, drought concerns have eased with the arrival of timely rains.

Inflation is likely to decline significantly this year, supported by base effects and the appreciation of the ARS. Our scenario assumes inflation ending 2025 at 25% yoy, well below last year's 117.8%. The current crawling-peg policy is likely to remain in place for the rest of the year, thanks to IMF support, resulting in a nominal exchange rate of 1,175 ARS/USD for YE25. On monetary policy, our baseline scenario is that the central bank will also cut the policy rate by 400 bps, to 25%, before the end of the year.

Politics are the main watchpoint this year. All eyes are on the October midterm elections, which could either give the administration greater bargaining power in Congress or create headwinds for the presidential election in 2027. While the midterm elections may well lead to a meaningful increase in the current administration representation in Congress, given the low base, market focus will be on the results from the vote-rich province of Buenos Aires as a key bellwether for the 2027 election.

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	2020	2021	2022	2023F	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	-9.9	10.4	5.3	-1.6	**-1.8**	-2.6	**4.5**	4.5	**3.0**	3.0
Nominal GDP - USD bn	385.3	487.3	630.6	597.6	**645.4**	645.4	**773.6**	773.6	**850.3**	850.3
Population (millions)	45.4	45.8	46.2	46.6	**47.1**	47.1	**47.5**	47.5	**47.9**	47.9
Per Capita GDP - USD	8,490	10,640	13,643	12,810	**13,710**	13,710	**16,295**	16,295	**17,762**	17,762
Unemployment Rate - year avg	11.6	8.8	6.8	6.1	**8.2**	8.2	**8.0**	8.0	**7.8**	7.8
Inflation										
CPI - % (*)	36.1	50.9	94.8	211.4	117.8	-	**25.0**	25.0	**18.0**	18.0
Interest Rate										
Reference rate - eop - %	38.00	38.00	75.00	100.0	32.0	-	**25.0**	25.0	**20.0**	20.0
Balance of Payments										
ARS / USD - eop	84.15	102.75	177.10	809	1033	-	**1175**	1175	**1324**	1324
Trade Balance - USD bn	12.5	14.8	6.9	-6.9	18.9	-	**12.0**	12.0	**15.0**	15.0
Current Account - % GDP	0.9	1.4	-0.7	-3.4	**0.8**	0.8	**-0.5**	-0.5	**-1.0**	-1.0
Foreign Direct Investment - % GDP	1.1	1.4	2.4	3.8	**1.5**	1.5	**2.0**	2.0	**3.0**	3.0
International Reserves - USD bn	39.3	39.6	44.6	23.1	29.6	-	**33.0**	33.0	**34.0**	34.0
Public Finances										
Primary Balance - % GDP (**)	-6.5	-3.0	-2.4	-2.7	1.8	-	**1.3**	1.3	**1.3**	1.3
Nominal Balance - % GDP (**)	-8.5	-4.5	-4.2	-4.4	0.3	-	**0.0**	0.0	**0.0**	0.0
Gross Public Debt - % GDP	108.7	82.8	87.7	163.3	**83.0**	83.0	**81.2**	81.2	**79.9**	79.9
Net Public Debt - % GDP (***)	66.9	48.1	48.7	92.6	**45.8**	45.8	**45.2**	45.2	**45.0**	45.0

(*) 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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