

Argentina Economic Outlook

October 2024

Main messages. Global



Recent developments



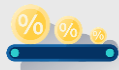
Monetary easing cycles are now in place in the US and Eurozone as inflation has fallen due to demand moderation and supply gains. Labor markets are slowing, manufacturing remains weak, but services and consumption remain relatively strong. Financial volatility has risen, but markets continue to see a soft-landing ahead.



Growth outlook



Global growth is likely to converge to moderate levels. In the US growth was revised up as incoming data surprised to the upside, but is still expected to gradually weaken ahead. In the Eurozone, forecasts remain unchanged; lower inflation and interest rates will support a cyclical recovery. In China, increasing policy stimulus will help to sustain growth, but a structural deceleration is still likely.



Inflation and rates outlook



Monetary conditions are set to gradually become less restrictive given more controlled inflation and easing labor pressures. The Fed's rate cuts are likely to be more aggressive than anticipated, but interest rates are forecast to remain relatively high. The monetary easing cycle is also expected to continue in the Eurozone and China.



Risks



Risks to growth and inflation are now more balanced. The recent labor market slowdown and China's structural problems raise concerns about a hard landing. However, strong demand, fiscal policy, and geopolitical tensions, among other factors, keep upward inflation risks alive.

Key points. Argentina



Political outlook



The government maintains high approval levels as a result of the fall in inflation and has managed, despite being in the minority, to pass through Congress an abbreviated version of the Bases Law, but which contains important tools for the medium and long term management of the economy. The public approval marginally fell since July.



Fiscal result



The government maintains its strong conviction in fiscal balance as the cornerstone of its economic program. In the first eight months of the year, it accumulated a financial fiscal surplus of 0.3% of GDP and a primary surplus of 1.5%. It presented the 2025 Budget, where the main message conveyed was to maintain fiscal equilibrium.



Monetary policy



Fiscal discipline made it possible to move forward with the monetary program, canceling the different sources of money issuance. The only source of remaining liquidity expansion will come from the potential dismantling of the stock of short-term Treasury liabilities (LEFIs) by banks, based on private sector credit demand.



Inflation



Prices have slowed sharply since the beginning of the year, but in the last four months inflation has remained stable at around 4% per month, suggesting the need for a more comprehensive approach to the problem in order to consolidate the disinflation process. We expect inflation to reach 130% this year and 40% in 2025.

Key points. Argentina



Exchange rate



The BCRA is maintaining the crawling peg of the official FX rate at a rate of 2% m/m, while it has been practically unable to accumulate reserves since June. The Ministry of Finance is exploring alternative sources of financing (tax amnesty, repo with banks, multilaterals) to strengthen reserves, which the government considers a necessary condition for easing exchange restrictions.



Economic activity



After three consecutive quarters of contraction, economic activity show signs of recovery in 3Q24. Since July, several sectors have shown monthly growth in high-frequency indicators. We maintain our forecast of a 4% decline in GDP in 2024 and a 6% recovery in 2025.



Sector External



The recovery of the agricultural sector after last year's acute drought is accompanied by a solid surplus in the energy balance, driven by lower LNG imports and rising oil exports. A merchandise trade surplus of USD 17.6 bn is projected for this year.



Risks



The key risks for 2025 can be summarized as follows: (i) occurrence of extreme weather events affecting agricultural production, (ii) loss of public approval of the government, (iii) delay in lifting exchange controls could lead to loss of market confidence and trigger exchange rate pressure.

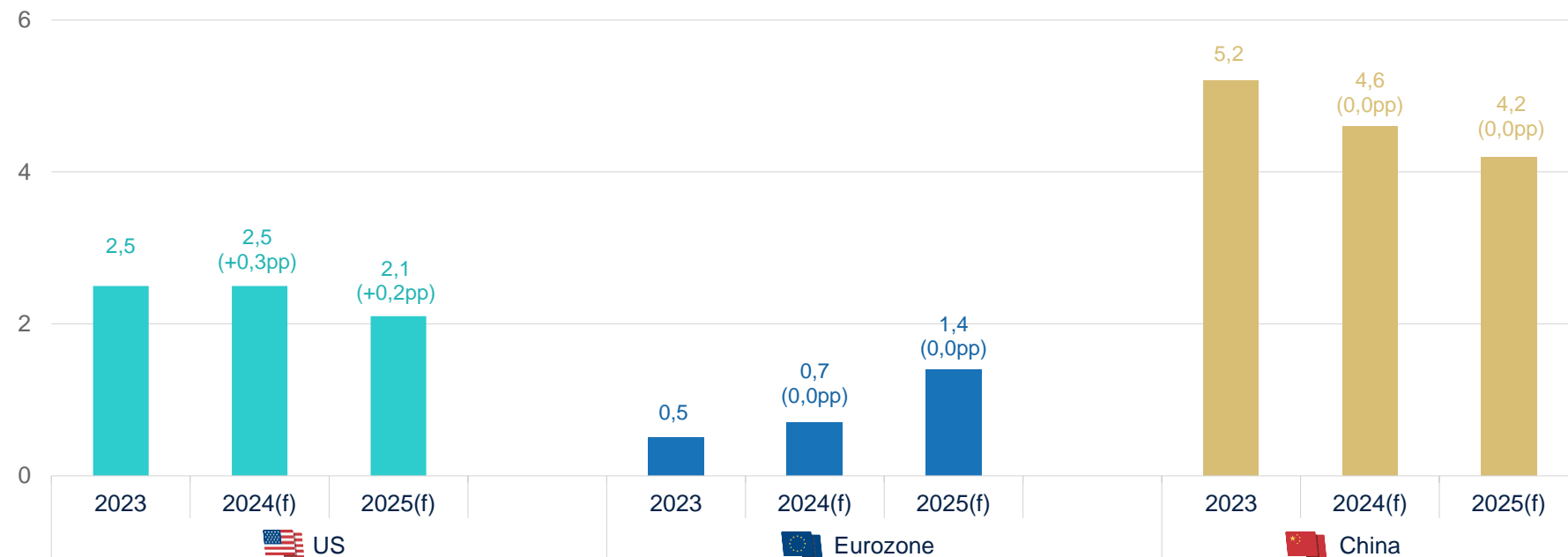
01

Global Economic Outlook October 2024

GDP forecasts: growth revised up on resilient demand in the US; cyclical recovery in Eurozone; policy stimulus will help to sustain growth in China

GDP GROWTH (*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(*) Global GDP growth: 3.1% in 2023, 3.1% (unchanged in comparison to the previous forecast) in 2024 and 3.3% (unchanged in comparison to the previous forecast) in 2025.

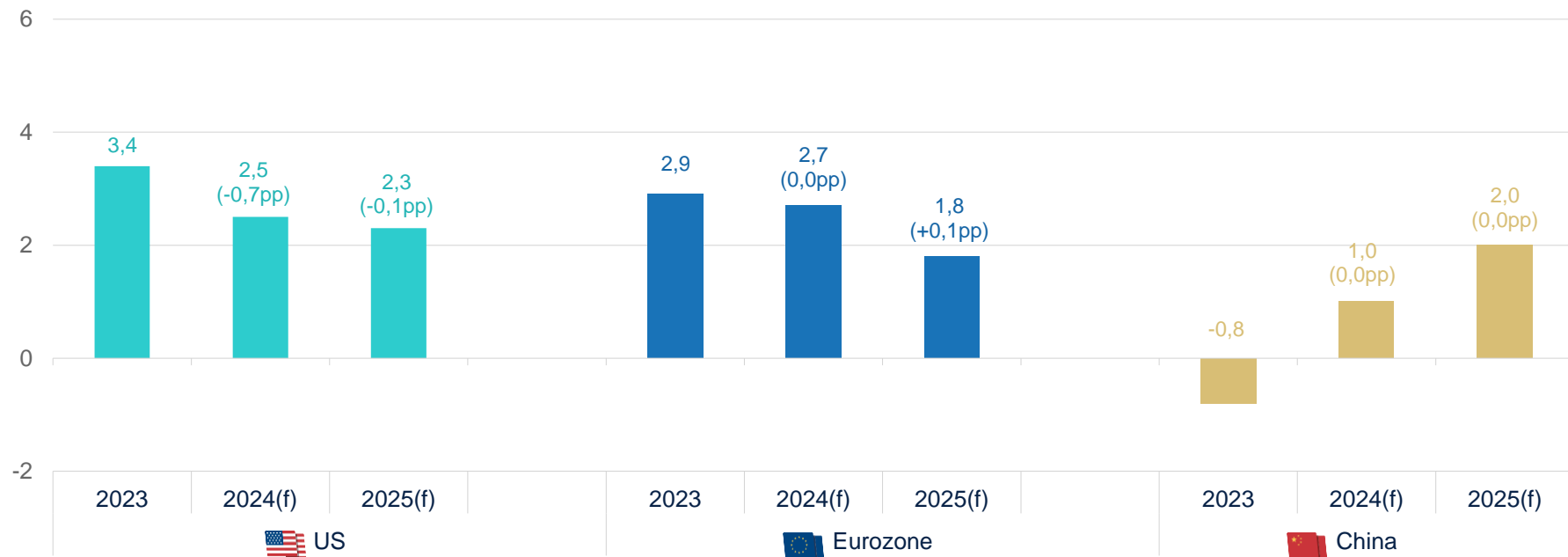
(f): forecast.

Source: BBVA Research.

Inflation forecasts: downward revision in the US on clearer labor market easing and favorable incoming data; no significant changes in Eurozone and China

HEADLINE CPI INFLATION

(Y/Y %, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



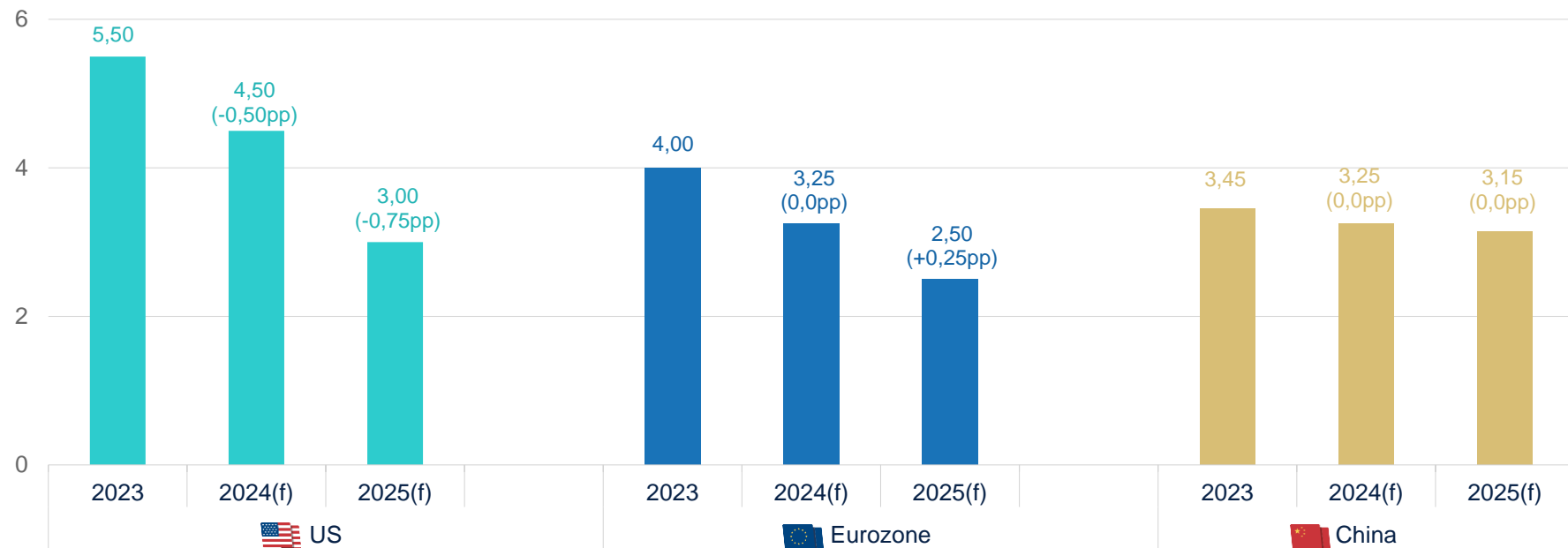
(f): forecast.

Source: BBVA Research.

Rate forecasts: further monetary easing is expected; the Fed is likely to cut rates at a 25bps pace till mid-2025; slightly higher long-term ECB rates

POLICY INTEREST RATES (*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

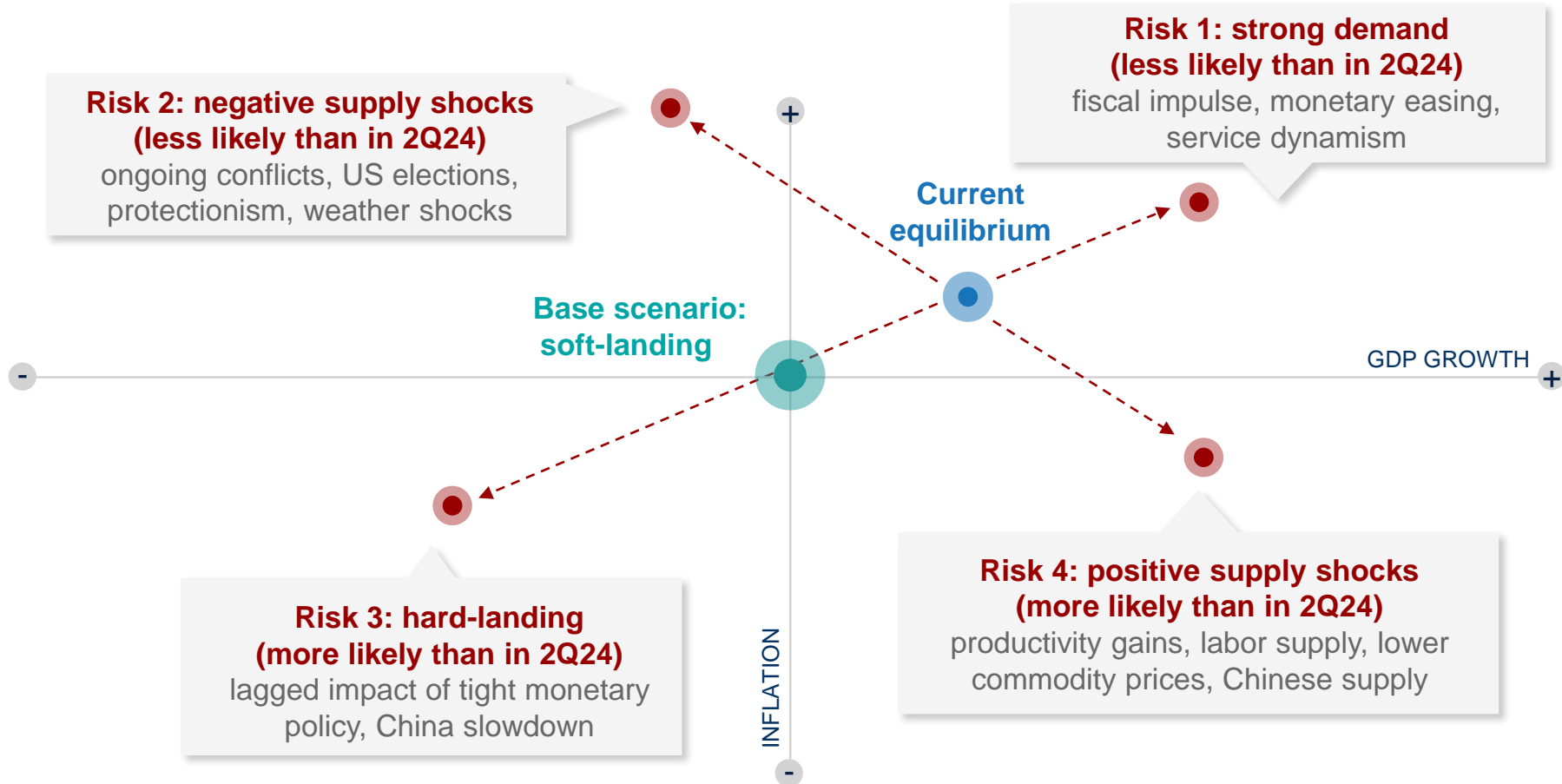


(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

Risks: still sizeable, but more balanced than before



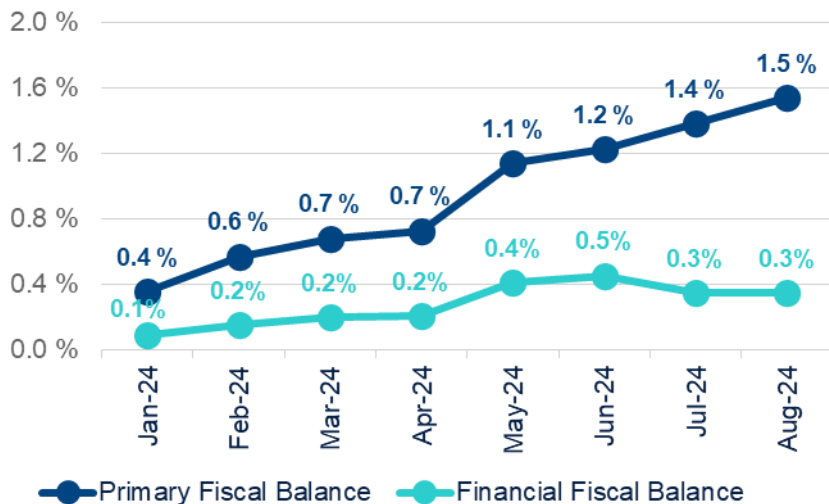
02

Argentina Economic Outlook October 2024

The government continues to rigorously defend the fiscal surplus and, in the face of falling revenues, focuses its efforts on expenditures

FISCAL BALANCE

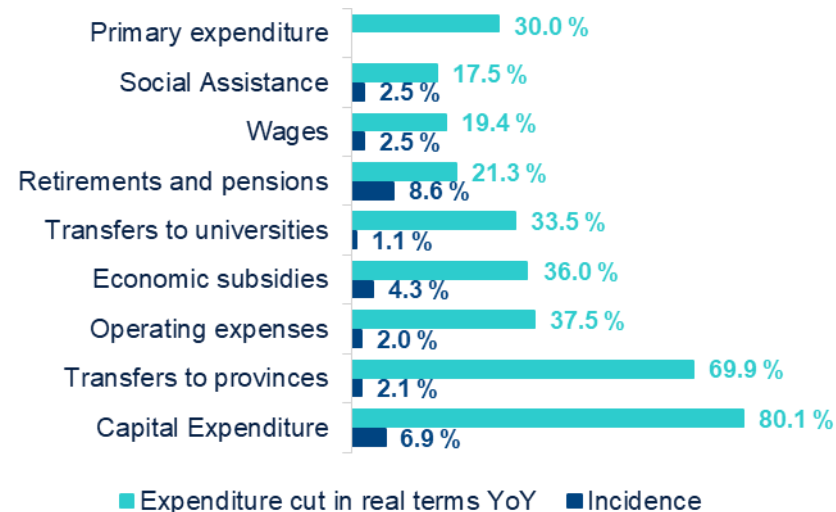
(% GDP)



Source: Ministry of Economy, INDEC and BBVA Research.

CUMULATIVE PUBLIC EXPENDITURE JAN-AUG 2024

(% GDP)



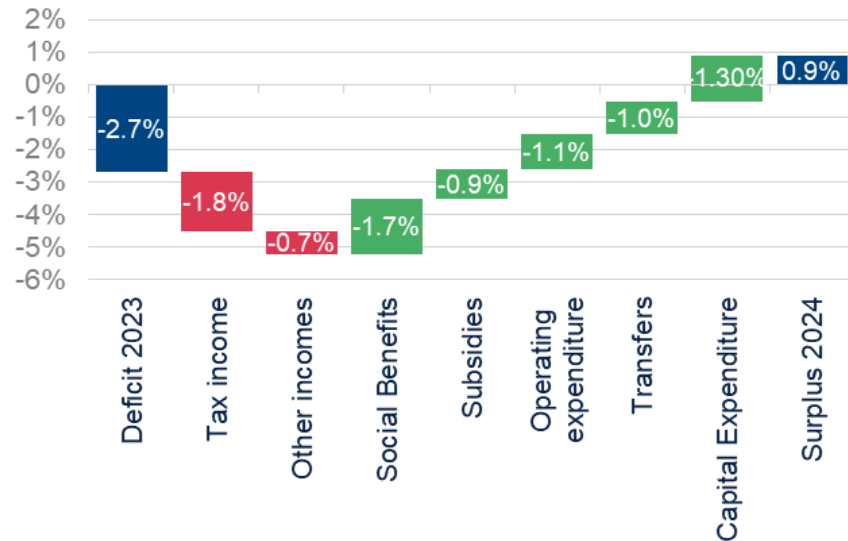
Source: Ministry of Economy, INDEC and BBVA Research.

Public expenditure has contracted 30% y/y in real terms so far this year, while Treasury revenues have fallen 6.1%, mainly due to the recession, only driven by the recomposition of export duties and the PAIS tax, whose collection reaches 0.8% of GDP (more than double the financial result).

The Treasury has accumulated a 1,5% of GDP primary surplus by August, which leads us to improve our fiscal projections

FISCAL BALANCE DECOMPOSITION: 2024 VS 2023

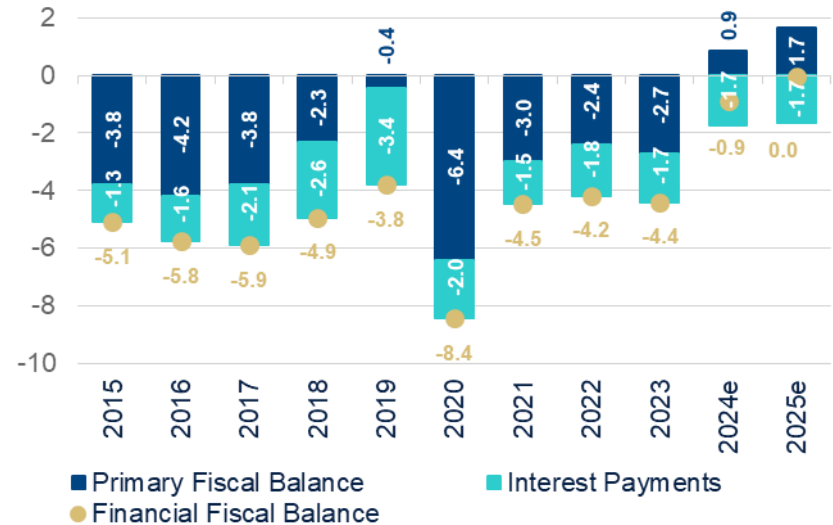
(% GDP)



Source: Ministry of Economy and BBVA Research

FISCAL BALANCE: 2015-2025

(% GDP)



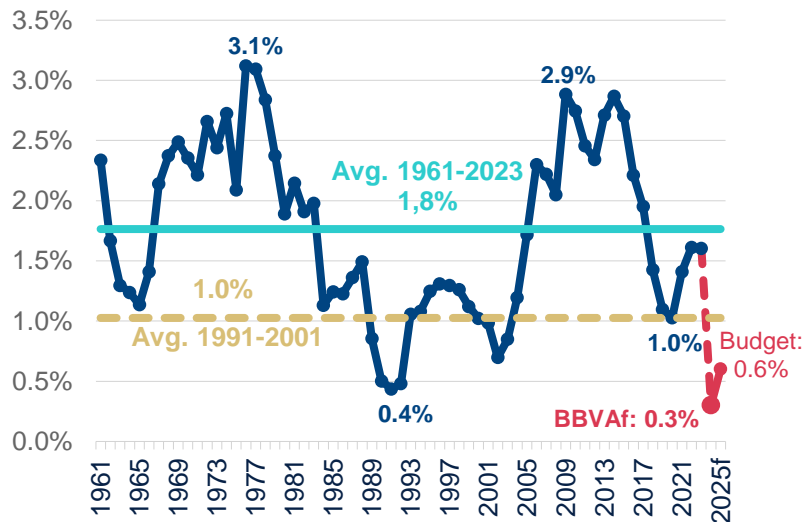
Source: Ministry of Economy and BBVA Research

The decline in expenditure could find a limit –particularly in December, which is seasonally deficit-prone– so we foresee a primary result of 0.9% of GDP (and a financial result of -0.9% after interests are taken into account). The president presented the 2025 budget with a strong signal of fiscal commitment, although the assumptions looks optimistic.

However, the sustainability of the public accounts remains the main challenge, relying on a more robust foundations other than cutting expenses

CAPITAL EXPENDITURES OF THE PUBLIC SECTOR

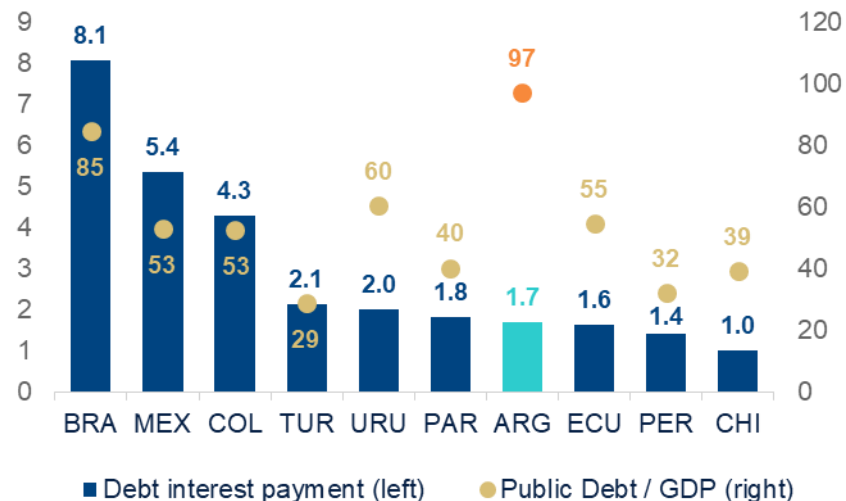
(% GDP)



Source: Ministry of Economy and BBVA Research .

INTEREST PAYMENTS AND PUBLIC DEBT LEVELS

(% GDP)

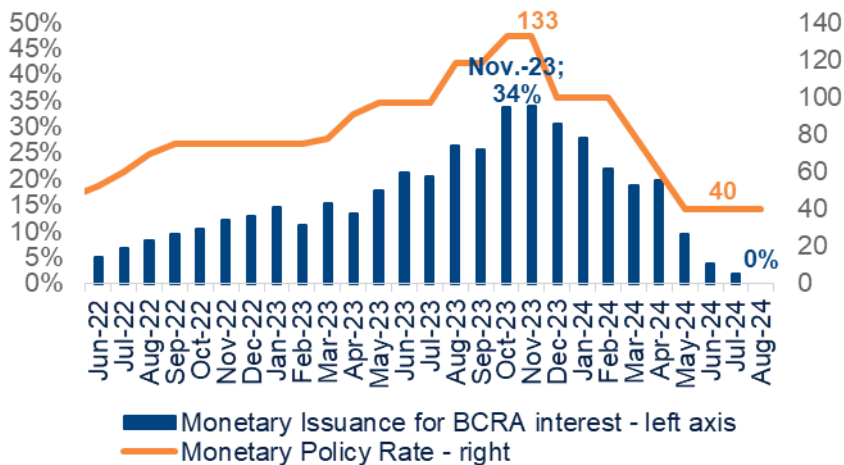


Source: IMF and BBVA Research

Capital expenditures are well below the historical average and probably also below the minimum to cover infrastructure maintenance needs. In addition, interest payments are underestimated due to the exchange rate control (which allows the Treasury to finance itself at negative real interest rates) and accounting issues such as not recording interest on LECAP/LEFIs.

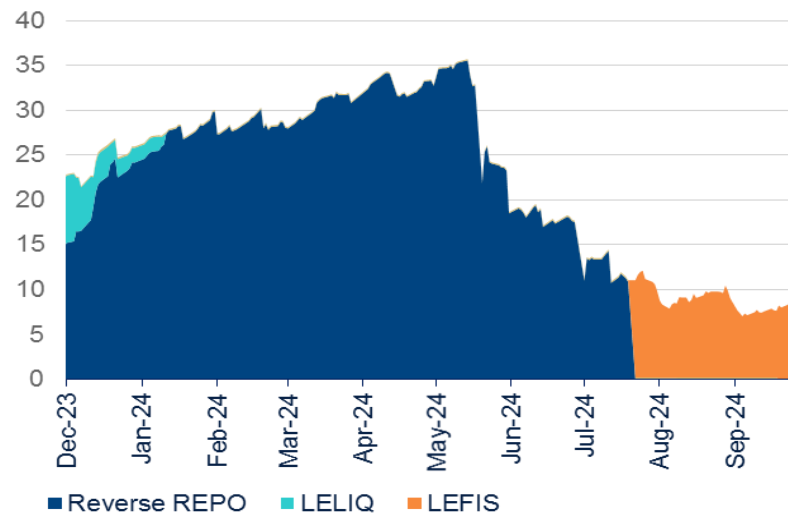
Once monetary issuance to assist the Treasury was eliminated, the Government also ended issuance to cover the quasi-fiscal deficit

MONETARY ISSUANCE DUE TO BCRA INTEREST PAYMENTS AND MONETARY POLICY RATE (LEFT AXIS: % OF THE MONETARY BASE OF THE PREVIOUS MONTH, RIGHT AXIS: % ANNUAL RATE)



Source: BCRA and BBVA Research.

STOCK OF INTEREST-BEARING LIABILITIES IN PESOS (TRILLION OF PESOS)

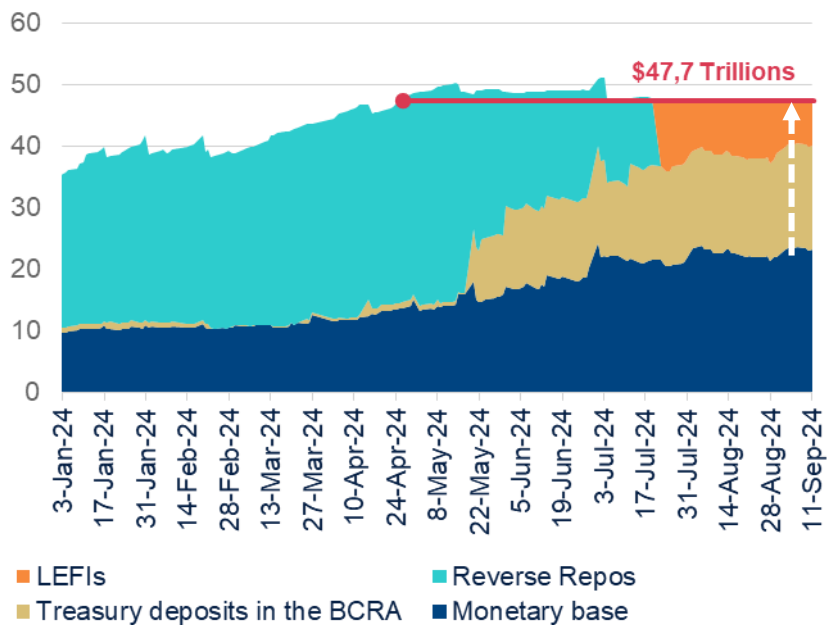


Source: BCRA and BBVA Research.

To continue with the objective of "zero monetary issuance", the Government replaced the BCRA's repos with Treasury Bills (LEFIs) as a new monetary policy instrument. In addition, the sharp fall in rates had already significantly reduced the interest generated by these interest-bearing liabilities (quasi-fiscal deficit).

At the moment, the only source of money issuance comes from the gradual reduction of the stock of LEFIs and LECAP held by banks, to provide credit

BROAD MONETARY BASE, LEFIS AND TREASURY DEPOSITS AT THE BCRA (TRILLION OF PESOS)

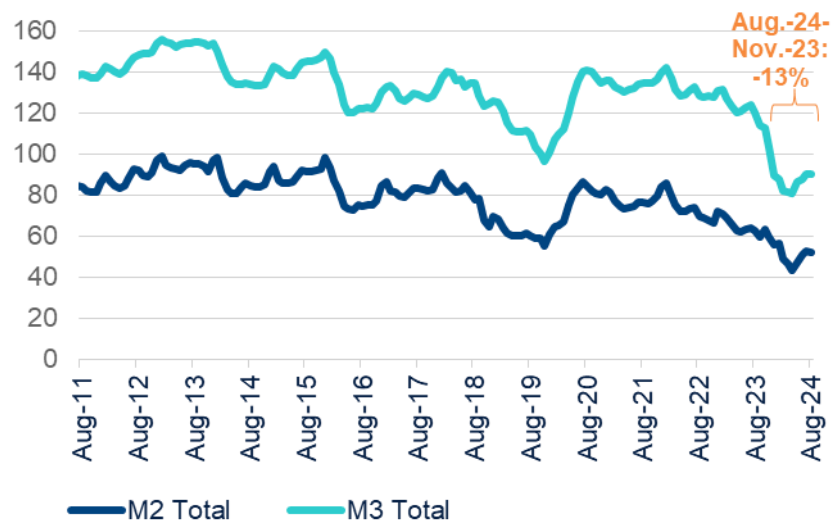


- The BCRA announced a \$47.7 trillion monetary base ceiling (equal to the sum between monetary base and repos as of 4/30).
- As the government has already eliminated the treasury financing, the issuance for the quasi-fiscal deficit of the BCRA -and has also committed to reabsorb the pesos issued for the purchase of reserves-, the only remaining source of monetary issuance comes from the dismantling of LEFIs held by banks, to provide credit and/or if the Treasury withdraws the deposits it has in the BCRA for approx. \$15 trillion (in case liquidity is needed to repay LECAP or Other debt securities in pesos).

As a result of this scheme, the economy's liquidity excess is starting to decrease and deposit interest rates are rising in 3Q24

MONETARY AGGREGATES

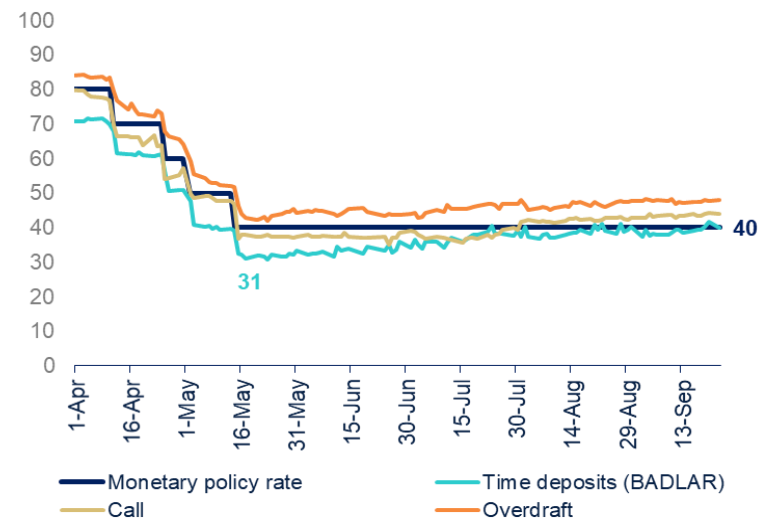
(TRILLION OF CONSTANT PESOS FROM AUG-24)



Source: BCRA and BBVA Research

INTEREST RATES

(ANNUAL NOMINAL RATE)



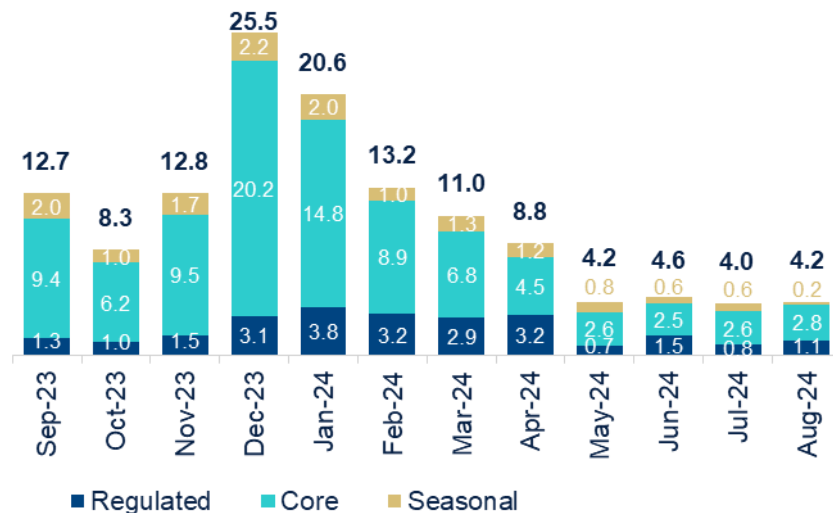
Source: BCRA and BBVA Research

We expect real interest rates to turn positive in the coming months as money demand continues to recover, given the government's tightening of monetary policy, a gradual reduction in inflation, the maintenance of the MPR at current levels and the gradual removal of exchange controls.

Inflation decelerated faster than expected during the year, but disinflation would now be slower and more challenging

INFLATION BY COMPONENT

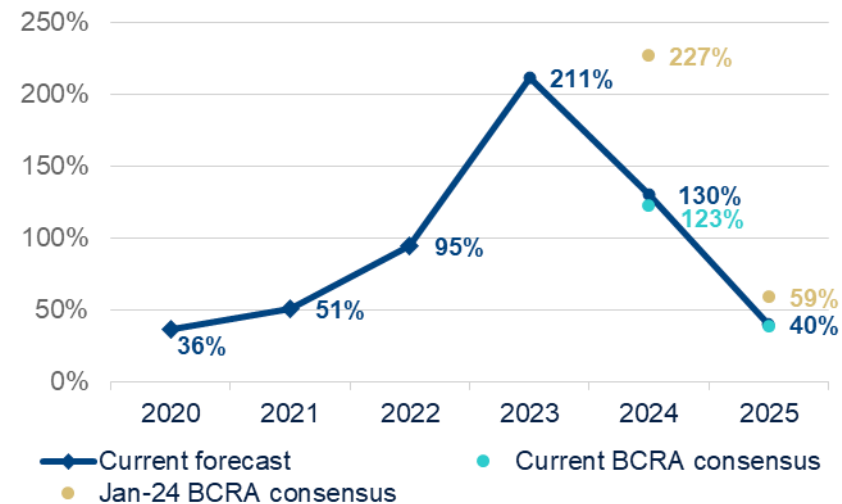
(% Y/Y CHG.)



Source: INDEC and BBVA Research.

BBVA EXPECTED INFLATION VS. MARKET

CONSENSUS-BCRA (% Y/Y CHG.)

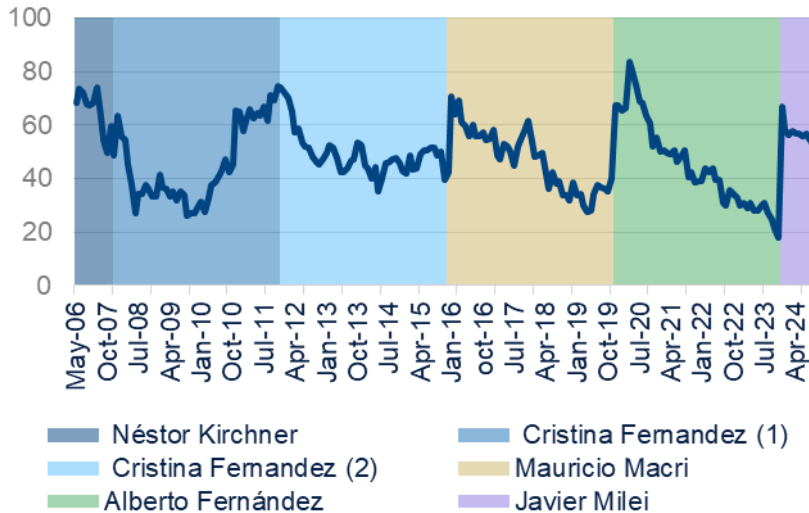


Source: INDEC, BCRA and BBVA Research.

Core inflation has shown signs of downward resistance and averaged 3.8% m/m in the last 4 months. The next slowdown towards 2% m/m could be slower—because relative prices adjustments still need to be made—and require a monetary scheme with positive real interest rates.

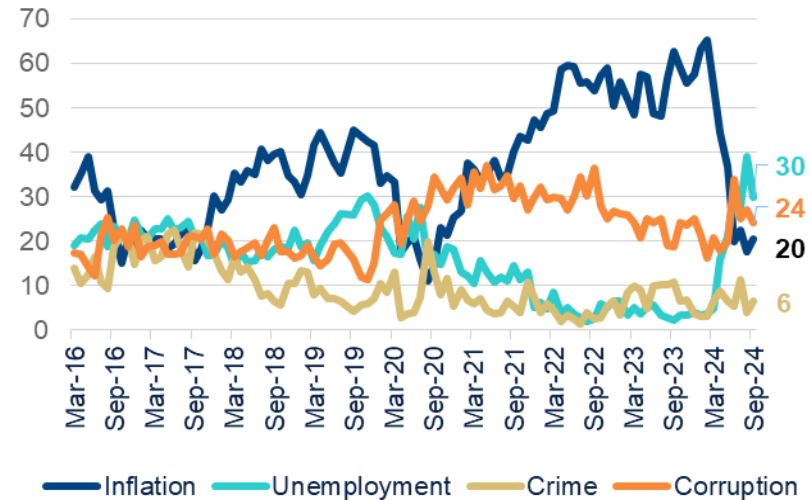
Despite the government's tough anti-inflation measures, Javier Milei's government has maintained strong popular support

PRESIDENTIAL APPROVAL (SURVEY IN %)



Source: Poliarquía and BBVA Research.

MAIN CONCERNS OF THE PEOPLE (SURVEY IN %)

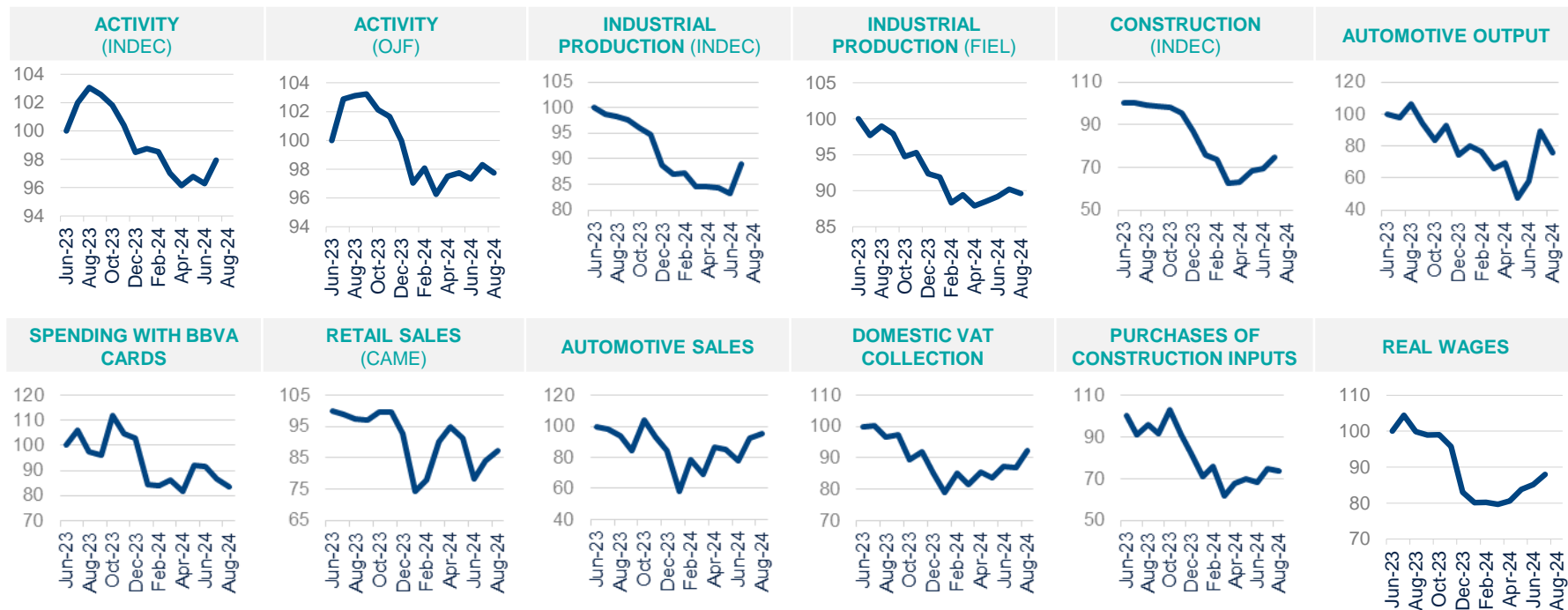


Source: Synopsis and BBVA Research.

Presidential approval remains at high levels due to his success in reducing inflation, and this is key for the government to keep applying its policies. However, an inevitable cost of the adjustment was the rise in unemployment, a problem that has now become the main social concern.

Available indicators suggest that economic activity reached a plateau in 2Q24, and early data for 3Q24 would point to the start of a recovery

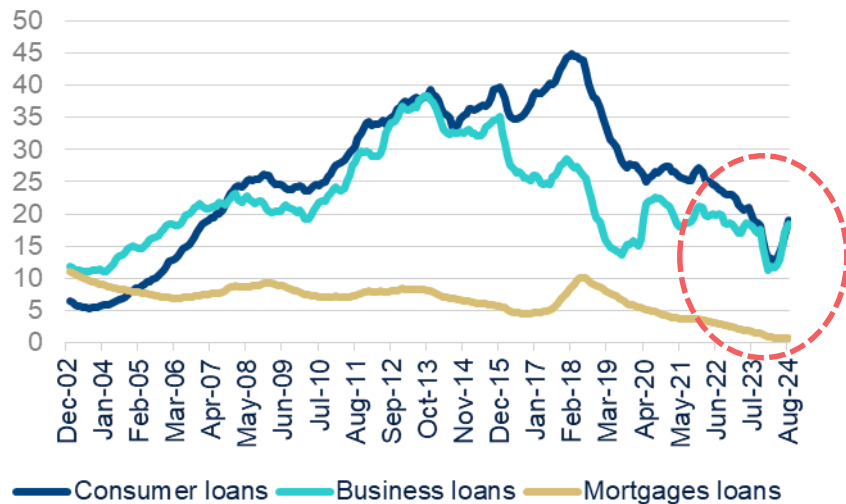
SECTORAL SUPPLY AND DEMAND INDICATORS (BASE JUNE 2023 = 100)



The strong reactivation of credit is contributing to the economic recovery and is expected to keep growing from the current low levels

LOANS IN PESOS TO THE PRIVATE SECTOR

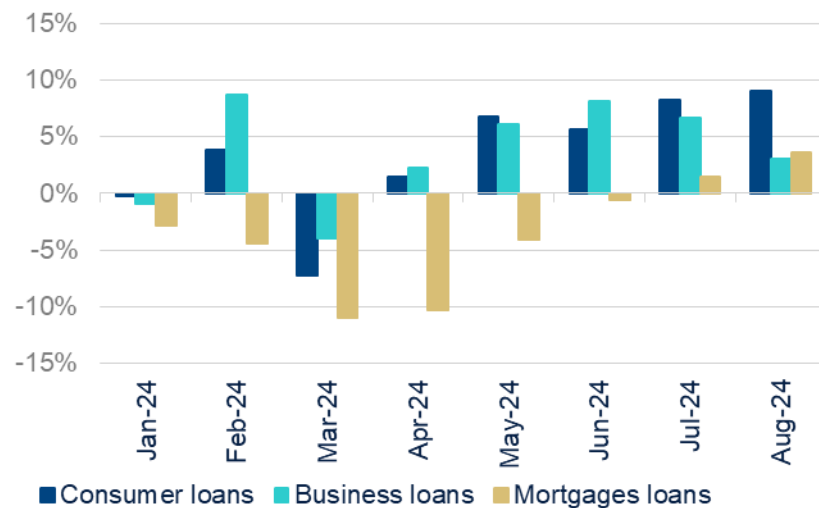
(IN BILLION OF CONSTANT ARS, S.A.)



Source: BCRA and BBVA Research

PESO LOANS TO THE PRIVATE SECTOR

(CHG. % M/M; CONSTANT ARS; SERIES S.A.)



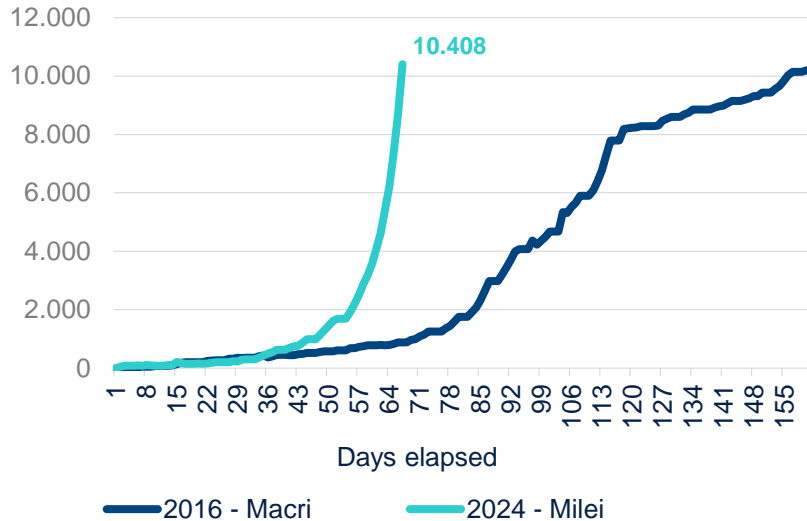
Source: BCRA and BBVA Research

Consumer loans are growing at an average rate of 20% m/m from April to August, while pledged loans are up 16% m/m on average. Given the current very low levels of credit (in historical and international perspectives) it is expected that loans could double in real terms within 2 years.

In addition, deposits from the tax amnesty are higher than expected, increasing gross reserves and providing room for further expansion of USD lending

DEPOSITS IN DOLLARS

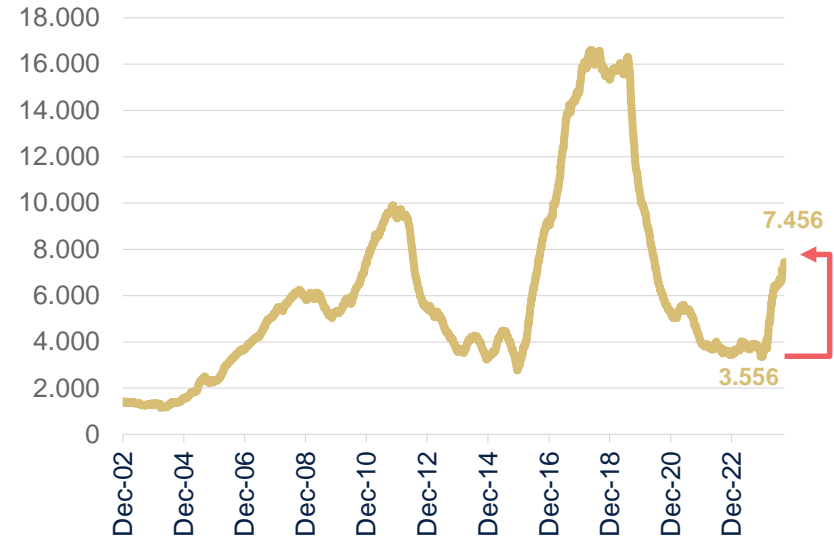
(ACCUMULATED CHANGE SINCE BEGINNING OF TAX AMNESTY PROGRAM IN MILLION DOLLARS)



Source: BCRA and BBVA Research.

CREDIT IN DOLLARS TO THE PRIVATE SECTOR

(MILLION DOLLARS)



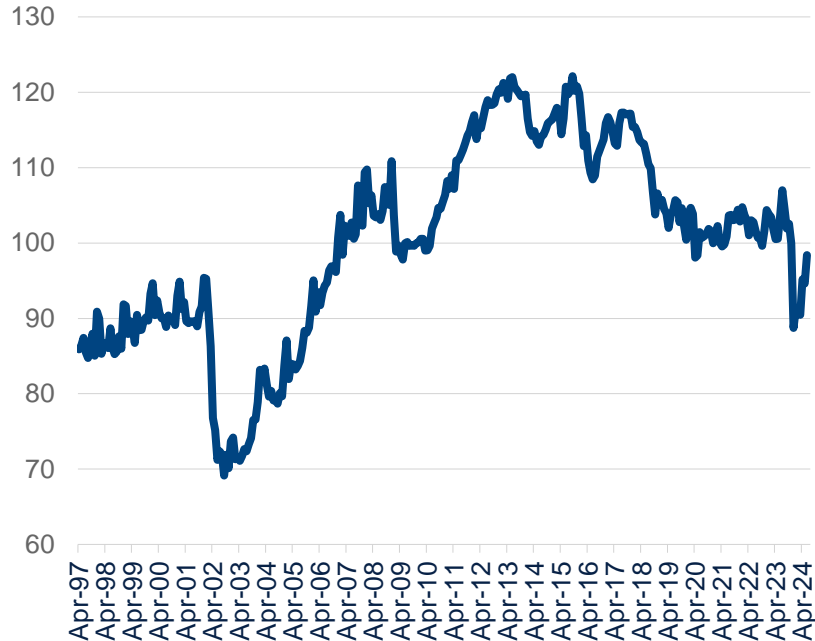
Source: BCRA and BBVA Research.

Dollar deposits could increase by almost \$10 billion as a result of the amnesty, with a direct impact on gross international reserves and the availability of dollar-denominated credit. In addition, the payment of fines will contribute to tax collection and provide some stability to parallel exchange rates.

In addition, real wages began to recover from very low levels, gradually boosting private consumption

REAL FORMAL PRIVATE WAGE

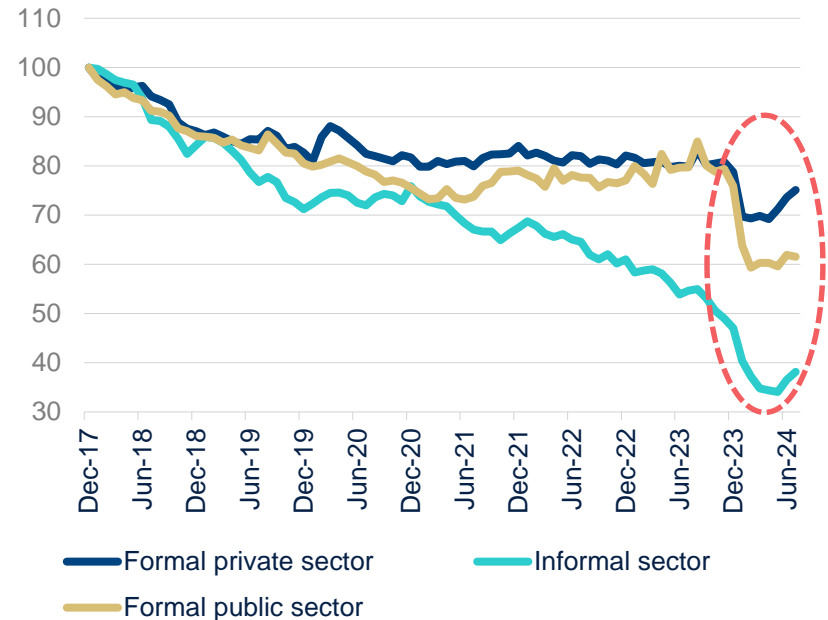
(BASE 2009 = 100)



Source: INDEC and Ministry of Human Capital and BBVA Research

REAL WAGE BY SECTOR

(BASE DEC. 2017 = 100)

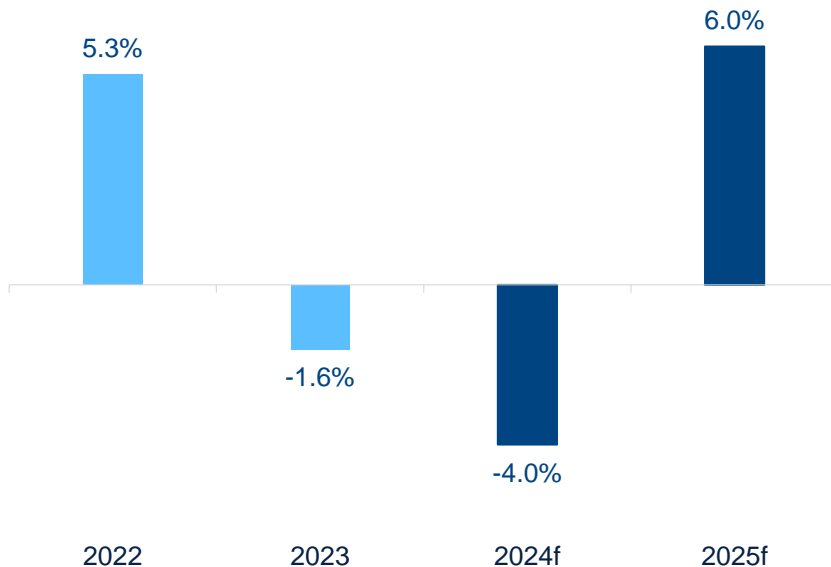


Source: INDEC and BBVA Research

We maintain our forecast of a GDP contraction of -4% in 2024 and growth of 6% in 2025, assuming further easing of the exchange rate controls from 4Q24

GDP FORECAST

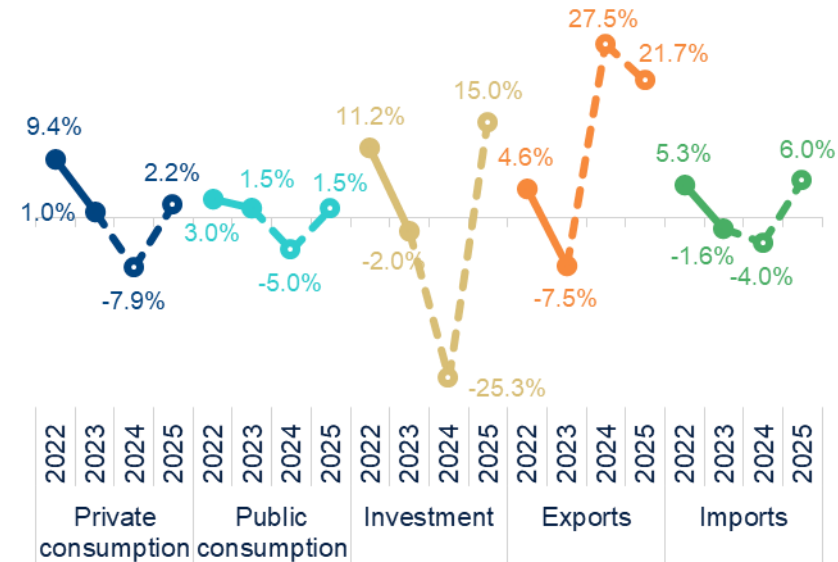
(CHG. % Y/Y; CONSTANT ARS)



Source: INDEC and BBVA Research

GDP FORECAST BY COMPONENT

(CHG. % Y/Y; CONSTANT ARS)

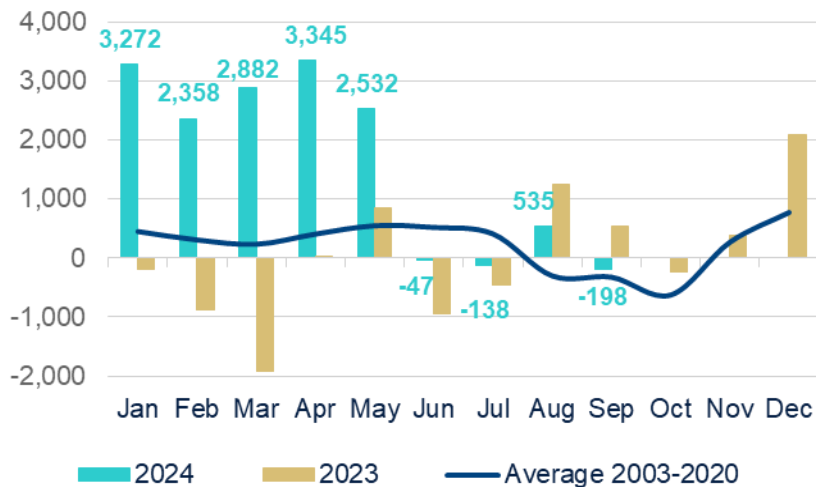


Source: INDEC and BBVA Research

The pace of easing of capital controls remains as the main challenge for the Government in the short term

BCRA'S NET USD PURCHASES

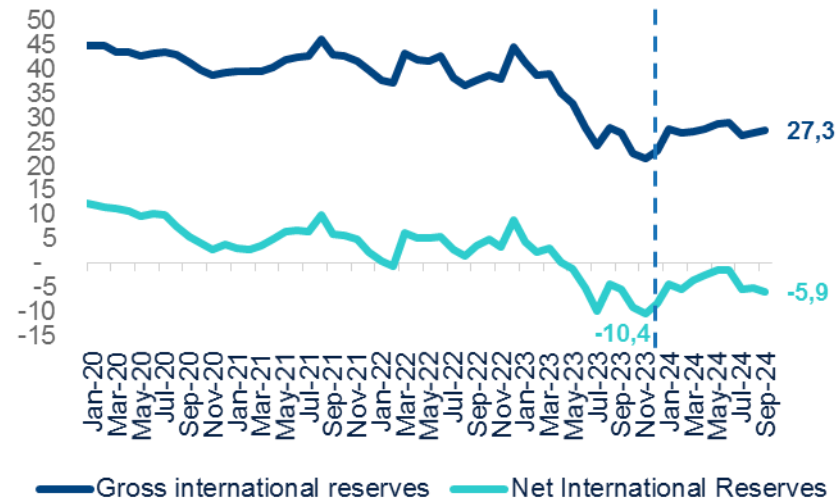
(MILLION OF DOLLARS)



Source: CIARA, CEC and BBVA Research

INTERNATIONAL RESERVES

(IN BILLION OF DOLLARS)



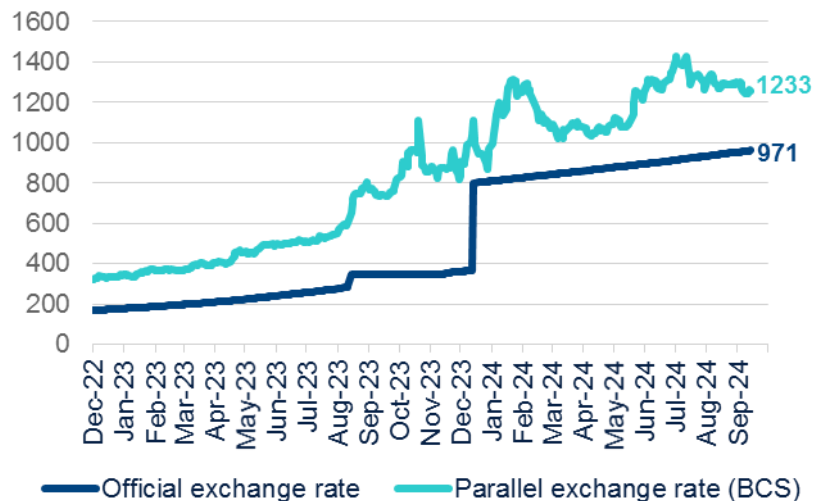
Source: BCRA and BBVA Research

The BCRA has not accumulated international reserves since June and has sold foreign currency in the parallel markets for about USD 500 million. To reverse the situation an exchange rate controls removal is required. This will reduce the excess demand for dollars and stimulate the foreign currency inflows for investment.

The government has maintained the crawling peg at a 2% m/m rate throughout the year, which is eroding the economy's exchange rate competitiveness

OFFICIAL AND PARALLEL EXCHANGE RATE

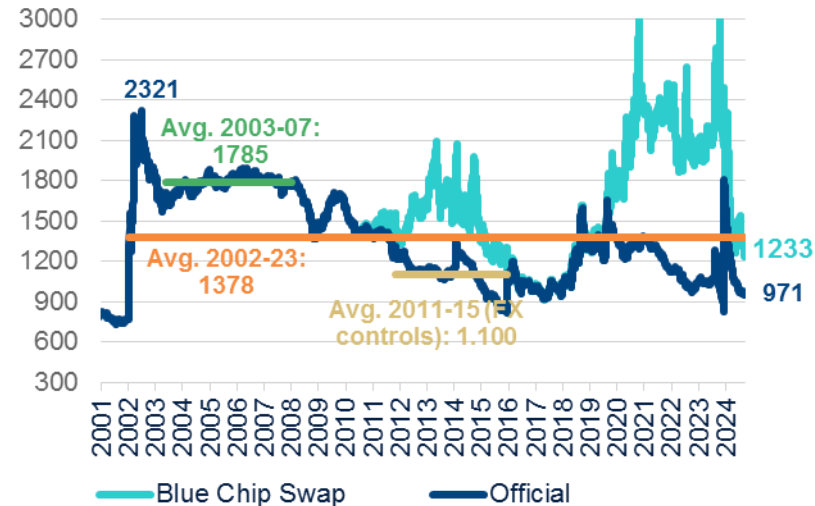
(PESOS PER DOLLAR)



Source: BCRA, Alphacast and BBVA Research.

REAL EFFECTIVE EXCHANGE RATE

(PESOS PER DOLLAR, CONSTANT PRICES OF 30-SEP-24)

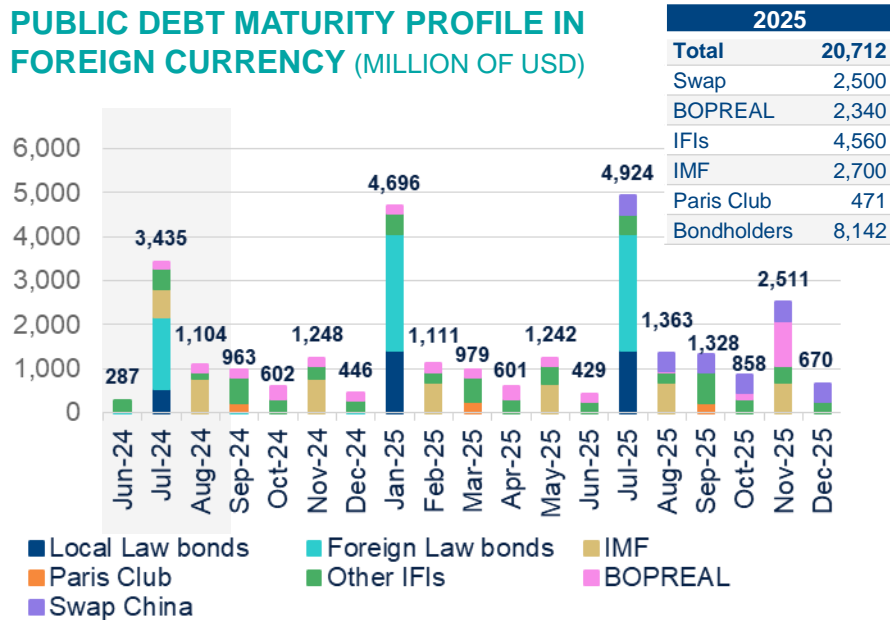


Source: BCRA, Alphacast and BBVA Research.

We expect a further easing of foreign exchange controls during 4Q24, and that the lowering of the PAIS tax during Dec-24 will be partially offset by an acceleration of the official exchange rate. Our forecast for December is 1200 ARS per USD.

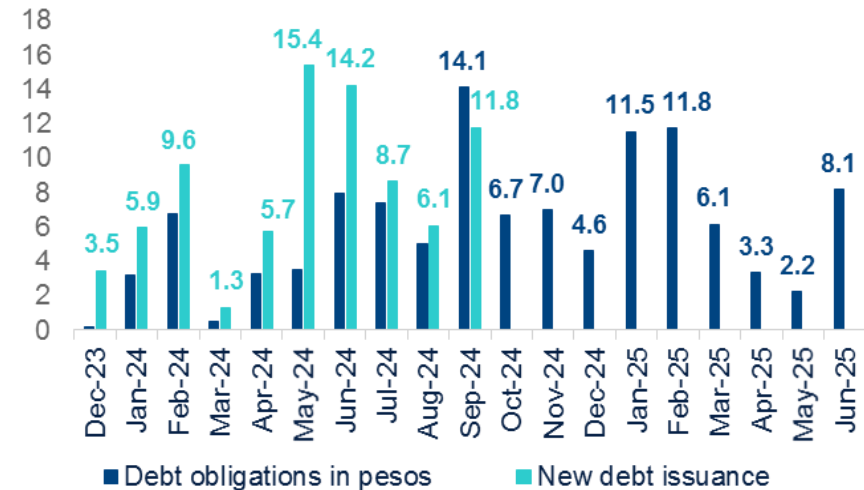
Reducing sovereign risk to levels closer to 1,000 bp is crucial to return to international capital markets in 2025

PUBLIC DEBT MATURITY PROFILE IN FOREIGN CURRENCY (MILLION OF USD)



Source: Ministry of Economy and BBVA Research.

PUBLIC DEBT IN PESOS: PAYMENTS AND ISSUANCE (TRILLION OF PESOS)



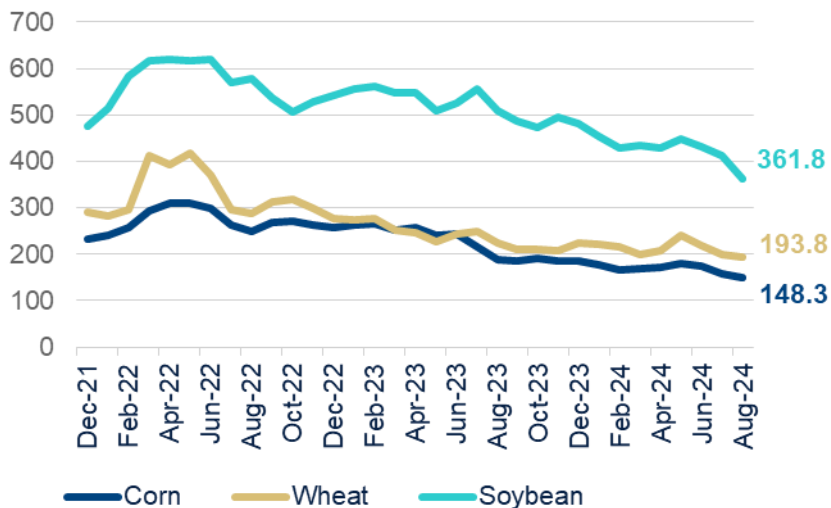
Source: Ministry of Economy and BBVA Research.

With almost USD 20 billion of foreign currency debt and the equivalent of USD 60 billion of peso debt coming due in 2025, it will be essential to reduce country risk in order to refinance these maturities with some degree of comfort. A key element of this will be the liberalization of exchange rate controls which, in turn, could also unlock additional support from the IMF.

Despite the fall in commodity prices, Argentina's external accounts will maintain its positive contribution...

AGRICULTURAL COMMODITY PRICES

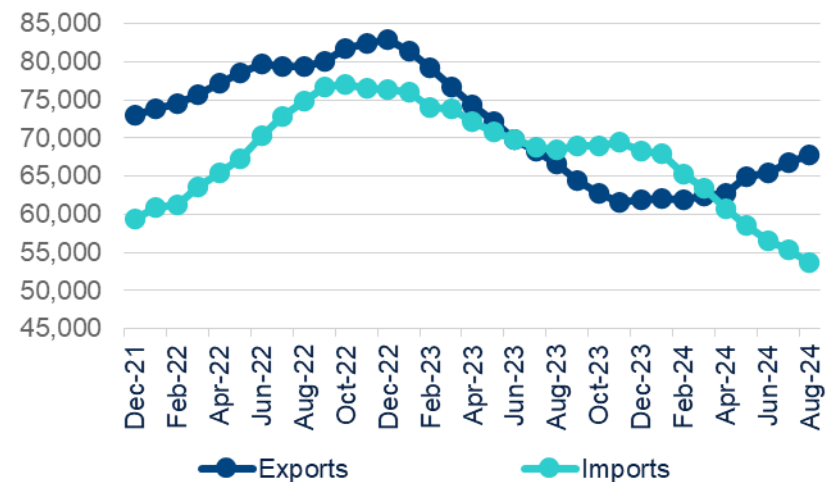
(DOLLARS PER TON)



Source: HAVER and BBVA Research

TRADE BALANCE

(MILLION OF DOLLARS, 12-MONTH MOVING SUM)



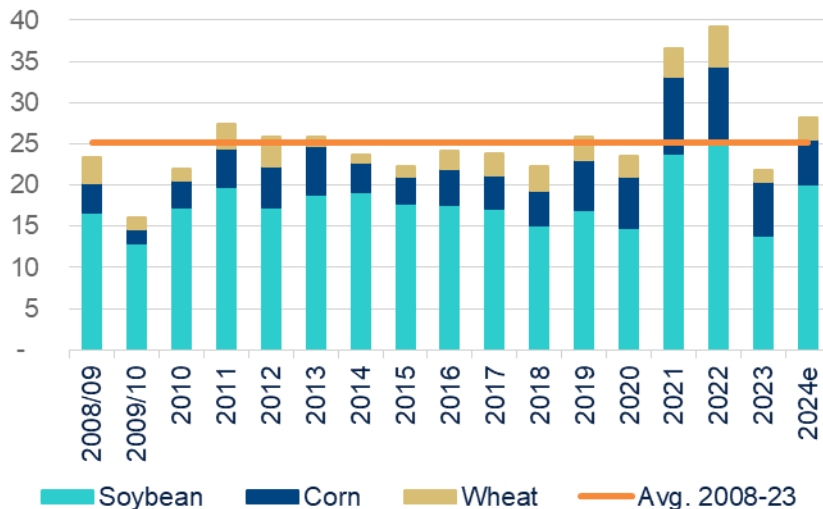
Source: INDEC and BBVA Research

The results achieved in the external sector come from the recovery of exported quantities (after the fall due to the drought in 2023) but mainly from a strong adjustment in imports.

... mainly driven by the improvement in two relevant sectors of the economy: agriculture and energy

MAIN AGRICULTURAL EXPORTS

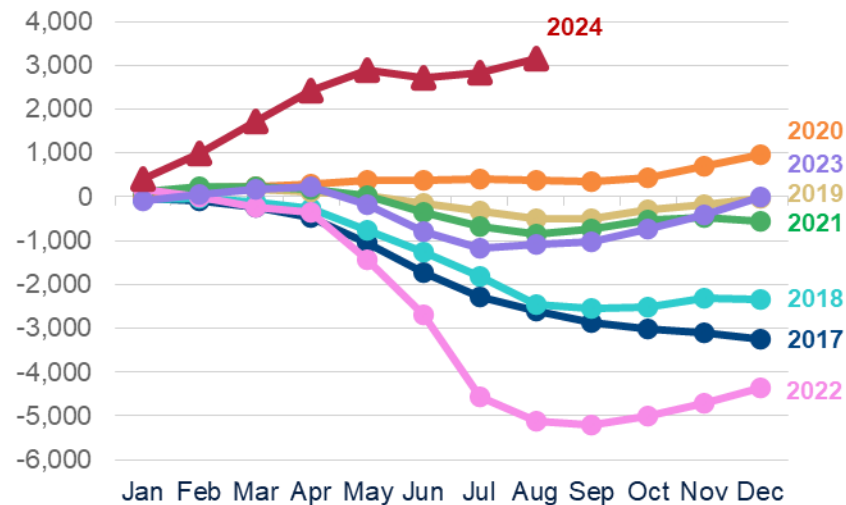
AGRICULTURAL ACTIVITIES (IN BILLION OF DOLLARS)



Source: BCBA, BCR and BBVA Research

ENERGY BALANCE

(IN MILLION OF DOLLARS)

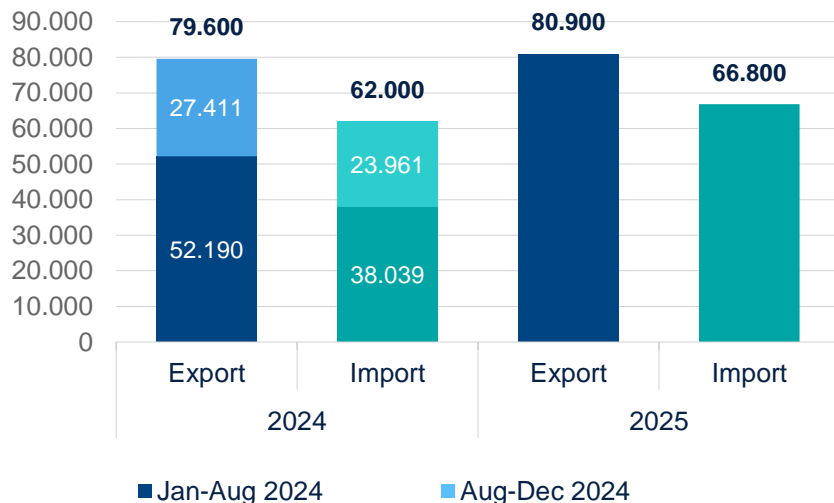


Source: INDEC and BBVA Research

Infrastructure investment in the oil and gas sector allows for greater gas self-sufficiency and increased oil exports, reversing years of energy deficits. A surplus of USD 3,157 million has been so far accumulated in 2024.

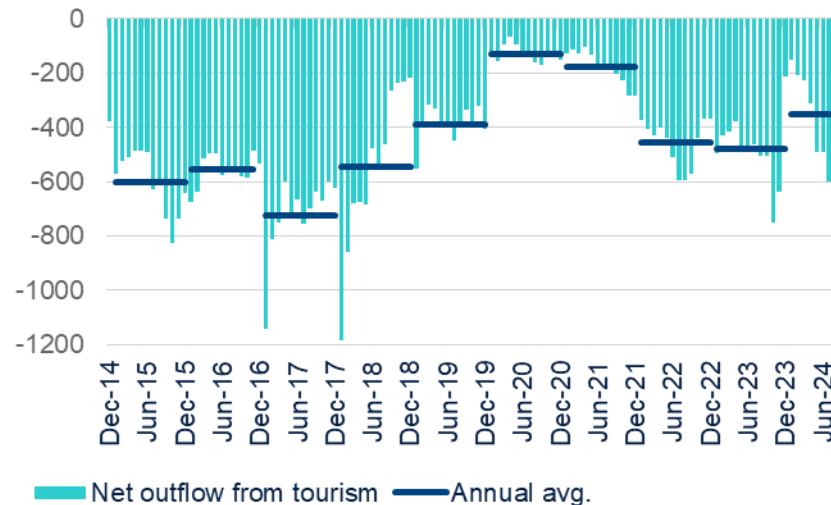
The trade surplus will be present in 2024 and 2025, although the growing deterioration of the tourism balance began to erode foreign currency inflows

FOREIGN TRADE
(IN MILLION OF DOLLARS)



Source: INDEC and BBVA Research

NET TOURISM MONTHLY BALANCE
(MILLION DOLLARS)



Source: BCRA and BBVA Research

The real appreciation of the exchange rate increases the incentives to import goods and services, in the latter case especially tourism. The trade surplus would fall from USD 17.6 billion this year to USD 14.1 billion next year as imports rise.

Table of macroeconomic forecasts

	2020	2021	2022	2023	2024e	2025e	2026e
GDP (% YoY)	-9.9	10.4	5.3	-1.6	-4.0	6.0	4.5
Inflation (% YoY eop)	36	51	95	211	130	40	25
Exchange rate (vs USD eop)	84	103	177	808	1,200	1,600	2.000
Monetary Policy Rate (% eop)	37.1	36.7	75.0	100.0	40.0	34.0	21.0
Private Consumption (% YoY)	-12.2	9.5	9.4	1.0	-7.9	2.2	1.9
Public Consumption (% YoY)	-2.0	7.1	3.0	1.5	-5.0	1.5	4.1
Investment (% YoY)	-13.1	34.0	11.2	-2.0	-25.3	15.0	21.4
Primary Fiscal Balance (% GDP)	-6.4	-3.0	-2.4	-2.7	0.9	1.7	1.6
Financial Fiscal Balance (% GDP)	-8.4	-4.5	-4.2	-4.4	-0.9	0.0	0.0
Current Account (BoP, % GDP)	0.7	1.4	-0.6	-3.2	0.8	-0.3	-0.9
Public Debt (% GDP)	103.8	80.6	85.0	156.6	99.6	84.7	77.9

e: estimate.

Source: BBVA Research.

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