BBVA Research

Argentina economic outlook

December 2024

Creating Opportunities

Main messages. International

Recent developments	Inflation has eased further, partly due to lower oil prices (despite escalating geopolitical tensions) and excess supply in China (despite rising stimuli), but growth and core inflation remain resilient. The latter, together with expectations that Trump policies will spur inflation and raise fiscal risk, has boosted US sovereign yields and the USD.
Growth outlook	As the new US administration would raise import tariffs, mainly on China, global growth is forecast to slow from 2.7% in 2024 to 2.1% in 2025 in the US, and from 4.8% to 4.1% in China, where policy measures will provide some cushion. In the Eurozone, protectionism will add to other challenges and keep growth low, 0.8% in 2024 and 1.0% in 2025.
Inflation and rates outlook	Inflation will accelerate in the US but remain subdued in the Eurozone and China, where the effects of weaker demand and lower oil prices will prevail. There will be less room for monetary easing in the US (with rates forecast at 4.0% by end-2025 and 3.0% by end-2026) but greater scope for lower rates in the Eurozone and in China.
Risks	The balance of risks for the global economy has deteriorated. Uncertainty is large, but trade and migration policies by the new Trump government, and escalating geopolitical tensions, may create negative supply shocks. More expansionary fiscal policies may add to the ongoing upward pressures on inflation and interest rates.

Key messages – Argentina

Political environment

The government has recovered public support in the last months and consumer confidence continues to rebound, reaching its historical long-term average. Trump's second administration should entail net positive effects for Argentina.

Fiscal balance

Fiscal performance has exceeded expectations. Based on a sharp reduction in spending, the Treasury will achieve a primary fiscal surplus of 1.7% of GDP and a balanced financial result in 2024. We expect that the government will maintain the fiscal equilibrium again in 2025.

Monetary policy

Since the current government took office, the BCRA has not issued pesos to assist the Treasury. The current monetary scheme, which freezes the monetary aggregate known as "Broad Monetary Base", has paved the way for an incipient process of remonetization of the economy through genuine increase of demand for pesos.

Inflation

In October, prices continued to slow down (below the 3% MoM threshold), with different dynamics between goods and services. We forecast inflation to reach 120% this year and 35% in 2025 (with the balance of risks tilted towards a lower inflation) as lingering relative price imbalances are digested.

Key messages – Argentina

Exchange rate

The maintenance of the crawling peg at 2% MoM throughout the year contributed to the disinflation process, but slowed the build-up of reserves by the BCRA. We expect the government to gradually lift capital controls during 2025, even though a complete liberalization is unlikely before October elections.

Economic activity

The recession ended in 2Q24 and economic activity performed better than expected in 3Q24, with the incoming data showing an incipient recovery of real wages. Thus, GDP is expected to fall by 3.8% this year and grow to 5.5% in 2025, driven by private consumption and investment.

External sector

The recovery of agricultural exports and the rising surplus in the energy sector are the main drivers explaining the trade surplus of USD 17.6 bn expected for 2024. For 2025, we forecast a lower trade surplus of USD 14.2 bn, due to the increase of imports in a context of economic recovery and trade liberalization.

Risks

The main potential risks are: a loss of public support that could complicate the continuity of fiscal-monetary equilibrium and an increase in FX rate tensions caused by the delay in lifting capital controls. Nevertheless, both scenarios seem unlikely in the near future.

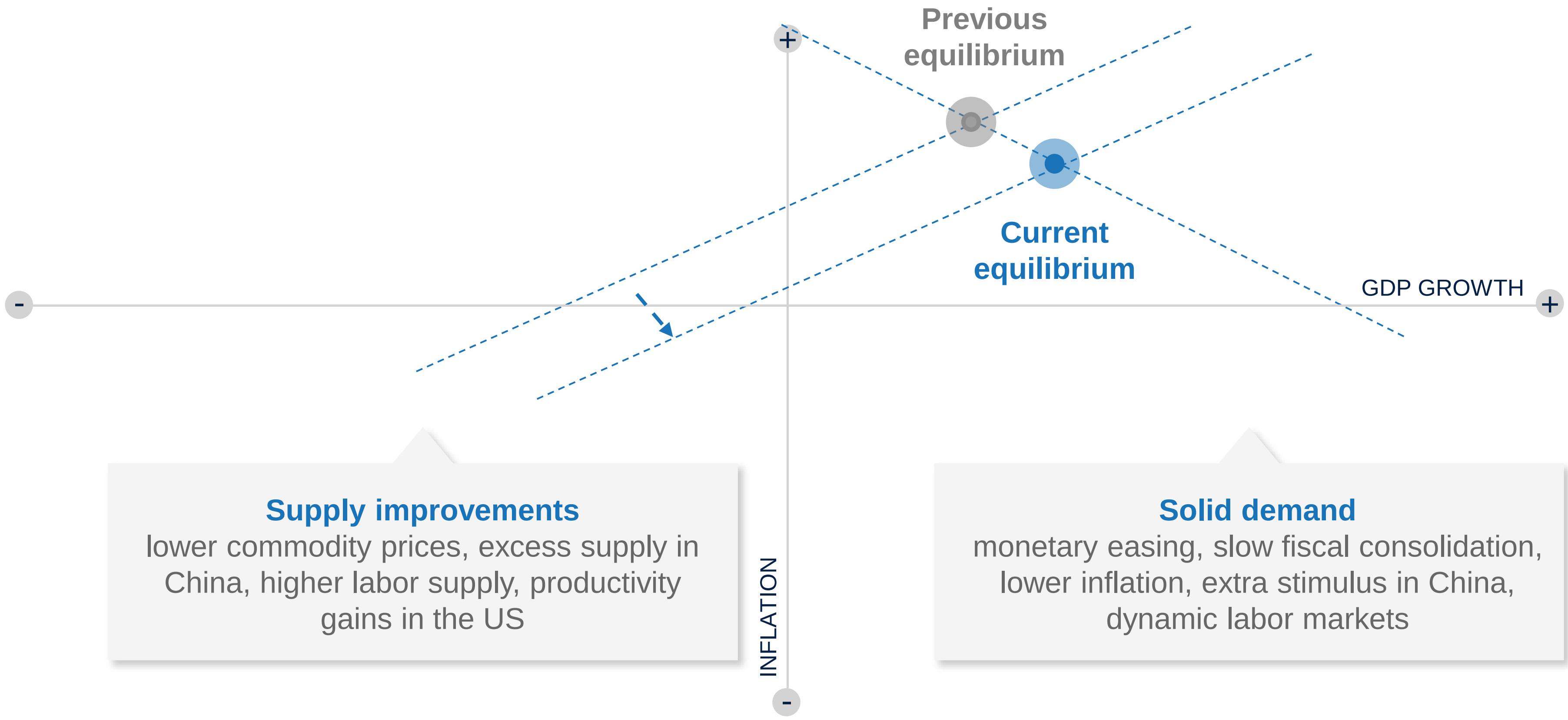
BBVA Research

01

Global Economic Outlook 4Q24

Creating Opportunities

Recent supply improvements have allowed further declines in headline inflation and supported growth ahead of a new Trump government in the US



Supply improvements
lower commodity prices, excess supply in China, higher labor supply, productivity gains in the US

Solid demand
monetary easing, slow fiscal consolidation, lower inflation, extra stimulus in China, dynamic labor markets

What to expect from a new Trump government in the US?

BBVA Research base scenario

Higher import tariffs:
60% US tariffs on China, 10% US tariffs on all other countries; retaliation by China (60% tariffs on targeted US goods), but not by others

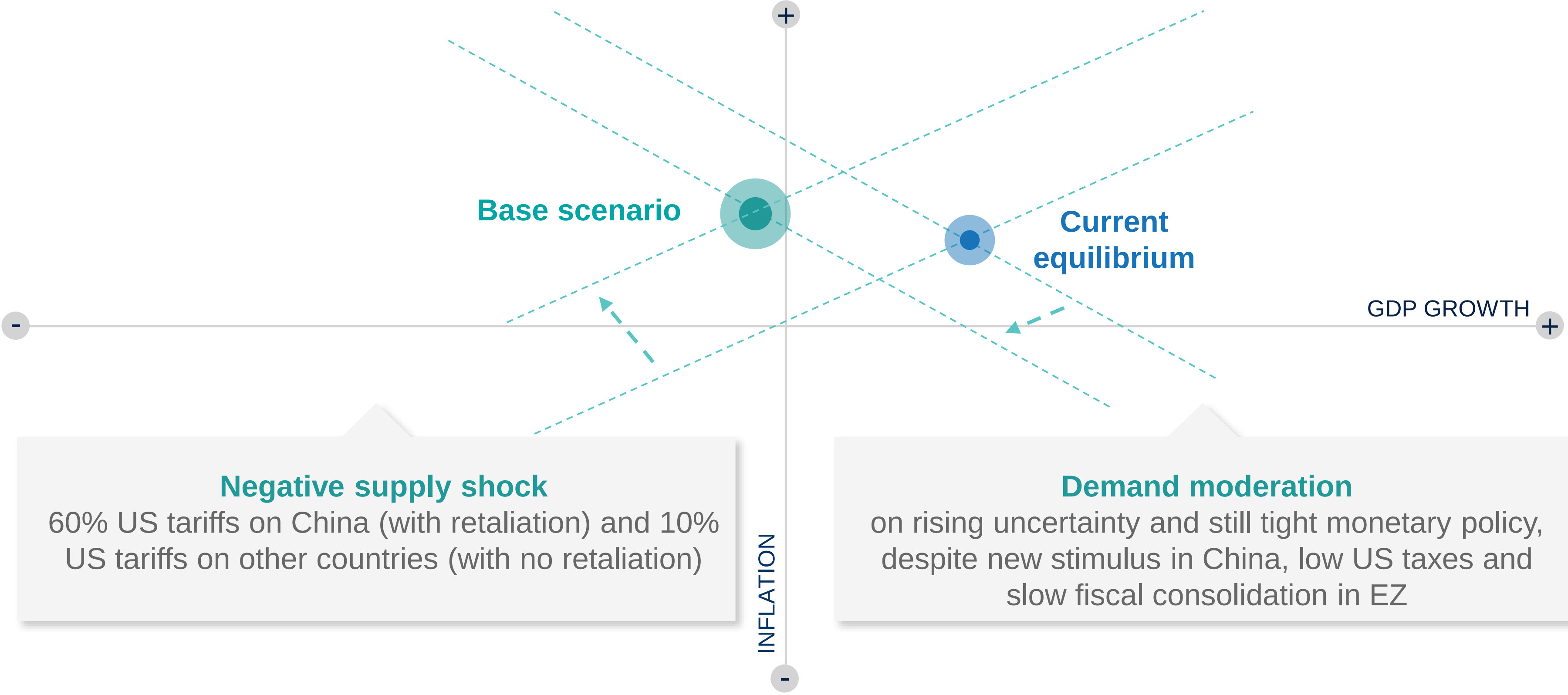
Low taxes:
tax cuts remain in place (i.e the 2017 Tax Cut and Job Act is renewed).

Uncertainty on various fronts:
extra shocks (on immigration, deregulation, pro-oil agenda, Fed's autonomy, foreign policy...) are possible, but are not assumed.

Overall impact will depend on cyclical position (better in the US) and margin for response (higher in China and in the US)

	US	CHINA	EUROZONE
GDP	Slightly lower	Slightly lower	Much lower (no recession)
INFLATION	Higher (one-off impact)	Much lower	Lower
RATES	Higher	Lower	Lower
CURRENCY	USD: stronger	RMB: weaker	EUR: weaker

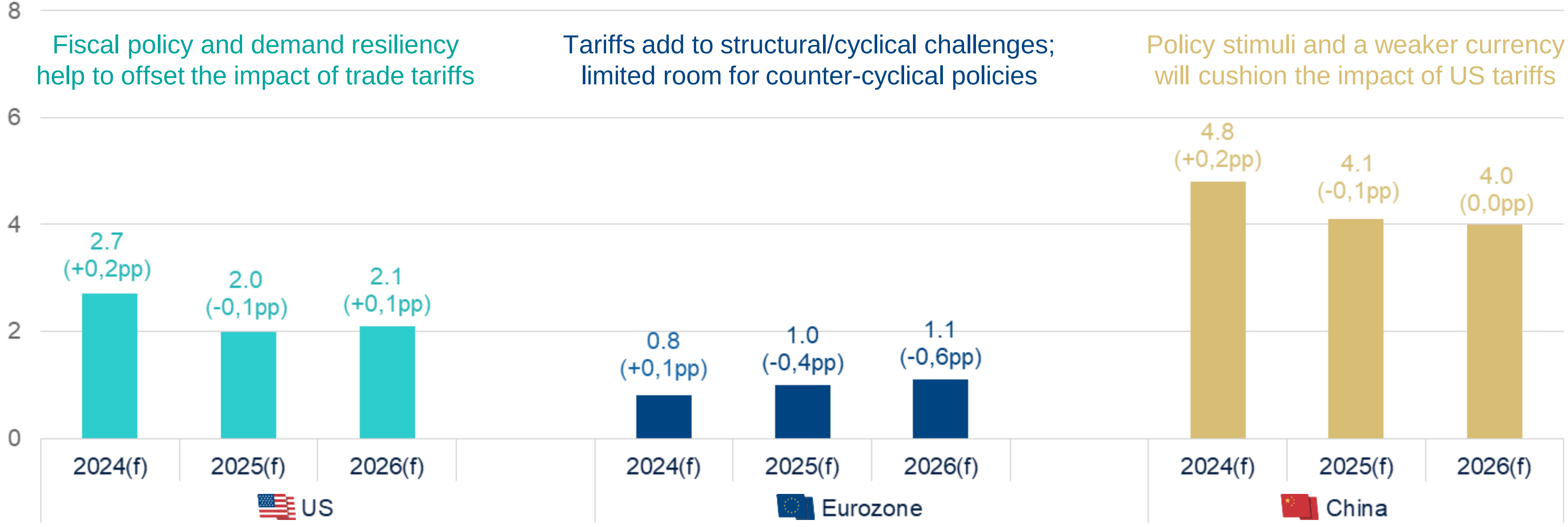
Base scenario: protectionism will fuel uncertainty, pressure global growth downwards and inflation upwards, with important differences across countries



Slower growth ahead, despite both stronger GDP expansion in 2024 and likely measures to mitigate the impact of higher trade tariffs (mainly in China)

GDP GROWTH (*)

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



(*) Global GDP growth: 3.2% (+0.1pp) in 2024, 3.1% (-0.2pp) in 2025 and 3.3% (+0.1pp) in 2026.

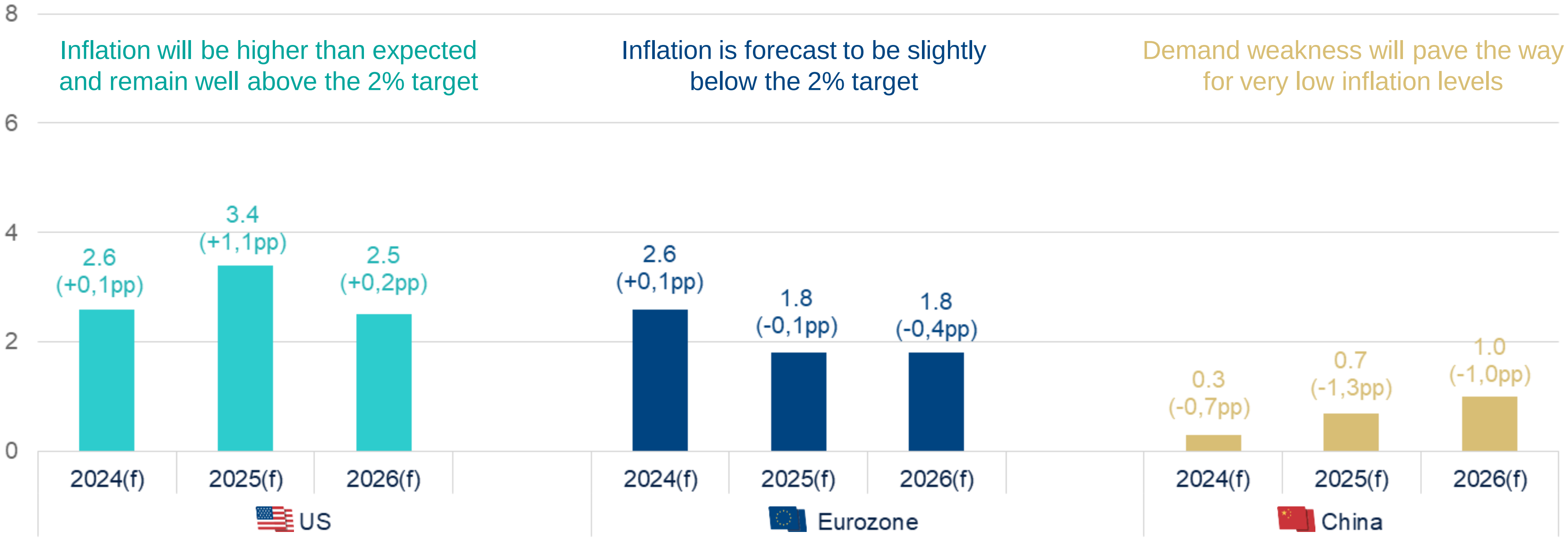
(f): forecast.

Source: BBVA Research.

Trump policies will pressure inflation, mainly in the US; in other regions, it will likely ease due to weaker growth, lower oil prices and excess supply in China

HEADLINE CPI INFLATION

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

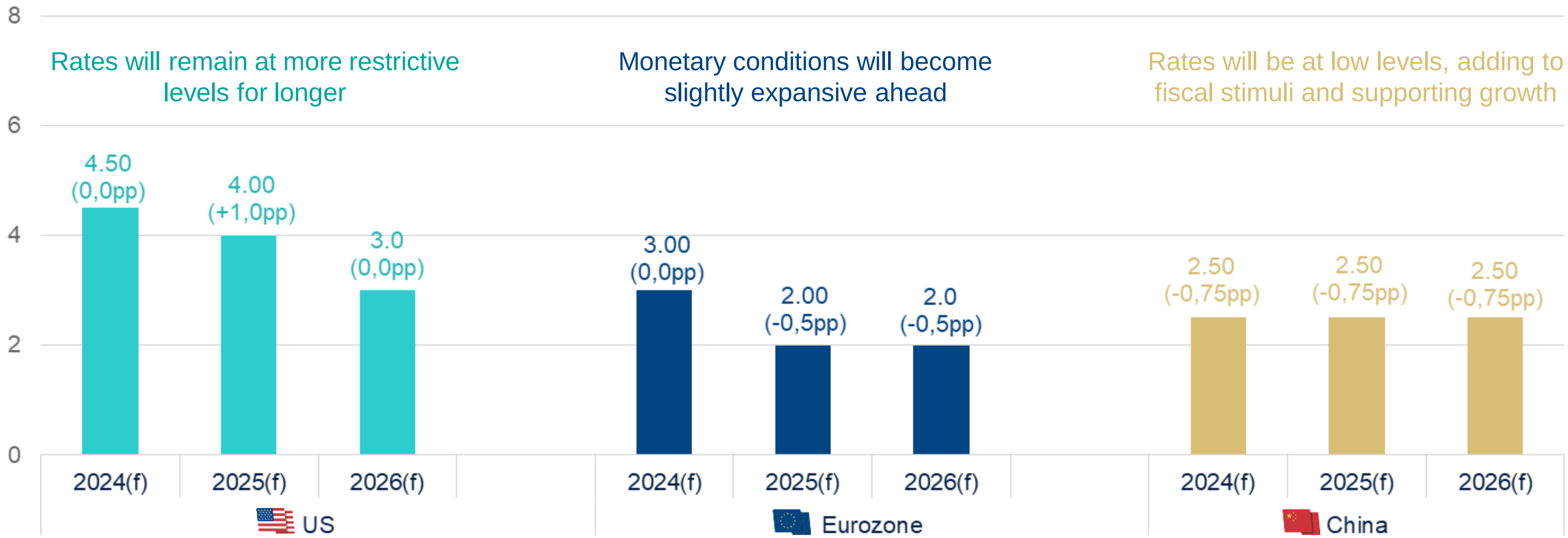


(f): forecast.
Source: BBVA Research.

The Fed will have less room to ease monetary conditions, while more rate cuts than previously forecast are likely in the EZ and in China

POLICY INTEREST RATES (*)

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

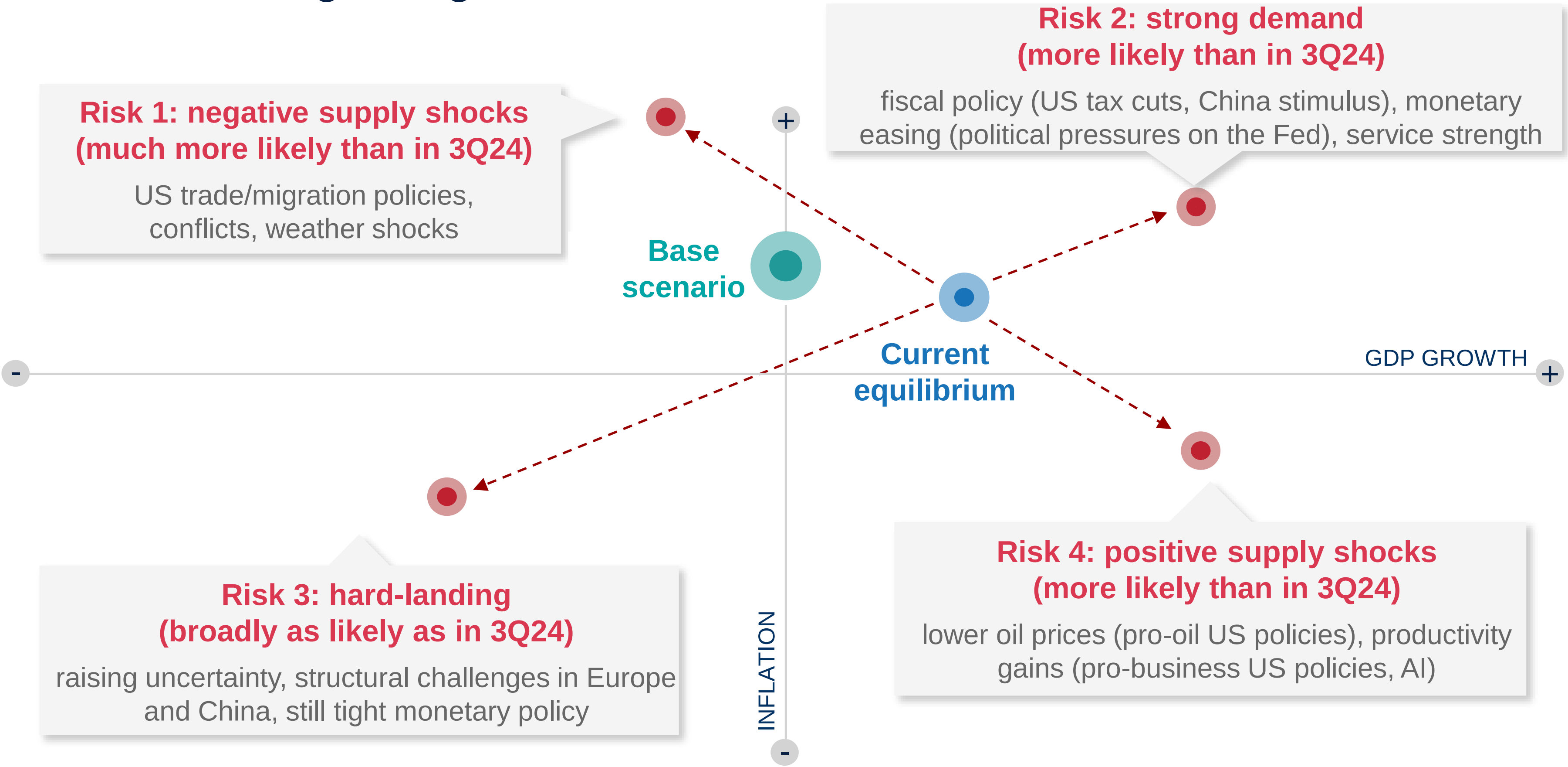


(f): forecast.

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

Source: BBVA Research.

Risks: policies by the new US administration, and geopolitical events, may lead to more negative global macro scenarios



BBVA Research

02

Argentina Economic Outlook – December 2024

What could Trump's second administration mean for Argentina?

Economic activity

Political alignment with the USA, including its more subdued interest in climate change, could accelerate investment flows to sectors such as energy and mining, which will be key players in the economic recovery over the coming years.

IMF and the external sector

Trump may accelerate an IMF deal that includes fresh funding (and probably a gradual liberalization of capital controls). This would help lower country risk, support the Treasury in once again placing debt on the global market, and increase capital inflows. These improvements would be partially offset by lower commodity prices and a stronger dollar.

Inflation

Although local inflation will continue to fall due to the fiscal anchor and monetary tightening, lower exchange rate tensions (caused by the "strategic alliance") will lead to lower depreciation expectations and thus lower inflation expectations.

Interest rates

Domestic rates will be adjusted upward endogenously (in real terms) due to the regularization of the monetary imbalance. The impact of further Fed easing (higher rates) will be felt on public and private debt issuance in the international markets.

Fiscal

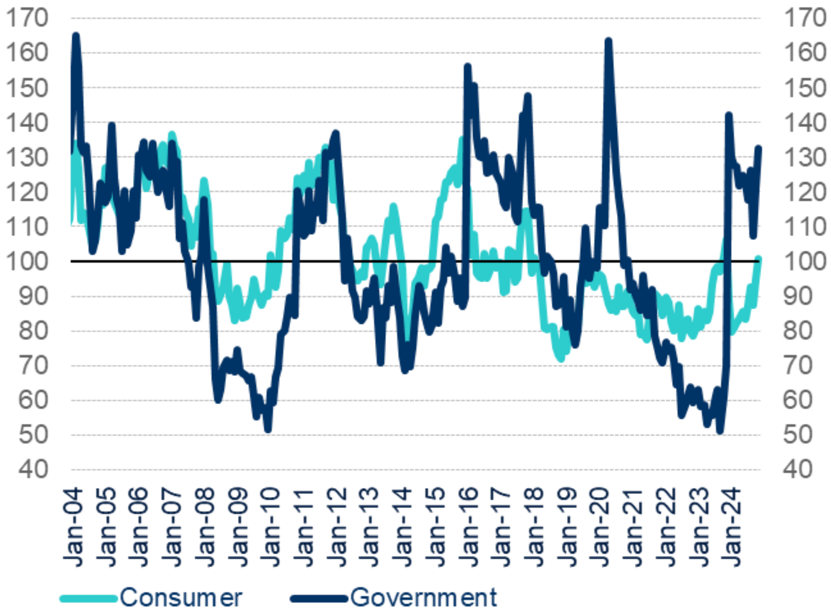
A higher Fed interest rate scenario would generate higher interest debt payments, which would in turn imply the need of larger primary spending cuts to safeguard fiscal equilibrium.

Medium and long term

Negative impact: similar to effect expected for other emerging economies. Higher inflation expected for the USA due to fiscal expansion will prompt the Fed to hike interest rates, thus strengthening the dollar, pushing up borrowing costs, deepening the depreciation of regional currencies and exerting more pressure on foreign trade due to cheaper commodities.

Government approval and consumer confidence significantly improved in the past two months

CONFIDENCE INDICATORS
(BASE 100 = HISTORICAL AVERAGE)

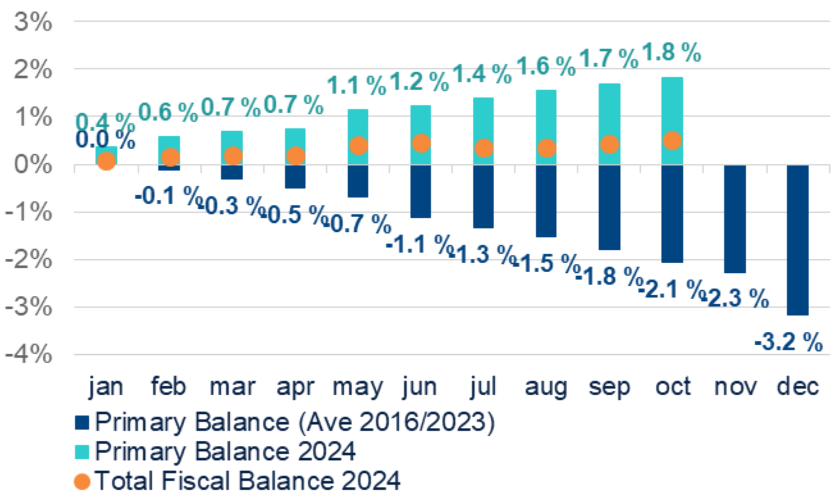


Source: UTDT and BBVA Research.

- An incipient decline in public support to the government took place since July, but this fall was ultimately reversed in October and November. Both Consumer Confidence and “Trust in Government” significantly increased in the past two months.
- Excluding the exceptional situation in Oct-Nov 2023, when consumption spiked as a “defense” against inflation and political uncertainty, consumer confidence is back to levels not seen since January 2018.
- With the sharp drop in inflation, this variable is no longer one of the main concern affecting society, now unemployment has become a new priority for the people.

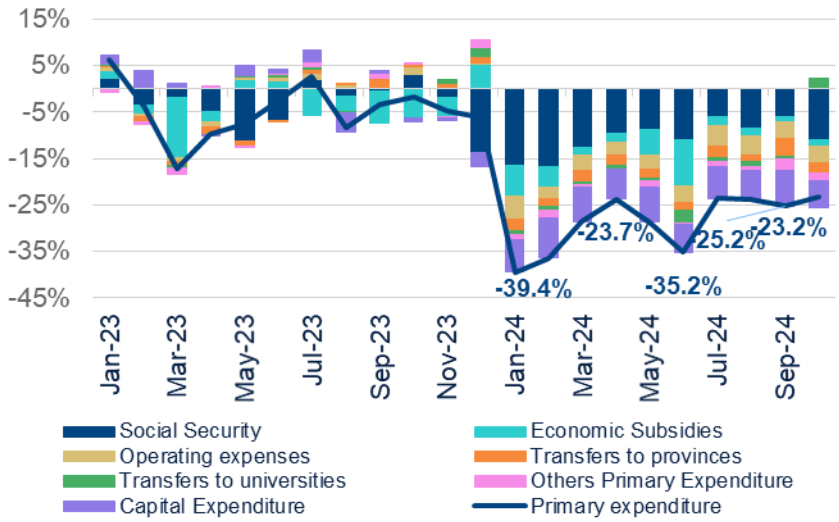
The government will end its first year in office with fiscal equilibrium, thanks to heavy cuts in public spending…

PRIMARY AND TOTAL FISCAL BALANCE
(% OF GDP, YEAR-TO-DATE 2024)



Source: INDEC, Ministry of Economy and BBVA Research.

CUMULATIVE CUT IN PUBLIC SPENDING, JAN-OCT 2024 (CHG. % ACTUAL AND INCIDENTS, YOY)

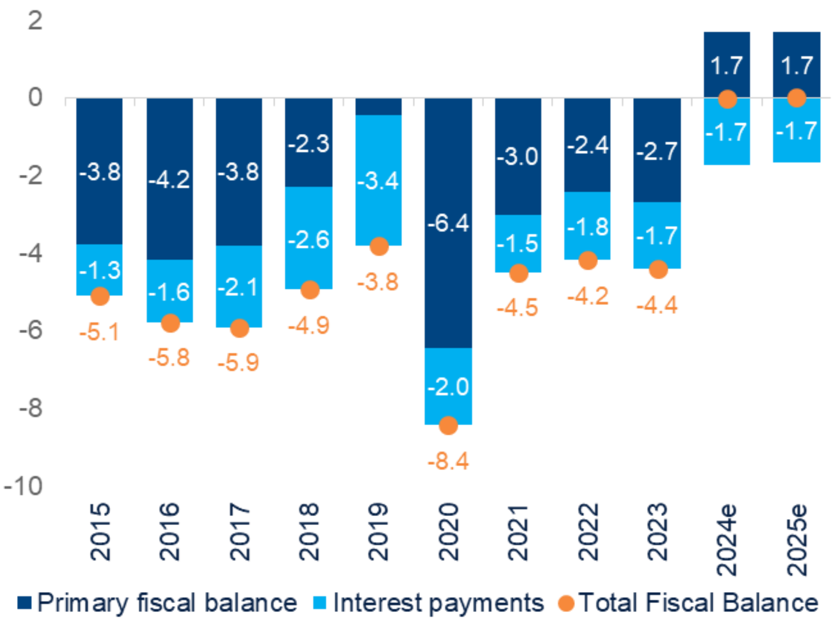


Source: INDEC, Ministry of Economy and BBVA Research.

Through October, the government had accumulated a primary surplus of 1.8% of GDP and a total surplus of 0.5% of GDP, a 180º turnaround from the trend in recent years. It will head into December with enough savings to cope with a month characterized by seasonally high spending.

… and reaffirms its commitment to maintain the fiscal equilibrium again in 2025, despite the uncertainty regarding its medium-run sustainability

FISCAL BALANCE
(% OF GDP)

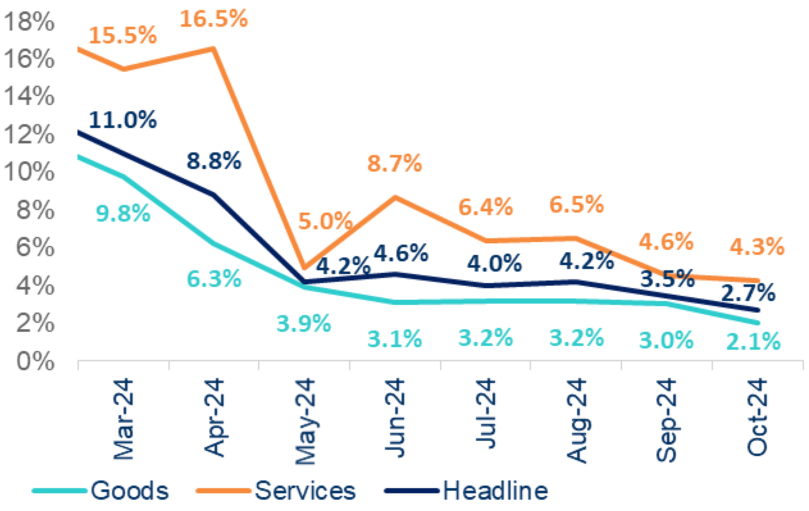


Source: Ministry of Economy and BBVA Research.

- With little room to continue adjusting expenditures, the government needs to improve its revenues, either by rising tax collection from higher activity, or by selling state-owned assets.
- Spending on pensions will increase in 2025 due to the current indexation formula and falling levels of inflation. Capital expenditure will also increase to ensure economic growth and the maintenance of current infrastructure.
- It is feasible for the government to achieve total fiscal balance again in 2025, although it will need to continue cutting costs and improving revenues.

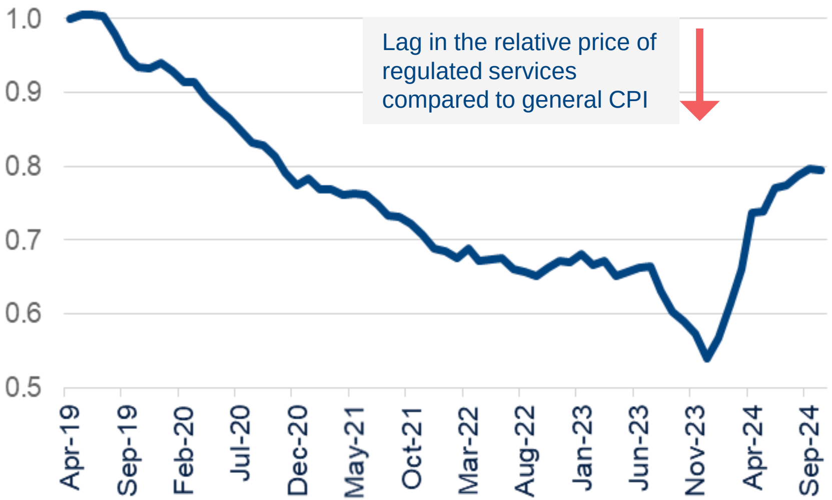
Inflation decelerated below 3% MoM with a differentiated evolution in goods versus services

INFLATION: HEADLINE, GOODS AND SERVICES
(% VAR.., MOM)



Source: INDEC and BBVA Research.

ADJUSTMENT OF REGULATED PRICES
(RATIO: REGULATED CPI / GENERAL CPI)

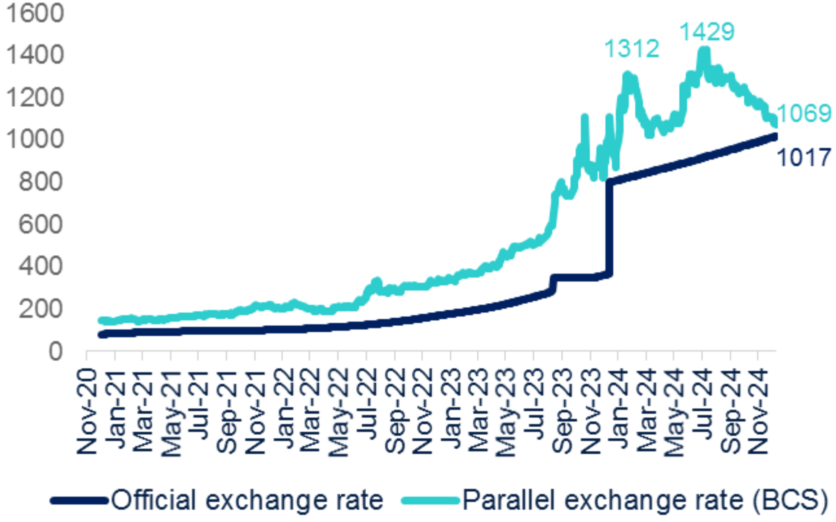


Source: INDEC and BBVA Research.

We expect inflation to reach 120% in 2024, and a slow down to 35% in 2025 (with the balance of risks tilted towards lower inflation). The remaining adjustment of regulated prices, the recovery of real wages and the exchange rate market liberalization are the main factors imposing a “floor” to inflation next year.

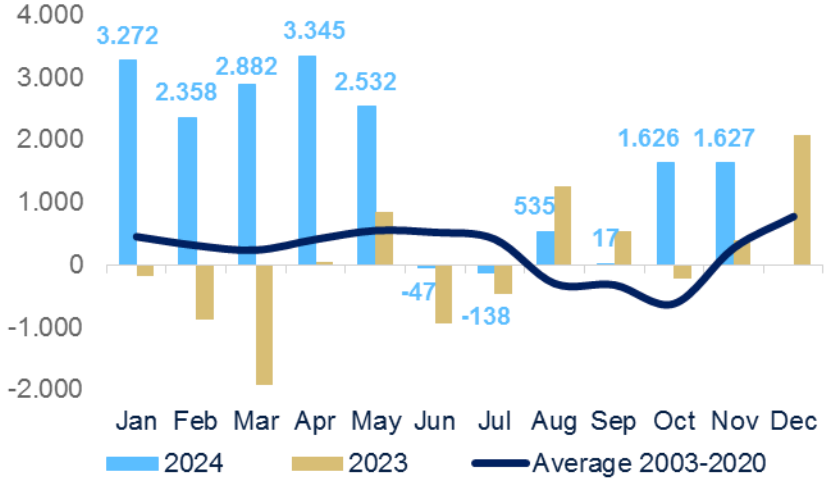
The 2% MoM crawling peg supported disinflation but slowed reserve accumulation

OFFICIAL AND PARALLEL EXCHANGE RATES
(ARS / USD)



Source: BCRA, Alphacast and BBVA Research.

NET PURCHASES OF BCRA RESERVES
(MILLIONS OF DOLLARS)

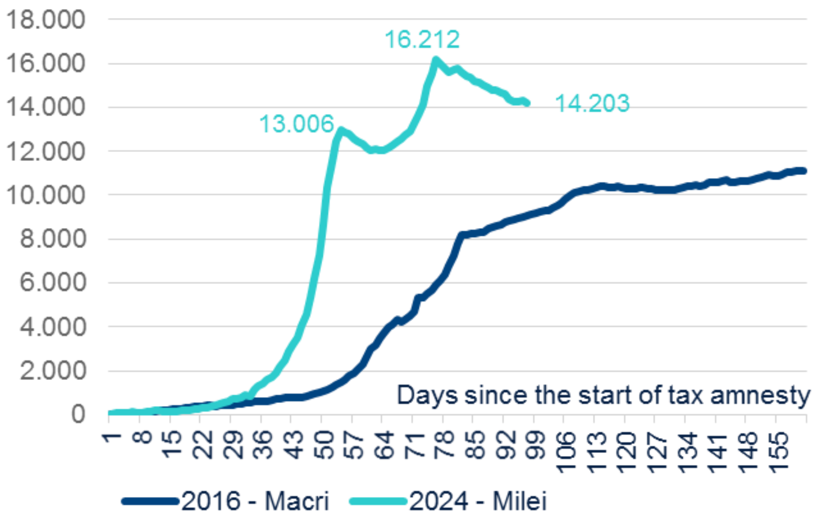


Source: BCRA and BBVA Research.

The BCRA kept the pace of depreciation of the official exchange rate constant throughout the year. This strategy led to a FX stability that reinforced the disinflation process. The gap with the parallel exchange rate stands below 10%, and since October the BCRA has managed to rebuild reserves, thanks to a greater exports settlement and the very successful tax amnesty.

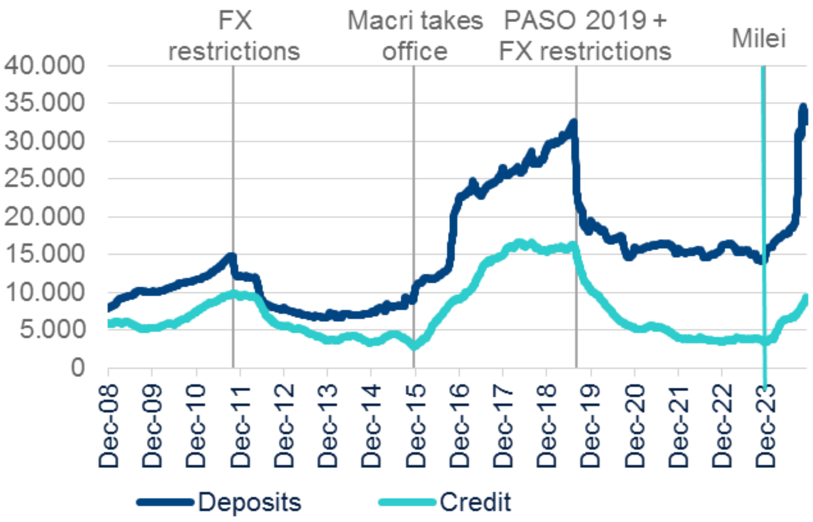
The tax amnesty on unregistered assets exceeded expectations, and banks are now set to channel these funds into credit, injecting dollars into the FX market

PRIVATE SECTOR DOLLAR DEPOSITS
(CUM. CHANGE SINCE THE LAUNCH OF THE TAX AMNESTY)



Source: BCRA and BBVA Research.

PRIVATE SECTOR FX DEPOSITS AND LOANS
(USD MILLIONS)

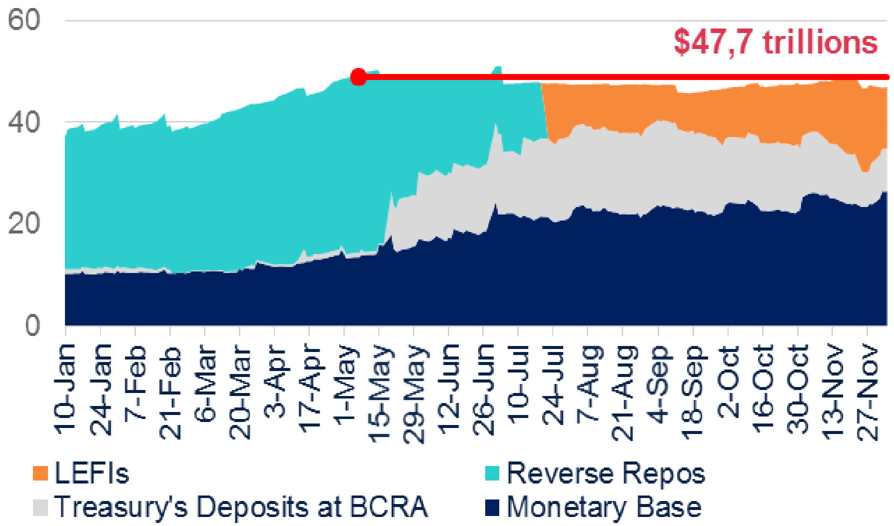


Source: BCRA and BBVA Research.

Dollar deposits increased by approximately USD 14 billion, thanks to the tax amnesty. As these revenues are then channeled into credit to the private sector, they increase inflows in the official FX market and that will help the build-up of the BCRA's international reserves.

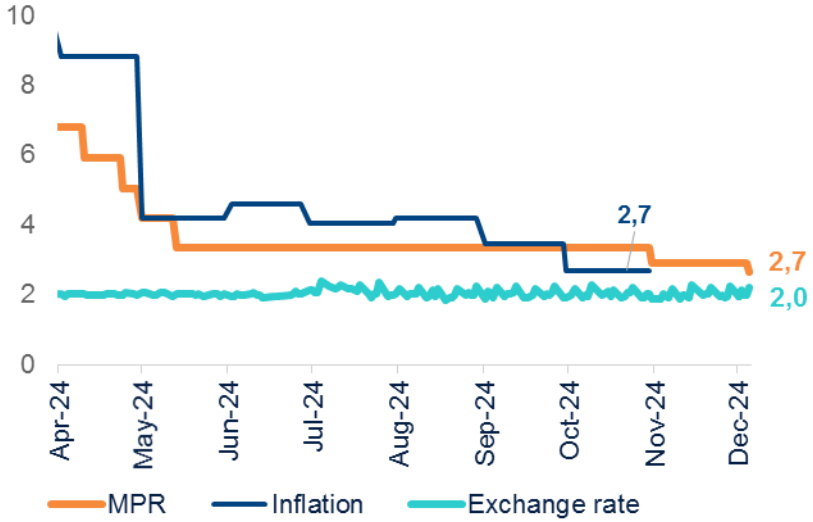
Fiscal correction and a stabilizing economy have paved the way for a remonetization process driven by a genuine increase in demand for pesos

MONETARY SCHEME: "BROAD MONETARY BASE"
(TRILLIONS OF PESOS)



Source: BCRA and BBVA Research.

MONETARY POLICY RATE, INFLATION AND OFFICIAL EXCHANGE RATE CHANGE
(% PER MONTH)



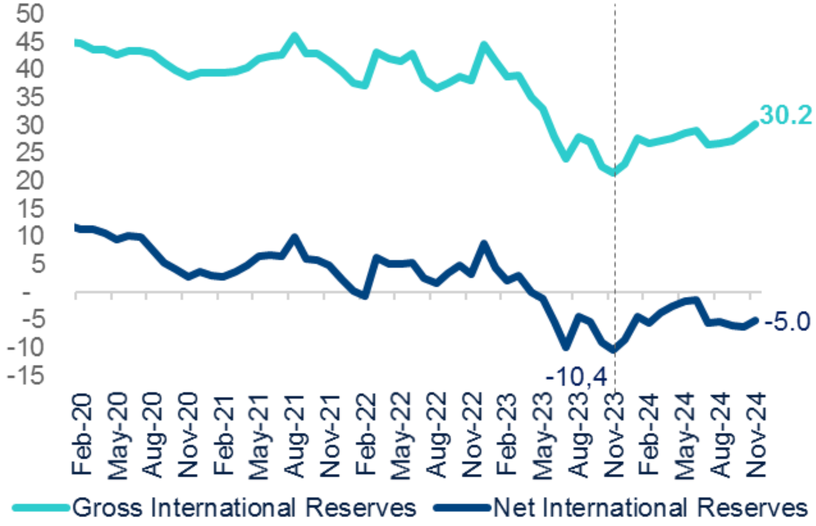
Source: BCRA, INDEC and BBVA Research.

Since Milei took office, the BCRA has not issued money to assist the Treasury. The current monetary scheme consists of freezing the "broad monetary base", and thus the main way to increase money supply depends on banks' using their liquid assets to fund new credit to the private sector.

The BCRA surprised in December by cutting 3 pp the monetary policy rate, which could push up demand for credit and/or signal a future reduction of the current 2% MoM crawling peg.

Gross international reserves have increased due to the tax amnesty, while net reserves have remained stable due to debt payments

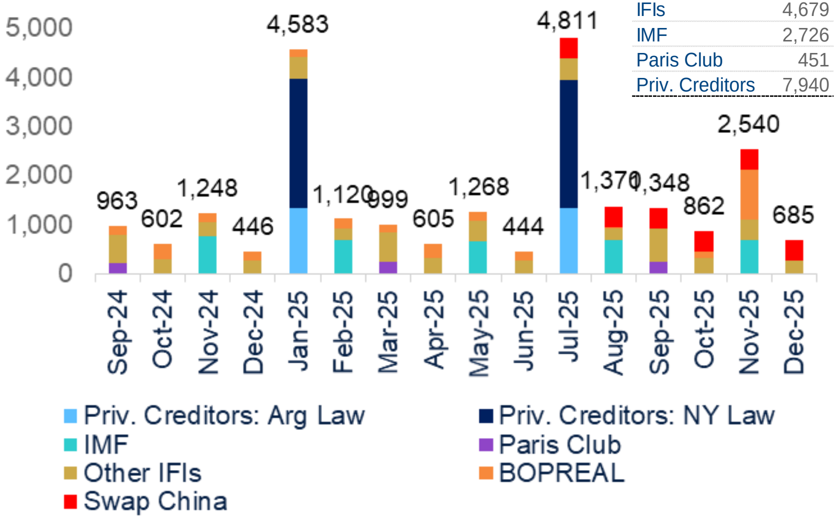
INTERNATIONAL RESERVES (USD BILLION)



Source: BCRA and BBVA Research.

FOREIGN CURRENCY PUBLIC DEBT PROFILE (USD MILLION)

2025	
Total	**20,636**
Swap	2,500
BOPREAL	2,340
IFIs	4,679
IMF	2,726
Paris Club	451
Priv. Creditors	7,940

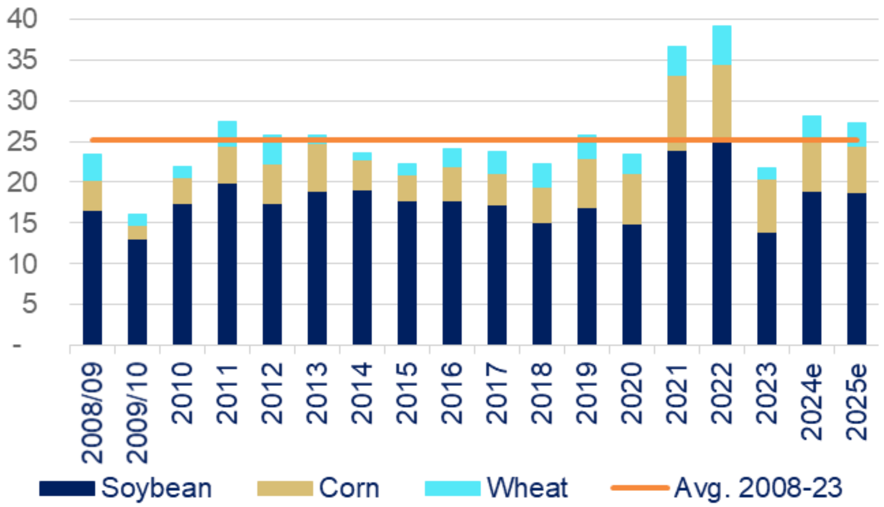


Source: Ministry of Economy and BBVA Research.

The government has already purchased the dollars from the BCRA to meet the debt payment with private bondholders in January (approx. USD 4 billion). Moreover, since end-September it has paid a total of USD 820 million in interest to the IMF, settled BOPREAL bonds maturities totaling USD 500 million, and paid USD 750 million to other multilaterals.

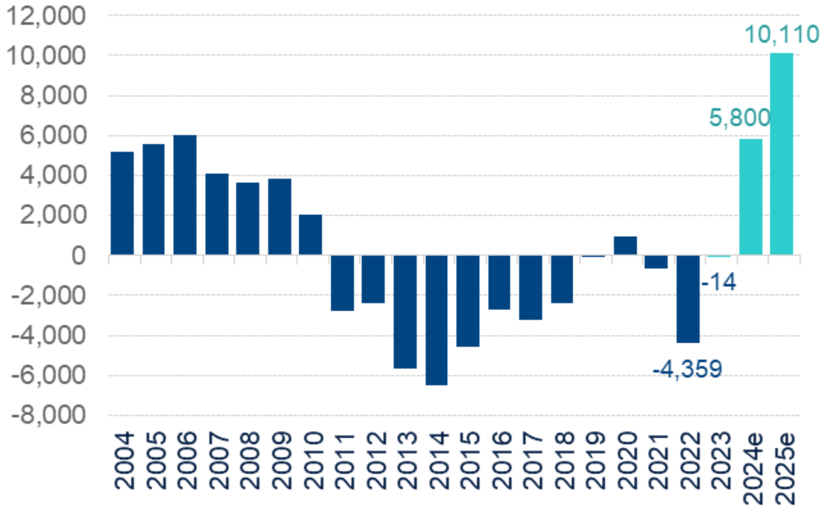
The trade balance will continue to maintain a surplus thanks to the steady recovery of agribusiness and the export consolidation of energy…

MAIN AGRICULTURAL EXPORTS
(USD BILLION)



Source: BCBA and BCR and BBVA Research.

ENERGY TRADE BALANCE
(MILLIONS OF DOLLARS)



Source: INDEC and BBVA Research

Improved wheat and soybean production in 2025 will be offset by lower soybean prices, so we expect similar agricultural export levels in USD.

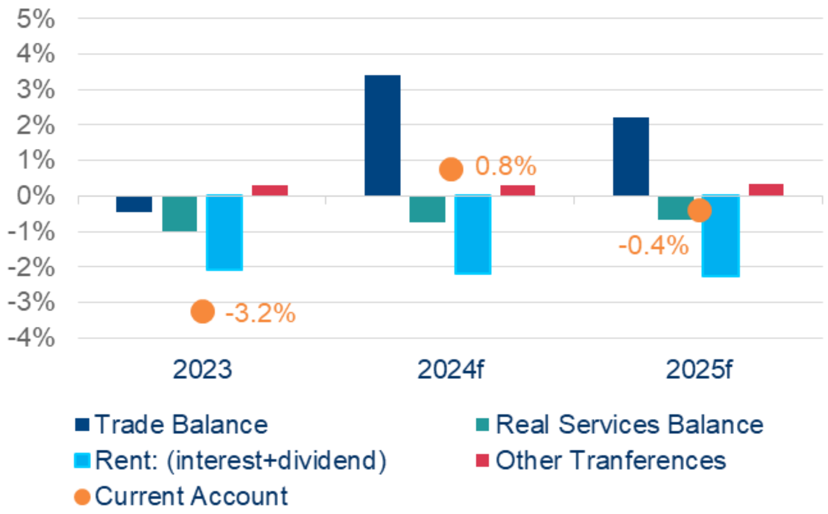
The energy sector will remain buoyant over the coming years, with the consolidation of investments projects under the Large Investments Regime (RIGI)

… but due to higher imports and increasing interest payments, a current account deficit is expected for 2025

FOREIGN TRADE: PRICE, QUANTITY AND VALUE (% CHG., YOY)

Source: INDEC and BBVA Research.

CURRENT ACCOUNT BALANCE AND ITS COMPONENTS (% OF GDP)

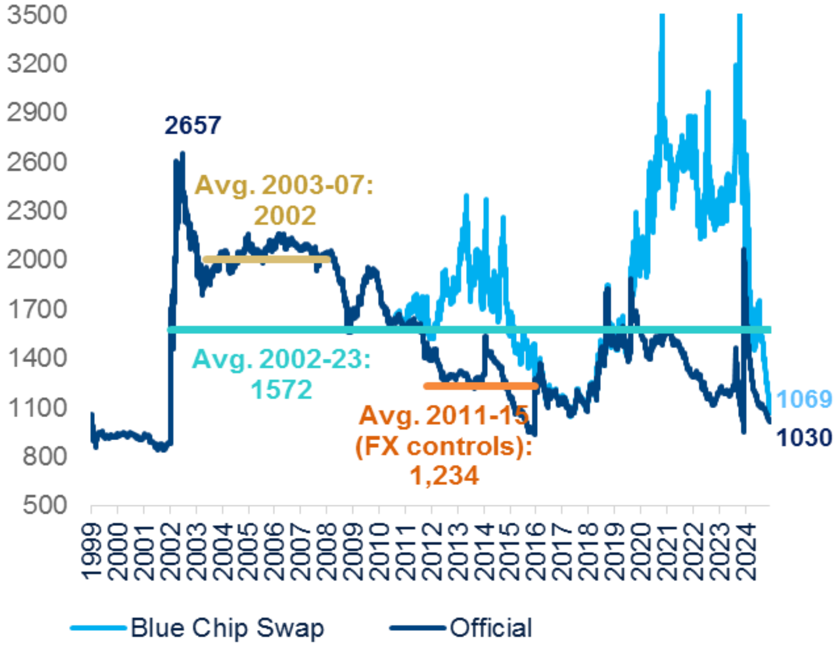


Source: INDEC and BBVA Research.

The economic recovery, coupled with the removal of trade barriers and capital controls (including the PAIS tax), should encourage imports of goods and services, lowering the trade surplus (from USD 17.6 bn this year to USD 14.2 bn). Interest payments in foreign currency will also increase in 2025, so a small current account deficit is expected of around 0.5% of GDP.

In this context, we expect the government to continue gradually lifting capital controls throughout 2025

REAL EFFECTIVE EXCHANGE RATE: OFFICIAL AND PARALLEL (ARS/USD, INFLATION-ADJ., AT 9-DEC-24 PRICES)



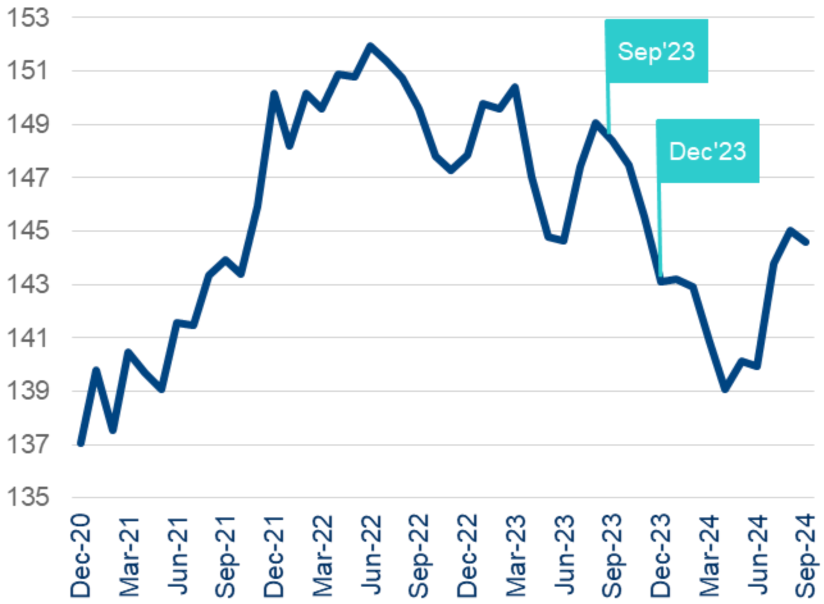
Source: BCRA, Alphacast and BBVA Research.

- The flip side of the FX rate stability and capital inflows is a fairly rapid appreciation of the real exchange rate compared to previous years, which is now at levels comparable to Dec-17. On top of this, the PAIS tax will be removed in December.
- We expect the government to take advantage of the favorable environment to gradually ease FX controls during the first quarter of 2025, although full liberalization prior to the elections is unlikely.
- We expect the FX rate to reach 1030 in Dec 2024, and 1470 in Dec 2025, by which time the different exchange rates will be unified.

Data from 2H-24 confirm the onset of the recovery, with the economy already surpassing its December 2023 level

MONTHLY ECONOMIC ACTIVITY

(BASE 2004 = 100; SEASONALLY-ADJUSTED SERIES)



Source: INDEC and BBVA Research

HIGH FREQUENCY SECTORAL INDICATORS

(MoM % CHG.; SEASONALLY-ADJUSTED SERIES)

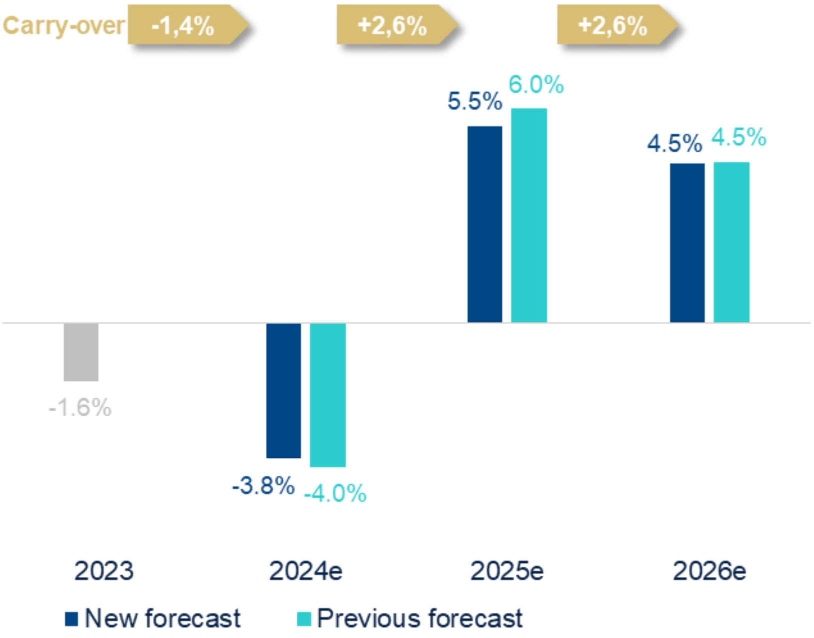
	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Monthly activity (EMAE)	-0.1%	2.7%	0.9%	-0.3%		
Monthly activity (OJF)	-0.2%	1.4%	-0.6%	1.0%	0.2%	
Industrial output (INDEC)	-1.7%	9.3%	1.5%	2.6%	-0.8%	
Industrial output (FIEL)	0.8%	2.5%	-1.4%	2.5%	0.5%	
Automotive output	21.8%	52.6%	-15.0%	-7.2%	15.7%	-1.9%
Construction (INDEC)	2.1%	8.3%	-3.1%	1.9%	-4.0%	
Construya index	-2.0%	10.8%	-3.6%	-5.0%	0.8%	-4.6%
Cement shipments	-8.6%	16.2%	-11.5%	3.0%	-1.6%	1.6%
CABA deed signings	-6.2%	11.0%	-0.8%	-2.2%	10.6%	
New vehicle sales	-12.4%	23.4%	1.9%	7.0%	-0.6%	-11.3%
Used vehicle sales	-11.2%	23.5%	-4.3%	-1.9%	11.2%	-9.7%
Expenses with BBVA cards	-0.2%	-5.4%	-3.8%	-3.2%	5.4%	14.3%
Retail sales (CAME)	-14.1%	7.7%	4.5%	3.7%	4.0%	1.0%
Supermarket sales (INDEC)	-0.2%	-0.1%	1.0%	-0.6%		
Internal VAT collection (real)	4.0%	-0.6%	8.4%	-10.6%	6.2%	0.1%
General index of real wages	1.5%	3.3%	1.4%	1.2%		
Formal private sector employees	-0.2%	-0.2%	0.1%			
Public employees	0.0%	-0.1%	-0.1%			

Source: INDEC, ADEFA, SIOMAA, Ministry of Economy, Grupo Construya, OJF & Asociados, FIEL, CAME and BBVA Research

Better-than-expected data revises the GDP decline to -3.8% for this year, while FX liberalization delays lower 2025 growth to 5.5%

GROSS DOMESTIC PRODUCT

(YoY % CHG.; CONSTANT ARS)

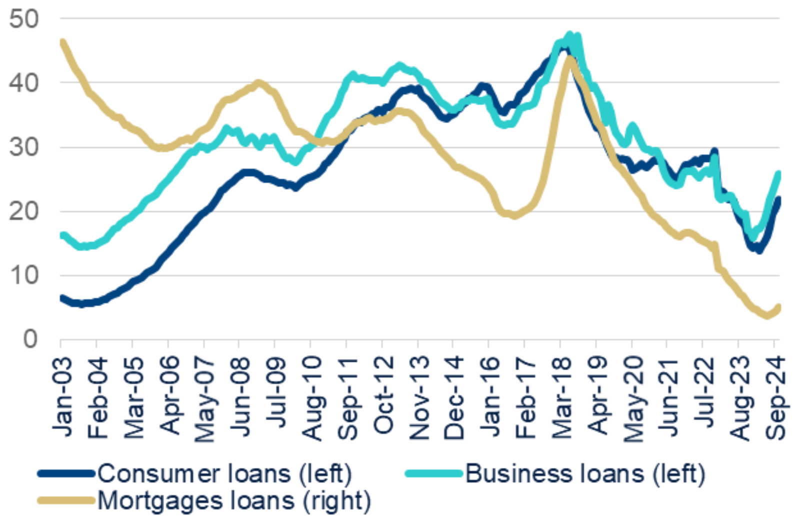


Source: INDEC and BBVA Research.

- We have revised our expected decline in 2024 GDP to -3.8%, driven by the recovery of the agricultural sector following the drought and consumption supported by real wage improvements.
- Private investment and private consumption is expected to be the main driver of GDP growth in 2025, accompanied by export consolidation in the energy sector.
- However, delays in the FX market liberalization would slow some investment processes and spending plans. As a result, we have lowered our 2025 GDP growth to 5.5% from the previous 6%.

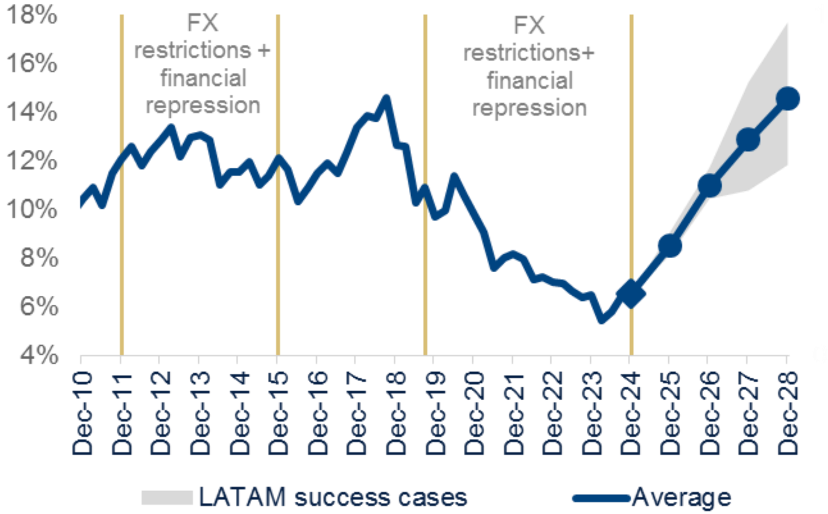
A sharp rebound in credit, which still has significant room for growth, is boosting economic activity and revitalizing the real estate market

CREDIT TO THE PRIVATE SECTOR IN PESOS
(TRILLIONS OF CONSTANT ARS JAN-03; SA)



Source: BCRA, INDEC and BBVA Research.

TREND IN ARGENTINA CREDIT VS. LATAM SUCCESS STORIES (% GDP)



Source: BCRA, INDEC and BBVA Research.

Peso-denominated credit has grown 80% in real terms since hitting the Apr-24 floor (+21% YoY as of Nov-24). After analyzing successful cases of macroeconomic stabilization in Latam, it is likely that if Argentina manages to sustainably lower inflation, credit could be expected to grow by more than 6 pp of GDP in two years, which would imply more than double the credit levels of 2023 in terms of GDP.

Table of macroeconomic forecasts

	2020	2021	2022	2023	2024e	2025e	2026e
GDP (% YoY)	-9.9	10.4	5.3	-1.6	-3.8	5.5	4.5
Inflation (% YoY, EOP)	36.1	50.9	94.8	211.4	120.0	35.0	22.0
Exchange rate (vs. average USD 31-Dec.)	84.1	102.8	177.1	808	1,030	1,470	1,773
Monetary policy rate (%, EOP)	37.1	36.7	75.0	100	32	24	21
Private consumption (% YoY)	-12.2	9.5	9.4	1.0	-7.9	1.8	2.0
Public consumption (% YoY)	-2.0	7.1	3.0	1.5	-5.0	0.4	3.2
Investment (% YoY)	-13.1	34.0	11.2	-2.0	-2.53	14.0	19.3
Primary fiscal balance (% of GDP)	-6.4	-3.0	-2.4	-2.7	1.7	1.7	2.3
Total fiscal balance (% of GDP)	-8.4	-4.5	-4.2	-4.4	0.0	0.0	0.7
Current account balance (% GDP)	0.7	1.4	-0.6	-3.2	0.8	-0.4	-1.1
Public debt (% of GDP)	103.8	80.6	85.0	156.6	86.9	77.7	68.4

Source: BBVA Research.

Diclaimer

Source: BBVA Research.

Research

Argentina economic outlook

December 2024

Creating Opportunities