Research

Argentina Economic Outlook

2Q21

Creating Opportunities

Key points

The global economy continues to recover, despite the still uncertain context derived from the pandemic. Global GDP growth is expected to reach 5.9% in 2021, mainly driven by robust macroeconomic performances in China and the US.

In Argentina, the economic activity rebound was stronger than expected in 2H20, improving the starting point for 2021. We expect a 7% GDP growth this year, with the pace of recovery slowing as the year progresses.

The economic recovery was reflected in the labor market: unemployment is down after peaking in 2020. However, the increase in the employment rate has been primarily explained by informal jobs and underemployed workers, while formal employment showed little dynamism.

The pandemic has caused two macroeconomic imbalances in Argentina: 1) the highest fiscal deficit in 40 years, and 2) a monetary overhang that the economy will have to process, as a result of the money issued in 2020 to cover the fiscal deficit. The resolution of both issues will determine the country's economic performance for the remainder of the current government's term.

Key points

We project that the primary deficit will shrink to 4% of GDP in 2021 (down from 6.5% in 2020) thanks to: high soybean prices that increase exports duties, the one-time wealth tax, and the partial removal of the fiscal expenditure package in response to COVID-19.

Inflation would accelerate from 36.1% in 2020 to 50% in 2021, as a result of the economic recovery, the current monetary overhang and macroeconomic policies that remain loose.

The government is relying on the exchange rate as the main way to anchor inflation, through their intervention in the both the official and parallel FX markets. High commodity prices would allow the Central Bank to keep the FX rate below inflation in order to close December 2021 at 117 pesos per dollar. Meanwhile the government is tightening price controls and raising utility prices less than was budgeted.

We expect that the Central Bank will not increase interest rates before the elections in order to avoid hampering economic recovery and to contain the quasi-fiscal deficit, which shows signs of worsening.

Key points

To date, no progress has been made on the new program with the IMF. An agreement may be reached, at the earliest, in the last two months of the year. For the Fund to accept a 10-year agreement, the government would need to present a relatively demanding program, implementing a gradual fiscal and monetary consolidation, gradual exchange market normalization and structural reforms to underpin long-term economic growth. The future of the country's economy will be defined, in large part, by the content of this new program.

In our baseline scenario we consider the possibility of further mobility restrictions, but if the health situation boils over, this could harm economic activity more than expected, exacerbate the fiscal deficit and increase monetary issuance, leading to additional exchange rate and financial pressures. Another risk factor in the short- and medium-term would be an interruption of the negotiations with the IMF.

BBVA Research

01

Global Economic Outlook

2Q21

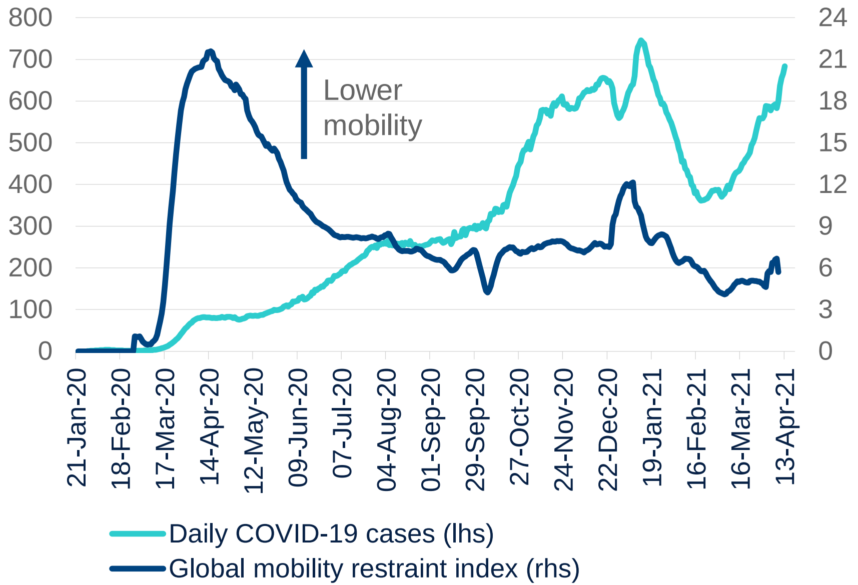
Creating Opportunities

The global economy continues to recover despite the still complex epidemiological context

2020	Start of 2021
Beginning and expansion of the pandemic, lockdowns, and vaccines developments	Start of vaccination, at different paces
Massive fiscal and monetary stimuli	Reinforced stimuli (fiscal packages in the US)
Sharp rise in financial volatility, followed by a gradual normalization	Increase of long term yields in the US and dollar appreciation
Incomplete and heterogeneous GDP rebound after the initial crash	Recovery at different paces, depending on vaccination and stimuli

COVID-19 infections have increased again, following a sharp decrease at the start of the year, but mobility remains relatively high

WORLD DAILY COVID-19 CASES AND GLOBAL MOBILITY RESTRAINT INDEX (*)
(CASES: THOUSANDS OF PEOPLE , 7-DAY MOVING AVERAGE)



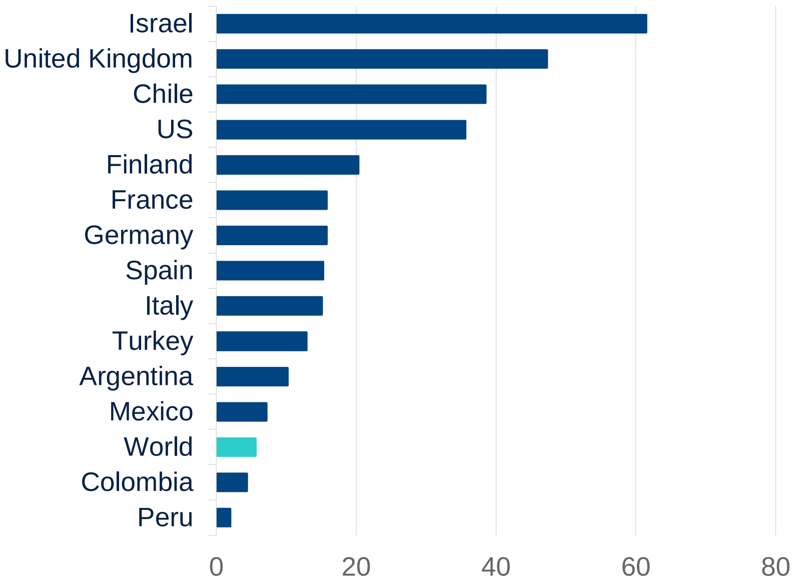
- Recent augment in infections in the US and, mainly, in Europe and Latin America, which have been forced to consider new restrictions.
- Virus mutations facilitate its spread.
- Less severe restrictions have limited the effect of contagions on mobility and on economic activity.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility.
BBVA Research based on data from John Hopkins University and Google.

Vaccination has advanced quickly in some areas, but supply restrictions have limited the progress in most countries

POPULATION VACCINATED

(% OF POPULATION THAT HAS RECEIVED AT LEAST ONE DOSE OF THE ANTI-COVID VACCINE AS OF APRIL 11 2021)



Source: BBVA Research based on data from Our World in Data.

- The inoculation process advances with heterogeneity across countries.
- A growing but still insufficient supply has prevented a quicker rollout of vaccines.
- Logistical and confidence problems have also weighed negatively on the pace of vaccination.
- The available vaccines exhibit a high rate of effectiveness, according to growing evidence.

Reinforced recovery prospects on stimuli and vaccines rollout; inflation and financial stress to remain contained, despite risks

Rest of 2021	2022
Mass vaccination with high heterogeneity across countries	"New normal"
Reinforced fiscal stimulus and unchanged rates in G3	Reinforced fiscal stimulus, unchanged rates in G3 and start of Fed tapering
Limited risk aversion, only a gradual rise of long term rates and a slightly dollar depreciation	Limited risk aversion, only a gradual rise of long term rates and a slightly dollar depreciation
Global recovery, led by the US and China	Global recovery, including in Europe and emerging markets

Assumptions and main features of BBVA Research's global scenario

Global growth will be higher than previously forecast and it will be led by the US and China

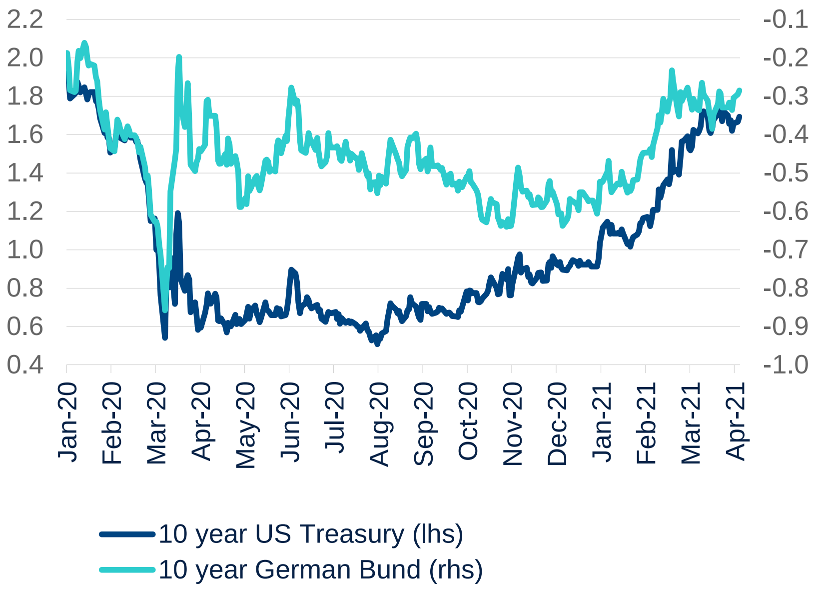
	US	Eurozone	China	Latam	World
2020	-3.5	-6.8	2.2	-6.6	-3.3
2021	^ 6.2	^ 4.5	> 7.5	4.9	^ 5.9
2022	^ 5.1	^ 4.9	> 5.5	3.0	^ 4.8

^ Upwardly revised forecast
> Unchanged forecast
v Downwardly revised forecast

Source: BBVA Research.

Fast vaccination and the fiscal impulse in the US have triggered a rise in long term yields and a dollar appreciation

10-YEAR BOND YIELDS
(%)



- Fiscal measures in the US have reinforced growth and inflation prospects.
- Markets have brought forward their forecasts for the withdrawal of monetary stimuli.
- Long term debt yields have significantly increased in the US, and at a lower degree in Europe.
- Equity markets have exhibited volatility episodes.
- The dollar has appreciated and emerging markets assets have suffered losses amid diminished capital inflows.

Source: BBVA Research based on date from Bloomberg.

Risks will remain significant, mostly on the downside, but a positive scenario with an even faster recovery cannot be dismissed

EPIDEMIOLOGICAL RISKS

- Virus mutations
- Slow vaccination
- New waves of infections

ECONOMIC-FINANCIAL RISKS

- Inflation
- Savings evolution
- Financial stress
- Flows into EMs
- Corporate bankruptcies
- Public debt sustainability

BBVA Research

02

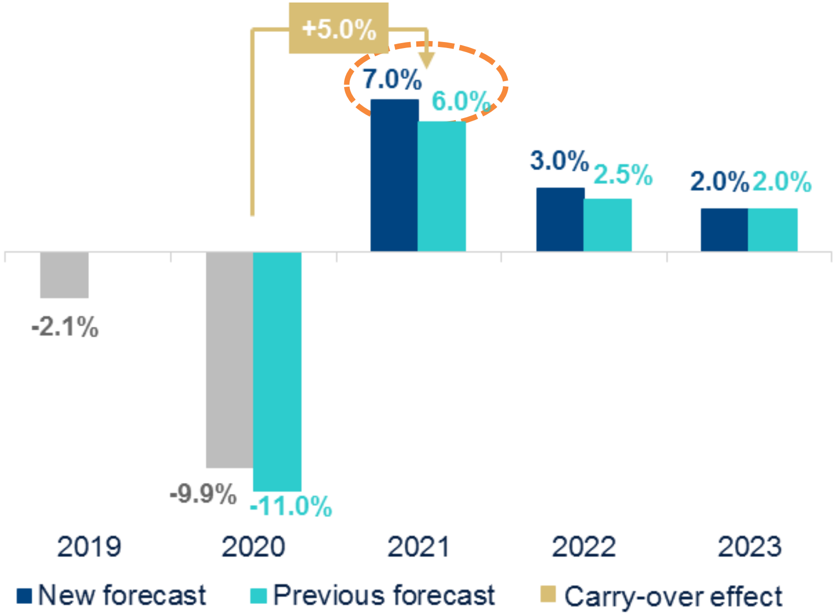
Argentina Economic Outlook

2Q21

Creating Opportunities

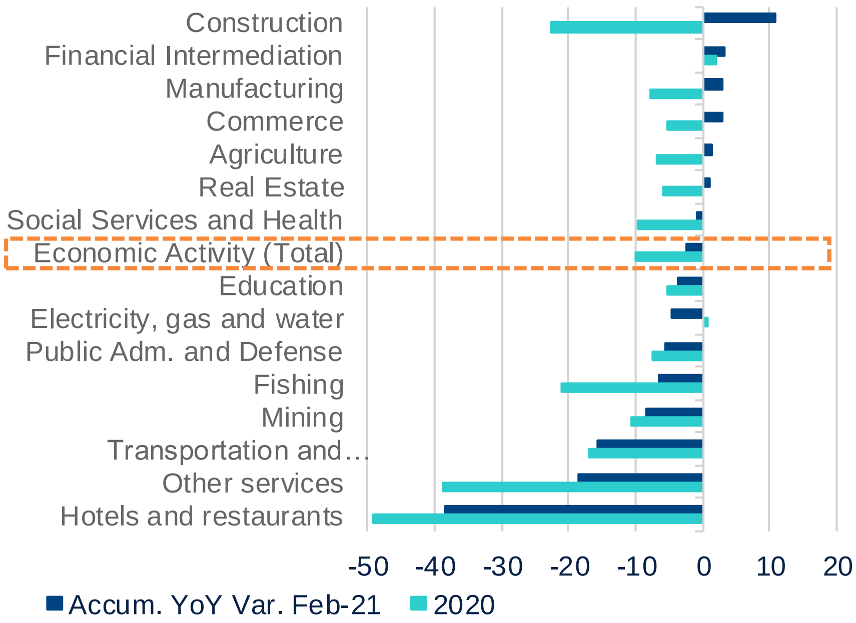
Economic activity rebounded faster than expected in 2H20, improving the starting point for 2021, although the recovery is heterogeneous across sectors

ANNUAL GDP GROWTH
(% CHANGE Y/Y, CONSTANT ARS)



Source: BBVA Research and INDEC.

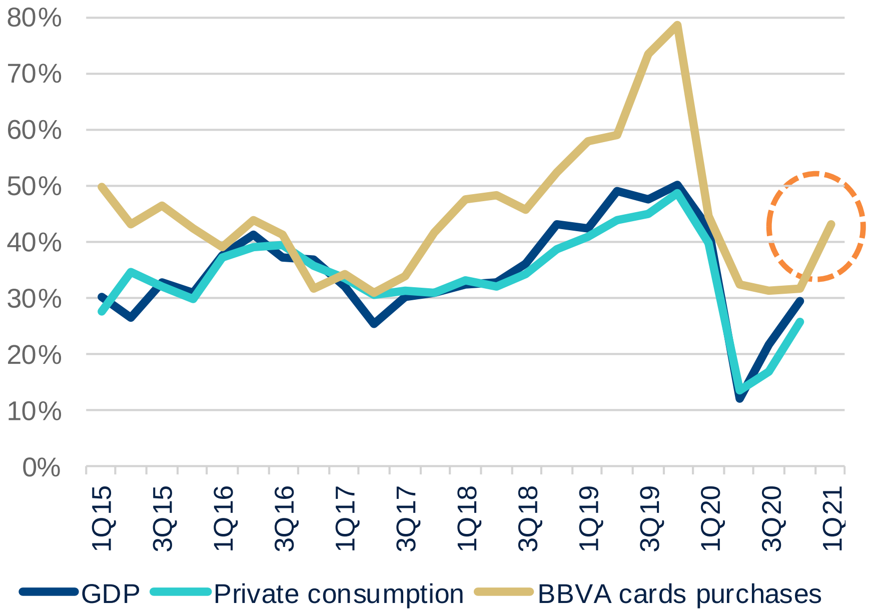
ACTIVITY GROWTH BY SECTOR
(% CHANGE Y/Y)



Source: BBVA Research and INDEC.

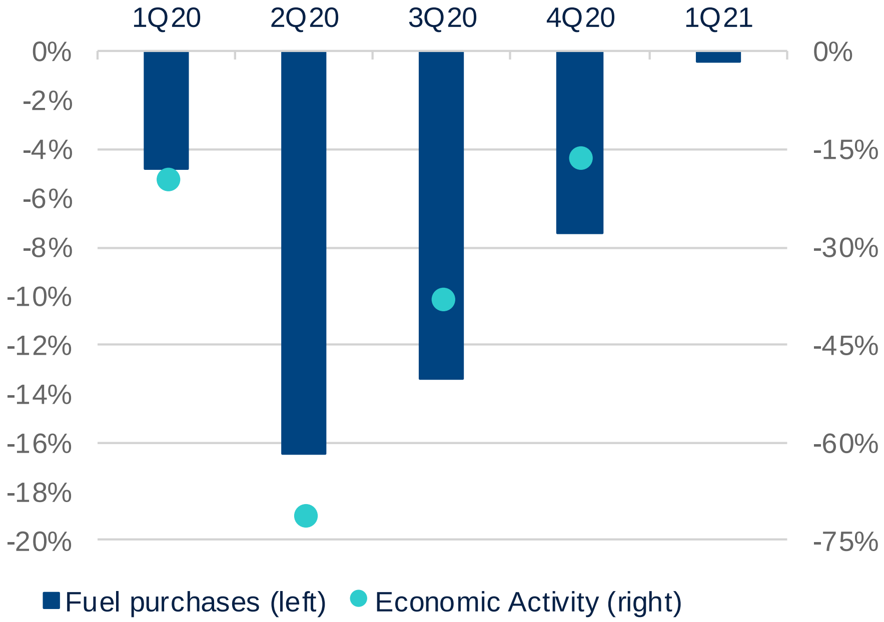
Our real-time consumption indicators anticipate continuation of the recovery during the 1Q21

GDP AND CONSUMPTION WITH BBVA CARDS
(% CHANGE Y/Y, CURRENT ARS)



Source: BBVA Research and INDEC.

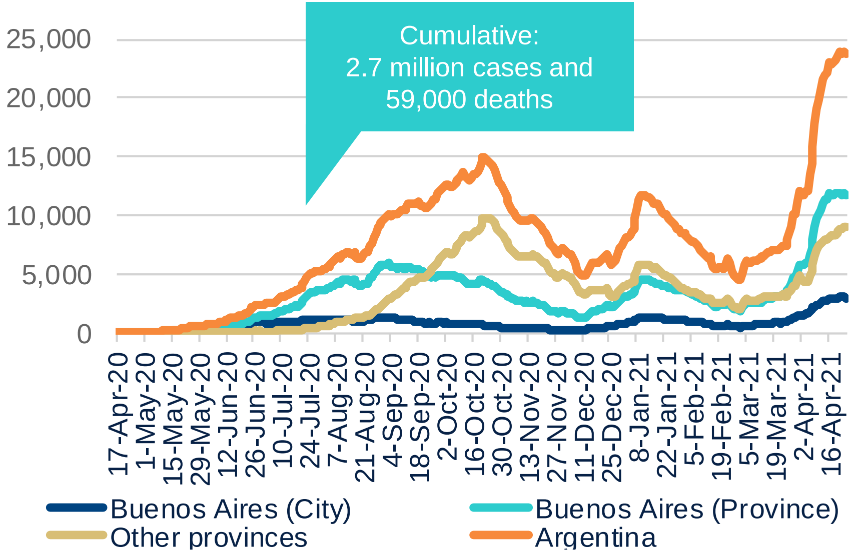
FUEL EXPENDITURE (BBVA CARDS) AND ACTIVITY
(% CHANGE Y/Y, CONSTANT ARS)



*Data as at March 17, 2021
Methodological note: items have been adjusted for core inflation.
Source: BBVA Research and INDEC

COVID-19: a rise in infections led the government to increase restrictions, vaccination progress is slow and the healthcare system is under stress

COVID-19 CASES, BY JURISDICTION AND TOTAL
(7-DAY AVG.)



Source: BBVA Research and the Argentine Ministry of Health.

Vaccines:
8,132,285

Data as of April 18		% of the population Total	% of the population Priority
Vaccines distributed	7,248,208	15.8%	46.5%
Vaccines inoculated	6,318,109		
1 dose	5,518,217	12.0%	35.4%
2 doses	799,892	1.7%	5.1%

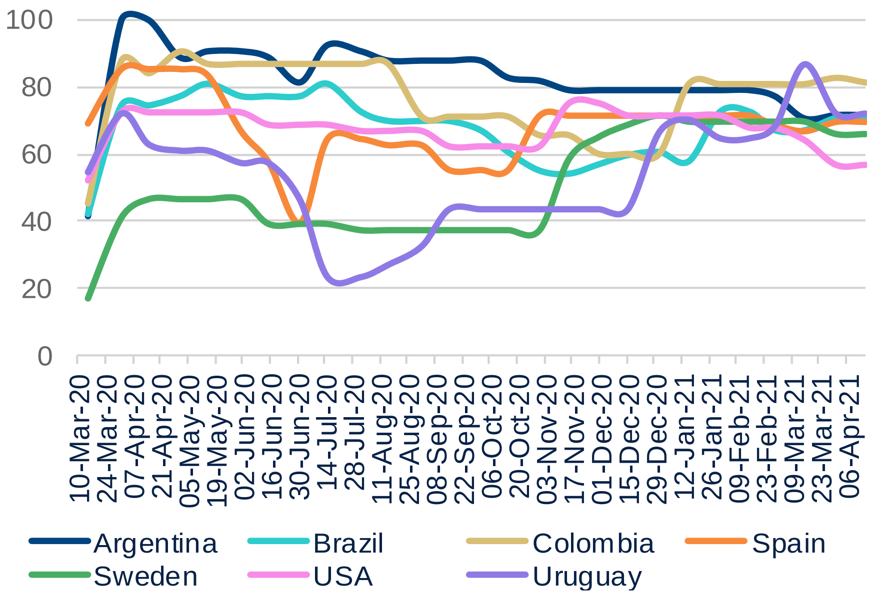
Source: BBVA Research and the Argentine Ministry of Health.

More cases are being detected than in first wave, with a high positivity rate (25%/30%). The situation is worst in the Buenos Aires Metropolitan Area, but other areas such as Santa Fe, Córdoba and Mendoza are also facing difficulties. The healthcare system is showing signs of stress. At present, only 12% of the population has received at least one dose of the vaccine.

Travel restrictions have been imposed at a time when public opinion of the government is at a record low since it took office

LOCKDOWN STRINGENCY INDEX

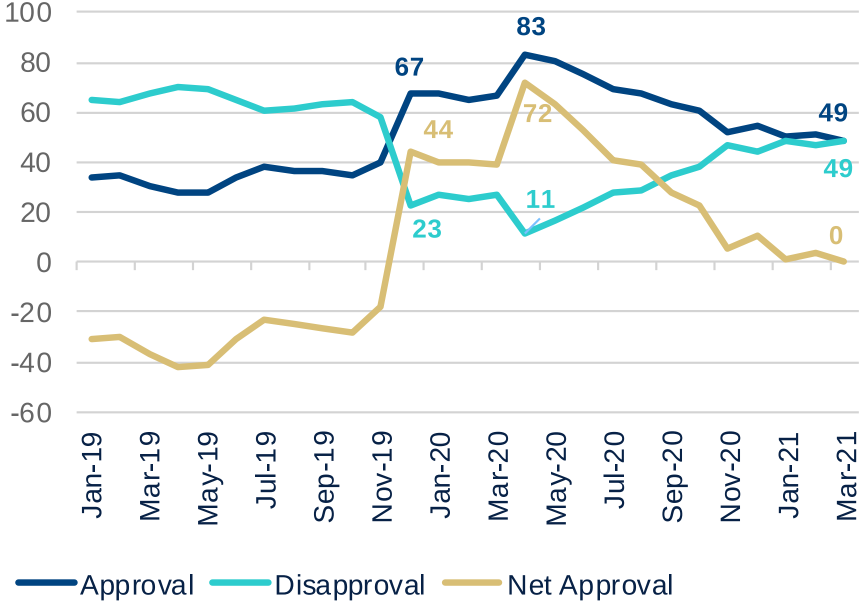
(LEVELS FROM 0 TO 100)



The Oxford Stringency Index is an indicator that measures lockdown severity in different countries at any given time based on the measures they implement to address the pandemic.
Source: BBVA Research and Oxford University.

PRESIDENTIAL APPROVAL

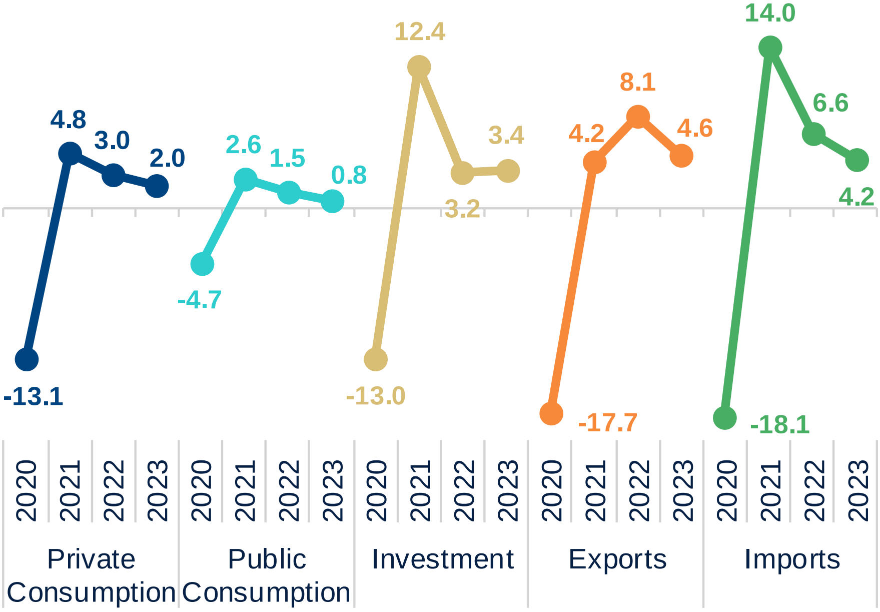
(%)



Source: BBVA Research and Poliarquía.

Despite the likelihood of stricter health measures, all components of GDP would improve in 2021

GDP GROWTH BY COMPONENT
(% CHANGE Y/Y, CONSTANT ARS)

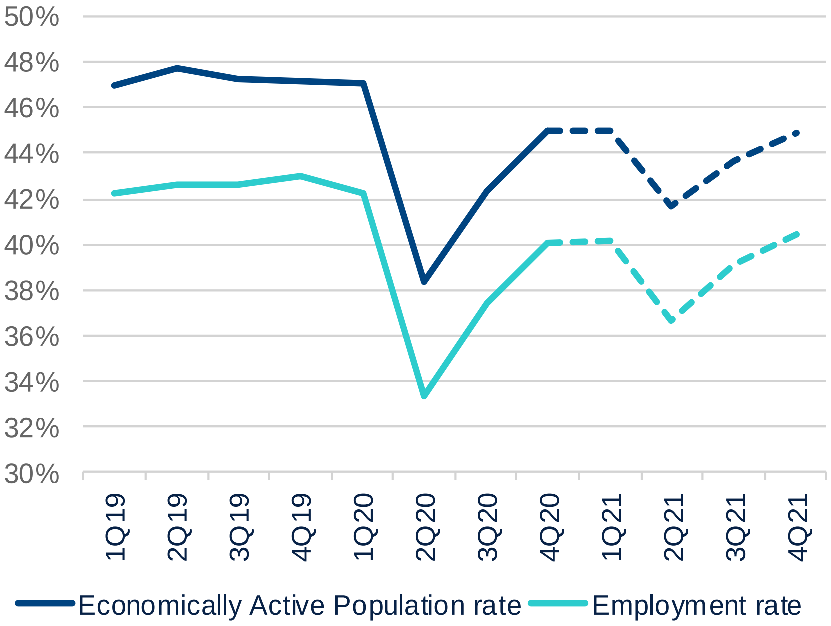


Source: BBVA Research and INDEC.

- We expect growth of 7% in 2021, mainly as a result of the post-lockdown rebound in 2020, as the rate of recovery will slow in the coming quarters due to the implementation of stricter health measures.
- Private consumption will improve, but will continue to have weak performance, given the high level of unemployment and rising inflation.
- We anticipate the reactivation of public works and a surge in private investment focused on the purchase of machinery (primarily agricultural) and on construction.
- Exports will continue to be supported by high commodity prices and imports by the economic recovery, although imports will be limited by FX restrictions.

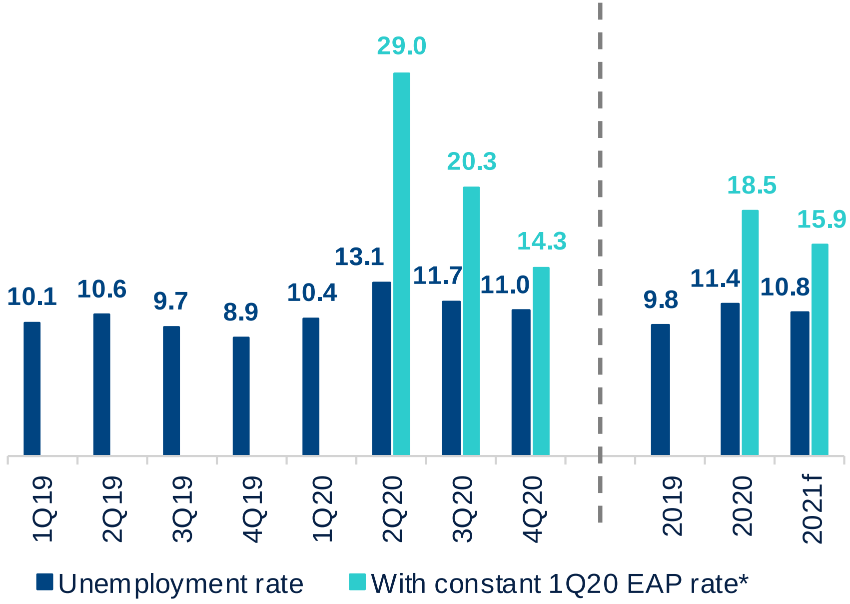
The improvement in activity was reflected in the labor market: unemployment is down after peaking in 2020, and we expect a slow recovery ahead

ECONOMICALLY ACTIVE POPULATION AND EMPLOYMENT RATE (% OF POPULATION)



Source: BBVA Research and INDEC.

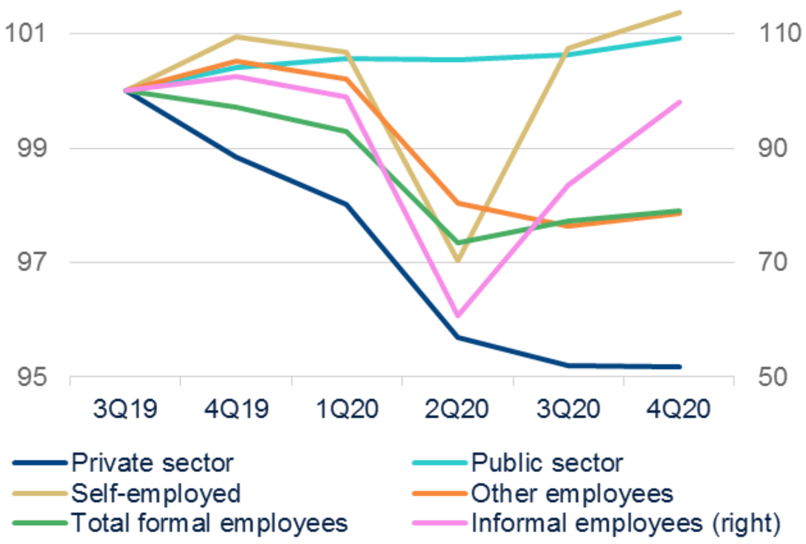
OFFICIAL UNEMPLOYMENT RATE AND "SHADOW" UNEMPLOYMENT (IN %; OFFICIAL DATA AND CALCULATIONS BASED ON THE PRE-PANDEMIC LABOR FORCE)



Source: BBVA Research and INDEC.

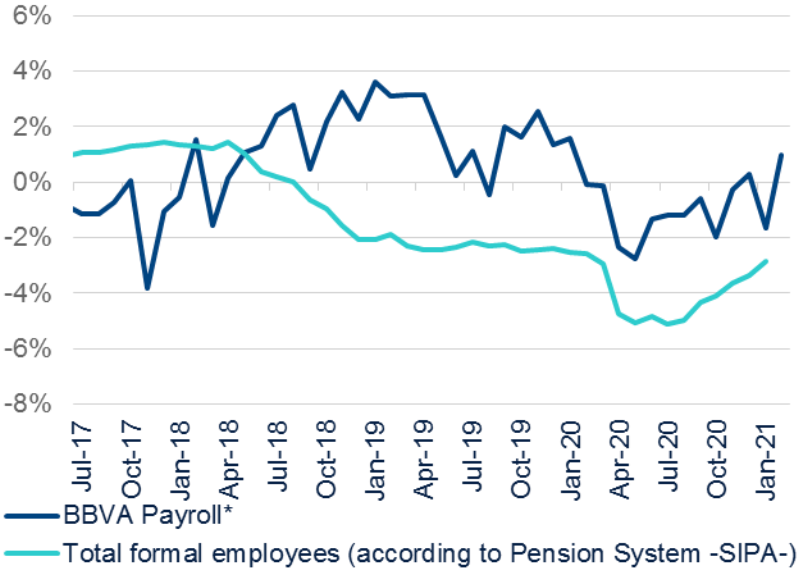
Employment recovery is being driven by informal jobs, while registered employment is still showing little dynamism

EVOLUTION OF FORMAL AND INFORMAL EMPLOYMENT (BASE 3Q19 = 100)



"Independent" includes workers from the self-employed or single-tax payer tax regimes (*Autónomos* and *Monotributo*); "Other" includes domestic workers and workers from the single-tax payer social tax regime (*Monotributo Social*).
Source: BBVA Research, Ministry of Labor and INDEC

SALARY PAYMENTS CONDUCTED THROUGH BBVA & REGISTERED EMPLOYMENT (% CHANGE Y/Y)

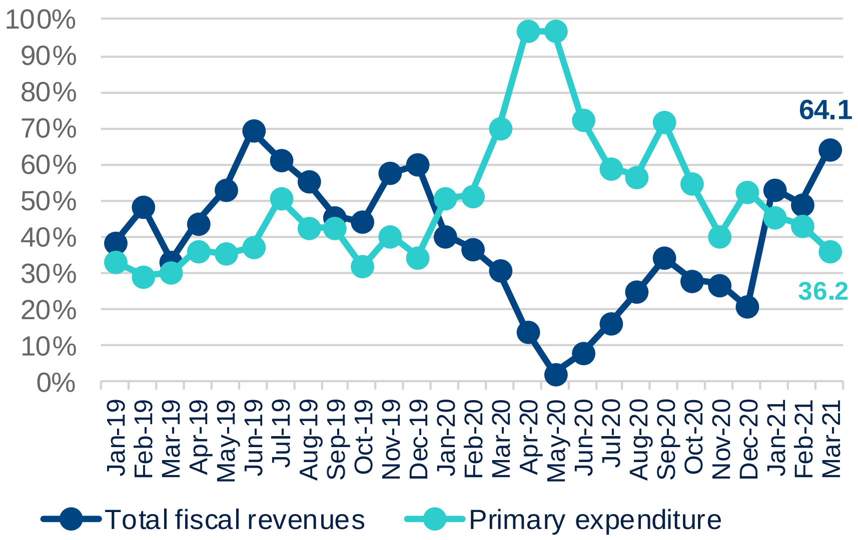


*This shows the Y/Y variation of salary payments made with BBVA by companies operating since January 2016 to avoid the market share effect. In addition, companies that received ATP aid (*Programa de Asistencia de Emergencia al Trabajo y la Producción* — Emergency Assistance Program for Work and Production) for COVID-19 were excluded as the salary was not paid by the bank.
Source: BBVA Research, Payroll BBVA Argentina and Ministry of Labor.

The fiscal deficit this year will be lower than in 2020 due to the reduction in COVID-19 expenditure, high soybean prices and the one-time wealth tax

TOTAL TAX REVENUE AND PRIMARY EXPENDITURE

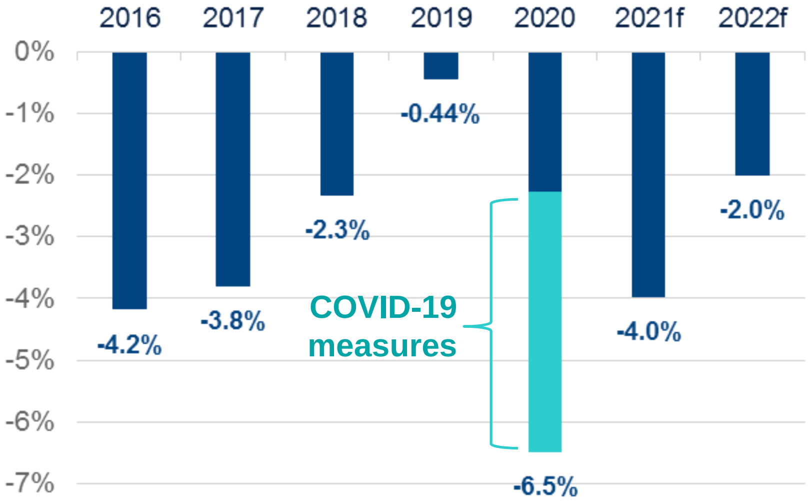
(% CHANGE Y/Y)



Source: BBVA Research and Treasury.

PRIMARY FISCAL BALANCE

(AS A % OF GDP)

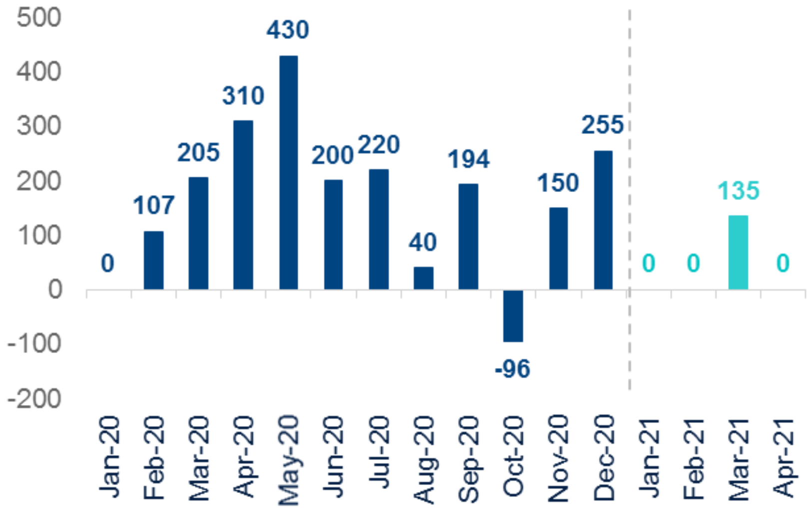


Source: BBVA Research and Treasury.

Fiscal improvement in 2021 will be largely due to: 1) export duties (+0.7% GDP), 2) partial reduction in COVID-19 expenditure (-2.3% GDP) and 3) the one-time wealth tax (+0.7% GDP). We expect public-works expenditure to rise and energy subsidies to remain constant as a % of GDP.

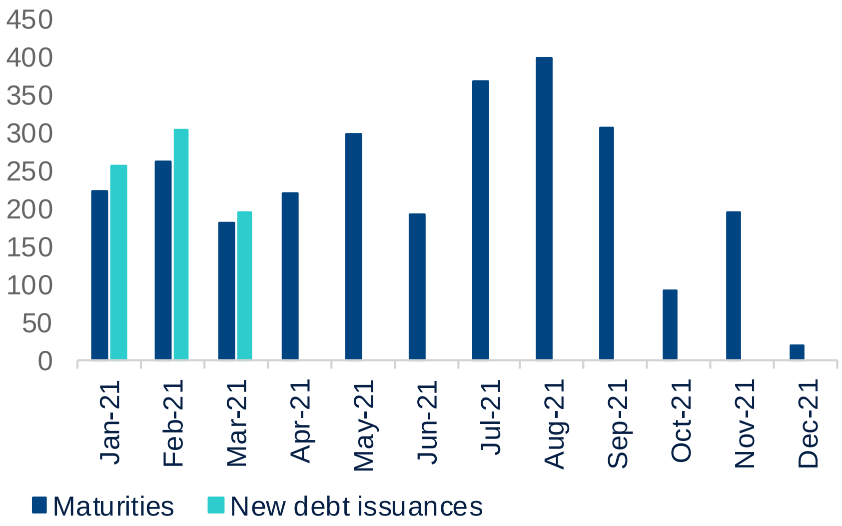
Monetary assistance to the Treasury was larger than expected year-to-date, due to an insufficient debt roll-over rate and weak tax collection

MONEY ISSUED TO FINANCE FISCAL NEEDS
(ARS BILLION)



Source: Central Bank.

MATURITIES AND NEW DEBT ISSUANCES IN PESOS
(ARS BILLION)

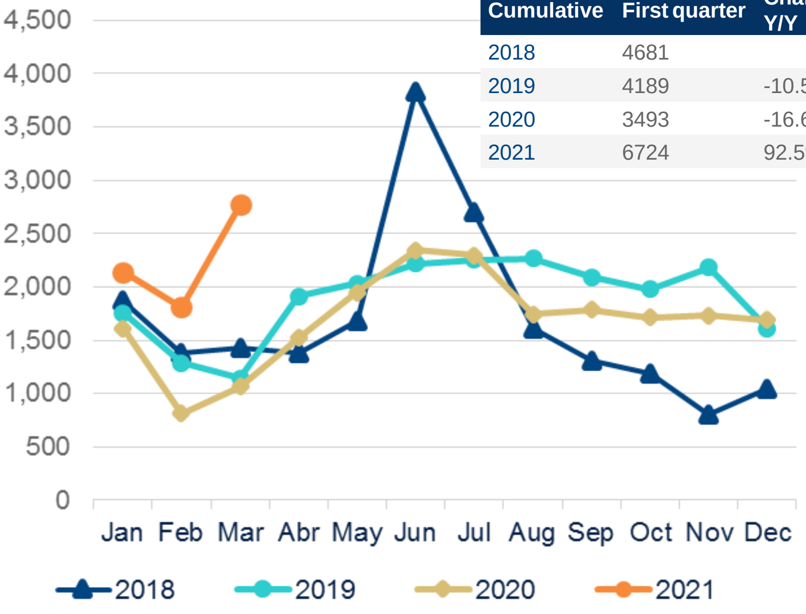


Source: BBVA Research and Ministry of Economy.

In March, the Central Bank had to issue ARS 135 billion to aid the treasury. This amount is 57% lower than 1Q20, but remains above expectations. Funding in ARS is not progressing enough to cover 40% of the 2021 deficit (Guzmán's target). At this rate, only 22% of the forecasted primary deficit would be covered by the debt in pesos.

Grain exports hit record levels in 1Q21, while import payments have stalled since September

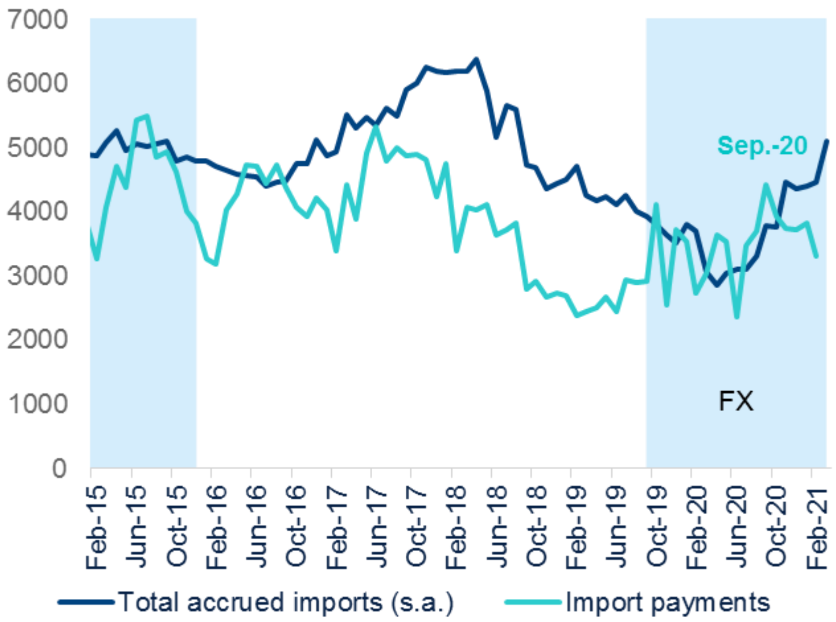
GRAIN EXPORTS
(USD MILLIONS)



Cumulative	First quarter	Change Y/Y
2018	4681	
2019	4189	-10.5%
2020	3493	-16.6%
2021	6724	92.5%

Source: BBVA Research and CIARA-CEC.

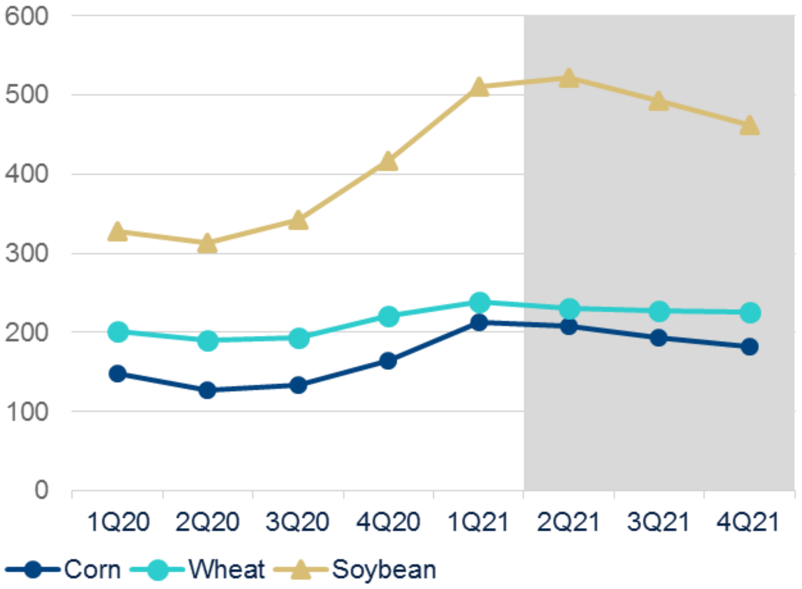
MONTHLY IMPORTS
(USD MILLION)



Source: BBVA Research, Central Bank and INDEC.

Soybean prices will remain high and volatile for the rest of the year

AGRICULTURAL COMMODITY PRICES
(USD/TON, CBOT)

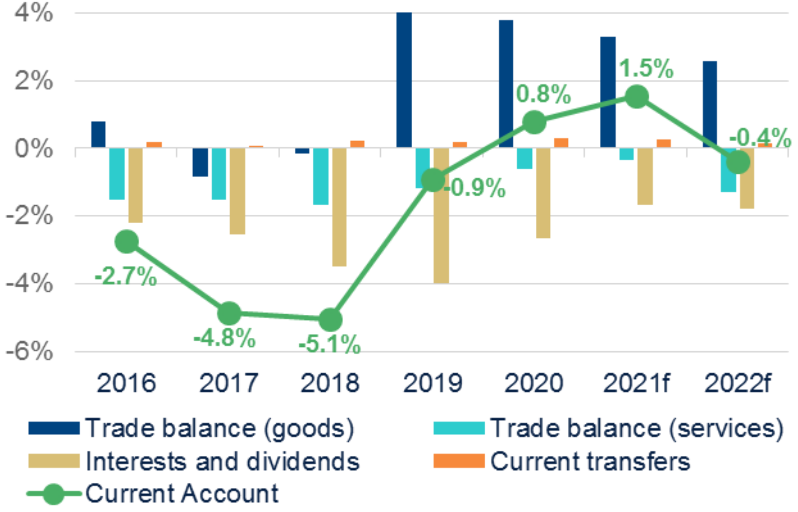


- The global market is extremely tight due to a significant demand from China and low stocks in the US.
- Factors driving prices up:
  - Short-term: low global stocks from the 20/21 harvest, recovery in China.
  - Medium-term: boost to biofuel in the US.
- Risks:
  - A swine flu outbreak in China could lower prices.
  - China-US tensions could impact negatively on global trade and commodity prices.

Source: BBVA Research and Haver.

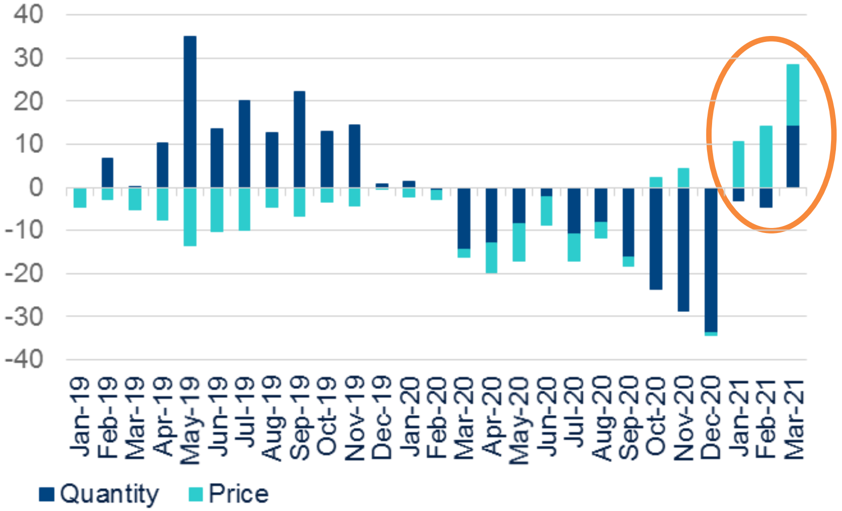
External accounts will show another surplus this year, thanks to high commodity prices and a low interest burden

CURRENT ACCOUNT BALANCE, BY COMPONENT
(% GDP)



Source: BBVA Research and INDEC.

EXPORTS: PRICES VERSUS QUANTITIES
(% CHANGE Y/Y)

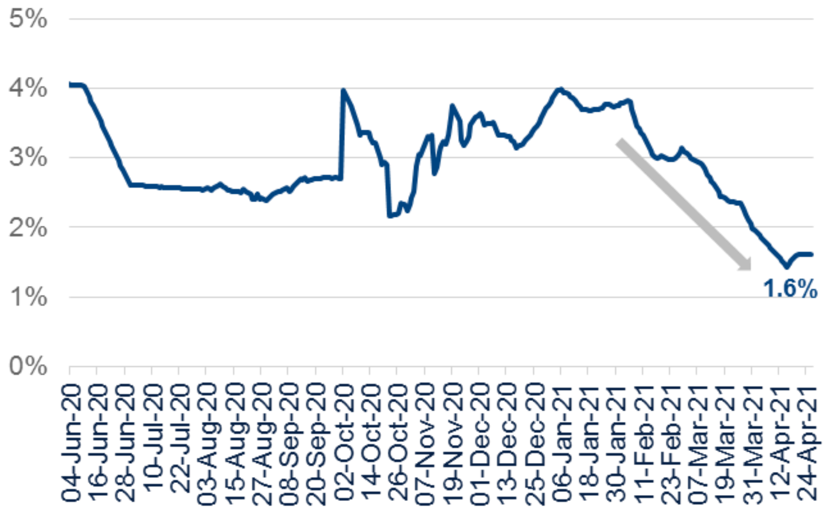


Source: BBVA Research and INDEC.

The largest contribution to the current account will come from the trade surplus (2021e: USD 12 billion), although this is down from 2020. Border closures and the pandemic are limiting the deficit that is historically supported by tourism. The current account would reach a surplus of 1.5% of GDP and fall to -0.4% of GDP in 2022.

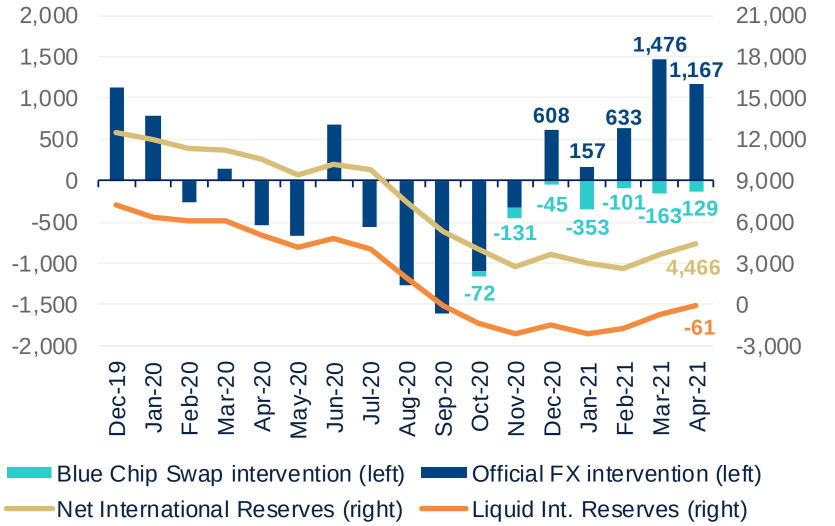
The CB is slowing down the official FX depreciation, taking advantage of USD inflows from the harvest, while also intervening in parallel markets

RATE OF DEPRECIATION OF THE OFFICIAL EXCHANGE RATE (MOM CHANGE, 20-DAY MOVING AVG.)



Source: Central Bank.

CB FOREIGN EXCHANGE INTERVENTIONS AND NET INTERNATIONAL RESERVES (USD MILLION)

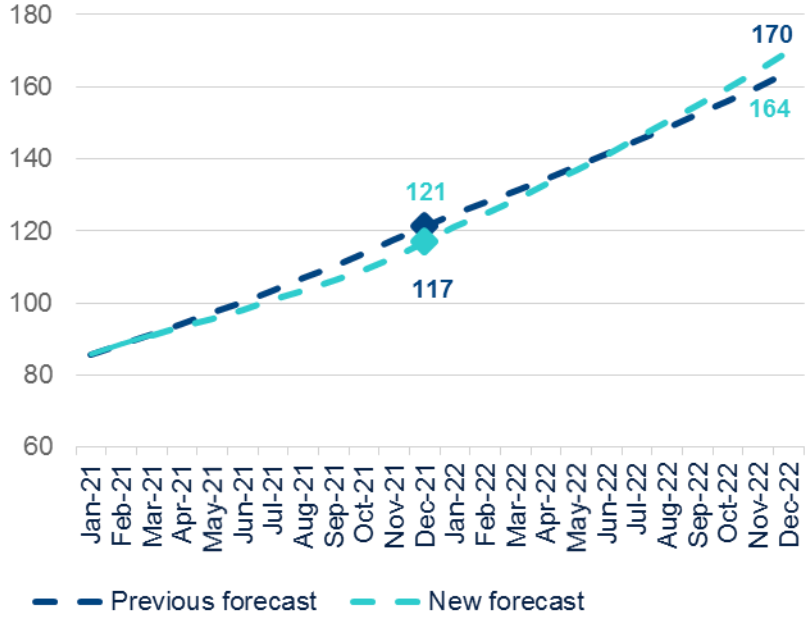


*BCS: "Blue Chip Swap" exchange rate resulting from buying/selling debt securities in local currency and then selling/buying them in dollars.
Source: Central Bank.

The monthly depreciation rate dropped from 4% in January to 1.6% over the last few weeks, signaling the government's determination to use the exchange rate peg as the main nominal anchor in these months.

The exchange rate would run below inflation in the coming months, then a catch-up with inflation is expected in 2022

OFFICIAL EXCHANGE RATE
(USD/ARS)

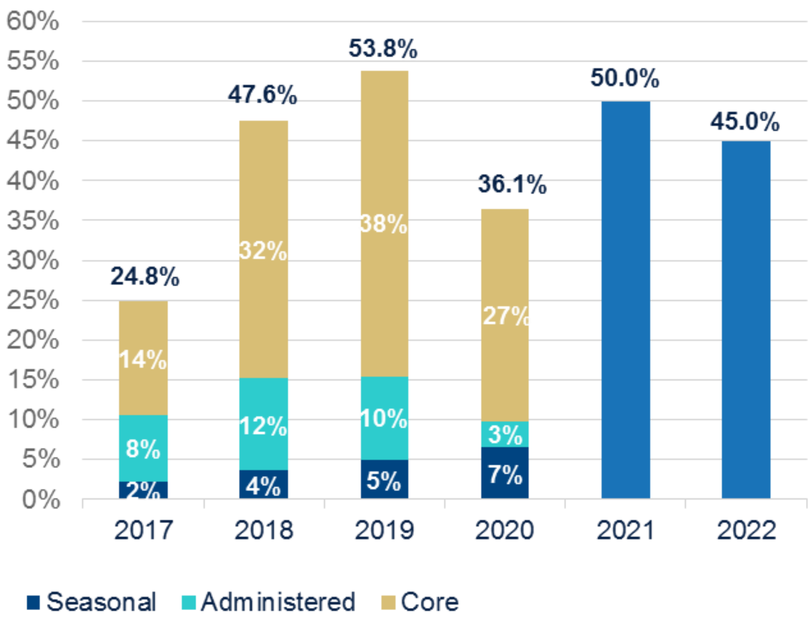


Source: BBVA Research and Central Bank

- To anchor inflation, the government has been slowing the rate of devaluation since the beginning of the year and it anticipated it will continue this strategy in the coming months.
- The rise in the soybean prices, accompanied by a good harvest, ensures a strong USD inflow which will allow the CB to buy reserves in the official market during 2Q21 and intervene in parallel exchange rate.
- In turn, the IMF would disburse Special Drawing Rights (SDRs) to Argentina for around USD 4.3 billion between August and September.
- We therefore believe that the Central Bank will be able to keep the exchange rate below inflation until the mid-term elections.

Inflation would reach 50% this year, with a downward bias if the government deepens the FX peg, freezes utility prices or if more restrictions are imposed

INFLATION, BY COMPONENT
(% CHANGE Y/Y)

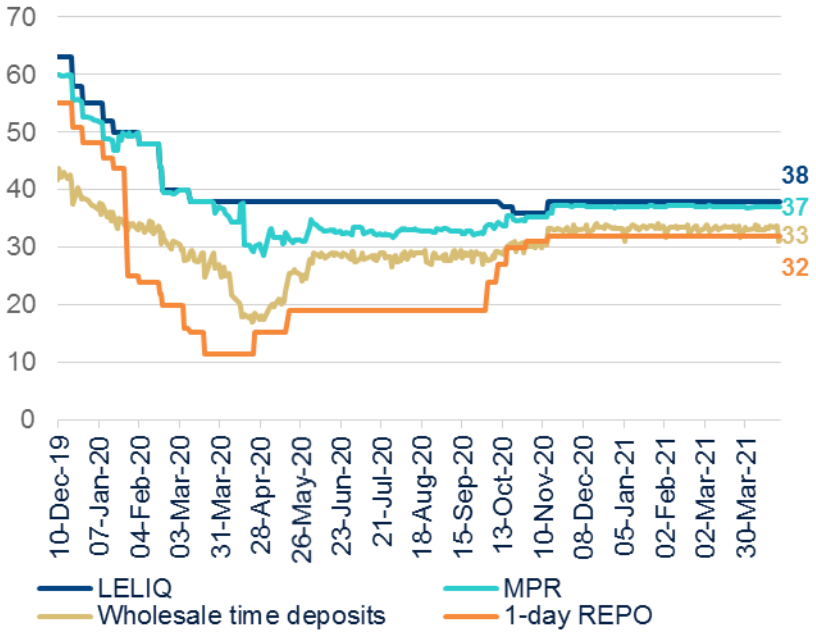


Source: BBVA Research and INDEC.

- Prices rose by 13.3% in 1Q21, validating the implicit acceleration trend within our baseline inflation scenario.
- The improvement in activity and consumption, together with the existing monetary overhang, a loose monetary policy and the absence of a macroeconomic program to coordinate expectations, provides the basis for our forecast of 50% inflation for 2021 and 45% for 2022.
- However, the lower rate of depreciation expected and the odds of further restrictions on mobility suggest a downward bias.

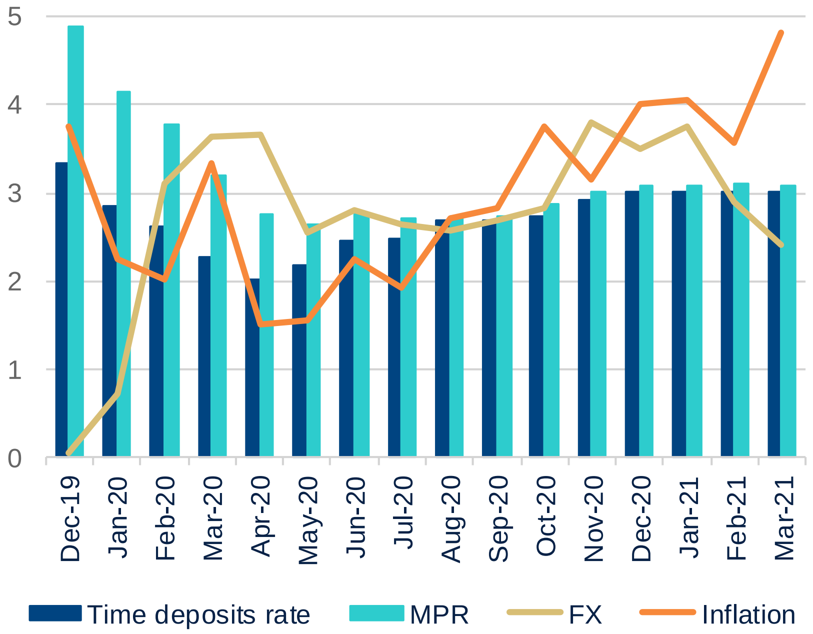
The Central Bank remains reluctant to raise interest rates despite accelerating inflation…

MONETARY POLICY RATES AND WHOLESALE TIME DEPOSIT RATE (% ANNUAL NOMINAL RATE)



Source: Central Bank.

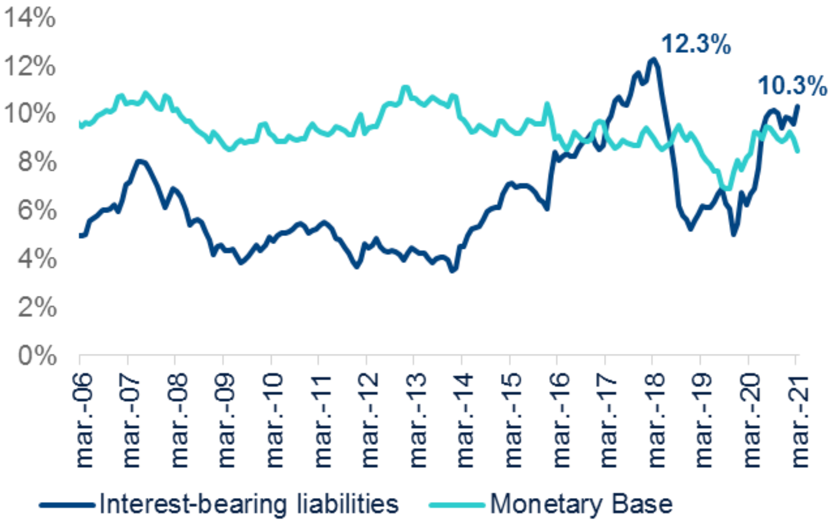
INTEREST RATES, EXCHANGE RATE AND INFLATION (MONTHLY RATES IN %, ER: % CHANGE M/M)



Source: BBVA Research and Central Bank

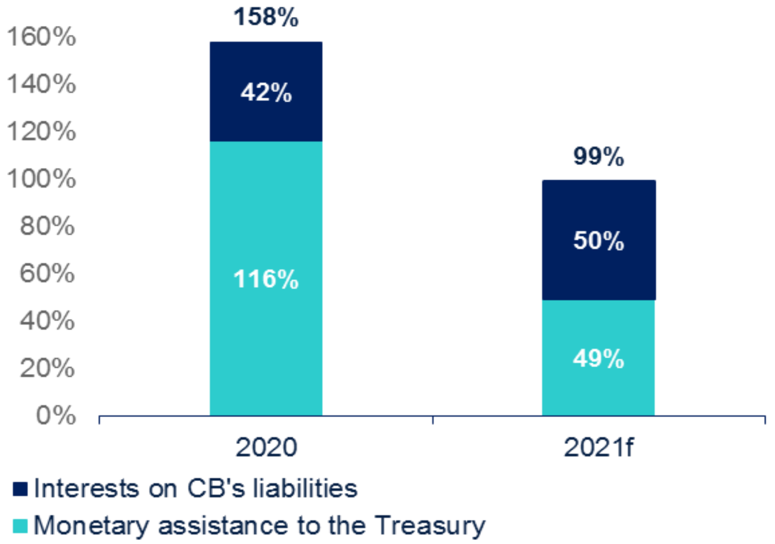
… and we believe that it will keep them at current levels at least until the elections, to boost recovery and contain the quasi-fiscal deficit

CB INTEREST-BEARING LIABILITIES AND MONETARY BASE (% GDP)



Source: Central Bank.

SOURCES OF EXPANSION OF THE MONETARY BASE (% OF THE PREVIOUS YEAR'S MONETARY BASE)

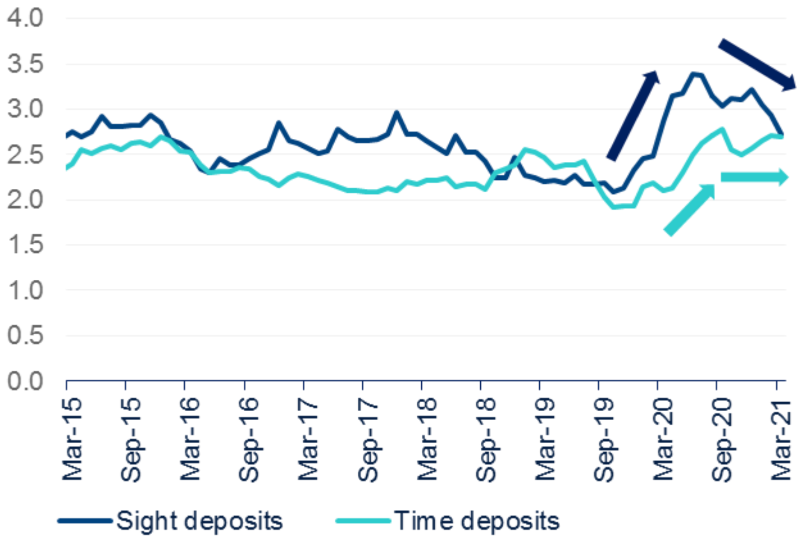


Source: BBVA Research and Central Bank

CB interest-bearing liabilities exceed 10% of GDP, adding a new risk factor to the economy's nominal trend. The delicate situation of the CB balance sheet reduces its scope for action in the fight against inflation and partly explains the institution's reluctance to raise economic rates in the face of rising inflation in recent months.

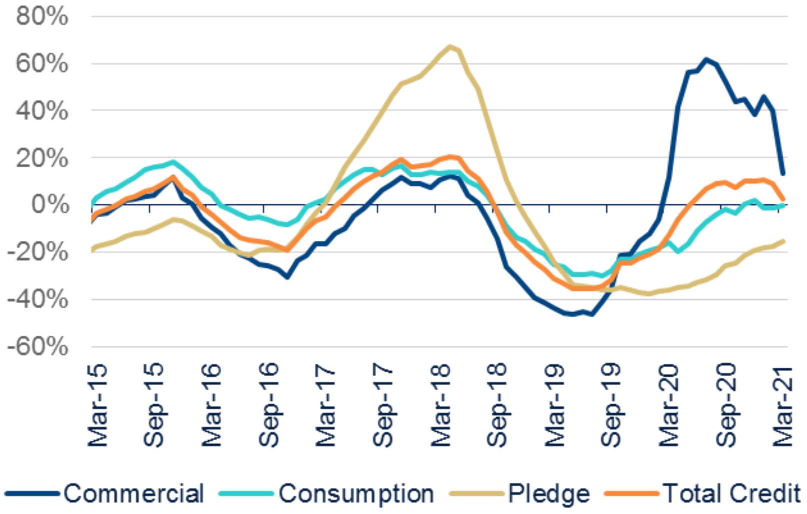
After a strong growth in deposits and commercial credit during 2020, a slowdown is expected in 2021

PRIVATE SECTOR DEPOSITS IN PESOS
(IN BILLIONS OF CONSTANT PESOS AS OF MAR-21)



Source: Central Bank, INDEC.

LOANS TO THE PRIVATE SECTOR IN PESOS
(CHANGE Y/Y, IN REAL TERMS)

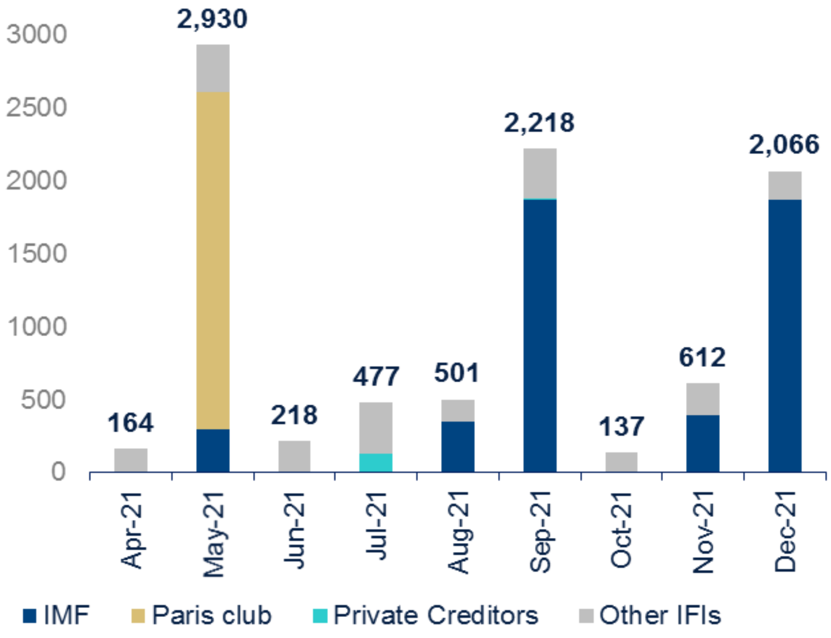


Source: Central Bank, INDEC.

Deposits are decelerating in early 2021. With an increase in inflation, time deposits are performing better than sight deposits. Commercial credit also slowed after its strong 2020 hike, which had been driven by CB stimulus measures.

What will happen after the elections? There will be a need to agree on a consistent program with the IMF and address macroeconomic imbalances

FOREIGN CURRENCY MATURITIES IN 2021
(USD MILLIONS)



Source: BBVA Research and Ministry of Economy.

- The IMF will allocate SDRs to its member countries for USD 650 billion. Argentina would receive ~USD 4.3 billion by September. It is not new debt, rather it serves to strengthen reserves, and would impact on the primary fiscal balance.
- No progress has been made yet on the design of the new program with the IMF. We expect news in the last two months of the year at the earliest.
- To approve the Extended Fund Facility (EFF) until 2031, the IMF would ask for relatively demanding conditions (gradual fiscal and monetary consolidation, some normalization of the exchange market and structural reforms to underpin long-term growth).
- The consistency of this program will determine the country's macroeconomic performance in 2022 and 2023.

Macroeconomic forecasts

	2018	2019	2020	2021e	2022e
GDP (% Y/Y)	-2.6	-2.1	-9.9	7.0	3.0
Inflation (% Y/Y, EOP)	47.6	53.8	36.1	50.0	45.0
Exchange rate (vs USD, EOP)	37.9	59.9	82.6	117.0	170.0
Monetary policy rate* (% EOP)	59.3	58.5	37.1	42.0	40.0
Private consumption (% Y/Y)	-2.2	-6.6	-13.1	4.8	3.0
Public consumption (% Y/Y)	-1.7	-1.0	-4.7	2.6	1.5
Investment (% Y/Y)	-6.0	-16.0	-13.0	12.4	3.2
Primary fiscal balance (% GDP)	-2.3	-0.4	-6.5	-4.0	-2.0
Current account (% GDP)	-5.1	-0.9	0.8	1.5	-0.4

*Monetary Policy Rate: Weighted average of Central Bank interest-bearing liabilities (repos and LELIQ).

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Argentina Economic Outlook

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Creating Opportunities