BBVA Research

Argentina Economic Outlook

3Q21

Creating Opportunities

Key points

Global GDP

Global GDP will grow by 6.3% in 2021 and by 4.7% in 2022, after dropping by 3.2% in 2020. Economic reopening, favored by a fast vaccine rollout and significant policy responses, has facilitated rapid recovery and strengthened prospects for global growth.

COVID-19

In Argentina, following an increase in the number of infections in April and May, cases are declining while the vaccination plan revs up. 60% of the population will have had both doses by year-end. However, the emergence of the Delta variant could complicate this improvement if vaccine rollout is too slow.

Electoral calendar

The electoral calendar has been postponed to hold the primary elections on September 12 and the legislative elections on November 14. The candidates were only recently announced on July 24.

Economic Activity

Data for 1Q21 show that activity saw a weak start to the year and slowed further during 2Q21 due to lockdown measures in May, which prompted the growth forecast to be revised down from 7% to 6.5% for 2021. By next year, we expect 3.5%, when the activities affected by the pandemic return to normal.

Key points

Fiscal accounts

Recent fiscal data, explained by several extraordinary factors, are slightly better than expected, but we maintain our primary deficit estimate of 4%. In 2022, improved economic activity and the new program under the IMF agreement would lead to an improvement in the result up to -2% of GDP.

Monetary policy

The Central Bank will keep interest rates unchanged until the elections, although inflation require an upward correction, with a two-fold objective: sustain the economic recovery and contain the interest on its large interest-bearing liabilities.

Inflation

We expect inflation to stand at 50% for 2021. Monetary pressures impose a high inflation floor, while exchange rate and tariff anchors are proving somewhat inefficient in containing prices. A partial regularization of these imbalances, within the framework of the IMF agreement, would boost prices in 1H22. We therefore raised the expected inflation in 2022 to 50% (formerly 45%).

Key points

Exchange rate

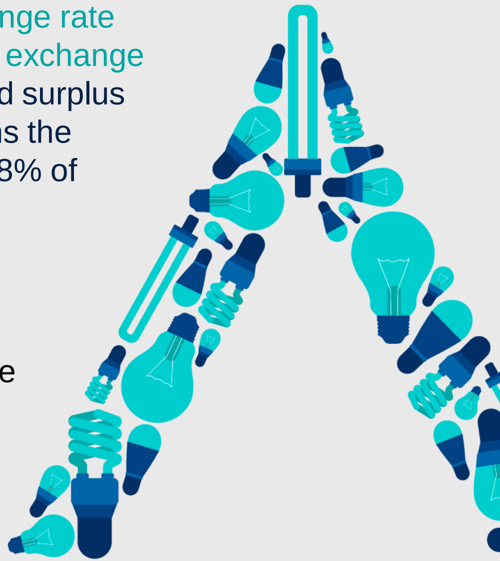
The government intensified its strategy of curbing the exchange rate to contain inflation. It has the resources to sustain this position until the end of the year, so we lowered our FX rate forecast for December 2021, However, we increased the expected depreciation for 2022, as the FX rate will have to recover some of the ground lost to prices this year and an agreement with the IMF would involve a slight liberalization of some capital controls.

External sector

Although high commodity prices boost exports, the real exchange rate appreciation and the premium between official and alternative exchange rates erode the trade balance, leaving a smaller-than-expected surplus during the last quarter. However, the balance of goods remains the main FX inflow behind the current account surplus in 2021 (0.8% of GDP).

Paris Club and IMF

The government postponed its maturity with the Paris Club until 31-Mar-22. This reinforces the scenario of the Government reaching an agreement with the IMF in 1Q22. The subsequent economic program should address the Argentine economy's main inconsistencies (mainly on the fiscal, monetary and exchange rate front).



Research

01

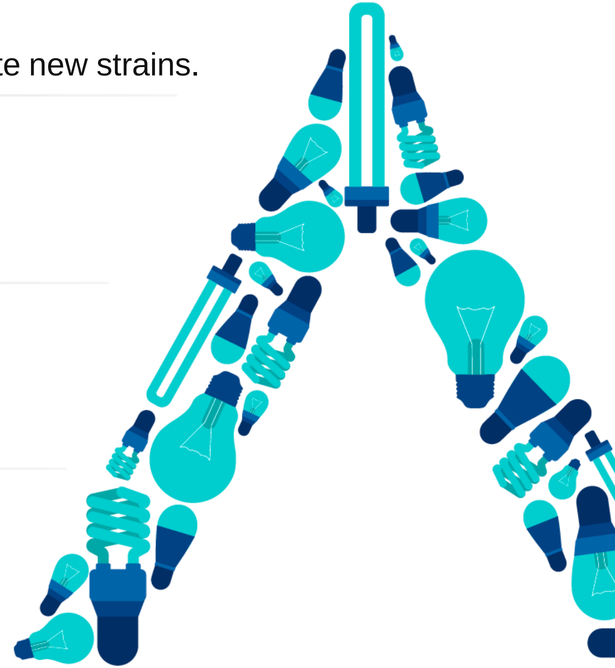
Global Economic Outlook 3Q21

Creating Opportunities

The recovery is gaining momentum, favored by an increasing control of the pandemic and policy stimuli, but inflation is a rising source of concern

RECENT EVOLUTION OF THE GLOBAL ECONOMY

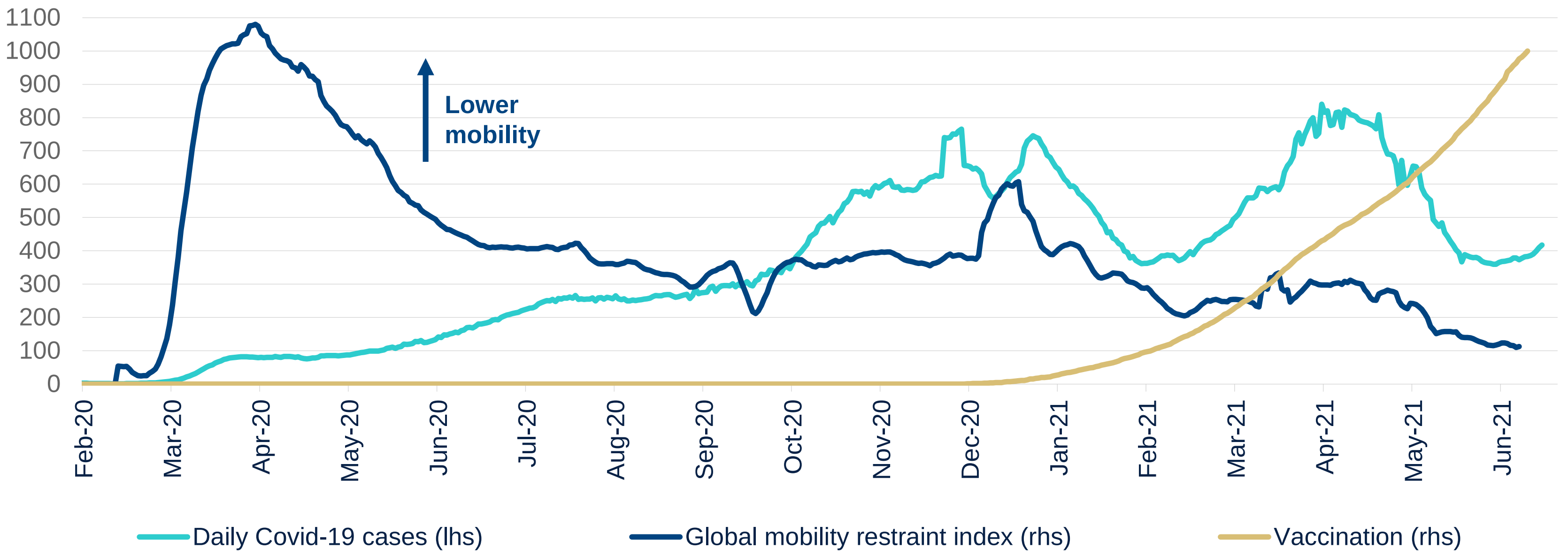
Covid-19	Acceleration of vaccination; declining infections despite new strains.
Activity and inflation	Solid recovery; significant rebound of inflation.
Economic policy	Focus on growth, but the withdrawal of stimuli by the Fed and the ECB is getting closer
Financial markets	A more complex environment, despite the still ample global liquidity.



The acceleration of vaccination has paved the way for a reduction of infections and an economic reopening, mainly in developed countries

WORLD: DAILY CODIV-19 CASES, POPULATION VACCINATED AND MOBILITY RESTRAINT INDEX (*)

(THOUSANDS OF CONTAGIONS, 7-DAY MOVING AVERAGE; SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE ANTI-COVID VACCINES; MOBILITY RESTRAINT: 7-DAY MOVING AVERAGE)

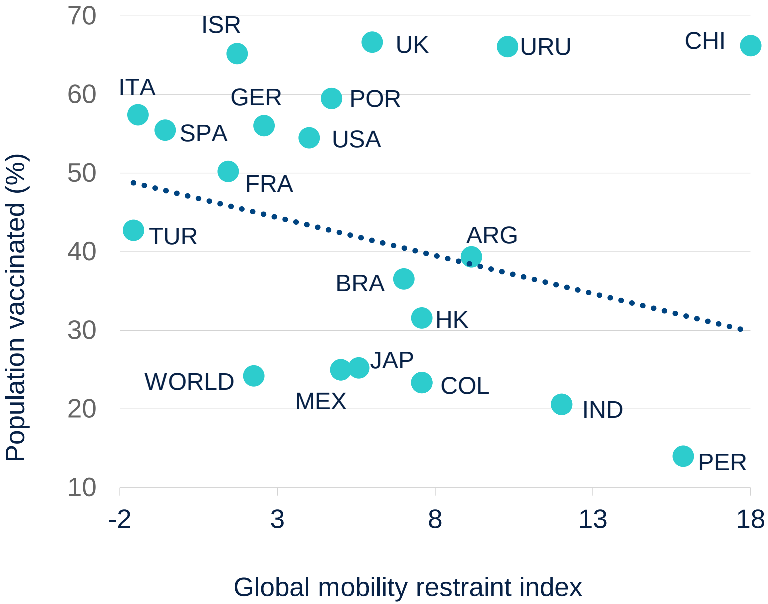


(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Vaccination has already reached much of the population in the US and Europe, and is accelerating in emerging countries

POPULATION VACCINATED AND MOBILITY RESTRAINT (*)

SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE VACCINES; MOBILITY RESTRAINT INDEX: 7-DAY MOVING AVERAGE)

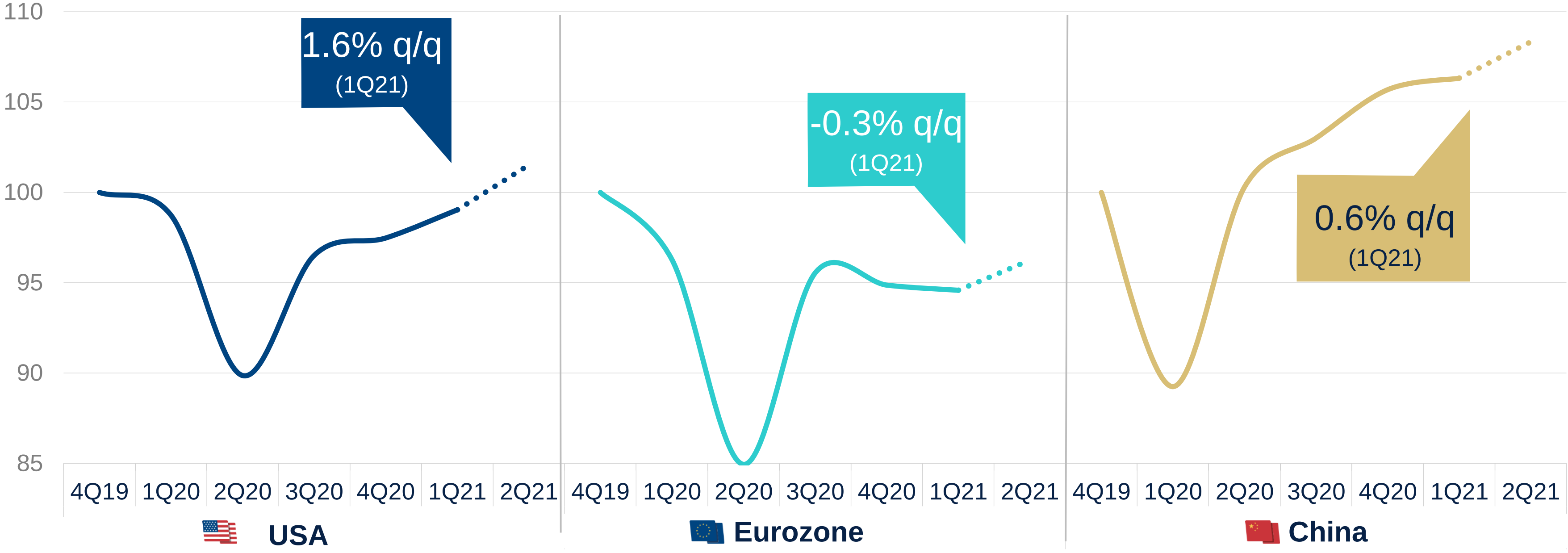


- Vaccination has reduced infections and increased mobility in the US and Europe.
- Vaccine inoculation has recently accelerated in Latin America, although infections remain at high levels.
- Recent outbreaks in countries with advanced vaccination (UK, Israel, Spain, Chile, etc.) maintain the concerns about new strains.
- Still, the available evidence suggests that the main vaccines are effective against the new variants of the coronavirus.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Growth accelerates somewhat more than expected in the US, restarts in Europe, and remains high in China despite the recent moderation

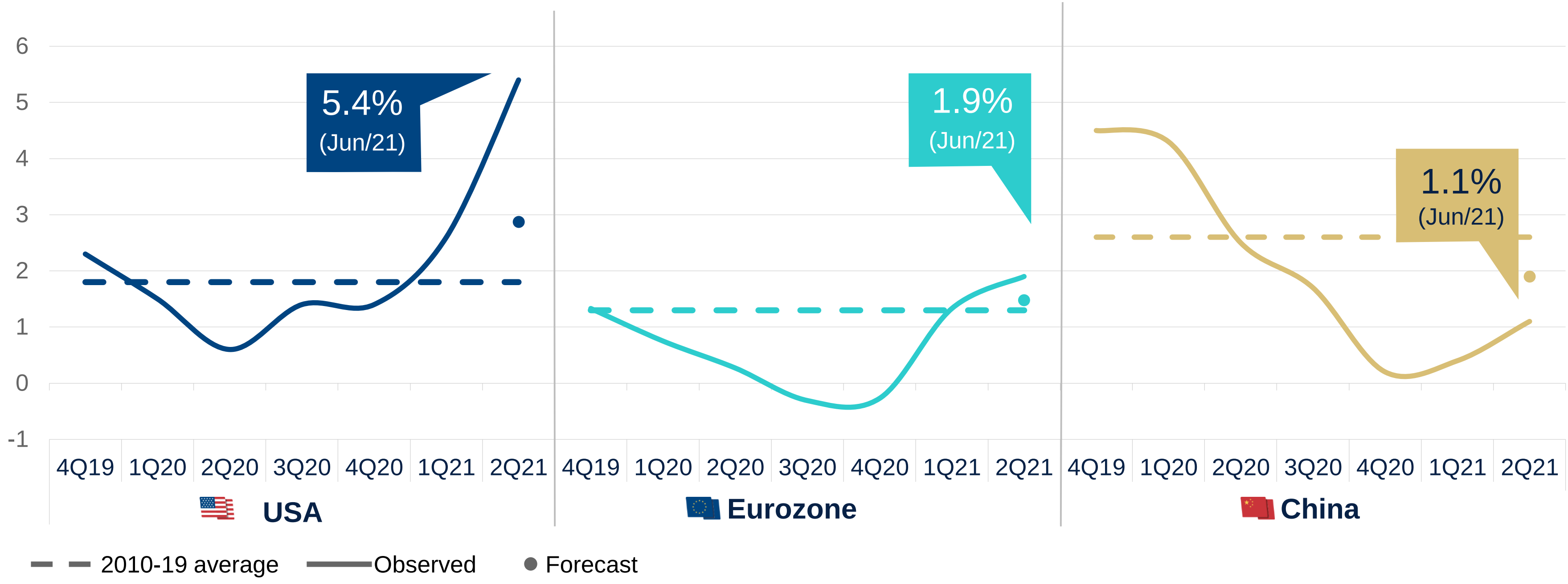
REAL GDP LEVEL (*)
(4Q19=100)



(*) Observed data till 1Q21. 2Q21: BBVA Research forecasts.
Source: BBVA Research based on local statistics.

Inflation surprises to the upside, mainly in the US, driven by the reopening, supply bottlenecks and commodity prices

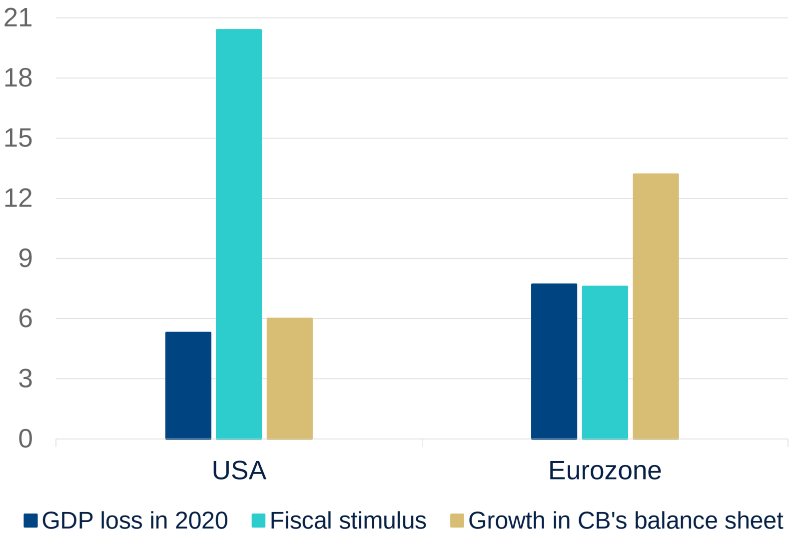
INFLATION: CPI (*)
(Y/Y %, END OF PERIOD)



(*) Forecast: BBVA Research Apr/21 estimations.
Source: BBVA Research based on local statistics.

Inflation and significant fiscal stimuli increase the pressure on central banks, which, however, remain focused on the recovery

GDP LOSS IN 2020 AND STIMULI FROM 2021(*)
(PP, % OF GDP)

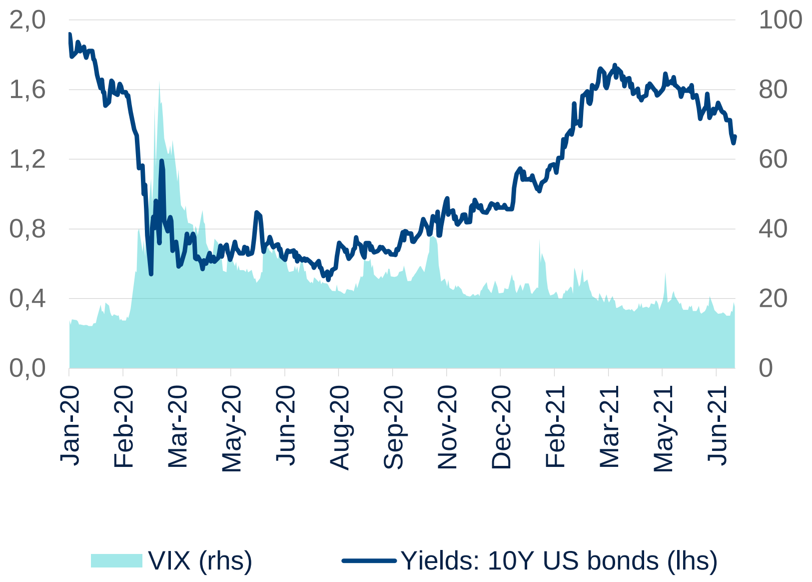


(*) GDP loss in 2020: difference between forecast GDP before the crisis and the actual data. Fiscal stimuli: US: USD 0.9tn approved in Dec/20, USD 1.9tn approved in Mar/21, and further USD 1.5tn expected ahead; UE: NGEU and measures announced by the main countries in the region. Central bank's balance sheet: expected accumulated expansion between the end of 2020 and the end of 2022.
Source: BBVA Research.

- The Fed has suggested that it will soon begin to discuss tapering bond purchases and that it will bring forward rate hikes, but not until 2023.
- Political debate in the US about additional fiscal stimuli, possibly less significant than anticipated and more focused on investment.
- In Europe, after the approval of the NGEU, the details for its implementation are being finalized; suspension of fiscal targets in 2021-22 increases scope for further stimulus.
- The ECB maintains a high rate of asset purchases; strategic review: "symmetric" inflation target of 2%.

Markets are more convinced that the Fed will act to control inflation; the prospect of stimulus withdrawal generates volatility

10-YEAR US BOND YIELD AND VIX
(%, INDEX)



- Short-term bond yields have risen in the US on the prospect of higher rates in early 2023 (or earlier).
- Long-term bond yields have fallen on the view that inflation will be controlled, the stabilization of growth expectations and lower bond supply.
- The rise in short-term rates has appreciated the US dollar and generated volatility ...
- ... but global liquidity continues to back equity markets, certain risk assets and moderate flows into emerging markets.

Source: BBVA Research based on data by Bloomberg.

Baseline scenario: a faster recovery going forward, with higher inflation and increasing challenges for central banks

GLOBAL ECONOMIC PROSPECTS

Covid-19

Convergence towards "normality", first in developed and later in emerging countries.

Activity and inflation

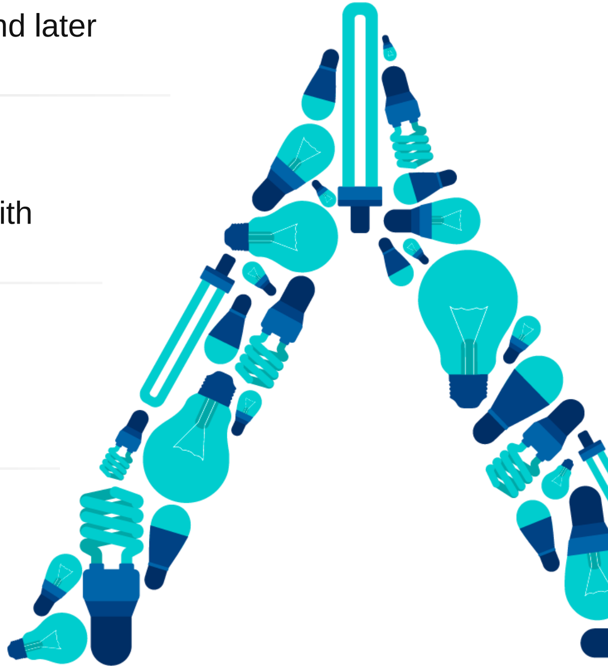
Stronger growth; higher inflation than in recent past, with upside risks.

Economic policy

Tapering in 2022, stable rates until 2023 (risk of earlier hikes), and expansionary fiscal policy in developed economies.

Financial markets

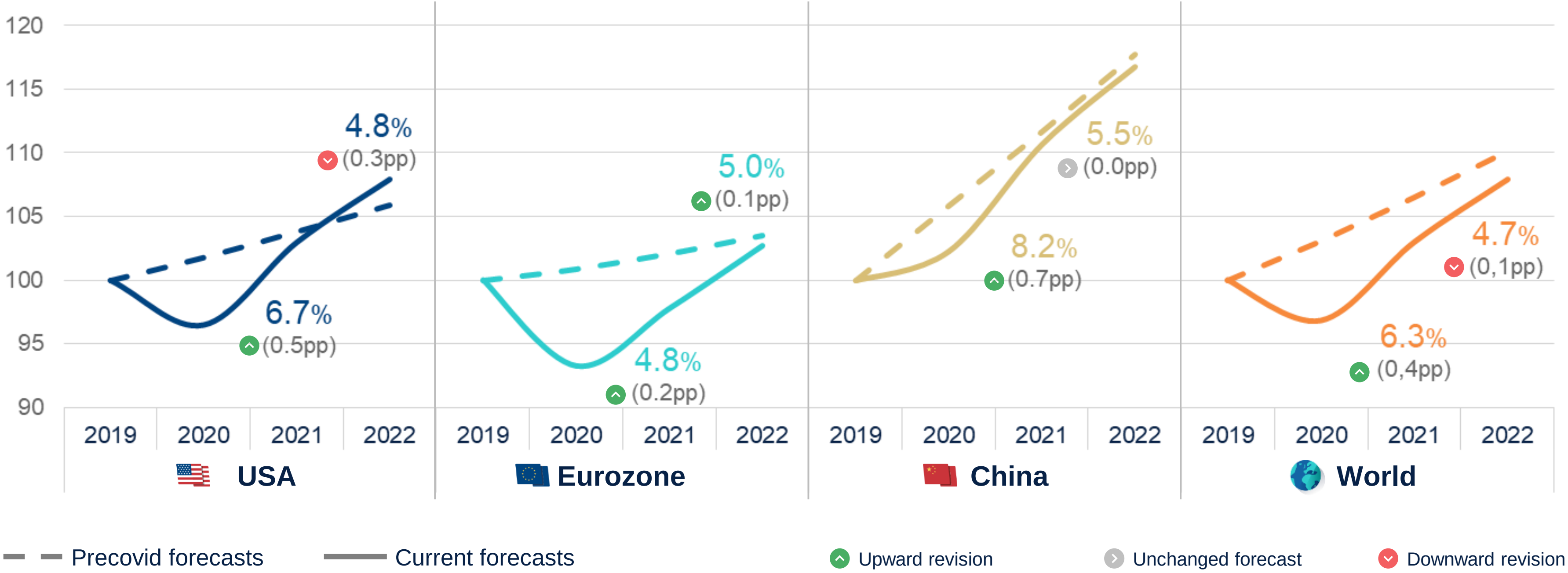
Higher pressure on risky assets and EMs, given the process of withdrawal of stimuli.



Global growth will be stronger than expected in 2021 and will ease in 2022

REAL GDP

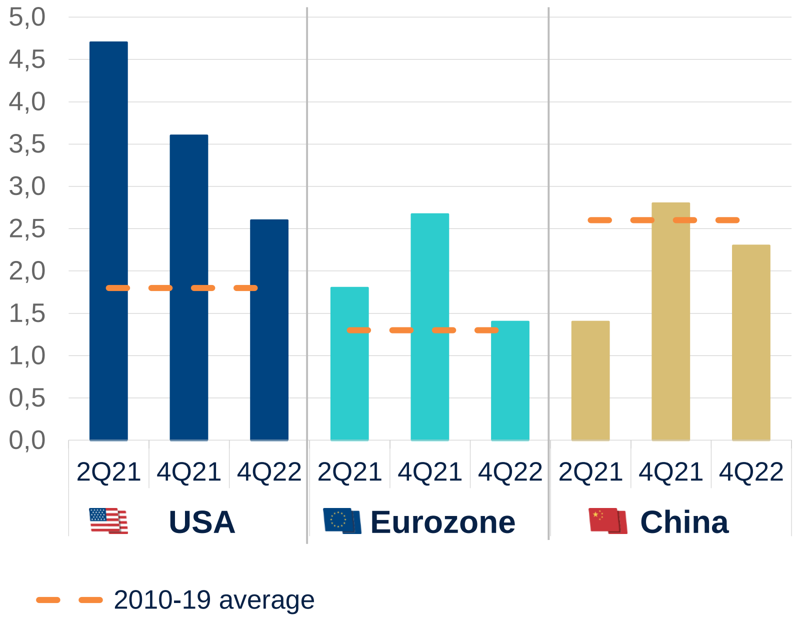
(LINES: GDP LEVEL 2019=100, FIGURES: GROWTH FORECASTS AND, BETWEEN PARENTHESIS, CHANGE WITH RESPECT TO PREVIOUS FORECASTS)



Source: BBVA Research.

Inflation in the US and Europe is expected to slow down, but it will remain above the previous decade's levels, in an environment of increasing risks

INFLATION: CPI
(Y/Y %, PERIOD AVERAGE)

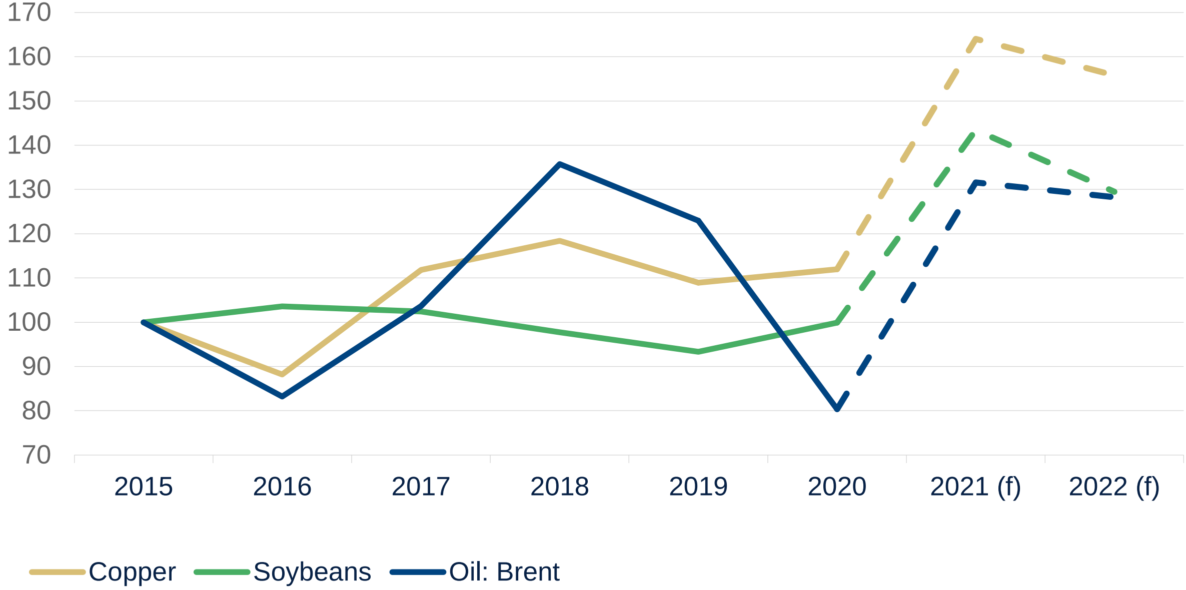


Source: BBVA Research.

- Expected moderation of inflation
  - more favorable base effects
  - lower commodity prices
  - bottlenecks will ease on greater supply
  - absence of widespread wage pressures
- Inflation "normalization": above 2010-19 levels
  - CBs more tolerant with inflation
  - more supportive fiscal, social and labor policies
  - trade protectionism
  - energy transition and change in relative prices
  - labor market tensions
- In China, inflation will rise moderately on demand recovery and less positive base effects.
- Monetary and fiscal policies will be key for the future inflation dynamics.

Commodity prices have increased more than expected, mostly on the back of high demand, but should ease -remaining high though- as supply catches up

COMMODITY PRICES: ANNUAL AVERAGES
(ÍNDEX: 2015 = 100 AVERAGE)



	2021 (f)	2022 (f)
COPPER ($ per ton)	4.1	3.9
SOYBEAN ($ per lb)	502	454
BRENT ($ per barrel)	69	67

(f) Forecast.
Source: BBVA Research.

Economic policies remain focused on supporting growth, but monetary policy keeps also an eye on inflation, and will gradually shift to exit policies

	PROSPECTS FOR MONETARY POLICY	PROSPECTS FOR FISCAL POLICY
US	Tapering in the beginning of 2022 and stable interest rates until 1Q23 (slightly earlier than expected)	Additional stimulus of around 7% of GDP, more long-term and investment-focused than previous bills
Eurozone	Accommodative stance and scale down of bond purchases (PEPP) from Sep/21 New strategy: "symmetric" inflation target of 2%;	NGEU: minor short-term impact; potentially greater in the long run Fiscal rules: suspended at least in 2021-22
China	Unchanged rates in 2021-22; lower dynamism of credit and regulatory tightening	Gradually less expansionary

Risks: inflationary pressures increase the room for policy mismanagement and open the door for more negative macroeconomic scenarios

INFLATIONARY RISKS

on larger demand pressures, slow supply response or unanchoring of expectations, specially if central banks don't react timely to inflationary pressures

FINANCIAL RISKS

particularly in public and private debt markets, and in emerging economies (weaker exchange rates, earlier hikes of local policy rates), mostly if central banks overreact (or markets perceives this way) to inflationary pressures.

EPIDEMIOLOGIC RISKS

new strains, slow vaccination in EMs...

OTHER RISKS

evolution of accumulated savings, investment and potential GDP, social unrest, deglobalization, strategic rivalry between the US and China...

BBVA Research

02

Argentina Economic Outlook 3Q21

Creating Opportunities

Weaker than expected economic rebound in 1H21, while the elections will set the tone for the economic policy until the end of the year

OUTLOOKS FOR THE ARGENTINE ECONOMY

COVID-19

The second wave has been overcome and the vaccination plan is progressing well, but the risk posed by new variants is high.

Elections

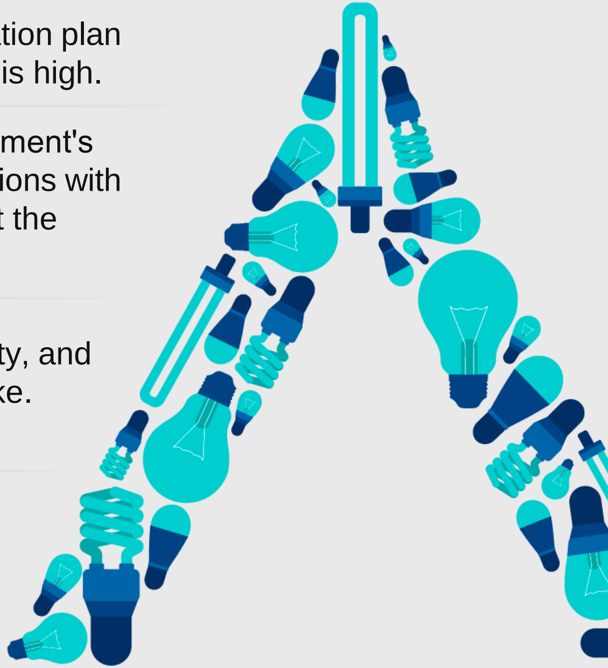
November's legislative elections determine the government's economic decisions, as it is trying to reach these elections with a growing economy and strengthened real incomes, at the expense of accumulating imbalances.

Activity

Growth will remain weak in 2021 due to high uncertainty, and in 2022 due to the adjustments the economy must make. Activity will only return to pre-pandemic levels in 2023.

Economic program

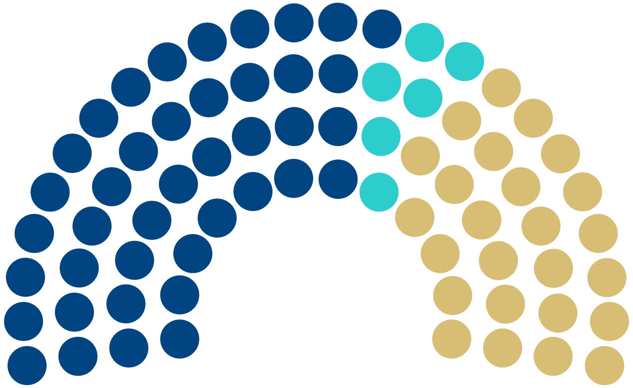
The agreement with the IMF in 1Q22 will define Argentina's path for 2022-23. If the program is consistent, it will represent an opportunity to stabilize the economy.



The primary elections on September 12 will define the candidates for the General Legislative Elections on November 14

SENATE:

72 SEATS, 24 RENEWED

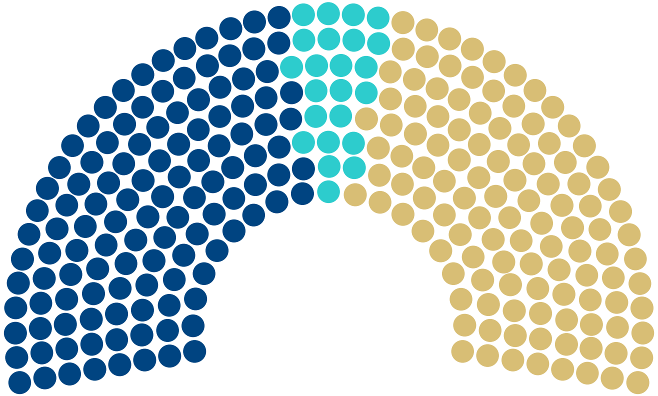


Coalitions	Seats
Frente de Todos	41
Other	6
Juntos por el Cambio	25

Source: BBVA Research

HOUSE OF DEPUTIES:

257 SEATS, 127 RENEWED



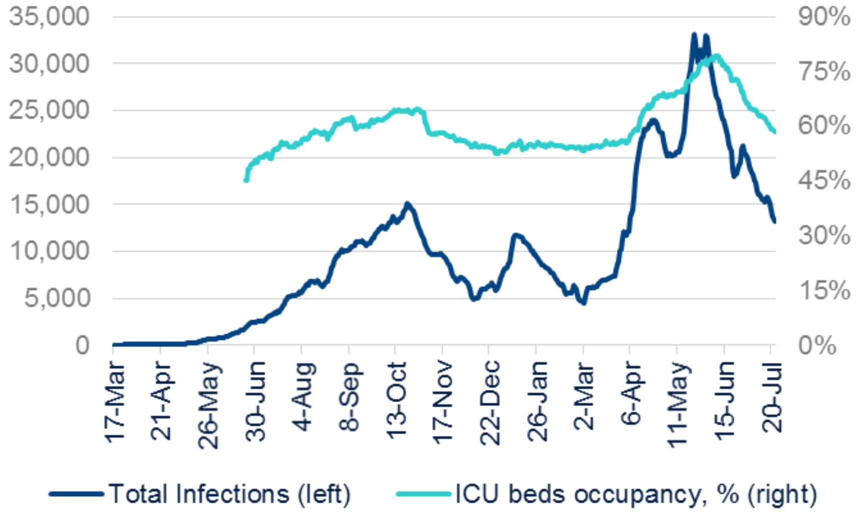
Coalitions	Seats
Frente de Todos	119
Other	23
Juntos por el Cambio	115

Source: BBVA Research

These elections, in addition to changing Congress configuration, are an “assessment” of the Government’s public approval. In the Senate, the government has the majority, with 15 of its 41 senators at stake, while the opposition has 8 of its 25 seats at stake. In the House of Deputies, Frente de Todos has 51 of its 119 seats at stake; Juntos por el Cambio has 60 of its 115, and Others renew 16 of their 23 seats.

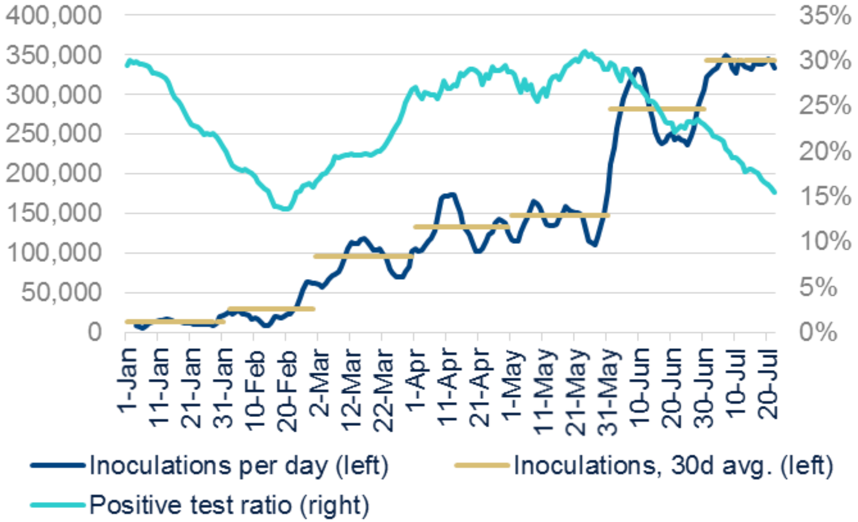
The 2nd wave is behind: the number of infections is falling and the vaccination rollout is picking up pace. New variants of the virus are the main risk factor.

DAILY INFECTIONS AND ICU BED OCCUPANCY
(7-DAY MOVING AVERAGE)



Source: BBVA Research and the Argentine Ministry of Health.

VACCINATION AND POSITIVE TEST RATIO
(7-DAY MOVING AVERAGES)

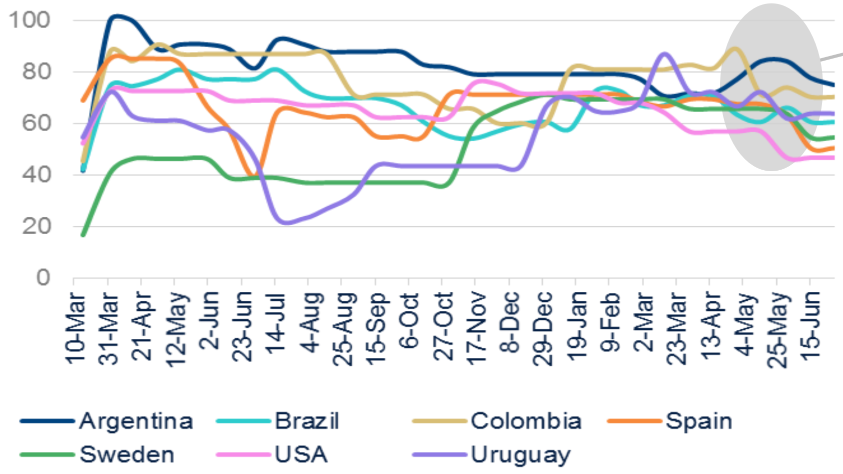


Source: BBVA Research and the Argentine Ministry of Health.

The current pace of vaccination would enable 60% of the population to receive two doses by Dec-21, thus significantly reducing the economic impact of the pandemic in 2022. However, the possibility of a new outbreak derived from the Delta variant cannot be ruled out.

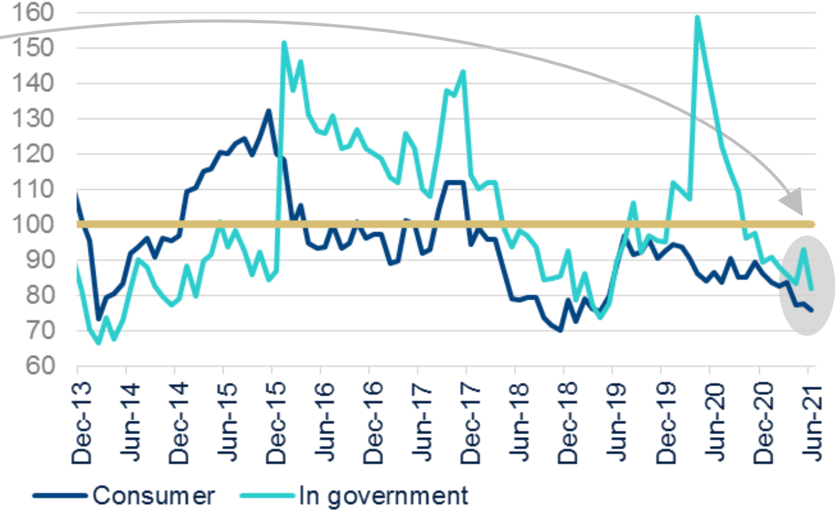
The fall of confidence indices in May and June reflected the low social tolerance for strict isolation measures

LOCKDOWN STRINGENCY INDEX
(LEVELS FROM 0 TO 100)



Source: BBVA Research and Oxford University. 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.

CONFIDENCE INDICES
(BASE 100 = HISTORICAL AVERAGE)



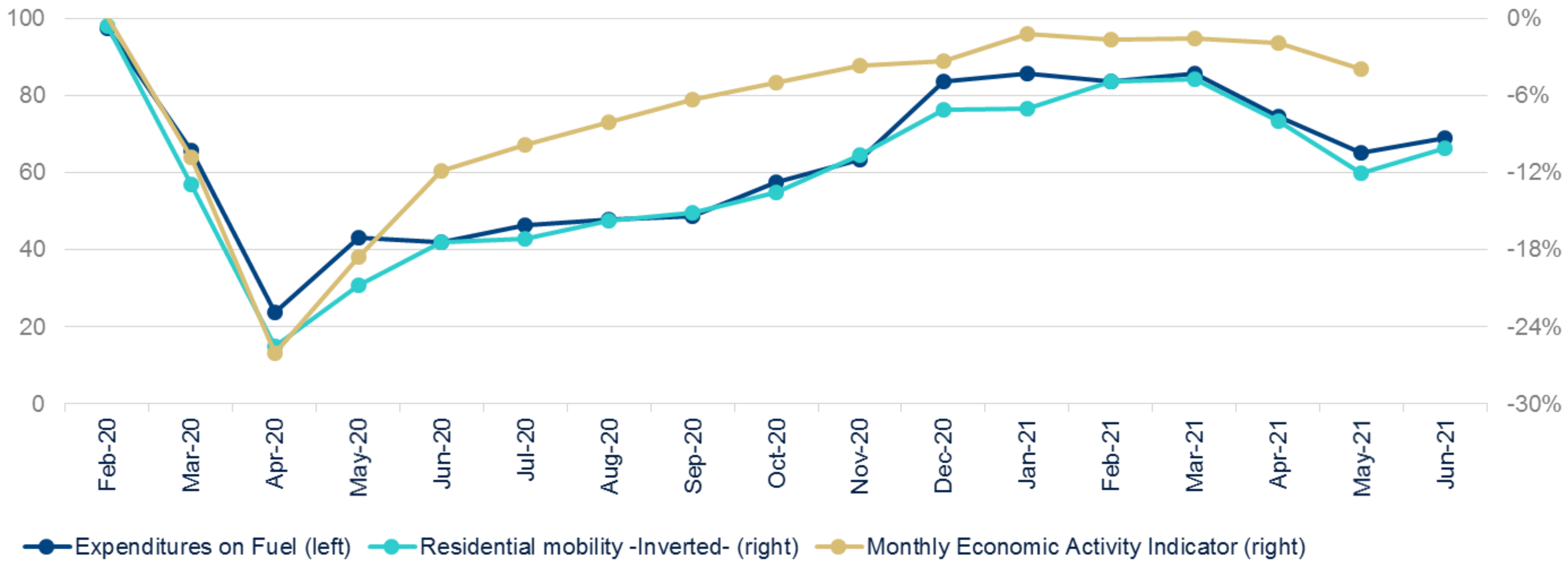
Source: UTDT and BBVA Research.

Historically low and falling confidence levels show the government's limited room for maneuver in the event of further outbreaks of the pandemic. This is particularly relevant in a moment when the electoral race is starting.

Economic recovery slows down in 1H21, especially in April and May, when the impact of lockdown measures to curb the 2nd wave were felt in full

ECONOMIC ACTIVITY, EXPENDITURE ON FUEL WITH BBVA CARDS AND MOBILITY

(EXPENDITURE: BASE 100 = AVG. JAN-FEB '20, CONSTANT ARS; ACTIVITY AND MOBILITY: % CHANGE VS. JAN–FEB '20)

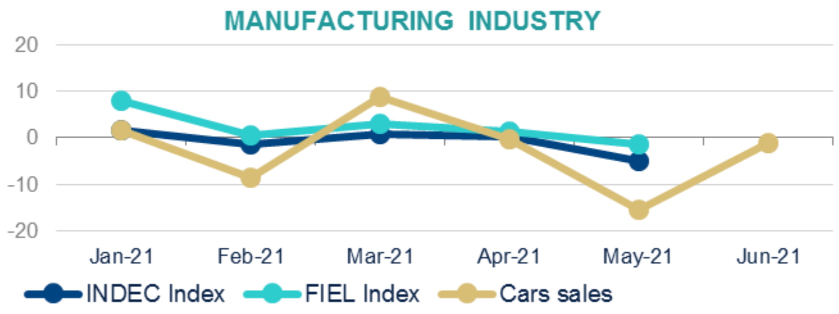


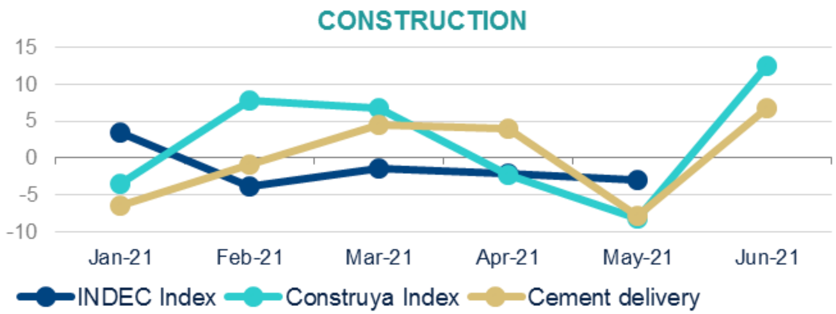
Source: BBVA Research, Google and INDEC.
Note: the residential mobility series is expressed with reversed signs.

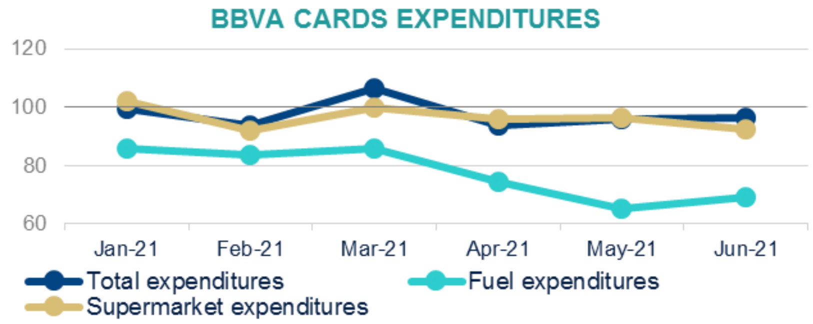
Various sectorial indicators, both on the supply side and demand side, reflect the impact of restrictions of April and May

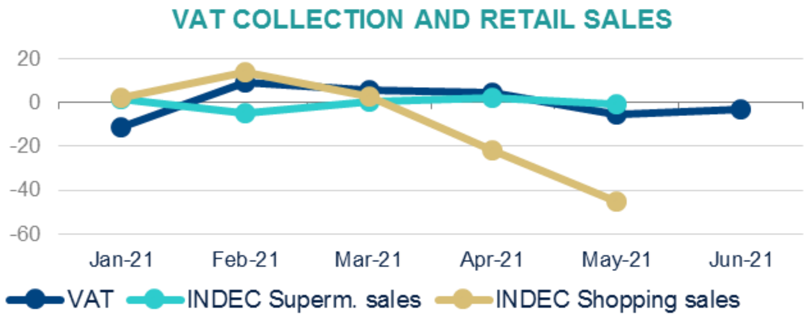
LEADING ACTIVITY INDICATORS

(SECTORAL: M/M CHANGE SEASONALLY ADJUSTED; EXPENDITURE: AVG. JAN–FEB '20= 100, CONSTANT ARS)







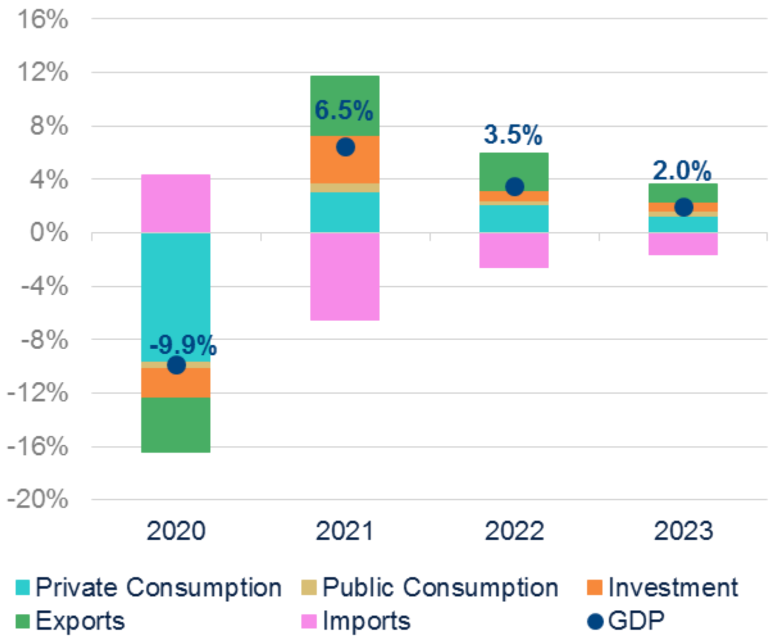


Source: BBVA Research, Grupo Construya, CAFCP, ADEFA and INDEC.

We revised our growth forecast for 2021 down to 6.5% and increased growth for 2022 up to 3.5%

CONTRIBUTION TO GDP BY COMPONENT

(% CHANGE, Y/Y)



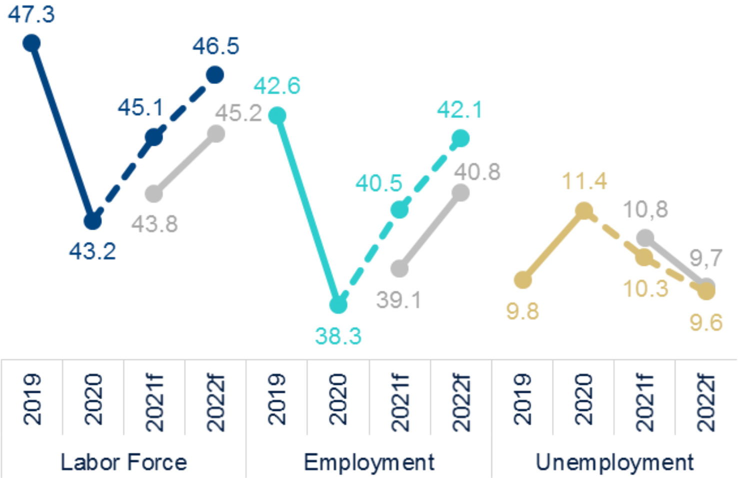
Source: BBVA Research and INDEC.

- After a poor GDP performance in the first half of the year, in 2H21 there will be an improvement thanks to activities returning to normal.
- Private consumption is still unable to recover. The labor market weakness and the fall in real wages undermine demand.
- Public consumption is growing, but is severely constrained by the limited sources of funding.
- Imports are outperforming due to the real exchange rate appreciation and the economic recovery.
- Activity will grow 3.5% in 2022, maintaining a lackluster performance, in a context of a program which must tackle macro imbalances.
- We estimate that GDP will return to pre-pandemic levels by mid-2023.

Better-than-expected improvement in the labor market, but the employment recovery is still weak and centered on lower-quality jobs

MAIN LABOR MARKET INDICATORS

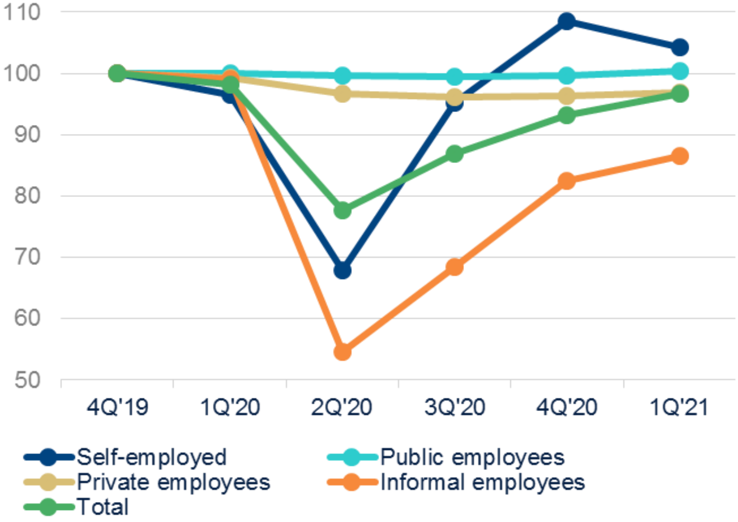
(%; PREVIOUS FORECAST IN GRAY)



Source: BBVA Research and INDEC.

EMPLOYMENT, BY CATEGORY

(4Q19 BASE = 100)

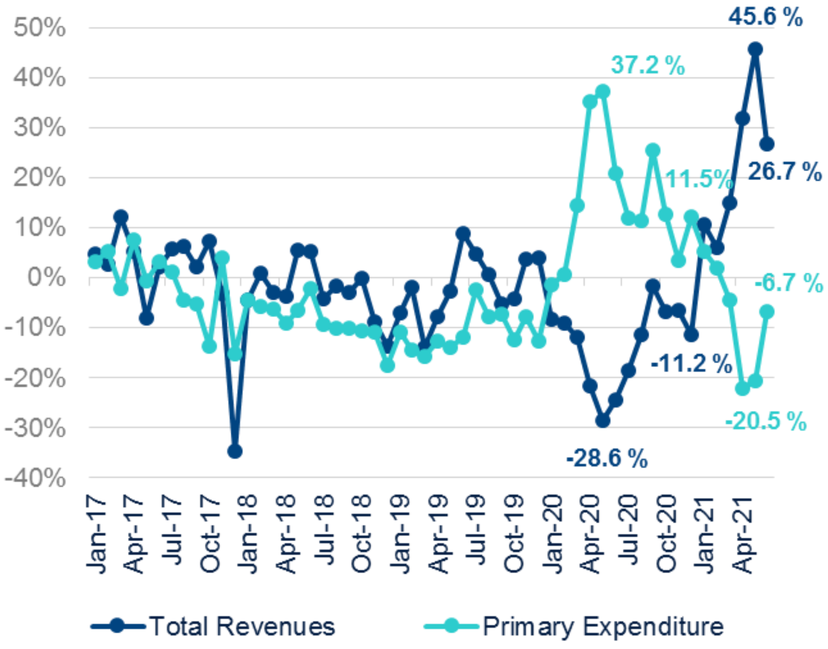


Source: BBVA Research and INDEC.

The fall of the labor force due to the pandemic mitigates the impact on the unemployment rate, but employment levels have not yet recovered to pre-pandemic levels.

The fiscal accounts in 1H21 performed very well, but with the aid of many extraordinary revenues that will not be repeated in 2H21...

FISCAL REVENUES AND PRIMARY EXPENDITURES
(% YOY, INFLATION-ADJUSTED)

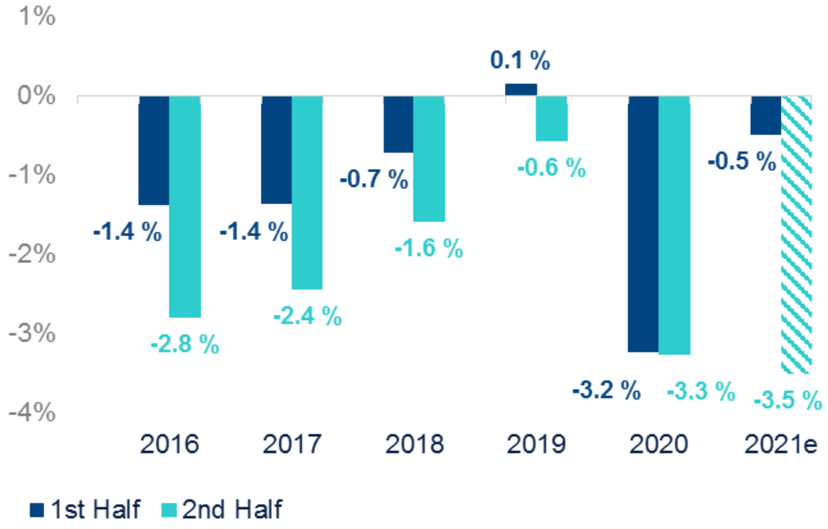


Source: BBVA Research and Treasury.

- Fiscal revenues have been exceptionally high 2021:
  - Export duties will contribute 0.8% of GDP more than in 2020 due to substantially higher commodity prices this year.
  - The extraordinary wealth tax collected 0.7% of GDP so far, but it is a one-off.
- Expenditure was controlled in 1H21, but will rise due to seasonality and elections in 2H21:
  - The COVID-related expenditures fell from 3.4% of GDP in 2020 to 0.5% (expandable to 0.9%) in 2021.
  - Social benefits, in real terms, fell by 8% on average in the first half of the year.

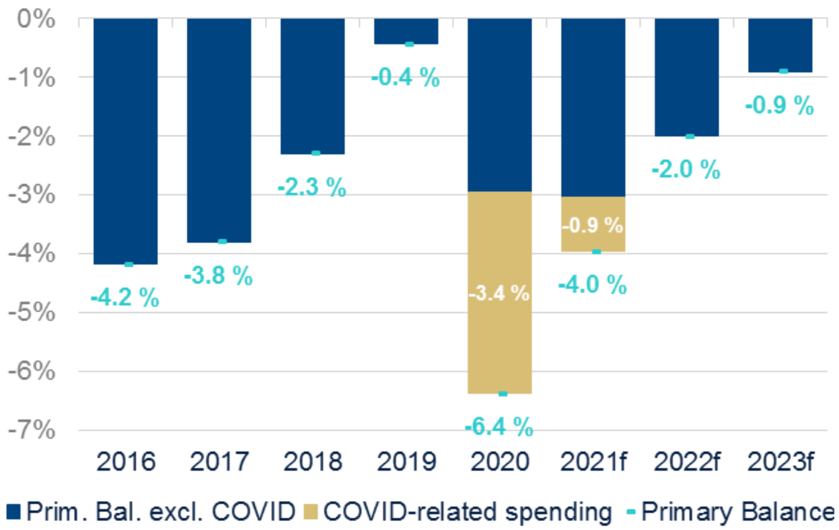
… hence why we are maintaining the forecast of -4% for GDP in 2021

PRIMARY FISCAL BALANCE
(% GDP)



Source: BBVA Research and Treasury.

ANNUAL PRIMARY FISCAL BALANCE
(% GDP)

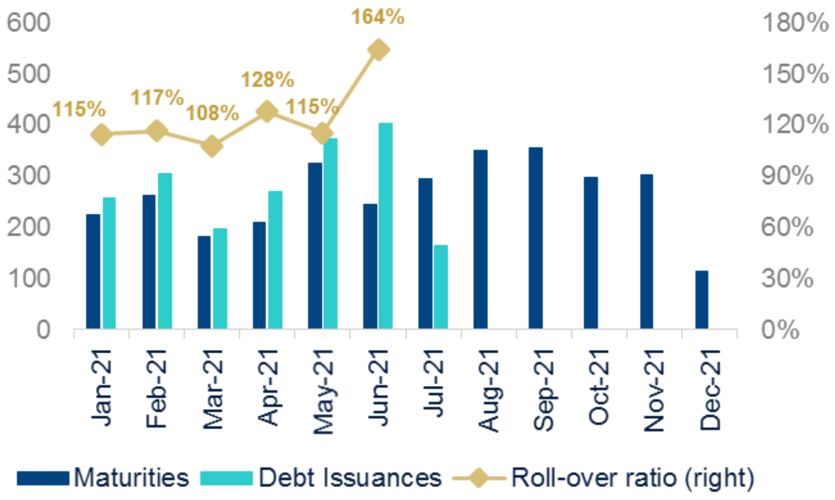


Source: BBVA Research and Treasury.

The marked seasonal jump of the fiscal spending during the "second halves" of each year will be intensified in 2021 by the elections, and there is still room for maneuver within the Budget. Having overcome the pandemic and within the context of a new IMF-supported program, in 2022 the primary fiscal deficit could be cut down to 2% of GDP.

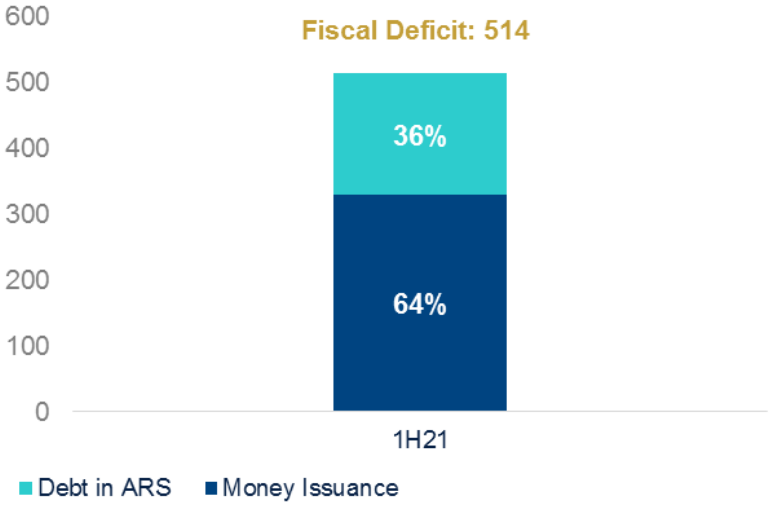
YTD, the government has managed to cover 36% of the fiscal deficit with debt in ARS, while financing the rest by issuing money

DEBT IN ARS: MATURITIES AND ISSUANCES (BILLIONS OF ARS)



Source: BBVA Research and Ministry of Economy.

FUNDING SOURCES FOR THE FISCAL DEFICIT IN 2021 (BILLIONS OF ARS)

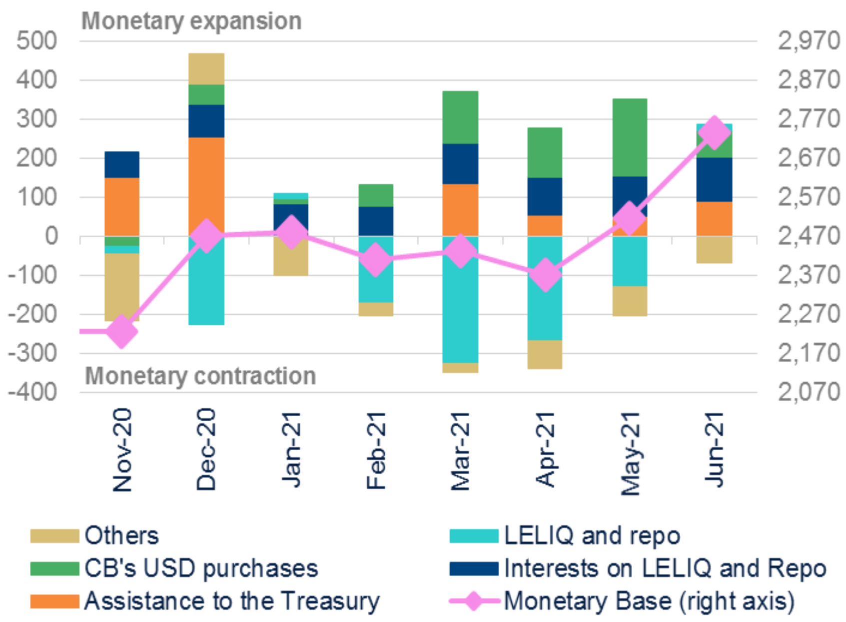


Source: BBVA Research, BCRA and Ministry of Economy.

In June, the Government achieved the highest roll-over ratio of the year (thanks to the bond purchases of banks). The government is getting closer to meeting its target of covering 40% of the fiscal deficit with debt, while financing the rest by money issuance. Monetary assistance fell sharply compared to 2020: so far it represents 35% of the issuance of the same period in 2020.

Although the issuance to finance the Treasury decreased in 2021, other sources of monetary expansion put pressure on the BCRA's balance sheet…

MONTHLY MONETARY BASE EXPANSION FACTORS
(BILLIONS OF ARS)

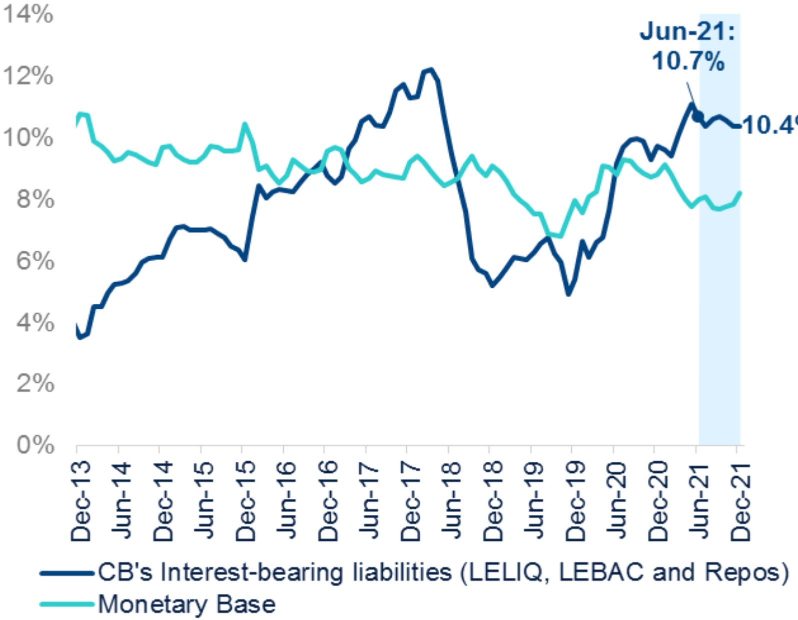


Source: BCRA and BBVA Research.

- Between March and June, the BCRA issued an average of ARS 317 billion per month (13% of the monetary base), for the sum of Treasury financing, interests on LELIQ and repos, and purchases of reserves.
- Much of this issuance had to be absorbed to avoid higher nominal pressures, which made BCRA's interest-bearing liabilities (LELIQ and REPO) soar to 11% of GDP (highest level since Sep-17).

… but we estimate that these BCRA's liabilities will remain stable as a percentage of GDP for the remainder of 2021

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

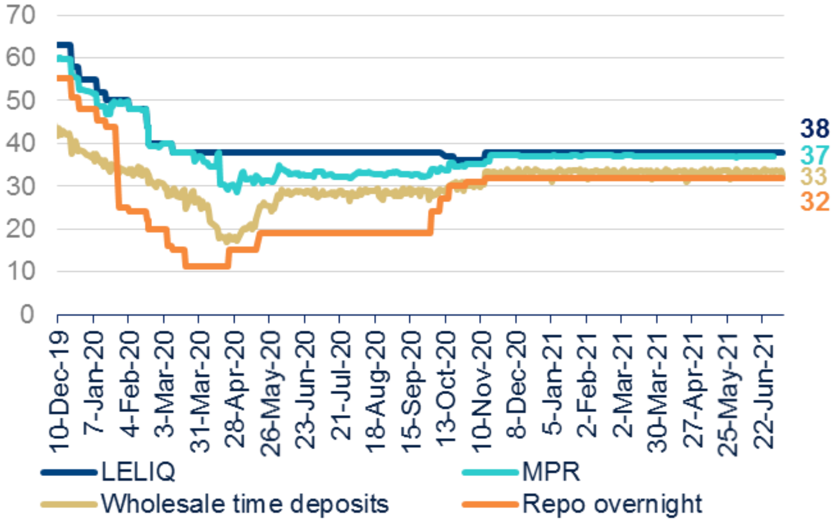


Source: BCRA and BBVA Research. Note: for forecasting purposes, it is assumed that the BCRA issues all the amount of money stipulated in the 2021 Budget to the Treasury. USD reserve purchases are not included.

- Our forecasts indicate that they would remain stable even when the BCRA issues all the money stipulated in the 2021 Budget to finance the Treasury.
- Factors that explain this stability are:
  - The positive seasonality of the monetary base in the second part of the year (higher money demand).
  - Lower BCRA's USD purchases (after the end of the soybean harvest).
  - Inflation that will remain high (coupled with stable and negative interest rates in real terms).

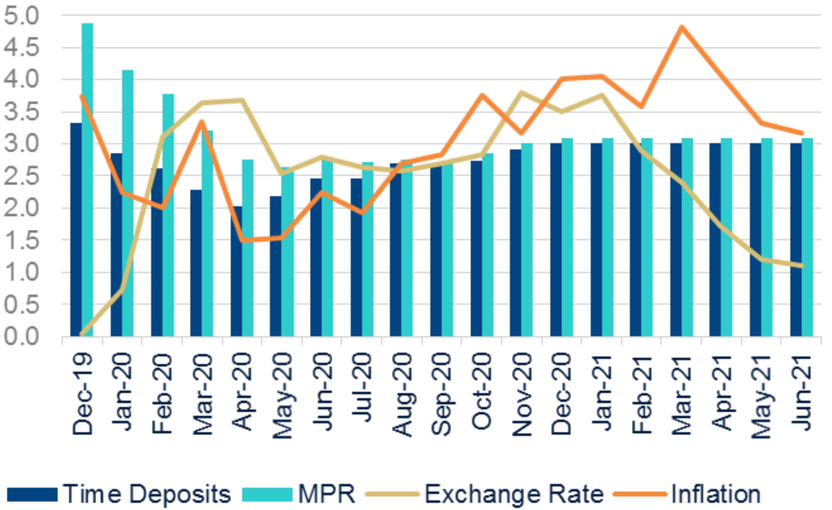
Interest rates have remained stable and negative in real terms since 4Q20, to curb the quasi-fiscal deficit and preserve the economic recovery

INTEREST RATES
(% ANNUAL NOMINAL RATE)



Source: BBVA Research and BCRA. The average Monetary Policy Rate is the weighted average between LELIQ and net repos.

INTEREST RATES, INFLATION AND EXCHANGE RATE VARIATION (MONTHLY RATES IN %)



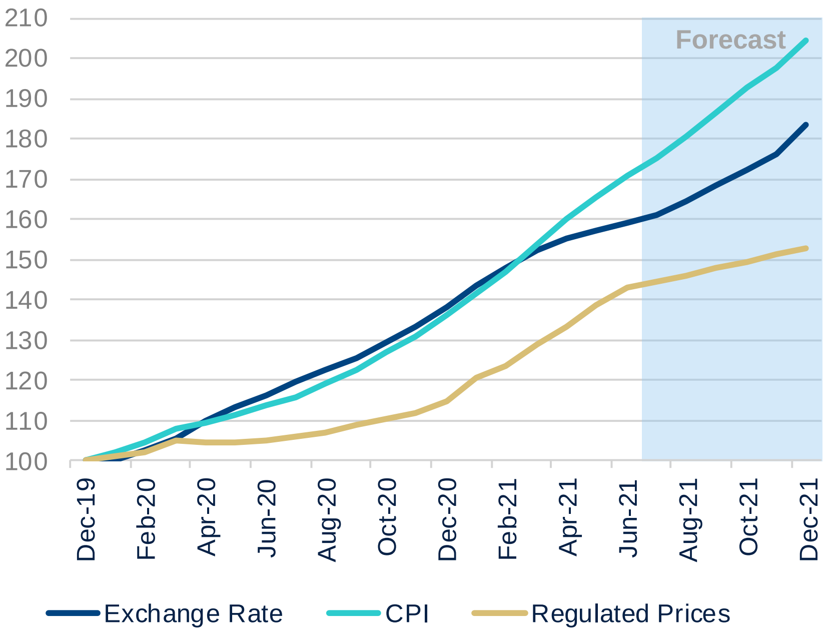
Source: BBVA Research, INDEC and BCRA. MPR = Monetary Policy Rate.

The BCRA did not raise interest rates despite increased inflation in the year, so as not to hinder economic activity and to narrow its own quasi-fiscal deficit. We expect rates to remain stable until the elections. Under an agreement with the IMF in 2022, interest rates are likely to increase and be less negative in real terms.

Inflation anchors are proving ineffective. We maintained our inflation forecast for 2021 at 50% and increased our estimate for 2022 from 45% to 50%

EXCHANGE RATE, CPI AND REGULATED PRICES

(DEC 19 = 100)

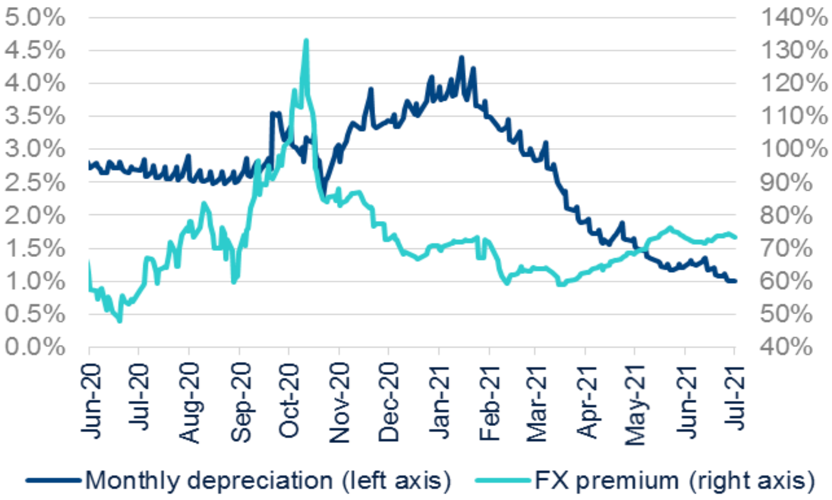


Source: INDEC, BCRA and BBVA Research.

- The government reinforces the use of the exchange rate anchor and frozen utility prices to fight inflation, but both instruments are proving ineffective.
- We have maintained our 2021 forecast at 50%, because inflation remains in line with projections so far, and the factors behind its acceleration remain in place: significant monetary overhang and loose monetary policy.
- Why are we increasing our forecast for 2022? Because we will have a higher accumulated exchange rate appreciation and outdated utility prices. The agreement with the IMF will involve some regularization on these fronts, and will push prices in 1H22. Monetary pressures will also persist.

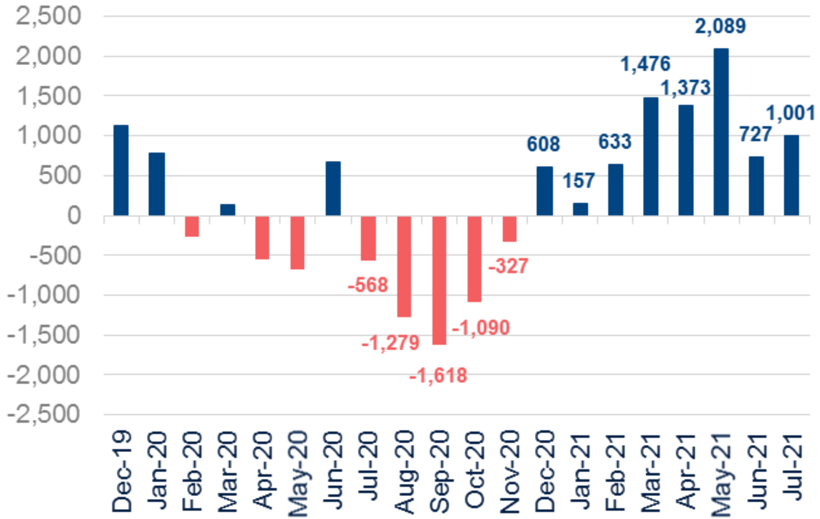
The BCRA continued slowing down the official FX depreciation, in a 2Q21 with high USD purchases, but since June the parallel markets pressures resumed

MONTHLY DEPRECIATION OF THE OFFICIAL EXCHANGE RATE AND GAP WITH THE PARALLEL EXCHANGE RATE



Source: BCRA and BBVA Research.

BCRA'S NET USD PURCHASES ON THE OFFICIAL MARKET (MILLIONS OF USD)

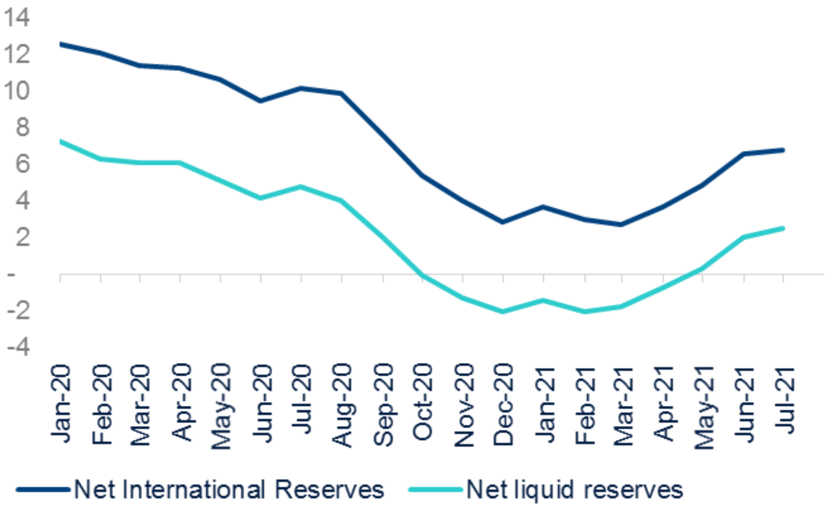


Source: BCRA and BBVA Research. Note: data as of July 20th.

Thanks to high commodity prices, the BCRA was able to buy more than USD 7.3 billion in 2021 and maintain its strategy of slowing down the exchange rate to curb inflation. However, the exchange rate premium shows signs of pressure, which will remain until the elections, as the trade balance falls seasonally and pre-election dollarization will intensify.

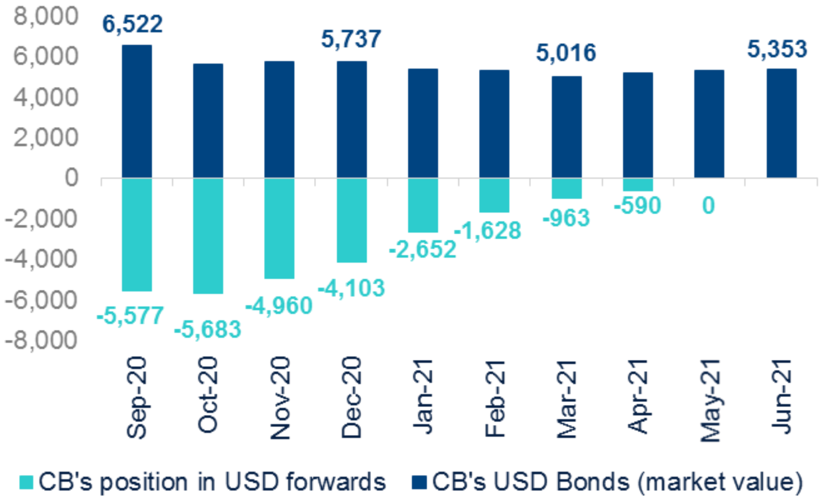
The BCRA gathered enough firepower to avoid exchange rate disruptions until the elections

NET INTERNATIONAL RESERVES (BILLIONS OF USD)



Source: BBVA Research and BCRA.

BCRA'S STOCK OF USD-DENOMINATED BONDS AND OPEN INTEREST IN USD FORWARDS (MILLIONS OF USD)

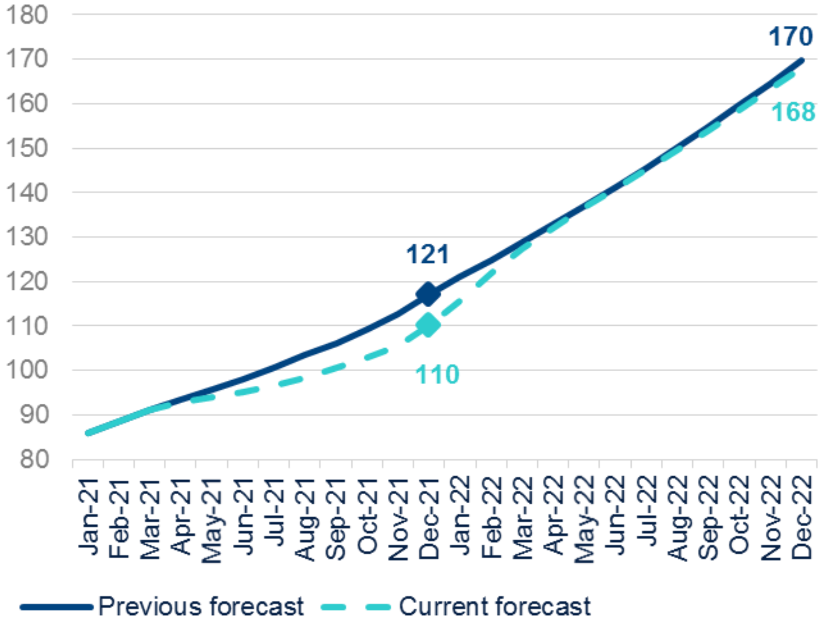


Source: BCRA.

BCRA's net reserves reach USD 7 billion; it has no short position in USD forwards and has a stock of market bonds valued at USD 5.4 billion. This firepower looks sufficient to avoid exchange rate disruptions until the elections and, in any case, the BCRA will resort to new regulations to limit demand for foreign currency (imports, parallel exchange rate markets, etc.).

The exchange rate would run below inflation until the elections, then could possibly accelerate to catch up with prices

OFFICIAL EXCHANGE RATE
(USD/ARS)

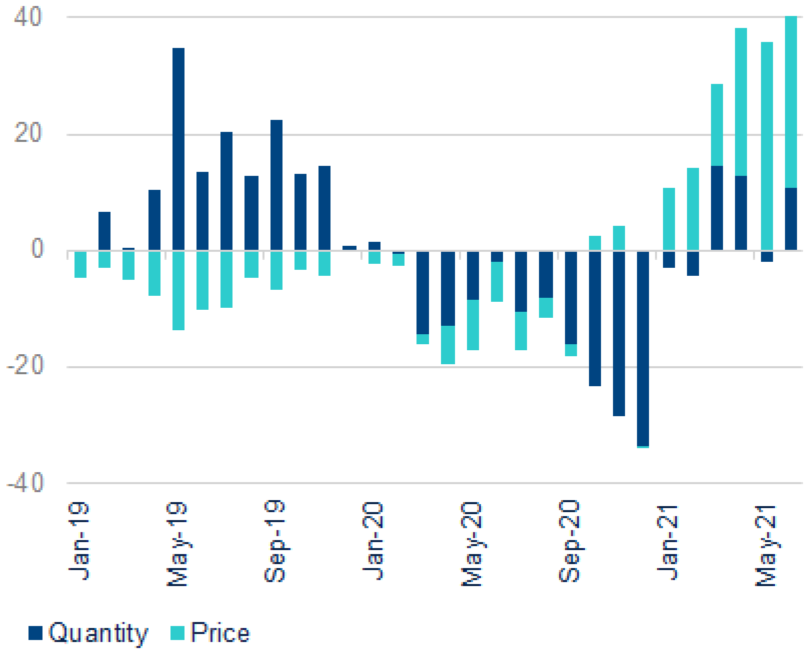


Source: INDEC, BCRA and BBVA Research.

- The government has made it clear that the exchange rate anchor will be its main tool for fighting against inflation in the coming months.
- The BCRA's firepower, in addition to the IMF's SDRs allocation at end-August (USD 4.3 billion), will allow the Government to keep the exchange rate moving below inflation until the elections.
- We have therefore revised the USD/ARS parity down from 117 to 110 for Dec-2021.
- We believe that the exchange rate will not be able to sustain this trend in 2022 and some of the ground lost will have to be recovered against prices. We therefore estimate that monthly devaluation will accelerate after the elections.

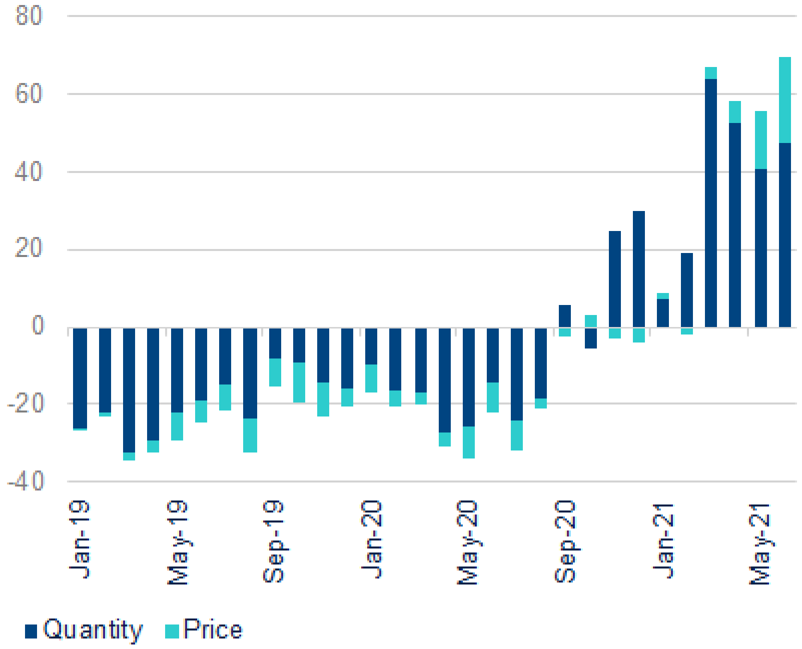
The real exchange rate appreciation and the wide premium between official and parallel FX boost (advance) imports and curb (postpone) exports…

EXPORTS: PRICE AND QUANTITY
(% CHANGE, Y/Y)



Source: INDEC and BBVA Research.

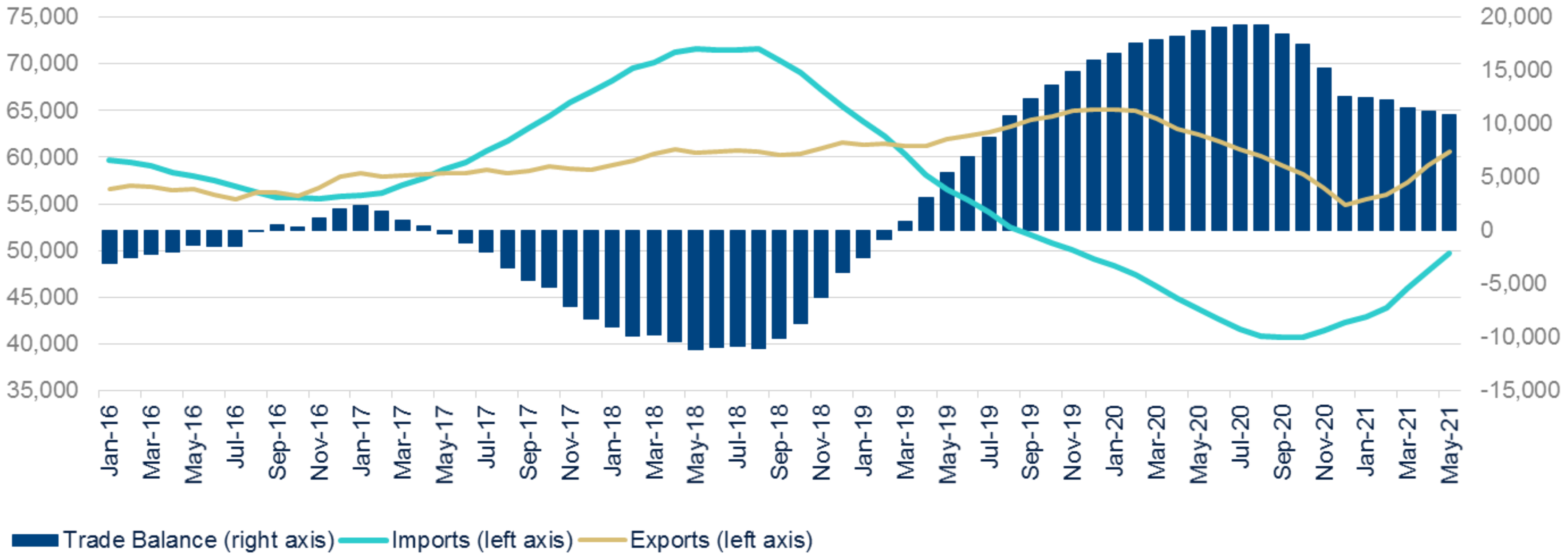
IMPORTS: PRICE AND QUANTITY
(% CHANGE, Y/Y)



Source: INDEC and BBVA Research.

… eroding the trade balance, although we expect a surplus of USD 13 billion in 2021

EXPORTS, IMPORTS AND TRADE BALANCE
(CUMULATIVE 12 MONTHS, MILLIONS OF USD)

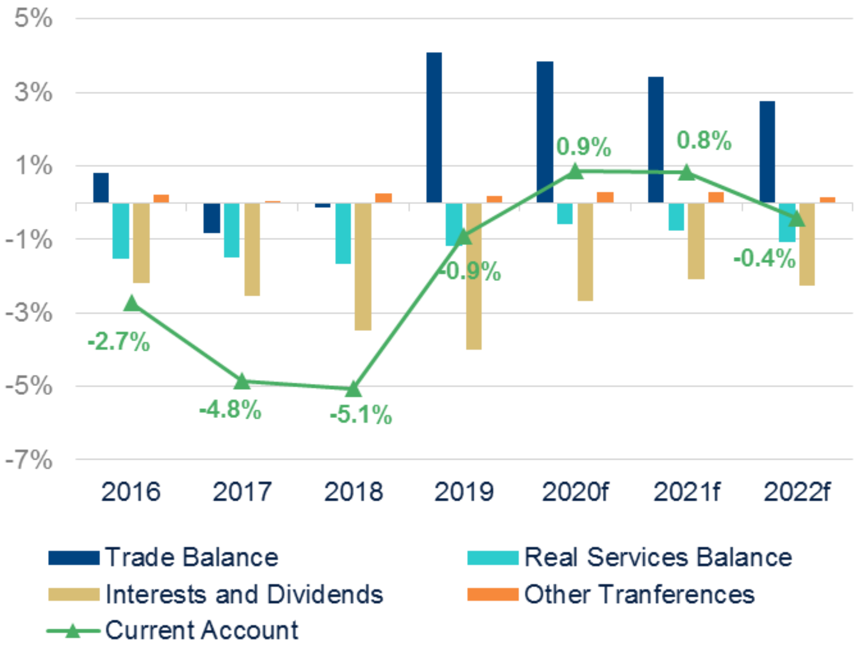


Source: INDEC and BBVA Research.

Another year with current account surplus, which will decrease as the economy recovers and tourism flows return to normal

CURRENT ACCOUNT AND ITS COMPONENTS

(% GDP)

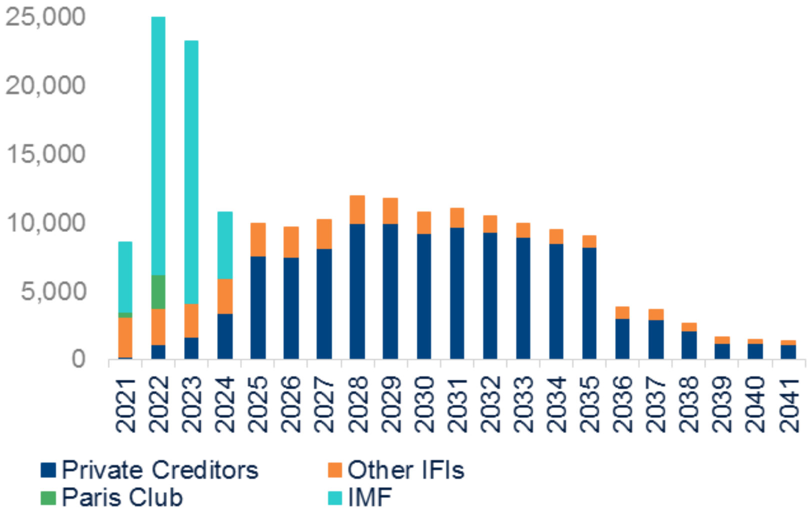


Source: INDEC and BBVA Research.

- We estimate that, this year the current account will reach a surplus of 0.8% of GDP, similar to that of 2020.
- By 2022, the result will change in sign and show a deficit of 0.4% of GDP, as the contribution from trade in goods will fall and tourism will recover once the pandemic has been overcome.
- Interest will remain low thanks to the debt restructuring, while dividend distributions will increase from the current all-time lows.

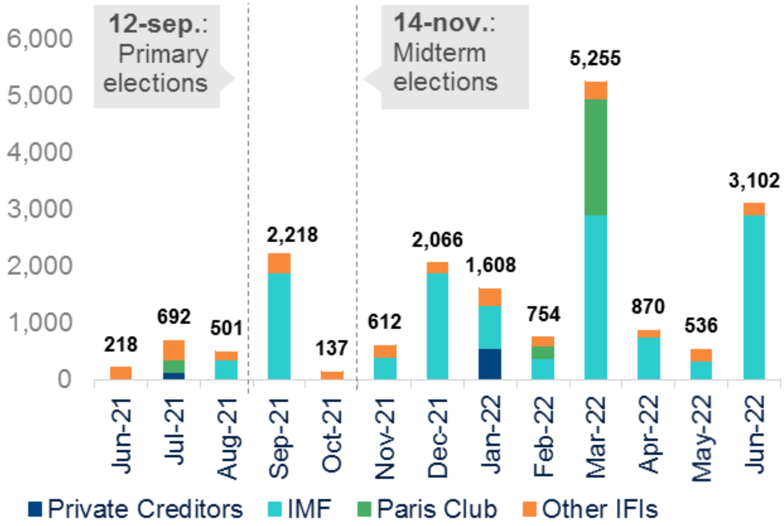
The government postponed payment to the Paris Club until March, which reinforces the scenario of an agreement with the IMF by 1Q22

PUBLIC DEBT MATURITY PROFILE IN FOREIGN CURRENCY 2021–2041 (MILLIONS OF USD)



Source: BBVA Research and Ministry of Economy.

MONTHLY FOREIGN CURRENCY MATURITIES UP TO JUN-22 (MILLIONS OF USD)

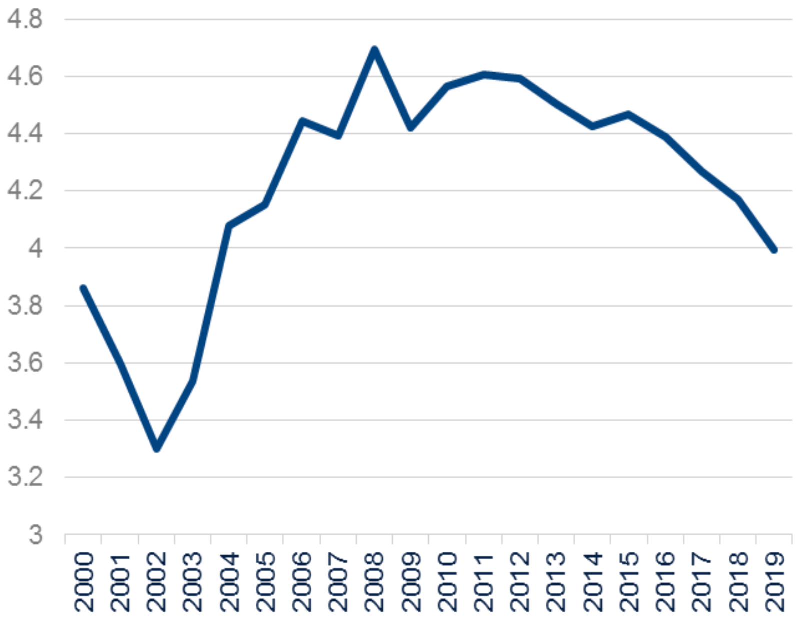


Source: BBVA Research and Ministry of Economy.

The government postponed the maturity with the Paris Club in exchange for a payment of USD 430 million in two installments (July and February). This reinforces the scenario that the country will reach an agreement with the IMF by 1Q22. The subsequent economic program should address the Argentine economy's inconsistencies (mainly on the fiscal, monetary and exchange rate front)

Argentina continues to reduce its CO2 emissions, but it will need structural reforms in order to meet the commitments of the Paris Agreement

EMISSION OF CO_2 PER CAPITA
(METRIC TONS)



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

- Argentina has reduced its per capita CO2 emissions since 2015. However, questions are arising about the difficulty that countries will face in meeting the Paris Agreement goals.
- Global emissions should decrease by 40–50% over the next 10 years to reach net-zero emissions by 2050.
- According to a World Bank report, reducing the frequency of droughts and floods should be one of Argentina's main sustainable development goals…
- … Droughts because they significantly reduce agricultural production and revenue (as was the case in 2018) and floods because of the impact they have on poverty.

Forecasts

ARGENTINA	2018	2019	2020	2021e	2022e
GDP (% Y/Y)	-2.6	-2.0	-9.9	6.5	3.5
Inflation (% Y/Y, EOP)	47.6	53.8	36.1	50.0	50.0
Exchange rate (vs USD, EOP)	37.9	59.9	82.6	110.0	168.0
Monetary policy rate* (% EOP)	59.3	58.5	37.1	42.0	40.0
Private consumption (% y/y)	-2.2	-7.3	-13.8	4.5	3.2
Public consumption (% y/y)	-1.9	-1.2	-3.3	5.1	2.0
Investment (% y/y)	-5.7	-15.9	-12.9	21.1	3.7
Primary fiscal balance (% GDP)	-2.3	-0.4	-6.4	-4.0	-2.0
Current account balance (% GDP)	-5.1	-0.9	0.9	0.8	-0.4

*Monetary policy rate: weighted average of BCRA interest-bearing liabilities (repos and LELIQ).

Disclaimer

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These arise from the department's own research or are based on sources believed to be reliable and have not been independently verified by BBVA. BBVA therefore offers no express or implicit guarantee regarding its accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Past trends for economic variables, whether positive or negative, are no guarantee of future trends.

This document and its contents are subject to change without prior notice, depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating this content or for giving notice of such changes.

BBVA accepts no liability for any direct or indirect loss that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or request to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis for any kind of contract, undertaking or decision.

The content of this communication or message does not constitute a professional recommendation to make investments under the terms of Article 2.40.1.1.2 of Decree 2555 of 2010 or the regulations that modify, replace or supplement it.

With particular regard to investment in financial assets that could be related to the economic variables referred to in this document, readers should note that under no circumstances should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to make such decisions.

Argentina Economic Outlook

3Q21

Creating Opportunities