Argentina Economic Outlook

1Q22

Creating Opportunities

Key messages. Global

Growth

Global growth will be somewhat slower than expected in the next two years, but will remain relatively robust. After a fall of 3.2% in 2020, the forecast for world GDP growth is 6.0% in 2021, 4.4% in 2022 and 3.8% in 2023.

Inflation

The persistence of the pandemic and the problems in global supply chains —in addition to slowing down economic growth— will keep inflation high, mainly in the short term and in the United States. The risks are on the upside, therefore, it is vital to avoid any major second-round effects.

Withdrawal of stimuli

The increased inflationary pressures will force central banks to accelerate the process of withdrawing monetary stimuli. The Fed will raise rates more aggressively than anticipated and will begin to reduce its balance sheet. The ECB will be more patient; though, similarly, after a gradual reduction in its asset purchases, it is likely to increase interest rates next year. The fiscal policy will maintain an expansionary stance, but without stimulus packages as prominent as those adopted in 2020-2021.

Risks

There are significant risks and growth is skewed to the downside. These risks include more persistent inflation, financial turbulence caused by a more aggressive withdrawal of monetary stimuli, new coronavirus variants that elude current vaccines, a more severe slowdown of the Chinese economy, and social and geopolitical tensions.

Key messages. Argentina

IMF

The government and the IMF reached relevant understandings on key policies ahead of new program. Further steps are still needed for a final deal (a 10-year Extended Fund Facility), but the announcements were in line with our expectations. The targets include a reduction of monetary financing to 0 by 2024 and primary fiscal equilibrium by 2025. We think that the targets for 2022 and 2023 are achievable. These news reduce significantly the chance of a hard-default scenario.

Elections

The government was defeated in the midterm elections and is now in a weaker position ahead of its last two years in office. It lost quorum in the Senate and now has fewer deputies, meaning it will have to rely more heavily on agreements with the opposition to tackle the country's economic imbalances.

COVID-19

Argentina is now facing the largest surge in cases since the outbreak of the pandemic. However, progress in vaccination is keeping the number of deaths and hospitalizations under control. This evolution allows us to be optimistic in terms of a low impact of the pandemic on the economic activity in 2022, as long as the population continues to get vaccinated.

Economic activity

GDP growth was higher than expected in 3Q21 and reached pre-COVID-19 levels. We have revised up our GDP growth forecast for 2021 to 10%. We expect activity to lose steam in 2022, growing by 3.5%, explained mostly by statistical carryover effect.

Key messages. Argentina

Fiscal accounts

The primary fiscal deficit (excl. SDRs) ended 2021 at a lower-than-expected 3% of GDP, buoyed by extraordinary income and certain control over expenditure. For 2022, we expect a deficit of 2.5% of GDP, as part of the agreement with the IMF, which requires greater fiscal responsibility than the government has shown until now.

Exchange rate

In 2021, the BCRA used the exchange rate as its main anti-inflationary anchor. The official exchange rate rose by 22% and the real exchange rate appreciated 18% in the year. After the elections, with reserves at critical levels, the BCRA sped up depreciation, but we suspect it will go even faster in the short term to recover some competitiveness. We forecast an exchange rate of 160 by Dec-22.

Monetary policy

The BCRA raised its monetary policy rate to 40% in January, after leaving it unchanged at 38% in 2021. The increase is not enough to offset (current and expected) inflation, so further hikes should be coming under the framework of the IMF agreement, so interest rates should become less negative in real terms. We expect the MPR to end 2022 at 44%.

Inflation

Inflation ended 2021 at 50.9% (the 2nd highest level in 30 years). Lax monetary policy, coupled with hefty money issuance, set a high floor for inflation in 2022, which we forecast at 55%, amid adjustments to utility prices and in the exchange rate (in a bid to partially correct current imbalances).

01

Global economic outlook 1Q22

Creating Opportunities

Global environment: growth moderation, with high inflation and earlier withdrawal of monetary stimuli

More persistent pandemic

Longer lasting bottlenecks

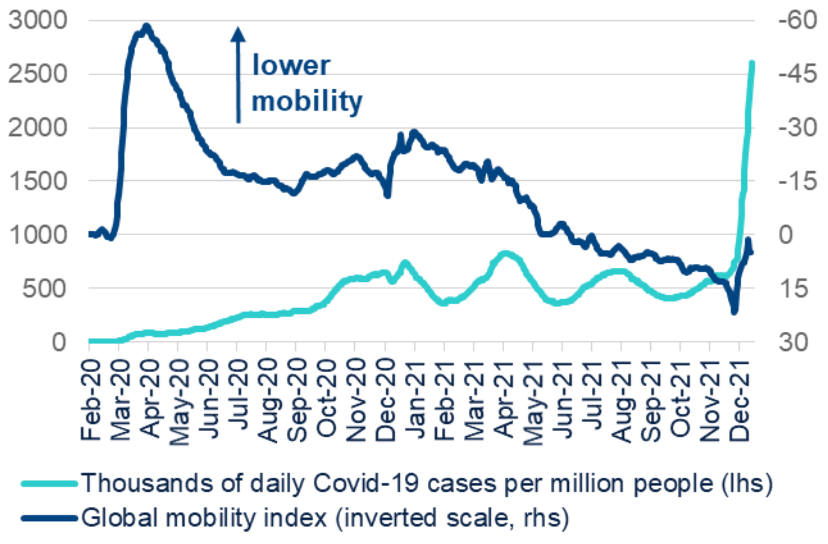
High inflation

Earlier withdrawal of stimuli

Slowdown in economic growth and higher financial volatility

The new variants of the coronavirus have increased infections, but with a limited negative effect due to vaccination

WORLD: DAILY CODIV-19 CASES AND MOBILITY RESTRAINT INDEX*
(7-DAY MOVING AVERAGE)

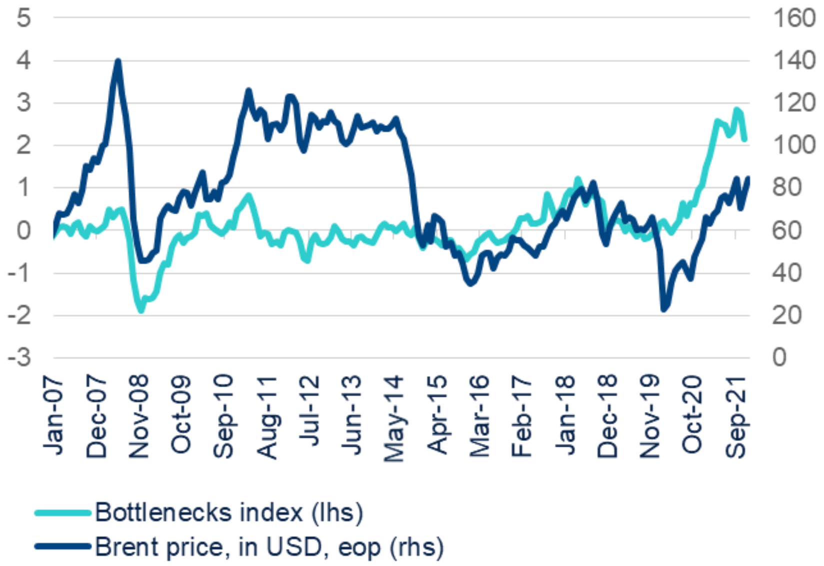


* The mobility index reflects changes with respect to the period of reference (January 3 to February 6 2020) based on retail and recreation mobility.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

- New, highly contagious strains: coronavirus mutations in the context of incomplete vaccination.
- Strong increase in infections in Europe and more recently in the US and Latam.
- Limited impact on mobility, hospitalizations and mortality: widespread immunization in many countries.
- Increasing supply of vaccines and better treatments should allow greater control of the pandemic.
- Risk: new variants that evade vaccines.

Significant problems in global supply chains remain in place, but they could have peaked

SUPPLY BOTTLENECK INDEX (US) AND BRENT PRICE
(INDEX: 1998-2021 AVERAGE=0; BRENT PRICES:: IN USD)

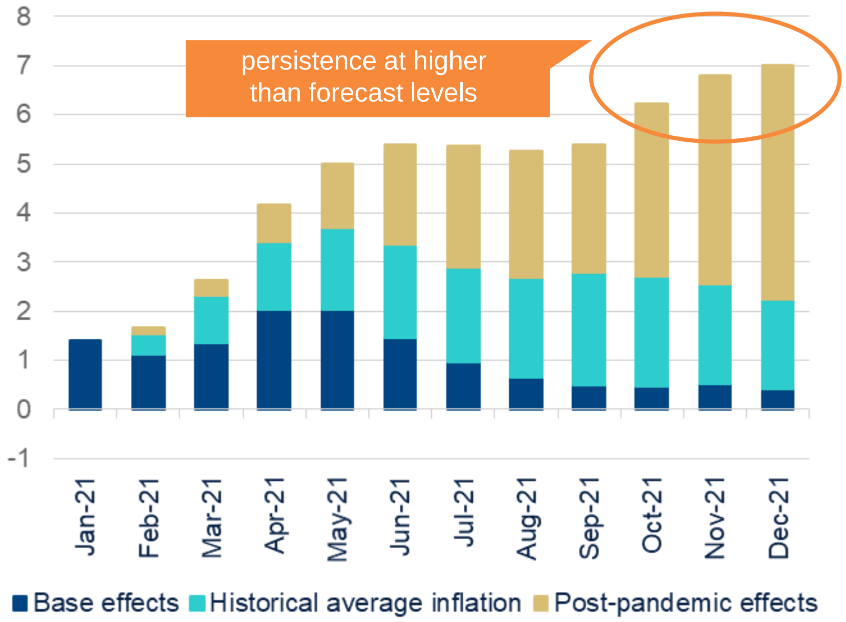


Source: BBVA Research based on data by Bloomberg.

- Production bottlenecks reflect an imbalance between a relatively robust demand and a relatively inelastic supply of goods.
- The problems are largely related to the pandemic, which means that they could be reinforced by the omicron strain.
- Energy transition policies, protectionism and geopolitical problems add complexity and put pressure on energy prices, which remain high despite the moderation in gas prices.
- Anyway, there are recent signs of moderation in bottlenecks, at least in manufacturing.

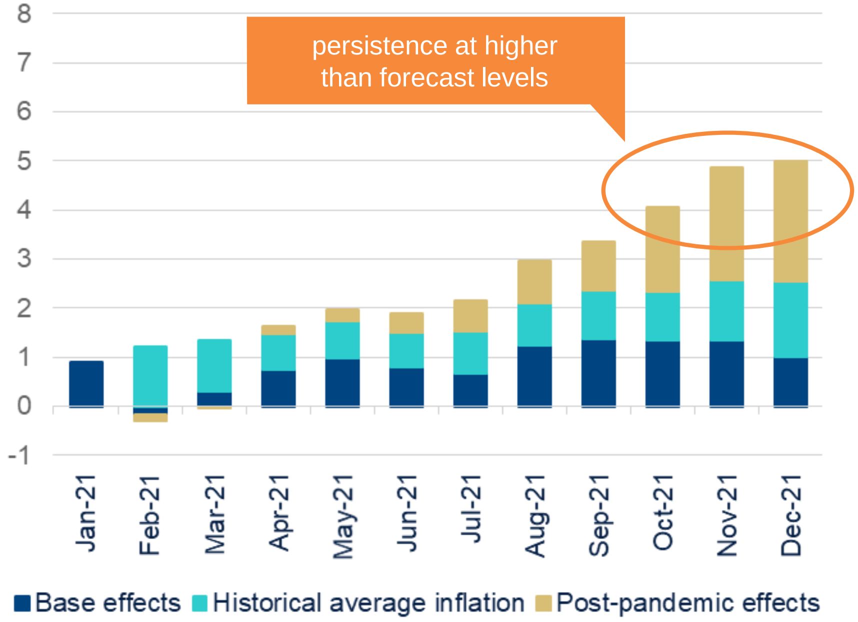
Inflation remains high, largely on pandemic-related issues (confinements, reopening, consumption composition, spending of accumulated savings...)

US : INFLATION
(CPI; Y/Y %)



Source: BBVA Research.

EUROZONE: INFLATION
(CPI; Y/Y %)



Source: BBVA Research.

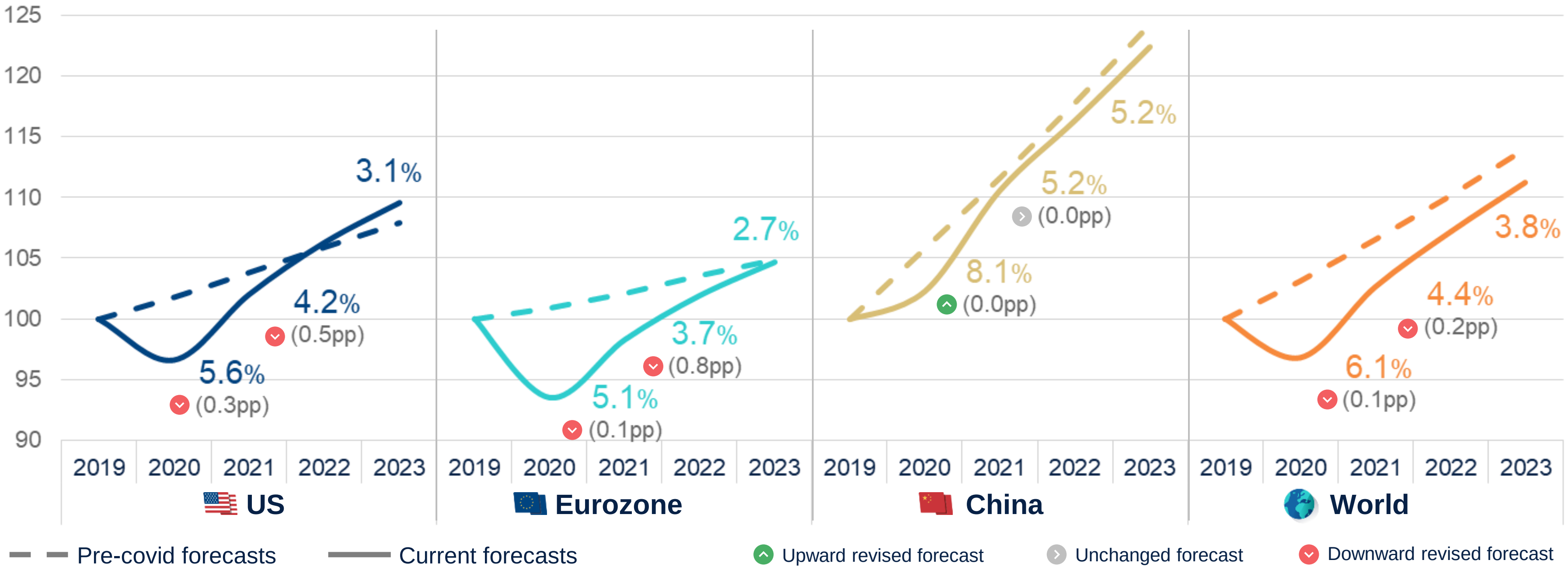
The process of economic normalization will continue, albeit gradually and with eventual turbulences, in a context of increasing risks

BASELINE SCENARIO		RISKS ON SEVERAL FRONTS
New waves of infections, with decreasing effects on health systems and the economy (on vaccination and better treatments)	Pandemic	New strains elude vaccines and significantly reduce mobility
Remain in place in the first half of 2022 and then normalize on the moderation of demand and the reaction of supply	Bottlenecks	More significant and persistent due to the pandemic, energy transition, protectionism, etc.
High -mainly in the short term and in the US- but gradually decreasing and under control	Inflation	Relevant second-round effects with de-anchoring of expectations and wage pressures
Early withdrawal of economic stimuli to control inflation; limited volatility in financial markets	Economic policy	More aggressive withdrawal of stimuli creates turmoil, particularly in debt and emerging markets
Gradual moderation of growth, which remains relatively robust	Global context	In the limit, recession; not only on the aforementioned risks but also on China's sharper deceleration and social and geopolitical tensions

Global growth is estimated to be relatively robust in the next two years, although it will be weaker than previously anticipated

REAL GDP

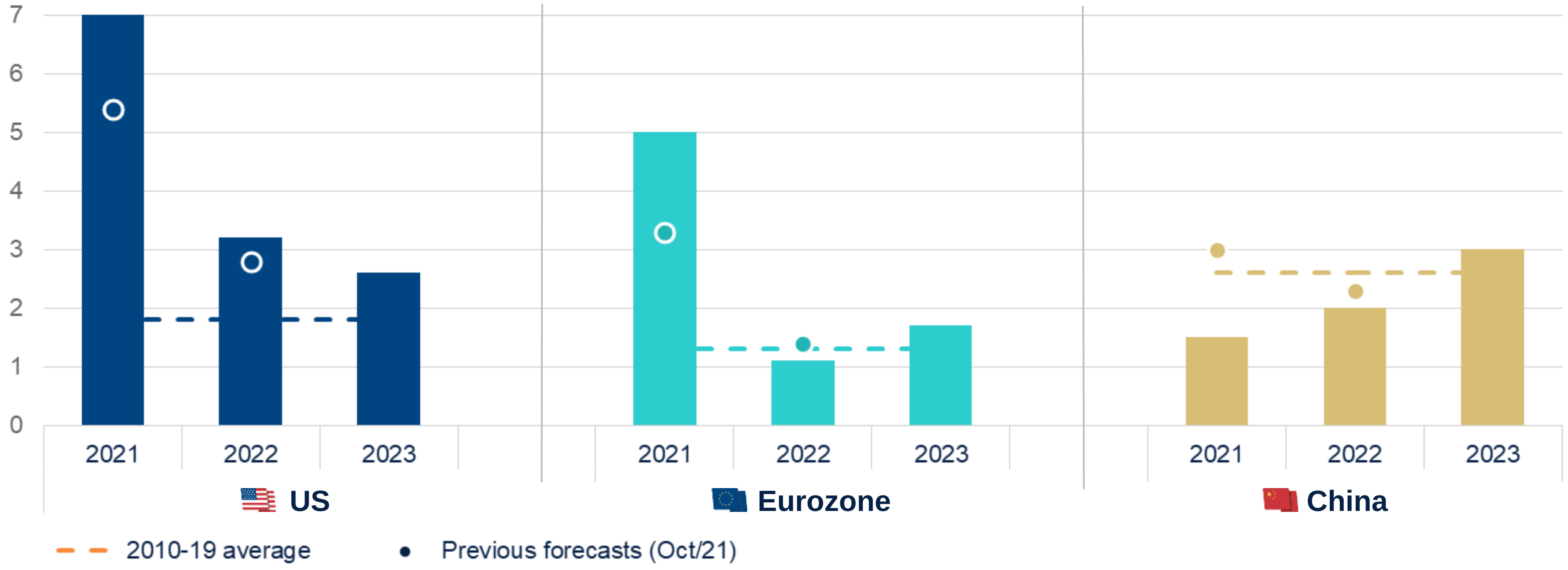
(LINES: GDP LEVEL 2019=100, FIGURES: FORECASTS AND CHANGES WITH RESPECT TO THE PREVIOUS ONES)



Source: BBVA Research.

Inflation will remain high, mainly in the short term and in the US; risks are to the upside, it is key to avoid significant second-round effects

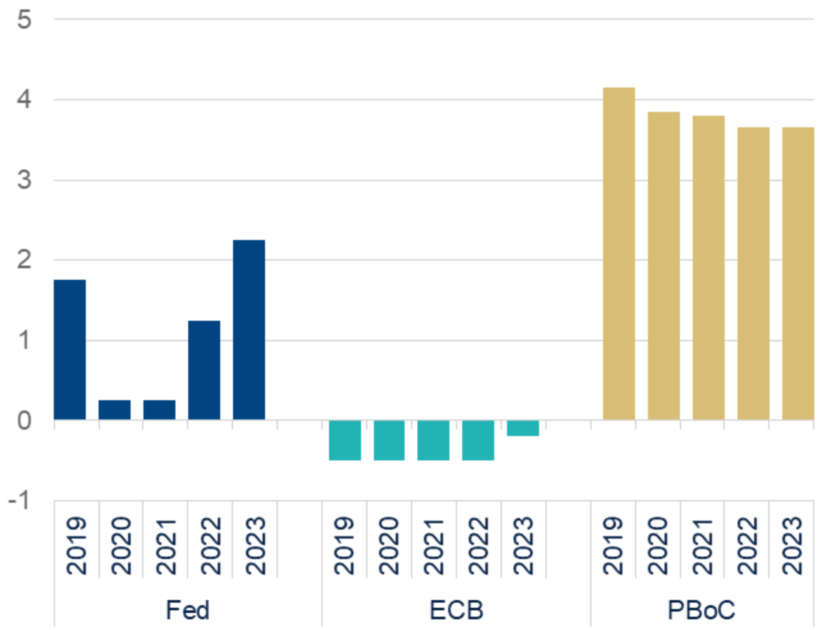
INFLATION: CPI
(Y/Y %, END OF PERIOD)



Source: BBVA Research.

The Fed will react to inflation with a quick tapering and interest rate hikes; the ECB will be more patient and the PBoC will remain focused on growth

POLICY INTEREST RATES*
(%, END OF PERIOD)



*: In the case of the ECB, deposit facility rates. Forecasts for 2022 and 2023.
Source: BBVA Research

US

- The Fed is focused on controlling inflation.
- We expect i) the tapering to end no later than in Feb/22, ii) four 25bp rate hikes in 2022 and four in 2023, iii) a balance sheet reduction from this year on.

Europe

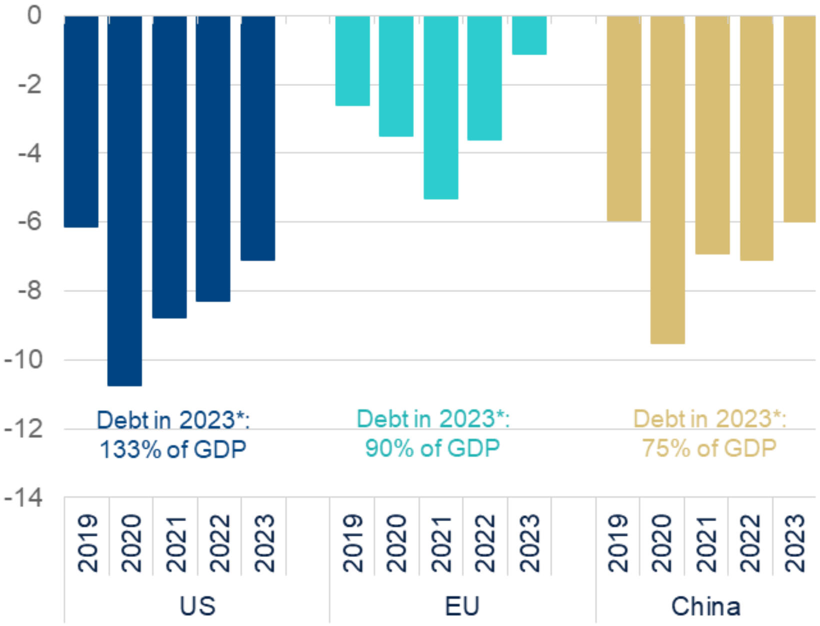
- End of the PEPP on Mar/22, and bond purchases via APP will be reduced until mid-2023.
- Interest rates will remain unchanged until the second half of 2023; ECB to exhibit an increasingly hawkish tone.

China

- Monetary stimulus is resumed: further cuts in interest rates and bank reserve requirements, among other measures, in 2022 to avoid a sudden slowdown in the economy.

Fiscal policy will still be expansionary in the coming years, but the stimuli will not be as notable as in 2020-2021

STRUCTURAL FISCAL RESULT
(% OF POTENTIAL GDP)



*: General government gross debt estimated by the IMF.
Source: BBVA Research based on data by the IMF and the European Commission.

US

- New stimuli, more focused on supporting supply (with less impact on inflation).
- After the approval of the infrastructure plan (less significant than expected), the social investment plan is now being debated.

Europe

- Increasing use of NGEU resources will support growth in 2022-23.
- Increasing debate on fiscal rules from 2023 on.

China

- Additional stimulus measures to counteract the impact of regulatory activism, real estate market adjustments, “zero tolerance” on COVID and energy transition policies.

BBVA Research

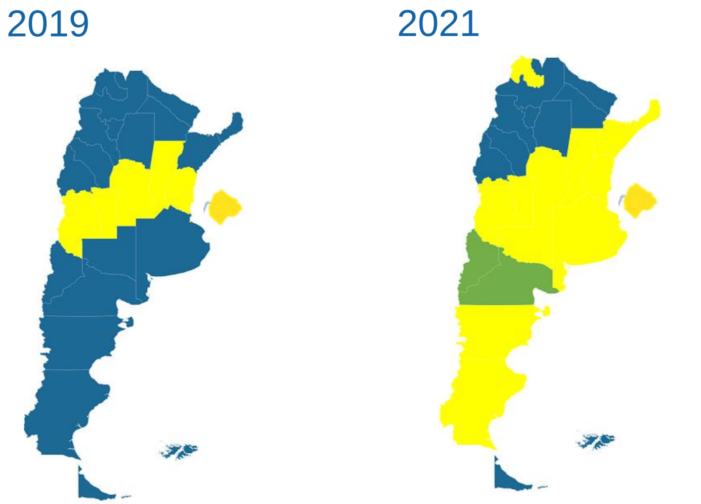
02

Argentina economic outlook 1Q22

Creating Opportunities

Midterm elections draw a new political map for the second half of the current presidential term

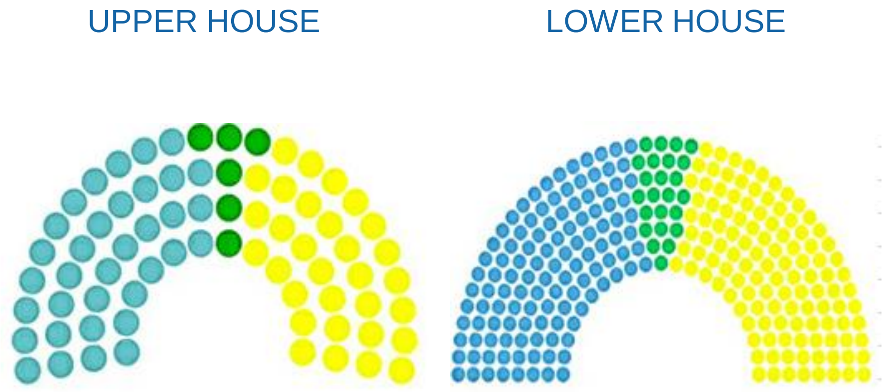
WINNING COALITIONS, BY PROVINCE



Frente de Todos   Juntos por el Cambio   Otros

Source: Ministry of the Interior and BBVA Research.

NEW COMPOSITION OF THE CONGRESS



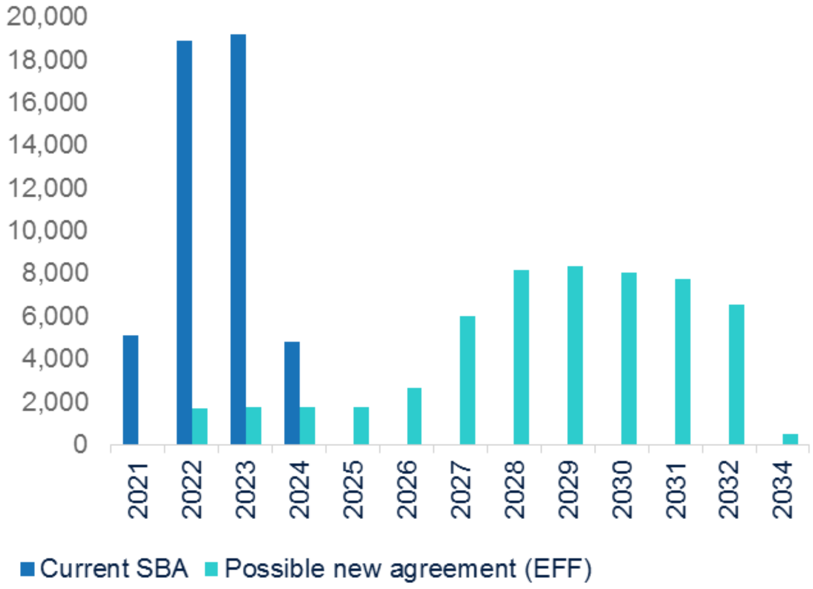
Frente de Todos   Juntos por el Cambio   Otros

The ruling party lost in key districts that were historically Peronist strongholds. The government was weakened in congress after the elections and internal disputes began cropping up. No major shifts in economic policies have been implemented after the election defeat (even though they are unsustainable), but the negotiations with the IMF have sped up.

The government sped up negotiations with the IMF after the elections and key understandings towards a new program have been reached

CURRENT DEBT PROFILE WITH THE IMF AND THE POSSIBLE NEW SCHEDULE

(MILLIONS OF USD, PRINCIPAL AND INTERESTS)

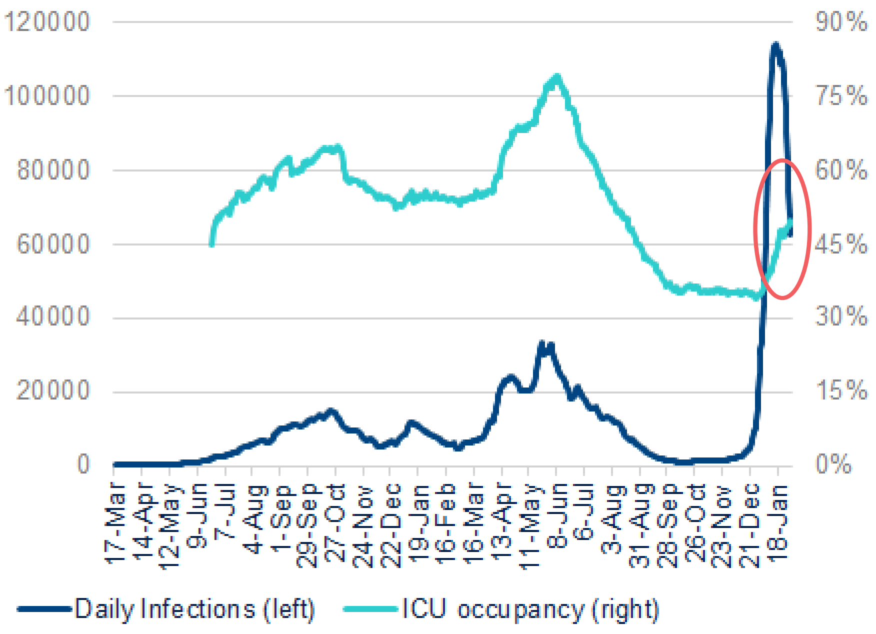


Source: Ministry of Economy and BBVA Research.

- The Government and the IMF announced several agreed targets that pave the way for a new program. There are still technical and bureaucratic steps to be taken to seal the final deal, but this is good news as it minimizes the probability of a default.
- A 10-year program would be agreed, tied to the conditionality of reducing primary fiscal deficit to 0 by 2025, reserve accumulation targets and reduction of monetary financing from 4.7% of GDP in 2021 to 0% in 2024.
- We consider these goals to be achievable in both fiscal and exchange rate policies, but are very challenging in terms of monetary policy (rapid reduction of monetary issuance and positive real interest rates).

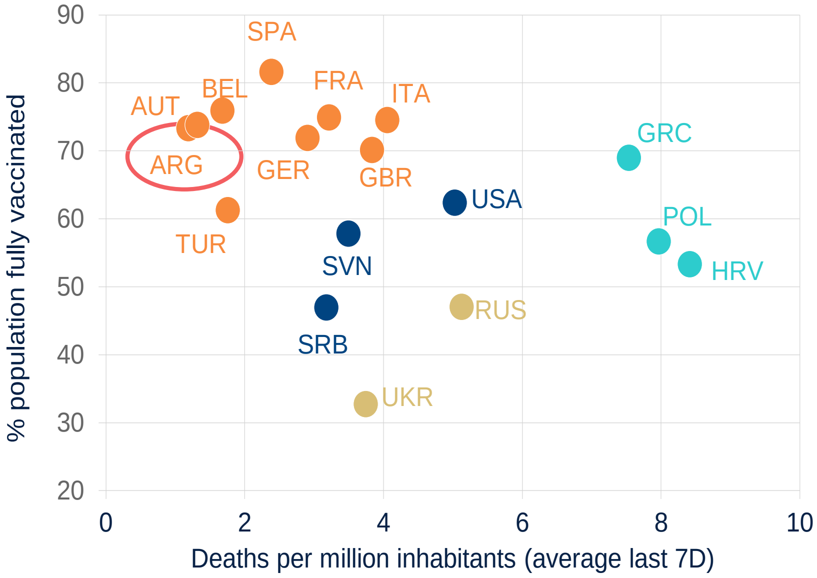
COVID: infections surged, but hospitalizations remained low thanks to the high percentage of vaccinated and the lower severity of the new variant...

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



Source: Ministry of Health and BBVA Research.

POPULATION WITH TWO DOSES AND DEATHS PER MILLION PEOPLE (AT JANUARY 22)

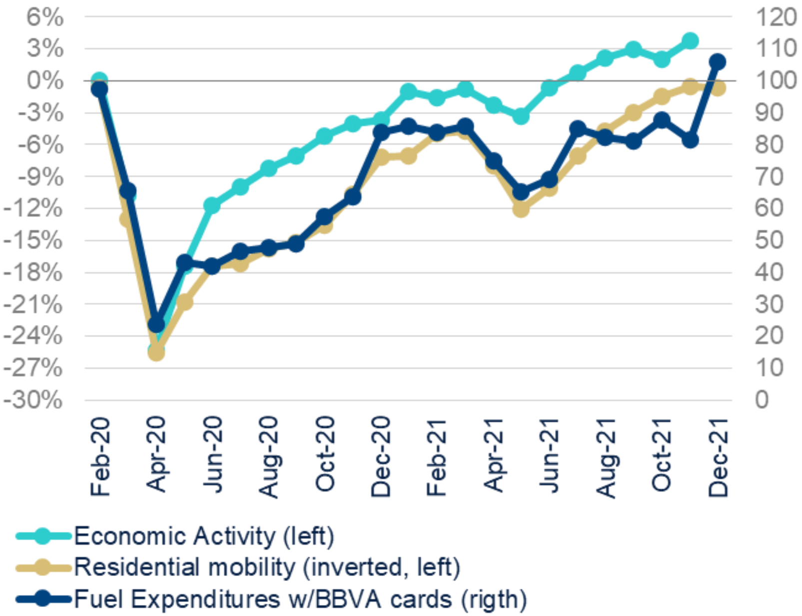


Source: Ministry of Health and BBVA Research.

…bringing mobility back to pre-pandemic levels and, with it, "normalization" of nearly all economic activity

ECONOMIC ACTIVITY AND MOBILITY

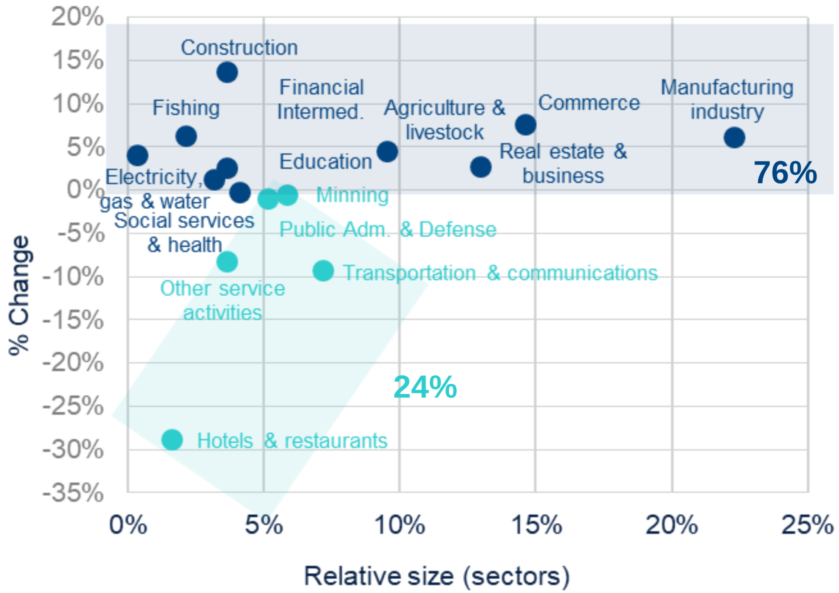
(ACTIVITY AND MOBILITY %YoY VS. AVG. JAN-FEB 20; EXPENDITURE: BASE JAN-FEB 20 = 100)



Note: The residential mobility index is presented as inverted to facilitate visualization.
Source: INDEC, Google and BBVA Research.

ECONOMIC GROWTH BY SECTOR IN 3Q21

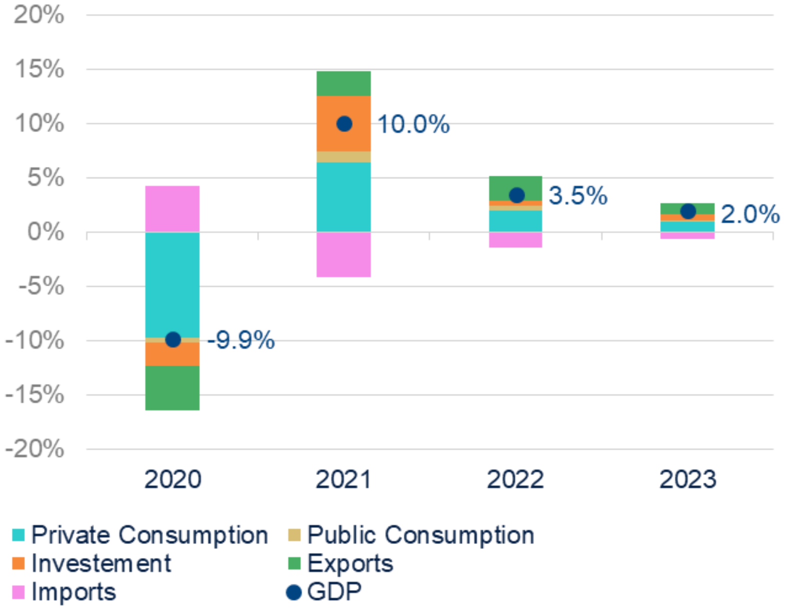
(VERTICAL AXIS: % CHG. VS. JAN-FEB 20, S.A.; HORIZONTAL AXIS: SECTOR CONTRIBUTION TO GDP)



Source: BBVA Research and INDEC.

Therefore, we are revising up our GDP growth forecast for 2021 to 10% and for 2022 to 3.5%

CONTRIBUTION TO GDP, BY COMPONENT OF DEMAND
(% YoY)

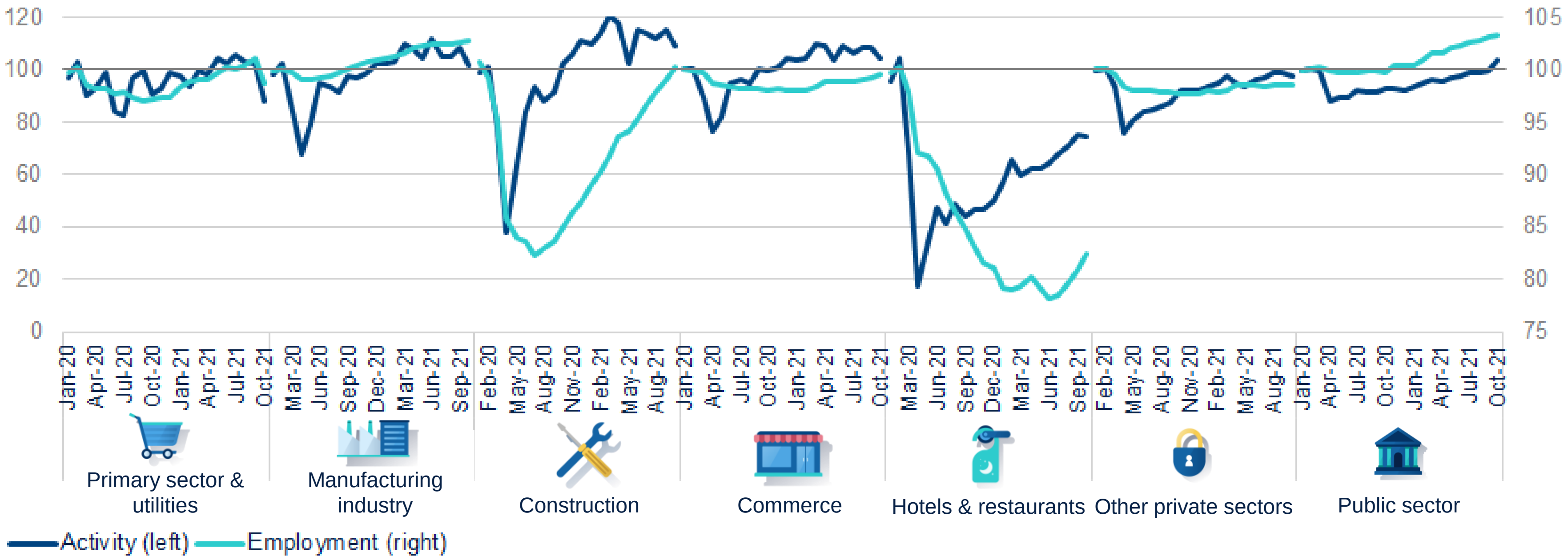


Source: INDEC and BBVA Research.

- Economic activity rebounded faster than expected in the first nine months of 2021 and is already back to pre-pandemic levels.
- Private consumption gained momentum, but is still below pre-pandemic levels.
- Public consumption grew continuously during the pandemic and accelerated in 3Q21, driven by the midterm elections.
- Investment staged a strong rebound in 2021. However, it is still too low to sustain a robust growth.
- The external sector grew, underpinned by commodities. Soaring imports are posing the main obstacle to ongoing recovery.
- We estimate GDP to grow 3.5% in 2022, mostly due to the statistical carryover effect.

The impact of the pandemic on sector employment remains mixed, with growth in public sector jobs

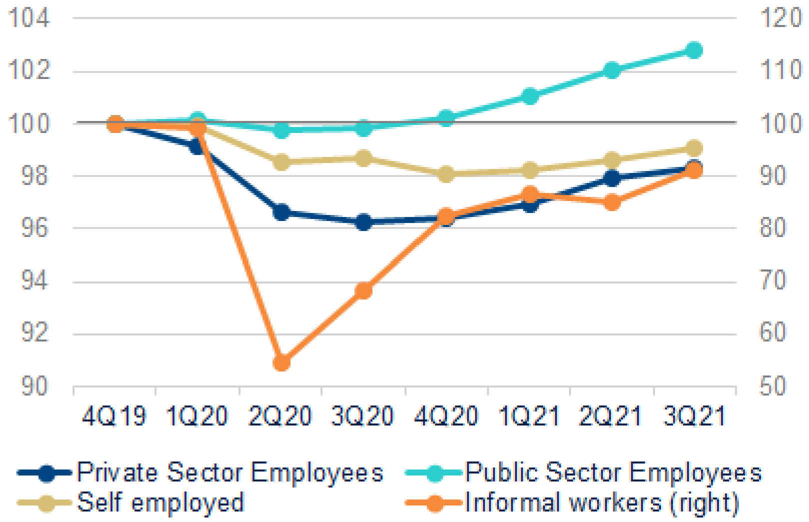
TREND IN ACTIVITY AND JOBS BY SECTOR
(BASE AVERAGE JAN-FEB 20 = 100)



Source: Ministry of Labor and BBVA Research.

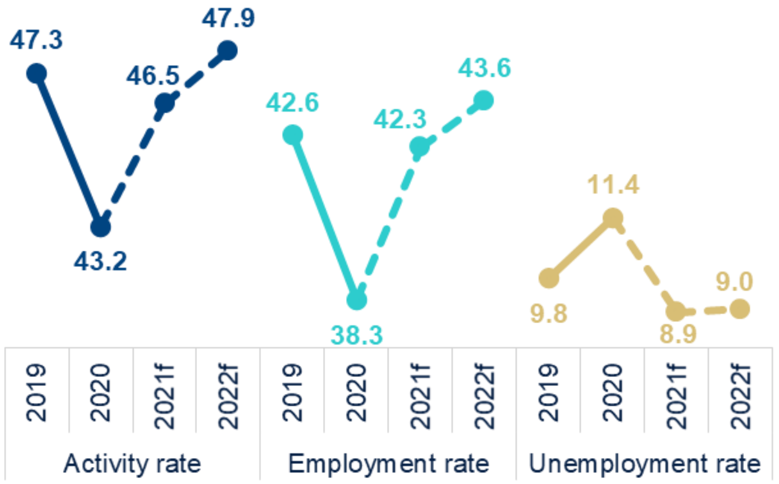
Registered employment and the informal sector are showing a slow, two-speed recovery

TREND BY EMPLOYMENT TYPE
(BASE 4Q19 = 100)



Source: BBVA Research and INDEC.

LABOR MARKET RATES
(%)

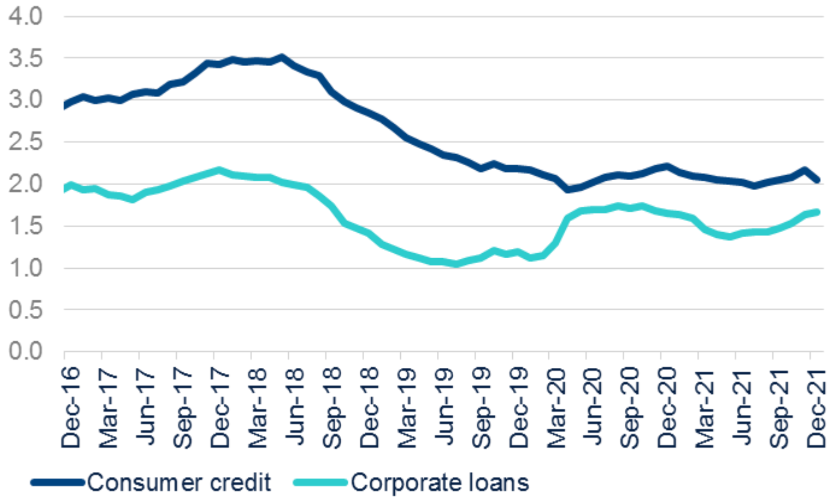


Source: BBVA Research and INDEC.

Unemployment is forecasted to be around 9.0% in 2022. After social distancing measures shut the economy down in 2020, employment recovered. However, the recovery was biased towards precarious employment, with sluggish formal jobs creation.

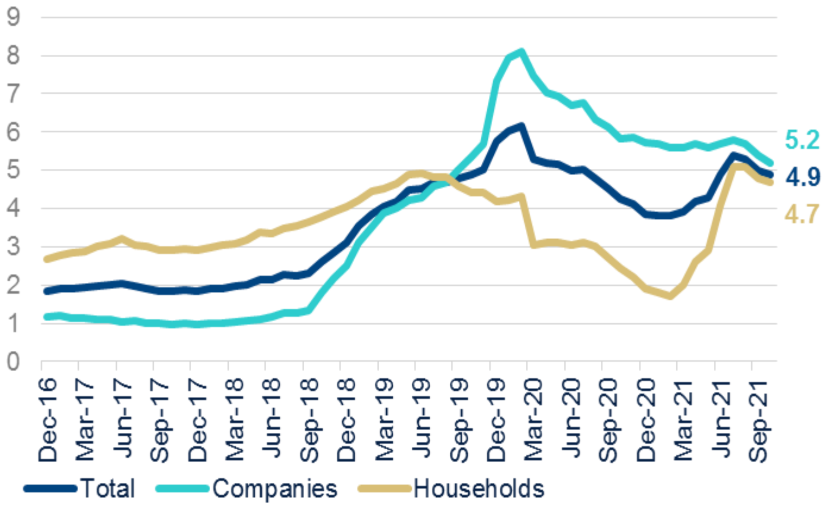
Credit remained weak in 2021, while NPLs grew but stabilized during the second half of the year

PRIVATE SECTOR LENDING
(CONSTANT ARS TRIILLION OF DEC-21)



Source: BCRA and BBVA Research.

NON-PERFORMING LOANS
(% OF TOTAL LOANS TO THE PRIVATE SECTOR)

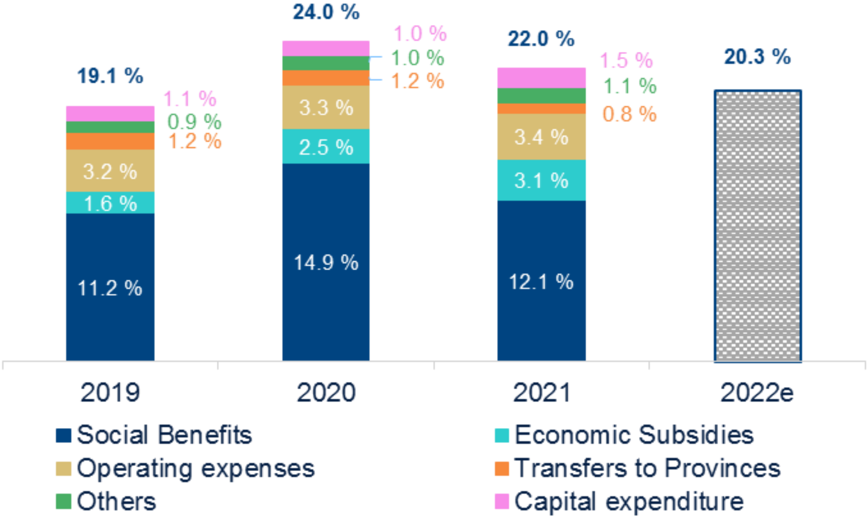


Source: BCRA and BBVA Research.

Total credit fell by 4.7% in real terms in 2021: consumer loans were down 8%, while corporate loans increased by 1%. Non-performing loans (NPLs) increased in 1H21 as the credit easing measures provided in 2020 were removed. However, they remained low (from a historical perspective). We see limited scope for growth in lending in 2022, in line with GDP.

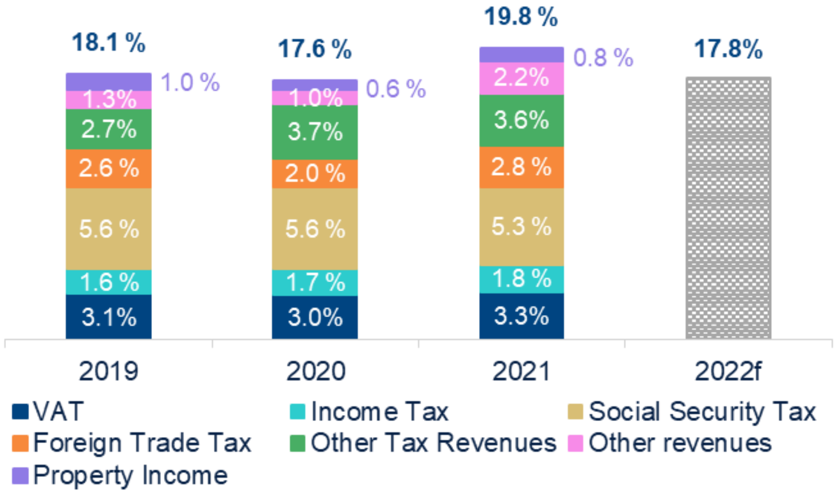
Fiscal deficit ended 2021 at a lower-than-expected 3% of GDP, thanks to the economic recovery, high soy prices and lower COVID-19-related expenditure

PRIMARY FISCAL EXPENDITURE
(% OF GDP)



Source: Ministry of Finance and BBVA Research.

TOTAL FISCAL REVENUE
(% OF GDP)

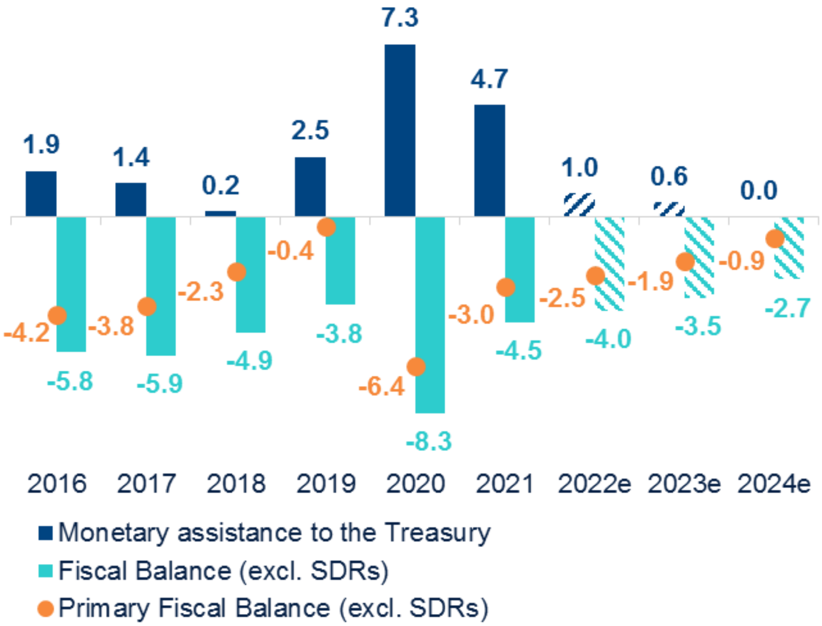


Source: Ministry of Finance and BBVA Research.

The total fiscal deficit amounted to 4.5% of GDP (excluding SDRs of 1% of GDP). Unless the government pushes through tax reforms, tax revenue will fall in 2022, as there will not be another extraordinary wealth tax (0.7% of GDP) and commodity prices will ease (resulting in lower export duties).

The new IMF-supported program will demand a faster path towards fiscal equilibrium than the anticipated in the National Budget Bill

FISCAL RESULT AND MONEY ISSUANCE TO ASSIST THE TREASURY (% OF GDP)

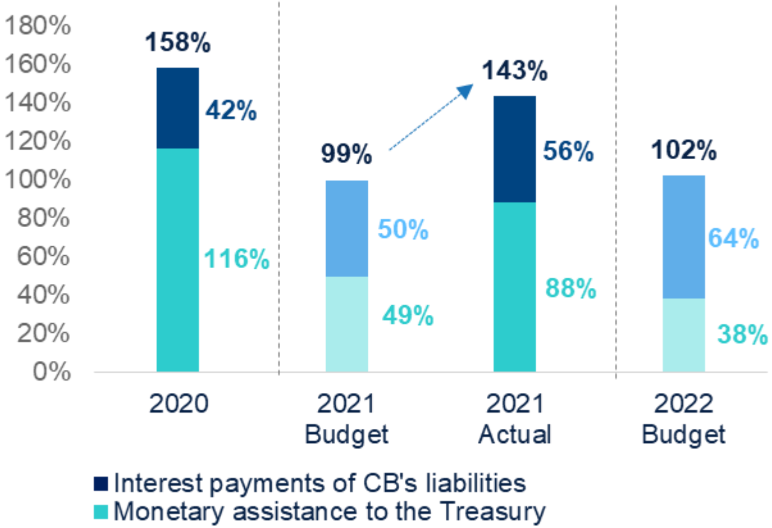


Source: Ministry of the Finance, BCRA and BBVA Research.

- The government agreed with the IMF on a fiscal adjustment path ranging from 3% of GDP in 2021 to fiscal equilibrium by 2025.
- We estimate that this fiscal path is achievable. The adjustment in 2022 would be mainly explained by the reduction in energy subsidies (1% of GDP) and the removal of COVID-19 assistance package.
- The monetary assistance reduction looks more challenging. It will not be easy meet this target in 2022.

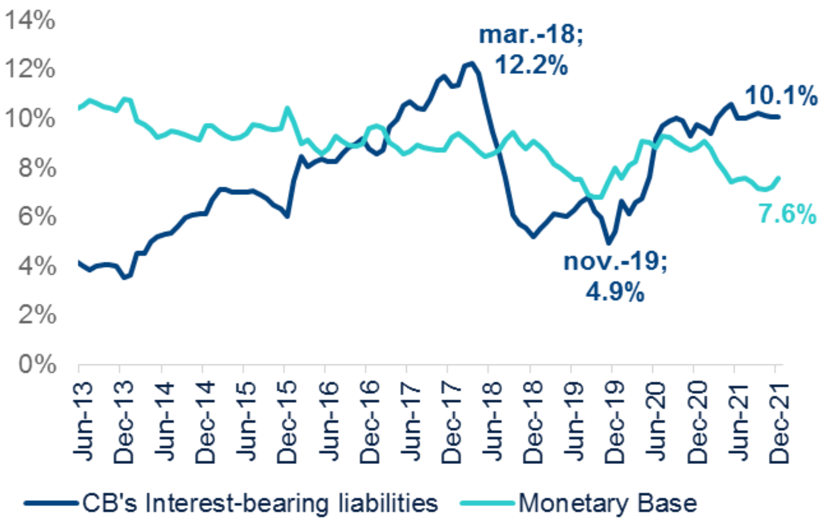
Money issuance to finance the Treasury was hefty in 2021 and, although it is set to be lower in 2022, monetary pressures in the economy will linger

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



Source: BCRA and BBVA Research.

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

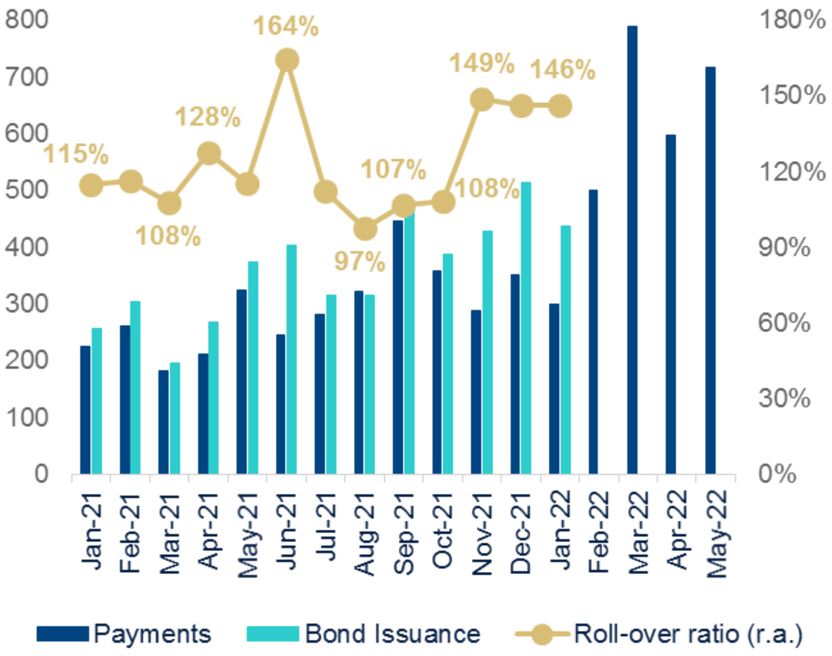


Source: INDEC, BCRA and BBVA Research.

Monetary issuance to assist the treasury was 4.7% of GDP in 2021 (88% of the Dec-20 monetary base). This is the second highest value in decades. Although the government would continue to gradually reduce this issuance, interest payments on LELIQs and REPOs set high floors on monetary issuance and inflationary pressures in the coming years.

The Treasury was successful in raising fresh financing via debt in ARS in 2021, tapping the market for an amount equal to 1.7% of GDP

DEBT IN ARS: MATURITIES AND ROLL-OVER RATES
(BILLIONS OF ARS)

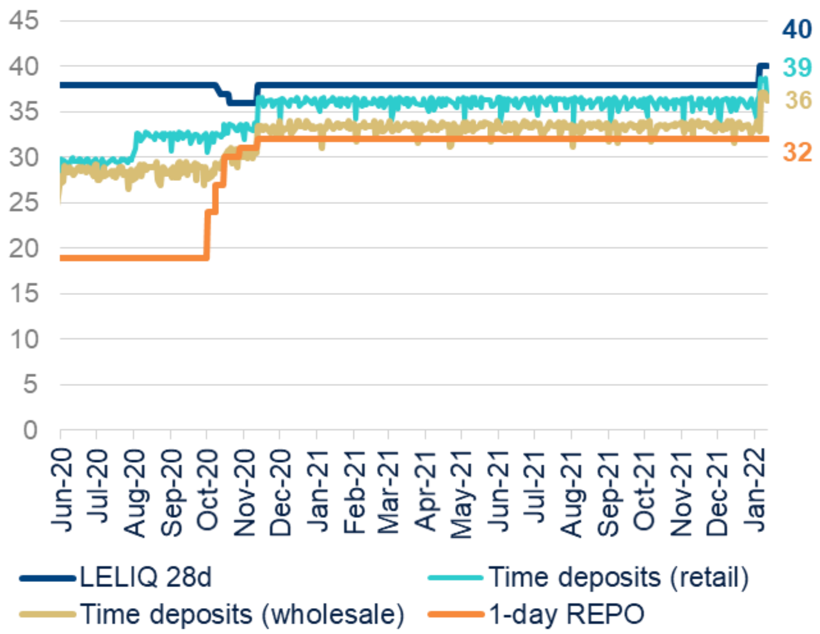


Source: BBVA Research and Ministry of Economy.

- The government was able to refinance its debt maturities in ARS in 2021, while raising additionally $746 billion (1.7% of GDP) by tapping the local market, with healthy roll-over rates in the year's last two months.
- Approximately half of net new financing came from the increased exposure of banks to the public sector.
- Maturities between March and May are high. Therefore, IMF negotiations will be crucial to ensure a satisfactory roll-over rates and avoid having to increase money issuance.
- If talks stall, we could expect financial volatility and greater pressure on banks to purchase government securities in 2Q22.

The BCRA hiked interest rates slightly in January, for the first time in 14 months, but they are still below (current and expected) inflation

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

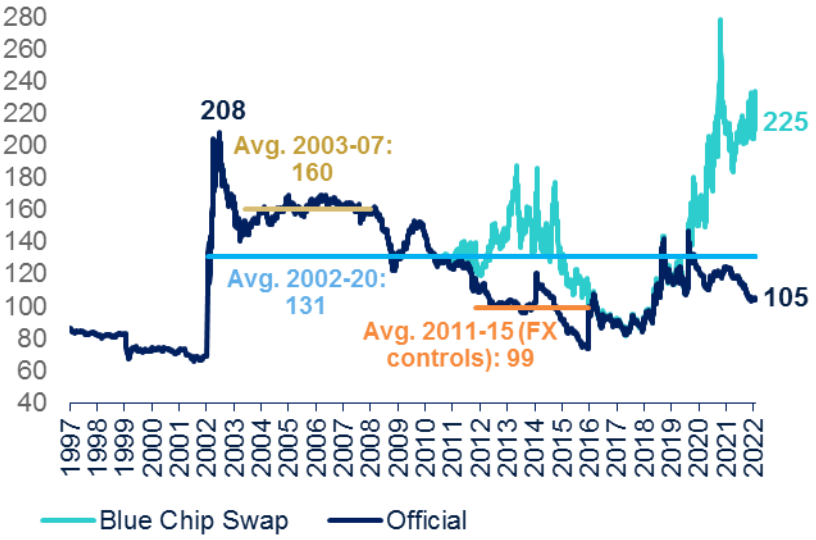


Source: BBVA Research and BCRA.

- Although inflation accelerated in 2021, monetary policy interest rates remained unchanged during the year.
- In January, the BCRA raised the 28-day LELIQ rate (main reference rate) from 38% to 40%, reconfigured the bank liquidity management scheme, created a 180-day LELIQ (rate of 44%) and eliminated 7-day REPOs.
- This 2 p.p. increase is insufficient to curb inflation and FX pressures. There will be more rate hikes in the coming weeks (at least 2 p.p.) within the context of an agreement with the IMF.
- We forecast that the monetary policy rate will end the year at 44%.

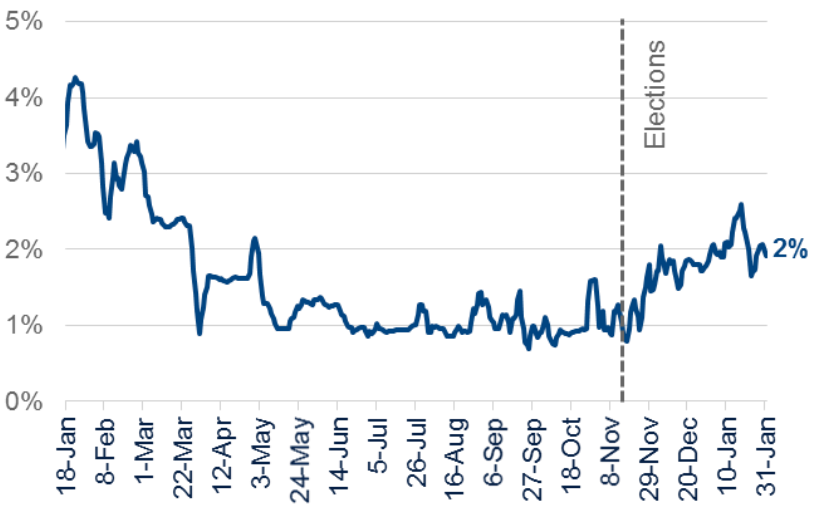
The official exchange rate began depreciating faster after the elections, but still room to go before it recoups the ground lost relative to inflation

OFFICIAL AND PARALLEL REAL EXCHANGE RATES
(AT JANUARY 2022 PRICES)



Source: BCRA and Haver.

DEPRECIATION RATE OF OFFICIAL EXCHANGE RATE
(DAILY CHG. ON MONTHLY BASIS, 7-DAY MOVING AVERAGE)

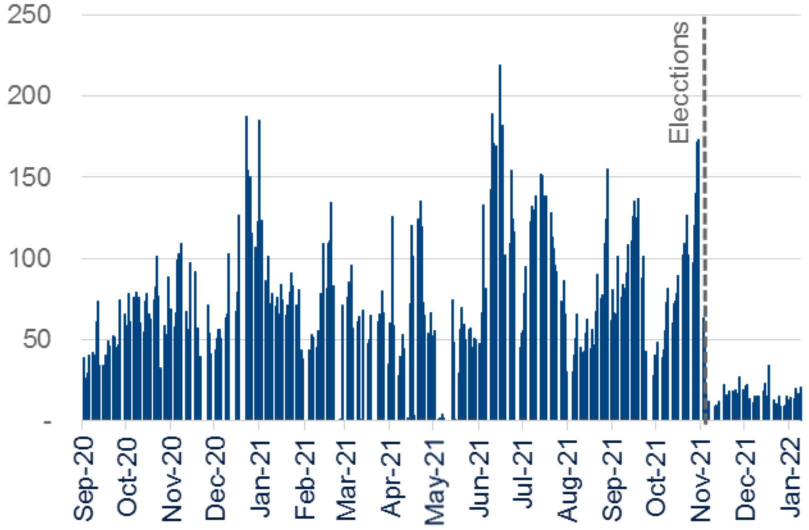


Source: BCRA and BBVA Research.

The government's strategy to fight inflation by curbing the official exchange rate caused the effective real exchange rate to appreciate by 18% in 2021. After the elections, the BCRA began speeding up the pace of depreciation, but we suspect it will go even further over the next few months to recover some ground lost to the domestic prices.

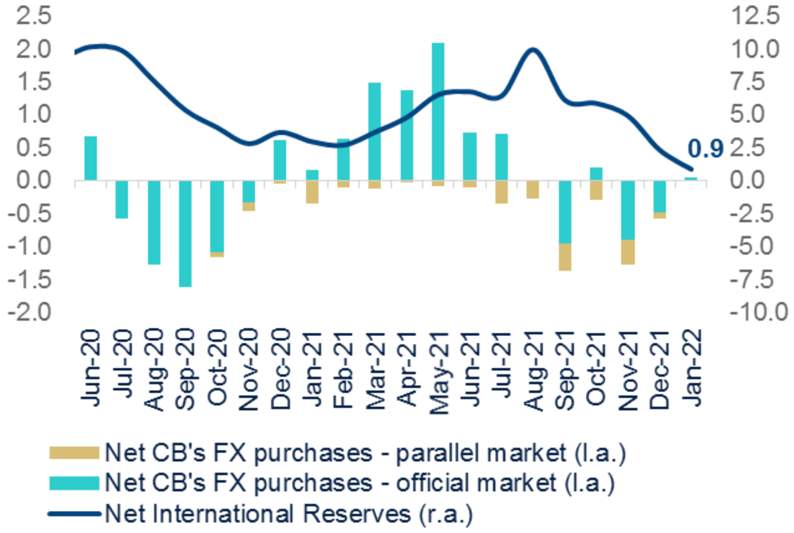
After the elections, the BCRA stopped its intervention in parallel markets, but international reserves continue to dwindle

DAILY TRADING VOLUME IN AL30 AND GD30 BONDS (MILLIONS OF USD)



Source: BBVA Research and HAVER.

BCRA FOREIGN EXCHANGE INTERVENTIONS AND NET INTERNATIONAL RESERVES (BILLIONS OF USD)

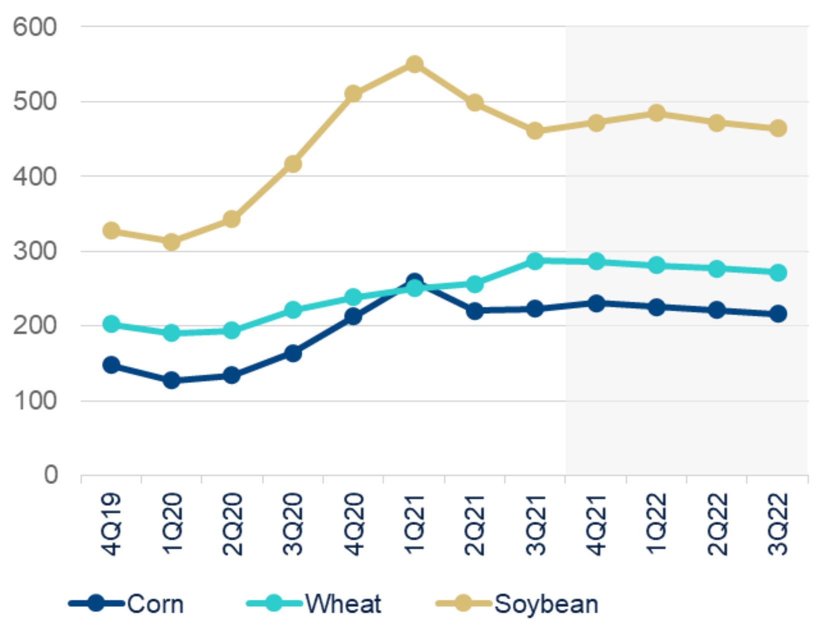


Source: BCRA and BBVA Research.

The BCRA stopped intervening in December after it sold more than USD 2.5 billion to slow down parallel exchange rates. Net reserves now stand below USD 1 billion and the BCRA is finding it hard to buy foreign currency despite the wheat harvest. Therefore, we expect depreciation to outpace inflation this year (exchange rate Dec 22: 160 ARS/USD)

High commodity prices drove a strong inflow of foreign currency in 2021…

AGRICULTURAL COMMODITY PRICES
(USD X TONS, QUARTERLY AVERAGE)



Source: HAVER and BBVA Research.

AGRICULTURAL SECTOR: EXPORTS AND EXPORT DUTIES (MILLIONS OF USD)

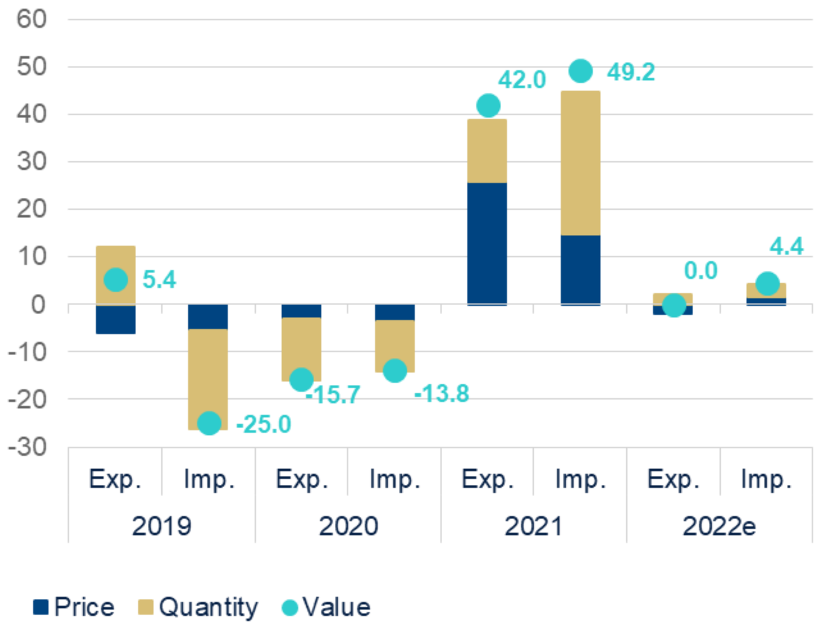
Main agricultural products	Exports			Exports taxes		
	2020	2021	2022F	2020	2021	2022F
WHEAT	2,471	3,783	4,792	297	454	575
CORN	6,151	10,171	9,794	738	1,221	1,175
SOY	2,343	2,810	2,460	773	927	812
SOY OIL	3,894	7,734	6,961	1,285	2,552	2,297
SOY MEAL	7,806	12,022	11,450	2,576	3,967	3,779
SUNFLOWER OIL	660	823	770	46	58	54
TOTAL (MILLION USD)	23,325	37,343	36,228	5,715	9,179	8,692
Difference from previous year		14,018	-1,116		3,464	-487
(% GDP)		3.0%	-0.2%		0.7%	-0.1%

Source: USDA, HAVER and BBVA Research.

Prices would remain high by historical standards, but lower than in 2021. Demand should remain robust and supply subdued because of weather (soybeans affected by the drought in the southern hemisphere) and geopolitical tension (wheat, Russia-Ukraine conflict).

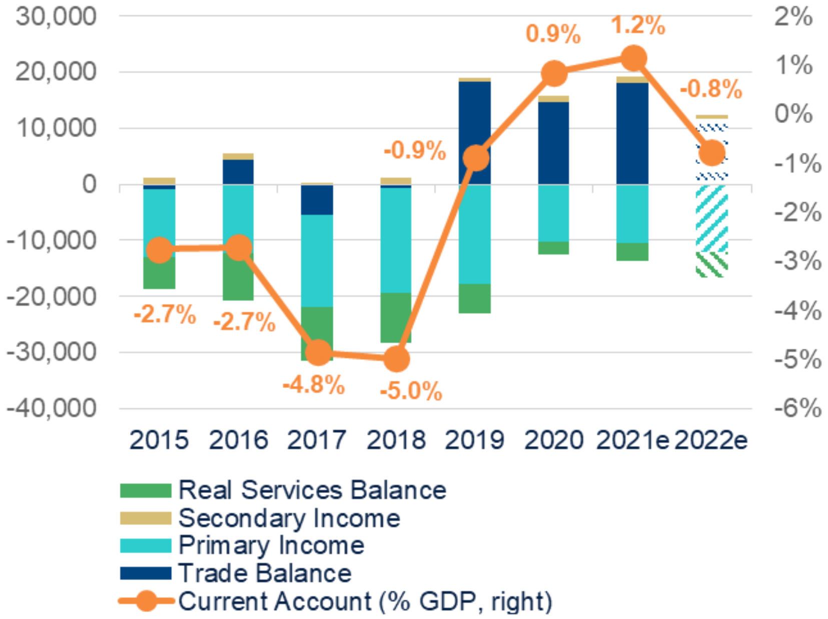
…but its contribution would be smaller in 2022, so we expect a smaller trade balance in a year with higher interest payments and increased tourism

EXPORTS AND IMPORTS: PRICE, QUANTITY AND VALUE (% CHG YoY)



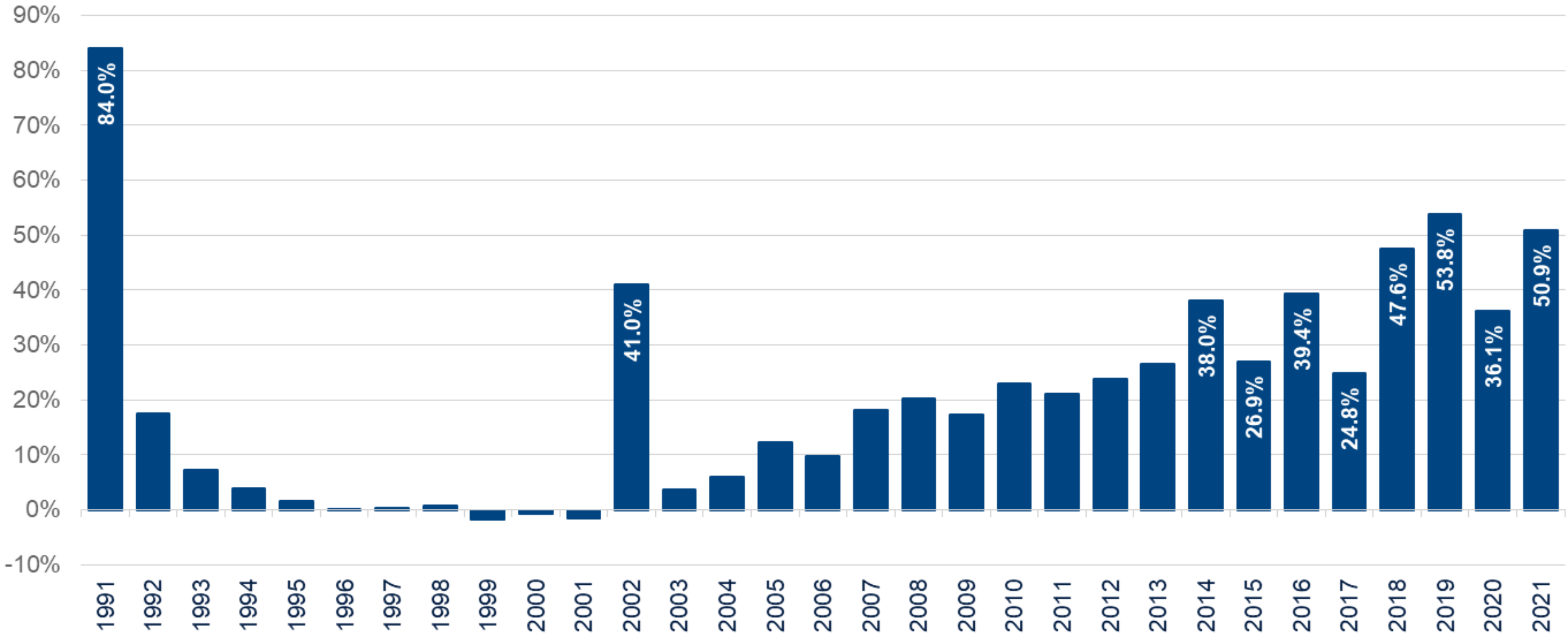
Source: INDEC and BBVA Research.

EXTERNAL CURRENT ACCOUNT BALANCE, BY COMPONENT (% OF GDP)



Source: INDEC, BCRA and BBVA Research.

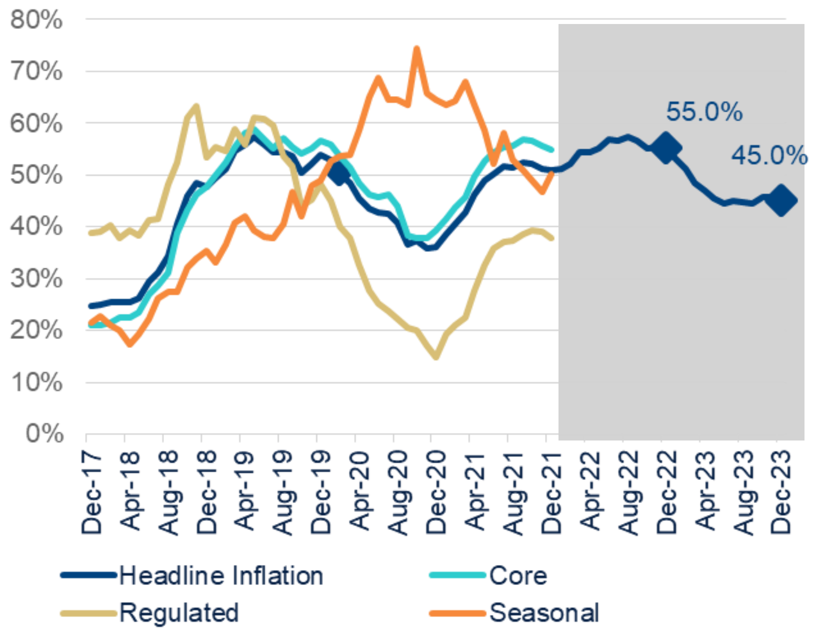
Inflation ended 2021 at 50.9%, its second highest level in the last 30 years



Source: INDEC and BBVA Research.

Lax monetary policy with high money issuance gives rise to a high inflation floor for 2022 and 2023

INFLATION: HEADLINE AND COMPONENTS
(% CHG. YoY)



Source: INDEC and BBVA Research.

- Money issuance to finance the Treasury, coupled with the BCRA's lax policy, drove up inflation from 36.1% in 2020 to 50.9% in 2021, the second highest annual rate since 1991.
- We are keeping our baseline scenario, which is based on a slightly more contractionary monetary policy stance and some adjustments in the utility prices (especially energy and transport) and FX, within the framework of agreement with the IMF.
- Strong core inflation in 4Q21 has prompted us to revise up our forecast for 2022 to 55% (from 54%). We are still forecasting a rate of 45% for 2023.

Forecasts

ARGENTINA	2019	2020	2021e	2022e	2023e
GDP (% YoY)	-2.0	-9.9	10.0	3.5	2.0
Inflation (% YoY, EOP)	53.8	36.1	50.9	55.0	45.0
Exchange rate (vs USD, EOP)	59.9	82.6	101.9	160.0	218.0
Monetary policy rate* (% EOP)	58.5	37.1	37.0	44.0	38.0
Private consumption (% YoY)	-7.3	-13.8	9.4	3.0	1.4
Public consumption (% YoY)	-1.2	-3.3	7.2	3.0	1.0
Investment (% YoY)	-15.9	-12.9	31.1	2.5	3.1
Primary fiscal balance ex-SDRs (% of GDP))	-0.4	-6.4	-3.0	-2.5	-1.9
Balance of payments current account (% of GDP)	-0.9	0.9	1.2	-0.8	-1.2

*Monetary Policy Rate: Weighted average of the BCRA's interest-bearing liabilities (repos and LELIQ).

Disclaimer

BBVA Research

Argentina Economic Outlook

1Q22

Creating Opportunities