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Argentina Economic Outlook

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Navigating the “3rd phase” of the economic program: recovery with enhanced fundamentals

During the second quarter of 2025, economic recovery persisted, supported by a balanced fiscal stance, a carefully executed re-monetization strategy of the economy, and the implementation of a more flexible exchange rate regime. The outlook remains influenced by the upcoming electoral calendar and the imperative to solidify medium-term stability amidst a global environment marked by significant uncertainty.

Global Outlook: protectionism and volatility

In recent months, heightened uncertainty has emerged as the defining characteristic of the global landscape. Current times are dominated by unpredictable U.S. tariff policies and protectionist surges on a scale unprecedented in nearly a century. The full impact on real economic activity has not yet materialized, as commercial operations accelerated to preempt future tariffs, which may have partially counteracted the decline in investment expectations.

In this scenario, after growing 3.4% in 2024, global GDP is projected to expand by 3.0% in 2025 and 3.1% in 2026. Geographically, the U.S. appears most vulnerable, as tariff adjustments affect a substantial portion of its imports, while other nations are impacted based on their trade relations with the U.S. Assuming tariffs remain at current levels, U.S. GDP is estimated to grow by 1.7% in 2025 and 2% in 2026. Conversely, in China, supportive stimulus policies are expected to enable economic growth exceeding 4.5% in both 2025 and 2026. Within this context, the Eurozone is anticipated to sustain an expansion of approximately 1% over the next two years.

Regarding inflation, Europe has largely brought it under control, whereas in the U.S. it remains relatively elevated and susceptible to the effects of tariffs. The ECB seems to have concluded its interest rate reduction cycle. The Federal Reserve, by contrast, maintains a more cautious stance: it has not cut rates since late 2024 and is not expected to do so until December. Nevertheless, the latter half of 2025 will be crucial in determining whether this moderate scenario can be sustained or if it will be disrupted by trade conflicts.

Local outlook: macroeconomic stabilization and heterogeneous sectoral growth

Fiscal sector: sustaining equilibrium with conviction

Fiscal balance remains the cornerstone of the economic program. For the first five months of 2025, the National Public Sector showed a primary fiscal surplus equivalent to 0.8% of GDP. However, following the sharp expenditure contraction in 2024, the scope for further cuts is more constrained. Public spending grew 5.6% YoY in the first five months of 2025, indicating a shift from a phase of real spending compression to one of efficient reallocation. This includes a recomposition of spending on retirement and pensions (+28.2%YoY) while economic subsidies continue to be adjusted, showing a real year-on-year decrease of -48.9%.

On the revenue side, the cumulative period through May registered a real year-on-year decrease of 2.3%, albeit unevenly distributed. While Social Security contributions (27.5% YoY) and tax on Debits and Credits (10.8% YoY) boosted collection, Income tax (-10.0% YoY) and Total VAT (-0.2% YoY) declined in real terms. Nevertheless, examining tax collection specifically, domestic VAT (DGI) — which is closely linked to economic activity — grew by 7.7% year-on-year in real terms in the cumulative period through May. Monitoring the evolution of VAT, particularly DGI, will be essential in the coming months, as the rebound in activity must translate into improved tax collection to ensure the fiscal program's sustainability.

In line with the government's announced objectives, we anticipate a primary surplus of 1.6% of GDP for 2025, exceeding the IMF's agreed target of 1.3%, which would result in a slight financial surplus after interest payments.

Monetary policy: a significant and positive policy shift

Within the framework of the new program agreed with the IMF, the monetary authority has transitioned from a nominal cap on "Broad Monetary Base" to a target for “transactional M2” (currency in circulation plus non-interest-bearing sight deposits). This new framework stipulates a maximum nominal expansion of 53% in 2025 for this monetary aggregate. This policy adjustment represents progress towards a genuine re-monetization of the economy. The aim is to foster an economy with a larger volume of pesos, which are in demand due to the resurgence of credit and economic activity.

Money supply will grow through two primary channels: principally via the peso repayment of National Treasury debt, and to a lesser extent, through the BCRA’s foreign currency purchases in the official market. Concurrently, the government seeks to promote increased use of dollars outside the formal system to facilitate internal transactions through its "Historical Repair Plan for

Argentinians' Savings." This initiative aims to reduce oversight and administrative burden surrounding retail payments. The measure is expected to positively impact the volume and ease of operations, though its broader macroeconomic effect may be limited.

As of May, peso-denominated credit expanded by a real 117% year-on-year, while deposits increased by only 15%. The excess liquidity that characterized the economy at the end of 2023 is diminishing, exerting upward pressure on interest rates. In this context, we anticipate that real interest rates will generally remain positive, with some scope for nominal reductions as inflation subsides, yet maintaining a degree of stability for the remainder of the year.

The government has redefined monetary policy instruments by progressively phasing out LEFIs ("Liquidity Fiscal Bills," the key instrument for daily liquidity management in the financial system) in favor of 1-3-month LECAPs, with Treasury auctions held every 15 days. This approach allows the public sector to extend the duration of its maturities, while enhancing the relevance of other liquidity management tools such as the call market and interbank REPO operations. The BCRA retains the authority to conduct market operations with Treasury bonds during periods of volatility or specific liquidity requirements.

Exchange rate: successful lifting of key restrictions

In April, most restrictions on access to the foreign exchange market were eliminated. Limitations for individuals were virtually removed entirely. For companies, the prohibition on purchasing for hoarding purposes persists, but they will be able to repatriate dividends abroad from 2026, based on results obtained in the 2025 fiscal year. For the settlement of commercial debts incurred prior to December 2023 or the repatriation of dividends from 2024 onwards, the BCRA is issuing new BOPREAL instruments maturing in 2028. Additionally, restrictions on foreign currency access for non-resident investors entering through the official foreign exchange market or purchasing peso bonds in primary Treasury auctions were lifted too.

These policy changes led to a rapid convergence of the exchange rate gap, which effectively closed to zero following the liberalization on April 14th. Furthermore, a new exchange rate regime was implemented, allowing the peso to float within crawling bands of 1,000 and 1,400 pesos per USD, which adjust monthly at a rate of 1% (the upper limit upwards and the lower limit downwards). This framework provides exchange rate flexibility while mitigating episodes of high volatility that could jeopardize the disinflationary process. The BCRA possesses enough firepower to address potential tensions, given the strengthening of reserves and the consistency of the upper band limit with external equilibrium. The exchange rate has remained near the center of the band, influenced by the influx from the soybean harvest, the growing trade surplus in the hydrocarbon sector, and the BCRA's operations in the futures market. We anticipate the exchange rate to depreciate gradually throughout the year, moving towards the upper band ahead of the elections, with a dynamic that would position the ARS/USD parity at 1,400 by the end of 2025.

Inflation: remarkable deceleration post-FX liberalization

Inflation continued its deceleration in the second quarter, falling to 2.8% month-on-month in April from 3.7% in March, despite a 7% increase in the official exchange rate following the liberalization of exchange restrictions. In May, inflation registered 1.5% month-on-month, breaking the 2% threshold for the first time since the pandemic. We expect inflation to continue decelerating going forward. However, the more stubborn behavior of core inflation (which was 2.2% m/m in May) and risks associated with exchange rate dynamics in the second half of the year requires continued meticulous monitoring to firmly consolidate the downward trend. We project that, by December 2025, annual inflation will reach 30%, with a balance of risks tilted towards lower inflation if the peso maintains greater stability than anticipated throughout the year.

IMF program: big and fast disbursements

The agreement with the IMF in April encompasses a total of USD 20 billion, of which USD 12 billion has already been disbursed. In the second half of the year, provided quarterly reviews are approved, an additional USD 3 billion will be received, with the remaining balance disbursed in smaller installments until 2028. Concurrently, the World Bank and the IDB have demonstrated significant levels of budgetary support (USD 2 billion and up to USD 1 billion respectively since April).

The conditions of the agreement with the IMF, particularly the fiscal and monetary targets, appear achievable. The reserve accumulation targets are more demanding, as they imply purchases exceeding USD 4 billion in the short term, and the BCRA is reluctant to intervene in the foreign exchange market as long as the peso remains within the floating bands. Furthermore, a roadmap for the elimination of distortive taxes (such as the tax on Credits and Debits, export duties, etc.) was established, without compromising fiscal balance.

The Government subsequently employed alternative mechanisms to accumulate reserves. Firstly, it arranged a REPO expansion with international banks for USD 2 billion at an annual rate of SOFR+4.5% (equivalent to 8.25% annually). Secondly, the Treasury began accepting dollar subscriptions for its bonds with maturities exceeding one year, and announced plans to place up to USD 1 billion per month. Thus, Argentina re-entered international markets with a peso bond issuance equivalent to USD 1 billion at a fixed rate (29.5% until 2030) but subscribable in dollars, with a PUT option in 2027. Initially, only non-resident investors participated, though the option was subsequently extended to local investors. This mechanism enables the government to accumulate reserves without direct intervention in the foreign exchange market, as it incurs peso debt while foreign currency assets flow into the Treasury's coffers. It also allows for extending the duration of its debt without exposure to the exchange rate risk typically associated with foreign currency liabilities.

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Economic activity and employment: heterogeneous recovery

The expansion of economic activity, which started in the second half of 2024, continues. In the first quarter of 2025, GDP grew by 0.8% compared to Q4 2024 (seasonally adjusted), notwithstanding a specific decline recorded in the official monthly activity estimator for March (-1.8% m/m s.a.). The projected average quarterly growth for the remainder of the year stands at 0.9%, consistent with an annual GDP variation of 5.5% for 2025.

The recovery remains heterogeneous. Notable advancements are observed in hydrocarbons and mining, propelled by Vaca Muerta in the south, and lithium and copper projects in the country's north and west. Financial intermediation is also rebounding, aligned with the expansion of credit to the private sector, and agricultural activities demonstrate robust performance due to a favorable harvest and fiscal incentives. Industrial output is mixed: vehicle, chemical, and food production are growing, but challenges persist in textiles, footwear, and home appliances. Construction is undergoing a gradual recovery, characterized by reduced public investment and limited private projects. Trade is showing moderate improvement, consistent with the gradual recomposition of real wages.

After three quarters of improving labor indicators, Q1 2025 data indicated a moderation. The unemployment rate stood at 7.9%, accompanied by a slight decrease in both employment and labor participation rates. This may be attributable to transitory factors but also reflects that the labor market recovery is not yet fully consolidated; monitoring its evolution in the coming quarters will be critical. We anticipate the unemployment rate for 2025 to be 7.5%.

External sector: reduced flexibility amidst structural transformation

The current account is beginning to exhibit signs of strain. While the trade surplus is sustained by robust agricultural and energy sector exports, there is significant import pressure (34% year-on-year in the cumulative period through May). In the first five months of the year, the trade surplus reached only USD 1,572 million (compared to USD 8,797 million in the same period of 2024), which prompts us to revise our trade balance forecast for 2025 from USD 11,400 million to the current USD 7,700 million. For this year, we project a current account deficit of 1.8% of GDP, a still manageable deficit that is offset by increased capital inflows, primarily from multilateral organizations and non-resident investors. The flexibility regarding dividends could stimulate foreign direct investment, further complementing projects framed under the RIGI.

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Conclusions

In the second quarter, the Argentine economy's recovery has solidified, accompanied by a considerable enhancement in its macroeconomic fundamentals. The fiscal stance remains orderly, and the new agreement with the IMF has mitigated uncertainty concerning the public sector's solvency, while simultaneously providing the reserves (and backing) that enabled the successful elimination of a significant portion of exchange restrictions and the transition to the new exchange rate regime. Furthermore, the disinflationary process is advancing beyond expectations, and this is taking place in a genuine and sustained manner within a scenario of positive real rates. Against this backdrop, activity continues to recover, although with marked heterogeneity across sectors, which are progressing at varying speeds. This is boosting credit demand, necessitating more detailed monitoring of the financial system's liquidity.

Moving forward, investors and analysts will continue to focus on the recomposition of international reserves, while attention will also shift to the pace of decline in country risk, the consolidation of GDP recovery, the evolution of the labor market, and, naturally, the electoral outcomes in the second half of the year.

Macroeconomic Forecasts

Macroeconomic forecasts - ARGENTINA

	2022	2023	2024	2025 (p)	2026 (p)
GDP (% y/y)	5.3	-1.6	-1.7	5.5	4.0
Inflation (% a/a fdp)	95	211	118	30	18
Exchange rate (vs USD 31/Dec)	177	808	1,033	1,400	1,633
Wholesale interest rate* (% eop)	69,3	121,2	35,4	28	19
Private consumption (% y/y)	9.4	1.0	-4.2	5.8	2.0
Public consumption (% y/y)	3.0	1.5	-3.2	2.5	2.3
Investment (% y/y)	11.2	-2.0	-17.4	24.7	19.1
Primary fiscal result (% GDP)	-2.4	-2.7	1.8	1.6	1.7
Financial fiscal result (% GDP)	-4.2	-4.4	0.3	0.3	0.3
Current account (% GDP)	-0.6	-3.2	1.0	-1.8	-2.5
Public debt (% GDP)	85.0	156.6	83.2	81.3	71.2

*In 2022 and 2023: BADLAR; from 2024 onwards: TAMAR.
Source: INDEC, BCRA and BBVA Research.

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