

Argentina Economic Outlook

October 2025

BBVA Research Argentina

Financial volatility intensified during the pre-election period, weighing on economic activity

The Argentine economy enters the second half of the year with growing financial and FX rate volatility. Interest rate instability since July, along with the election results in Buenos Aires, triggered market tension that resulted in higher rates, greater FX rate pressure, and a slowdown in economic activity.

Global Outlook: moderate growth amid persistent uncertainty

Stricter U.S. policies on trade, immigration, and central bank independence are creating global unease, even as the world economy shows remarkable resilience. This resilience is underpinned by strong growth, surprisingly low U.S. inflation, and the prospect of further interest rate cuts, which have kept markets buoyant. Globally, growth is expected to moderate from 3.3% in 2024 to 3.0% in 2025 and 3.1% in 2026, affected by protectionism, immigration restrictions, uncertainty, and geopolitical tensions.

In the U.S., tariffs are forecast to hold inflation near 3% for 2025–26, though slowing growth should give the Fed leeway to cut rates to 3% by 2026. Europe's inflation is expected to return to its 2% target, with rates stabilizing accordingly. Nevertheless, significant downside risks are mounting, driven by high uncertainty, recurring global shocks, and deteriorating international cooperation.

Domestic outlook: electoral headwinds intensify challenges

Fiscal sector: positive results consolidate in 2025, though challenges remain

In the first eight months of the year, the primary fiscal balance accumulated a surplus of 1.3% of GDP, consistent with the 1.6% government target for 2025. The total balance, including interest payments, had a surplus of 0.4% of GDP in the same period. Although the Congress, in an

electoral mood, approved measures that will increase spending by 0.2% of GDP for the remainder of 2025, President Milei has reiterated his commitment to maintaining the fiscal surplus. Consequently, offsetting cuts are expected in areas such as energy and transport subsidies, transfers to provinces, and capital spending.

So far in 2025, revenues have declined 1.2% y/y in real terms. This is due to lower receipts from taxes on consumption and economic activity, the elimination of the PAIS tax, and reduced export duties. These effects were partially offset by stronger collections from social security contributions (+20% y/y) and import duties (+21.7% y/y).

Expenditure, meanwhile, has grown by only 2.3% y/y in real terms. Following the sharp adjustment of 2024, fiscal policy in 2025 has primarily focused on reducing economic subsidies, streamlining social programs, and containing capital and wage expenditures.

We are maintaining our overall fiscal balance projection for this year and next, supported by the government's conviction that the primary surplus is the cornerstone of its economic program. Nonetheless, achieving this result is challenging given slower-than-expected economic activity, greater spending pressures from provinces, and social demands in key areas like education, security, and health. The government will need to carefully manage these pressures to meet its target.

Monetary policy: managing the effects of recent decisions

On July 10, the government significantly altered its monetary policy by eliminating the LEFIs (for its acronym in Spanish), its main short-term liquidity instrument. It was replaced with a system focused purely on controlling monetary aggregates, which initially lacked a reference rate or a clear liquidity management framework. Consequently, banks began managing short-term liquidity through Treasury bills (LECAPs) without Central Bank (CB) guidance, while the CB focused on keeping the money supply stable.

This shift triggered sharp volatility in interest rates, which jumped from around 30% to 70% within days. The government responded by repeatedly changing reserve requirements and unscheduled debt auctions, with limited success. By late August, the CB reintroduced a floor for the interbank repo rate, which provided a new benchmark for the market.

As a result, the TAMAR rate (a key term deposit rate) peaked at 67% in early September before the CB guided it down to an annual rate of around 45%. We expect this to serve as a policy floor until the elections, after which a recalibration toward a more predictable framework—with a clear reference rate and normalized reserve requirements—is likely. The TAMAR could fall to around 35% by year-end, which would still maintain a positive real interest rate to help anchor inflation.

Foreign exchange market: the Achilles' heel of the economic plan

Using the FX rate as an additional nominal anchor quickly appreciated the peso in real terms, limiting the CB ability to accumulate reserves. After the Buenos Aires Province election, the ARS/USD rate climbed from 1,375 to test the upper limit of the band near 1,470, prompting CB interventions of over USD 1 billion and a sharp fall in Argentine assets.

The government remains determined to defend the upper limit of the band until the national elections. To this end, export duties on agricultural products were temporarily cut to 0% until USD 7 billion in sales were settled—a target met within three days—allowing the Treasury to accumulate USD 2.2 billion in reserves.

Simultaneously, negotiations accelerated with the U.S. for a financial support package initially outlined during US Treasury Secretary Scott Bessent's visit in April. The Trump administration responded positively, and while details are pending, the package is expected to include a USD 20 billion currency swap, a stand-by credit line, and potential purchases of Argentine bonds in both primary and secondary markets.

The announcement boosted market sentiment, leading to a peso recovery and a decline in country risk from 1,500 to around 1,000 basis points. Still, pressure on the FX market and financial assets persists and is likely to continue through the October 26 elections.

Inflation: continued moderation and limited exchange-rate pass-through

Consumer prices have continued the downward trend that began in 2024. Monthly core inflation averaged 2.3% in the first nine months of 2025, a sharp drop from the 7.4% average recorded a year earlier. The most recent quarter showed limited pass-through from FX rate movements, with inflation totaling 5.5% in 3Q25 despite an 18.5% depreciation of the currency over the same period.

All components of the CPI have decelerated sharply y/y. This is especially true for food and beverages (27% of the index), which rose by 22% in the first nine months of 2025, compared to an 86.7% increase during the same period in 2024. We project full-year inflation will be 30% and, if policy consistency is maintained, fall below 20% in 2026.

Activity: volatility and elections weakened early momentum

After a strong start to the year, the economy lost momentum in the second quarter. Activity indicators stagnated, with declines in May, June, and July culminating in a 0.1% GDP contraction in 2Q25. Investment has remained volatile, while formal employment stagnated before contracting slightly in July. Economic activity was led by capital-intensive sectors, which limited

job creation, and growth in formal real wages slowed, contrasting with gains seen in the informal sector.

Throughout the third quarter, heightened financial volatility and political uncertainty curbed both consumption and investment. High-frequency indicators suggest broad stagnation with mixed performance across sectors. While agriculture, mining, and financial services maintained some dynamism, key sectors like industry and construction remained weak.

Consequently, we have revised our growth projections downward to 4.5% for 2025 and 3.0% for 2026, with risks tilted to the downside. This adjustment reflects tighter financial conditions, higher real interest rates, a loss of momentum following the initial rebound, and worsening expectations amid political uncertainty ahead of the legislative elections.

External sector: widening deficit but consolidation of the energy surplus

In 2025, Argentina's external accounts deteriorated. In the first eight months, the trade surplus totaled USD 5.1 billion—one-third of the one recorded a year earlier. While the surplus has persisted since late 2023, it has been eroded by a sharp rise in imports (+32.1% y/y), especially capital goods (+70.9%), vehicles (+136.3%), and consumer goods (+68.4%).

Exports grew modestly (+6.2% y/y), sustained mainly by agricultural and energy products. The hydrocarbons balance remained strong, posting a USD 4.6 billion surplus in January–August 2025 (vs. USD 3.1 billion a year earlier), driven by continued expansion in unconventional production and lower imports of gas and fuels. The projected annual energy surplus of USD 7 billion confirms a structural improvement in the balance of payments.

The current account remains in deficit, mainly due to outbound tourism and profit remittances. We project a current account deficit of 2.0% of GDP in 2025 (vs. a 1% surplus in 2024) and 2.5% in 2026. These levels remain historically sustainable, supported by fiscal discipline and structural gains in the energy sector.

Public foreign-currency debt maturities total USD 19 billion in 2026 (net of intra-public holdings), falling to about USD 12.5 billion after likely multilateral refinancing and scheduled IMF disbursements. Of this total, USD 8 billion corresponds to private creditors. The announced USD 20 billion swap with the U.S. would significantly reduce Argentina's default risk through 2027, easing pressure on the FX rate and sovereign spreads.

Conclusions

The third quarter presented a more demanding scenario for Argentina's economy, as financial volatility and political uncertainty interrupted the recovery. Economic activity remains weak with significant disparities across sectors, and the external balance requires careful management.

Nevertheless, fiscal and monetary discipline, along with moderating inflation, continue to serve as crucial anchors for stability. This foundation is now complemented by support from the U.S. government, which provides temporary financial relief and extends debt maturities into 2026. This gives the administration valuable policy space to advance the reforms needed to consolidate recent gains and lay the groundwork for sustainable growth in an otherwise challenging environment.

Macroeconomic Forecasts

MACROECONOMIC FORECASTS - ARGENTINA

	2022	2023	2024	2025 (p)	2026 (p)
GDP (% YoY)	6.0	-1.9	-1.3	4.5	3.0
Inflation (% YoY, end of period)	94.8	211.4	117.8	30.0	14.0
FX rate (vs USD, Dec 31)	177	808	1,033	1,510	1,730
Monetary Policy Rate (% end of period)*	75.0	100.0	34.3	30.0	19.3
Private Consumption (% YoY)	9.5	1.0	-2.9	7.1	1.6
Public Consumption (% YoY)	2.8	2.1	-3.8	-0.2	1.4
Investment (% YoY)	10.5	-2.0	-17.4	24.2	13.8
Primary Fiscal Balance (% GDP)	-2.4	-2.7	1.8	1.6	1.7
Total Fiscal Balance (% GDP)	-4.2	-4.4	0.3	0.3	0.3
Current Account Balance (% GDP)	-0.6	-3.2	1.0	-2.0	-2.5
Public Debt (% GDP)	85.0	156.6	83.2	81.4	74.8

*In 2022 and 2023: BADLAR; from 2024 onward: TAMAR.

Source: INDEC, BCRA, Ministry of Economy and BBVA Research.

LEGAL NOTICE

This document, prepared by the BBVA Research Department, is for informational purposes only and contains data, opinions or estimates related to its date, either self-produced or from or based on sources we consider reliable, without having been independently verified by BBVA. BBVA, therefore, offers no express or implied guarantee as to its accuracy, integrity or correctness.

The estimates that this document may contain have been made in accordance with generally accepted methodologies and should be taken as such, that is, as forecasts or projections. The historical evolution of economic variables (positive or negative) does not guarantee an equivalent evolution in the future.

The content of this document is subject to change without prior notice depending, for example, on the economic context or market fluctuations.

BBVA assumes no commitment to update said content or communicate such changes. BBVA assumes no responsibility for any loss, direct or indirect, that may result from the use of this document or its content.

Neither this document nor its content constitutes an offer, invitation or solicitation to acquire, divest or obtain any interest in assets or financial instruments, nor can it serve as the basis for any contract, commitment or decision of any kind.

Especially regarding investment in financial assets that may be related to the economic variables that this document may develop, readers should be aware that under no circumstances should they take this document as a basis for making their investment decisions and that the persons or entities that may potentially offer them investment products will be legally obliged to provide them with all the information they need to make this decision.

The content of this document is protected by intellectual property law. Its reproduction, transformation, distribution, public communication, making available, extraction, reuse, retransmission or use of any nature, by any means or procedure, is expressly prohibited, except in cases where it is legally permitted or expressly authorized by BBVA on its website www.bbvaresearch.com.