

Argentina Economic Outlook

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BBVA Research Argentina

The economic challenge: consolidating the gains in 2026 to face the 2027 electoral cycle

The start of 2026 confirms the continuation of the macroeconomic stabilization process, with a sustained fiscal surplus, a prudent monetary policy, and gradual progress in normalizing the FX rate regime. Hence, we maintain our scenario of GDP growth at 3.0% in 2026-27 and declining inflation. However, the focus is shifting toward the sustainability of the program, in an environment where the scope for further adjustment is more limited, reserve accumulation becomes critical, and unemployment is gaining prominence among societal concerns.

Global outlook: resilient growth, albeit constrained by geopolitics and inflation

Global growth achieved a soft landing in 2025 despite geopolitical tensions, policy uncertainty, and US tariffs. This resilience was driven by moderating inflation, declining interest rates, fiscal stimulus, the adoption of AI, and contained energy prices. The conflict in Iran poses a new risk. The baseline scenario remains one of a short-lived conflict with limited impact, but uncertainty has increased. A prolonged conflict would raise inflation and slow growth. Looking ahead to 2026–27, global growth is expected to hover around 3.2%, conditioned by the evolution of the conflict and persistent inflation, particularly in the US, which reduces the likelihood of short-term rate cuts by the Fed. The main risk is that the conflict becomes more protracted, causing deeper disruptions in global energy markets or triggering broader geopolitical escalation. This would translate into higher inflation and financial tensions, intensifying the trade-off faced by central banks between growth and inflation.

Local outlook: the focus on stability and reforms

Fiscal sector: from emergency adjustment to sustainable balance

Fiscal balance remains the cornerstone of the economic program, after the turning point in 2024 when years of persistent deficits were reversed into a primary surplus. Primary expenditure declined significantly, from levels close to 20% of GDP in previous years to 14.4% of GDP in 2025, below the long-term average. This adjustment was mainly driven by reductions in economic subsidies and a sharp contraction in capital expenditure. On the revenue side, the tax burden shows a downward trend, in line with the government's commitment to reduce taxes. Government revenues stood at 15.8% of GDP in 2025, below the 18.1% average of the last decade. In this context, the primary balance recorded a surplus of 1.4% of GDP.

The fiscal start of 2026 remains positive: in January-February the primary surplus was 0.4% of GDP and financial surplus 0.1%. However, part of this result was driven by extraordinary capital revenues, such as concessions and auctions, as the Comahue hydroelectric plants in January.

Going forward, our scenario assumes continued fiscal discipline with positive primary balances that at least ensure financial balance. Nonetheless, the scope for further cuts is narrowing. In particular, reductions in economic subsidies show diminishing returns, while the extremely low level of capital spending poses a major challenge. Public infrastructure investment is at levels that may negatively affect potential growth if not gradually reversed. Sustaining fiscal balance will therefore require improving the composition and quality of adjustment, enhancing spending efficiency and strengthening revenue collection without increasing the tax burden.

Inflation: high inertia and relative price adjustments

Inflation reached 31.5% y/o/y in December 2025, marking the lowest annual variation since 2017. Despite this milestone, the disinflationary process from the 117.8% y/o/y recorded in December 2024 has been non-linear. Monthly inflation accelerated starting in May 2025, driven by adjustments in regulated prices and a significant shock in beef prices. The latter, which accounts for 8.9% of the CPI basket, contributed an average of 0.6 percentage points to monthly inflation over the last four months. This was compounded by the pass-through effect stemming from a 32% FX rate depreciation from the relaxation of capital controls in April until the midterm election in October which impacted tradable goods pricing and de-anchored short-term expectations.

Additional inflationary drivers this year included a robust realignment of administered prices to maintain fiscal sustainability, an indexation component embedded in the adjustment of FX bands based on past inflation, and the impact of Middle East geopolitical tensions on crude oil and domestic fuel prices. Nevertheless, we project that monthly inflation will resume a downward trajectory in May, benefiting from a diminishing impact of beef and fuel price hikes as of April.

Looking ahead, we forecast annual inflation for 2026 at 24%, with the balance of risks skewed to the upside due to potential wage indexation exceeding projections or a more protracted impact from the conflict with Iran. For 2027, we anticipate inflation to cool to 15%, underpinned by continued fiscal anchoring and active monetary aggregate management to ensure the absorption of excess liquidity. The evolution of the exchange rate gap and international reserve dynamics will remain critical determinants in stabilizing money demand and preventing further pressures, thereby securing the disinflationary path over the medium term.

Monetary sector: dealing with interest rate volatility

The current monetary framework, based on the control of monetary aggregates and without clear communication regarding objectives and instruments, has generated episodes of volatility and interest rate overshooting since July 2025. These dynamics have negatively affected economic

activity, credit demand, and non-performing loans. During 1Q26, there are signs that the Government intends to reduce rate volatility and align rates more closely with expected inflation.

Starting in 2026, the Central Bank (CB) launched an explicit reserve accumulation program and has purchased more than USD 3.8 billion. However, the pesos issued to purchase foreign currency are not being channeled into an expansion of money supply in the economy, as the Government is simultaneously keeping system liquidity constrained to avoid inflationary pressures. The National Treasury absorbs a large share of the monetary issuance generated by FX purchases through peso-denominated debt placements above maturities and deposits the surplus at the CB, in addition to conducting sterilization operations via the bond market. The net result is a system with contained liquidity, where interest rates remain close to monthly inflation but are highly sensitive to intraday volatility.

The Government faces a dilemma in determining the appropriate level of interest rates. On the one hand, it seeks to contain inflation and the FX rate, which requires maintaining attractive real rates in pesos. On the other hand, economic activity is showing signs of weakness, alongside non-performing loans (NPLs) at its highest level in decades, which places a ceiling on interest rates insofar as the Government seeks to avoid worsening these dynamics. We believe that, in the short term, the Government will keep rates aligned with inflation but not elevated in real terms, in order to support activity and credit rather than focusing solely on disinflation (as was the case since the beginning of the current administration). Year-to-date, effective monthly rates have fluctuated around 2.7%, in line with expected inflation, and we expect them to remain within that range or slightly lower until a clearer disinflation trend is confirmed.

Looking ahead, we expect interest rates to decline in line with falling inflation, and our forecast places the TAMAR rate at 20% by end-2026. This path implies a gradual decline—slower than disinflation—in order to preserve a decreasing but still positive real rate differential, without reaching levels that could jeopardize the recovery or further deteriorate credit quality.

Exchange rate policy: progress, but still incomplete

The adjustment to the exchange rate regime implemented since January—where bands are updated based on past inflation—represents an improvement over the previous fixed 1% monthly adjustment, as it helps moderate potential real exchange rate appreciation by allowing the upper band to adjust in real terms. However, the framework remains vulnerable to terms-of-trade shocks or a tightening of external financing conditions, given the limited distance between the current exchange rate level and the upper band—whose breach would trigger CB intervention (with still-low reserves) to contain the exchange rate within the bands.

The CB program projects reserve purchases of USD 10 billion in 2026, but it is unlikely that this will translate into an equivalent net increase in reserve holdings, given the schedule of foreign currency debt maturities and the limited rollover capacity in the absence of full re-access to international markets. Moreover, the new mechanism introduces a degree of inflation inertia, as it indexes key components (FX rate bands and regulated prices) to past inflation, which could delay the convergence of nominal variables if the monetary anchor is not sustained.

The new framework has enabled the CB to accumulate reserves at a faster-than-expected pace (USD 3.8 billion so far in 2026), mainly driven by the surge in corporate and provincial debt

issuances following the midterm elections, which has strengthened its balance sheet and helped moderate real appreciation. At the same time, the FX rate has remained stable since October, appreciating by 2% in nominal terms over that period, supported by favorable seasonal FX inflows. Over the same period, inflation has accumulated to 14%. This dynamic, together with the mechanism of updating bands based on past inflation, has resulted in the official FX rate currently standing 20% below the upper band (around ARS 1,640/USD).

In our baseline scenario, the average FX rate is projected to reach ARS 1,760/USD by Dec-26 and ARS 2,000/USD by Dec-27. This assumes that the peso cannot appreciate persistently in real terms: the economy requires the FX rate to act as an adjustment valve in response to potential shocks, while maintaining consistency with the country's productivity fundamentals.

External sector: strong trade surplus, but current account challenges

The year 2025 closed with a merchandise trade surplus of USD 11.286 billion, marking two consecutive years of positive balances. This outcome was driven by the energy sector, which posted a record surplus of USD 7.815 billion amid strong expansion in oil and gas production. This was complemented by an increase in export volumes from other sectors, particularly agribusiness, in line with the solid performance of export crops.

The consolidation of the energy surplus is a structural shift in the goods balance, both due to the growth in exports—which already account for 12.5% of the total—and the reduction in fuel imports, associated with the substitution of imported gas with production from Vaca Muerta and lower diesel purchases. This dual effect positions the energy sector as a key pillar of the goods balance, with expansion potential in the coming years.

Looking ahead, we project that the merchandise trade surplus will remain around USD 10.9 billion in 2026. Exports are expected to continue growing, driven by higher volumes in agriculture, energy, and mining, while imports are likely to accelerate, particularly in capital goods and intermediate inputs associated with the recovery in investment. This dynamic is consistent with economies undergoing macroeconomic normalization, where imports support activity levels, leading the surplus to gradually moderate. The conflict in Iran could introduce an upside bias for Argentina as a net energy exporter: higher international oil prices would strengthen the energy balance, although partially offset in winter by the need to import gas.

The main deficit components of the external sector remain real services and income. The tourism deficit, along with interest and dividend payments, will constrain the generation of current account surpluses. In this context, we project a current account deficit of 1.9% of GDP in 2026 and 1.6% in 2027. This imbalance is financeable with access to international markets. Corporates and provinces have already issued USD-denominated debt totaling USD 16 billion in 2025 and USD 4 billion in 2026, while the National Treasury has not yet tapped this source. These flows would be complemented by foreign direct investment in energy, mining, and infrastructure under the RIGI framework.

Economic activity: uneven growth driven by capital-intensive sectors

The economic activity continues to expand, albeit at different speeds and with a bias toward primary sectors. In 2025, GDP grew by 4.4%, led by Financial intermediation (+24.7%), Mining

(+8.0%), Hotels and restaurants (+7.4%), and Agriculture and livestock (+6.2%). The sectors that contracted were Fishing (-15.2%) and Public administration (-1.0%).

While most sectors grew compared to 2024, an analysis of their contribution to aggregate activity highlights several key points. In the case of manufacturing—accounting for around 20% of GDP—it grew by only 0.8% in 2025 after contracting by 8.8% the previous year. A similar pattern was observed in construction, a highly labor-intensive sector, which rebounded by 4.3% in 2025 following a sharp decline in 2024 (-17.5%). This composition of growth underscores that the recovery remains heterogeneous and not yet broad-based. Momentum is concentrated in sectors with a lower employment multiplier and limited capacity to drive activity across the rest of the economy. This sectoral pattern coexists with still-constrained domestic demand, affected by elevated real interest rates, household indebtedness, and the evolution of real wages.

Regarding the labor market, in the last quarter of 2025 the unemployment rate increased to 7.5% of the labor (the highest value for a fourth quarter since 2020), the employment rate declined from 45.4% to 45%, and underemployment grew from 10.9% to 11.3%. Average unemployment for the full year stood at 7.4%, marking the second consecutive annual increase (6.1% in 2023 and 7.1% in 2024), despite the mentioned GDP growth. The decline in formal wage employment (both public and private) was partially offset by an increase in self-employment, leading to greater labor precariousness. Labor informality remains high, accounting for 43% of total employment in 2025 according to official statistics, reflecting the persistence of a structurally fragile labor market. In this context, the approval of the labor reform (Labor Modernization Law) improves incentives for formalization and registered job creation, but its impact will be gradual and contingent on macroeconomic stability and on the consolidation of recovery in labor-intensive sectors such as construction, manufacturing, and trade.

In our baseline scenario, we maintain our GDP growth forecast of 3% for both 2026 and 2027, driven mainly by investment and exports, alongside a growing—albeit still limited—contribution from private consumption.

Financial system: moderate growth

The financial system continues to expand, still from low levels. However, volatility in short-term interest rates is beginning to weigh on credit demand and increase in NPLs. In our baseline scenario, these NPL will reach a peak around mid-year before starting to decline toward the end of 3Q26. This dynamic partly reflects the impact of income adjustments on households and firms, alongside a labor market that has yet to recover formal employment.

In this context, credit is expected to continue expanding, albeit at a more moderate pace than in 2025 and unevenly across segments. Dollar-denominated lending emerges as the main short term driver, particularly in the corporate segment, while consumer credit—such as personal loans and credit cards—is showing signs of deceleration. Overall, we estimate that credit will grow by 20% in real terms in 2026, supported by corporate lending in foreign currency and a pickup in mortgages, but constrained by interest rate levels and the current quality of the loan portfolio.

On the deposit side, growth is expected to be slower than that of credit. In addition, there is a shift away from demand deposits toward higher-yielding instruments such as time deposits, in a context of lower inflation and increased competition among investment alternatives. Overall, the

financial system is undergoing an adjustment phase in its liquidity and funding conditions, in line with an economic policy framework aimed at maintaining control over the money supply.

Conclusions

Argentina enters 2026 with an orderly macroeconomic framework and a program that has gained credibility, supported by sustained fiscal surpluses and the elimination of monetary financing of public spending. Economic activity is expanding and reserve accumulation has begun to recover, although the growth pattern remains heterogeneous across sectors and the disinflation process continues to face significant inertia. In this context, the key challenge for 2026–27 is to improve the quality of the fiscal surplus, consolidate a more transparent monetary framework, and move toward a more flexible FX rate regime capable of absorbing shocks without undermining growth or triggering renewed nominal pressures. Regarding inflation, factors such as adjustments in regulated prices, wage negotiations, and movements in interest rates could lead to a more gradual disinflation process than currently expected. In such a scenario, interest rates could remain relatively high for longer, with some impact on credit dynamics and on economic activity.

If the Government is able to capitalize on the window of opportunity in 2026 to regain market access, restructure liabilities, strengthen reserves, and sustain reforms aimed at boosting investment and labor formalization, annual growth of around 3% alongside gradual disinflation appears achievable. In such a scenario, it would also be possible to ease the tensions associated with the demanding electoral year of 2027.

MACROECONOMIC FORECAST TABLE - ARGENTINA

	2023	2024	2025	2026 (p)	2027 (p)
GDP (% y/y)	-1.9	-1.3	4.4	3.0	3.0
Inflation (% y/y eop)	211.4	117.8	31.5	24.0	15.0
Exchange Rate (vs USD Dec-31)	808	1,033	1,459	1,760	2,000
Monetary Policy Rate (% eop)*	100	34.3	28.9	19.8	15.9
Private Consumption (% y/y)	1.0	-2.9	7.9	2.7	2.5
Public Consumption (% y/y)	2.1	-3.8	0.2	-1.2	2.4
Investment (% y/y)	-2.0	-17.2	16.4	7.1	12.1
Unemployment Rate (% Labor Force)	6.1	7.1	7.4	6.9	6.2
Primary Fiscal Balance (% GDP)	-2.7	1.8	1.4	1.5	1.5
Financial Fiscal Balance (% GDP)	-4.4	0.3	0.2	0.1	0.1
Current Account (% GDP)	-3.2	0.9	-1.5	-1.9	-1.6
Public Debt (% GDP)	156.6	83.2	77.7	73.1	70.2

*Starting from 2024 it is TAMAR.

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