

Argentina Outlook

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BBVA Research Argentina

Solid external accounts but uneven growth

Argentina's exports are on track to reach a record high in 2026, exceeding USD 102 billion and consolidating their role as the main driver of economic activity. Favorable international prices and the strong performance of the economy's primary sectors are supporting the external accounts, translating into greater FX stability. Despite some recent deceleration, we continue to expect the country to post three consecutive years of growth by 2027 for the first time since 2006-8, while inflation has proven more persistent than expected but remains on a downward path. Although the macroeconomic framework is more consistent and robust than in previous years, potential sources of volatility remain visible, concentrated mainly around the 2027 electoral calendar and a severe El Niño event.

Global outlook: slower growth and persistent inflationary pressures

The global economy continues to post resilient growth, with inflation still elevated but contained and limited financial stress. AI, defense spending, and central bank responses are partially offsetting geopolitical tensions and higher energy prices. The growth outlook has changed little: the U.S. economy is expected to grow slightly above 2%, China to moderate toward 4%, and the Eurozone to expand by 0.9% in 2026, despite tighter financial conditions.

Inflation will remain under pressure in the short term due to commodity prices, but should moderate in 2027 if geopolitical tensions ease and restrictive monetary policy is maintained. The Federal Reserve and the ECB are expected to raise policy rates once more this year and keep them unchanged in 2027. Nevertheless, uncertainty remains high: an escalation of conflicts, new climate shocks, protectionism, or tensions in debt markets could weaken activity. In particular, persistently higher oil prices would imply higher inflation and higher-for-longer interest rates.

Domestic outlook: stronger fundamentals, but a recovery with limited sectoral diffusion

Fiscal sector: maintaining the surplus is becoming more challenging

Fiscal balance remains the cornerstone of the economic program, although sustaining the surplus has become more challenging. In the first eight months of the year, the National Public Sector accumulated a primary surplus of 1.1% of GDP and an overall fiscal surplus of 0.2%, maintaining the commitment to fiscal discipline. However, recent developments in the public accounts led us to marginally revise down our 2026 primary balance forecast to 1.3% of GDP, the lowest under Milei's administration. We expect this result to be repeated in 2027, while maintaining an overall fiscal surplus of 0.1% in both years.

Following the sharp correction of the past two years, the scope for further spending cuts has narrowed. Much of the initial adjustment was concentrated in items with greater room for reduction (energy subsidies, transfers to provinces, capital expenditure, and other discretionary spending), while more rigid components, such as pensions, social benefits and wages, will account for a larger share going forward. This is compounded by growing demands to restore sensitive spending items that have accumulated sharp declines in real terms. On the revenue side, the recovery is proving more gradual than expected and has yet to replace expenditure cuts as the main support for fiscal consolidation. The elimination of some taxes and changes to the tax framework have reduced revenue sources that contributed to the initial adjustment. In this context, the sustainability of the public accounts will increasingly depend on economic growth and greater formalization genuinely broadening the tax base.

We expect the Government to maintain a positive primary balance and overall fiscal equilibrium as anchors of economic policy. However, the nature of the challenge is changing: with much of the scope for additional discretionary cuts already exhausted, the focus is shifting toward maintaining current spending levels and improving revenues. In the short term, the Government will rely on privatizations and asset sales to balance the accounts.

Monetary policy: seeking lower volatility

During 2026, FX market stability created room for interest rate cuts aimed at supporting credit, reducing non-performing loans, and boosting the GDP. The TAMAR rate was negative in real terms during the first four months of the year, but from May-June onward it began converging toward more neutral levels relative to inflation. FX pressures that emerged in August initially prompted the Government to respond with higher interest rates and tighter monetary conditions. Subsequently, however, a more flexible strategy became evident, allowing some movement in the exchange rate to avoid excessive interest rate volatility.

Looking ahead, we expect policy to seek a delicate balance. Excessive rate cuts could increase pressure on the exchange rate, which continues to play an important role in the anti-inflationary strategy. Conversely, excessively high rates could intensify non-performing loan problems and weaken economic activity, which is already losing momentum. Accordingly, our scenario assumes that the TAMAR rate will tend to align with the pace of current inflation, ending the year at 21.5% (nominal annual rate) and next year at 20%, implying slightly positive real interest rates.

The current monetary aggregate framework does not, however, eliminate the possibility of renewed episodes of volatility. Our baseline scenario assumes that policymakers will seek to avoid the instability observed in 2025, although new episodes cannot be ruled out as the 2027 electoral calendar advances.

Inflation: disinflation continues, but breaking below 1.5% m/m will be difficult

After reaching a peak of 3.4% m/m in March, monthly price growth began to decline, reaching 1.7% in August (the lowest reading since June 2025) and averaging 1.8% per month during the

first eight months of the year. Over the same period, regulated prices rose by an average of 3.2% per month, accumulating a 28.5% increase between January and August. This contrasts with core inflation, which rose 19.8% over the same period, highlighting the significant impact of relative price adjustments on inflation in 2026. Looking ahead, monetary balance, a more moderate pace of utility prices adjustments, and FX stability should continue to support a gradual deceleration in inflation during the last quarter of the year, averaging around 1.6% per month, consistent with year-end inflation of 29% y/y in 2026, although the balance of risks are tilted toward a higher inflation.

For 2027, the current macroeconomic framework could bring inflation toward 1.5% per month, equivalent to 20% on an annualized basis. However, sustaining readings persistently below that level would require a more comprehensive framework capable of further anchoring expectations. We also do not rule out some price volatility in the second and third quarters of next year in the context of the electoral process, which could introduce upside risks to our forecast.

External accounts: energy and mining consolidate a structural shift

In the first eight months of the year, the trade balance accumulated a surplus of USD 18.249 billion, well above the USD 5.109 billion recorded in the same period of the previous year. This improvement reflected strong export growth of 21.4% y/y, while imports declined by 2.6%. The result is supported by favorable international prices and strong agricultural performance, with an increasingly important contribution from the energy and mining sectors. Expanding hydrocarbon production and related infrastructure are increasing exportable surpluses, while mining is benefiting from both higher volumes and favorable international prices. This transformation is broadening and diversifying the country's export capacity and gradually reducing its exclusive dependence on the agro-industrial cycle.

We project a trade surplus of approximately USD 24.6 billion in 2026 and USD 26.1 billion in 2027. Next year, the growing contribution from energy and mining should offset the recovery in imports associated with an expansion in economic activity. The improvement in the goods balance partially offsets persistent deficits in services (mainly tourism), dividends and interests, keeping external financing needs contained despite the recovery in domestic demand. Against this backdrop, we expect the current account balance to close 2026 with a deficit of 0.2% of GDP and to reverse that result in 2027, reaching a small surplus of 0.1% of GDP.

Foreign exchange market: reserve accumulation and some flexibility

External accounts are going through an especially favorable period. Exports are on track to exceed USD 102 billion, surpassing the historical record, supported by favorable international prices and rising production volumes in hydrocarbons, mining, and agriculture. This is compounded by strong corporate and provincial debt issuance, which has generated USD 18 billion in FX market settlements over the past 12 months. These foreign currency inflows enabled

the Central Bank of Argentina (BCRA) to outperform its reserve accumulation program while maintaining exchange rate stability.

At the time of publication, the Central Bank had already purchased more than USD 14.6 billion during the year, gross international reserves were approaching USD 50 billion, and net reserves stood at around USD 9 billion, above the targets agreed with the IMF. Despite these positive results, reserve accumulation needs to continue, as 2027 debt maturities require a stronger liquidity buffer both to replace external financing and to absorb potential episodes of FX market pressure associated with the electoral calendar. The Government appears to have made clear that it does not plan to issue debt in international markets in the near term. Under the assumptions included in the financing program announced by the Ministry of Economy, reserve accumulation of USD 10-12 billion would therefore be required, even assuming USD 5 billion in domestic debt issuance during 2027.

The structural strengthening of foreign currency inflows largely explains the strength of the peso. Nevertheless, we expect some nominal exchange rate depreciation during the 4Q26. Weaker seasonality in agricultural export settlements, a moderation in external debt issuance by the private and sub-sovereign sectors, and rising hedging demand could generate additional pressure, taking the USD/ARS exchange rate to an average of 1,615 by Dec-26 and 2,026 by Dec-27.

Economic activity and employment: weaker than expected

Economic activity contracted by 0.6% q/q in the second quarter (+2.0% y/y), and the first indicators for the third quarter still do not point to a broad-based recovery. Following the rapid rebound from the 2024 lows, the economy is finding it more difficult to sustain that pace of expansion. July EMAE data (-1.4% y/y; -2.9% m/m s.a.) confirm the loss of momentum, introducing a clear downside bias to our forecast of 3.0% GDP growth this year, while we maintain our 3.0% growth forecast for 2027.

The defining feature of this process remains sectoral heterogeneity. Energy, mining, and agriculture are performing strongly and provide a favorable platform for exports and investment, but they are relatively less labor-intensive activities. By contrast, manufacturing, retail, and construction (which have a greater impact on employment and domestic demand) are showing significantly weaker dynamics.

The limited diffusion of growth is also evident in the labor market. Formal private-sector employment declined and formal real wages lost ground during the first half of the year. This limits the recovery in consumption and coincides with investment expanding more slowly than expected, creating a feedback loop in which weak domestic demand reduces incentives for job creation while slower income growth, in turn, makes a renewed acceleration in private consumption more difficult.

Looking ahead, lower inflation, better financial conditions, and the evolution of projects in energy, mining, and infrastructure should support a recovery in activity. However, the starting point is less favorable than it was three months ago.

Conclusions

The Argentine economy continues to consolidate a more robust macroeconomic environment, supported by fiscal austerity, declining inflation, and a stronger external sector driven by the growing contribution of energy, mining, and agriculture. Greater foreign currency inflows supports reserve accumulation and helps preserve FX stability. Under our baseline scenario, we project that by 2027 the economy will have posted three consecutive years of growth for the first time since 2006-08, while inflation could continue to decline from 29% this year toward around 20% next year.

Economic growth, however, remains narrowly based across sectors. While export-oriented activities continue to show strong momentum, manufacturing, retail, and construction are weaker, limiting the recovery in employment and private consumption.

Looking ahead to 2027, the main challenges will be to preserve the balances already achieved, continue accumulating reserves, and broaden the recovery across the economy, in an environment where risks associated with global volatility, a severe El Niño event, and the electoral calendar (which consistently triggers financial pressures in Argentina) remain present.

MACROECONOMIC FORECASTS - 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	29.0	20.0
Exchange rate (vs USD Dec-31)	808	1,033	1,459	1,630	2,040
Monetary policy rate (% eop)*	100	34.3	28.9	21.0	20.0
Private consumption (% y/y)	1.0	-2.9	7.9	2.7	2.0
Public consumption (% y/y)	2.1	-3.8	0.2	-1.2	1.4
Investment (% y/y)	-2.0	-17.2	16.4	7.1	12.2
Unemployment rate (% EAP)	6.1	7.1	7.4	7.9	7.8
Primary fiscal balance (% GDP)	-2.7	1.8	1.4	1.3	1.3
Overall fiscal balance (% GDP)	-4.4	0.3	0.2	0.1	0.1
Current account (% GDP)	-3.2	0.9	-1.1	-0.2	0.1
Public debt (% GDP)	155.8	82.6	78.4	74.6	70.7

*TAMAR since 2024.

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