

# ARGENTINA

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## DILEMMAS

Since the spring, the macroeconomic and financial situation has deteriorated significantly. The successful stabilisation of 2024 was ultimately short-lived. The economy is expected to have formally entered recession in the third quarter. The current account is once again in deficit despite very restrictive fiscal policy, and despite massive support from the IMF since April, official foreign exchange reserves remain low compared with upcoming external debt repayments in 2026. Since September, the government has benefited from the support of the US Treasury, and President Milei's party emerged victorious from the mid-term elections, which has reassured investors. For the time being, the solvency of public finances is not threatened, even in the event of a moderate slippage in the budget balance. However, the government will face two dilemmas. On the one hand, the necessary strengthening of external liquidity through a continued restrictive fiscal policy may increase political and social pressures. On the other hand, in the absence of a sustained improvement in the current account and foreign exchange reserves, there will be strong pressure for devaluation. A real depreciation of the exchange rate might restore the external accounts, but at the cost of a more severe recession, at least in the short term, and would lead to mechanical deterioration in the public debt ratio, which is mainly denominated in USD.

## GROWTH: SUDDEN STOP

After a sharp rebound in H2 2024, economic growth slowed sharply in Q1 2025, finally coming to a halt in Q2 (-0.1% q/q). In volume terms, consumption, exports and, to a lesser extent, investment all contributed negatively to real GDP growth. The decline in GDP would have been more pronounced had it not been for the fall in imports, which was greater than that of exports. However, the positive contribution of foreign trade reflects more of a recessionary surplus than an improvement in competitiveness. By sector, continued activity in construction (+2.2%) was not enough to offset the decline in industrial production (-1.7%).

The indicators available for Q3 suggest a return to recession; industrial production continued to contract (-1.5% in July-August compared with Q2) and construction activity turned down (-1.4% over the same comparison periods). Only exports remained buoyant (Chart 1).

However, until June, the macro-financial environment was still favourable (inflation slowed from an average of 3.2% per month in H2 2024 to 2.4% in H1 2025, a successful transition to a more flexible exchange rate regime with the unification of exchange rates in April, and stable interest rates). This was not enough because, at the same time: i/ fiscal policy remained very restrictive, with, in particular, a sharp decline in current transfers ii/ despite disinflation and the recovery in real wages, the deterioration in the labour market (employment down by nearly 5% since Q3 2024) weighed on household income iii/ real interest rates rose with disinflation and ultimately halted the recovery in credit, which had contributed significantly to the upturn in consumption in H2 2024 and Q1 2025 iv/ the appreciation of the real exchange rate boosted import volumes between September 2024 and March 2025.

During the summer and until the mid-term elections, the interest rate and foreign exchange markets were very volatile, with the peso depreciating beyond the lower limit of its fluctuation band<sup>1</sup>. Javier Milei faced stronger opposition from parliament, which succeeded in imposing increases in certain areas of spending. Pressure on the peso eased with the announcement in September of support from the US Treasury in the form of a USD 20 billion swap line, guaranteed by the Exchange Stabilisation Fund, and direct intervention in the foreign exchange market<sup>2</sup> and, above all, with the victory of President Milei's party (La Libertad Avanza) in the mid-term elections on 26 October<sup>3</sup>. The peso appreciated sharply, returning to within its fluctuation corridor, and the 5Y CDS premium fell to 820 basis points from 1200 before the elections.

We have significantly revised down our growth forecasts for 2025 and, above all, 2026. However, the easing of financial tensions since the elections should prevent the recession from continuing beyond the second half of 2025.

### FORECASTS

|                                      | 2022 | 2023  | 2024  | 2025e | 2026e |
|--------------------------------------|------|-------|-------|-------|-------|
| Real GDP growth, %                   | 5.3  | -1.6  | -1.7  | 3.7   | 1.5   |
| Inflation, CPI, year average, %      | 72.4 | 133.5 | 219.9 | 41.2  | 19.1  |
| General gov. balance / GDP, %        | -3.8 | -4.4  | 0.3   | -0.1  | -1.3  |
| General gov. debt / GDP, %           | 84.5 | 155.4 | 85.3  | 76.5  | 75.4  |
| Current account balance / GDP, %     | -0.6 | -3.2  | 0.9   | -1.6  | 0.1   |
| External debt / GDP, %               | 43.7 | 44.6  | 43.7  | 44.1  | 50.1  |
| Forex reserves, USD bn               | 41.2 | 19.0  | 24.4  | 36.6  | 50.5  |
| Forex reserves, in months of imports | 5.1  | 2.5   | 3.7   | 4.3   | 6.4   |

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### ARGENTINA: ACTIVITY INDICATORS (DEC. 2019=100)

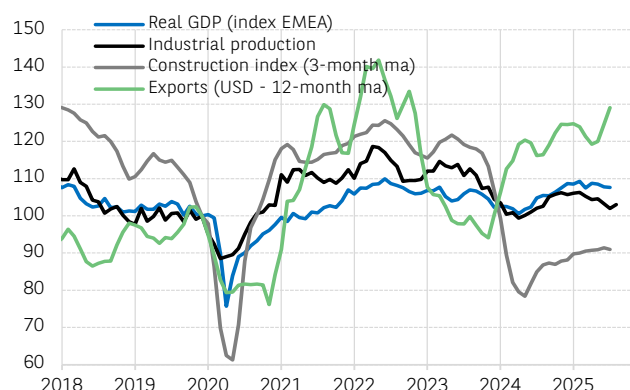


CHART 1

SOURCE: INDEC, ISAT, BNP PARIBAS


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## STILL WEAK EXTERNAL LIQUIDITY

Thanks to financial support from the IMF, the central bank (BCRA) foreign exchange reserves have been strengthened for the time being. However, they remain low and have fuelled analyses and statements about the country's bailout situation.

The current account balance, which was in surplus throughout 2024, returned to deficit in the first six months of 2025<sup>1</sup>. The trade surplus remained intact despite a scissor effect between the acceleration in import volumes, accentuated by the lifting of restrictions, and much more moderate export growth. The improvement in the terms of trade in Q2 2025 only partially offset this gap. The services balance deteriorated sharply due to the appreciation of the real exchange rate (which stimulated Argentine tourism spending abroad). The evolution of the trade balance and the services balance suggests that the real exchange rate may once again be overvalued. In fact, the December 2023 devaluation has been wiped out.

In addition, interest payments on external debt are weighing slightly more heavily on the current account balance. Finally, net FDI and portfolio investment flows remained weak, and the easing of exchange controls led to capital outflows by residents.

The BCRA foreign exchange reserves eroded from the end of 2024 and stood at only USD 25 billion at the end of March. The decline was halted by the IMF's disbursement of USD 12 billion in early April, with the Argentine government obtaining an additional USD 20 billion line from the institution as part of the renewal of the Extended Fund Facility agreement. Since then, reserves have strengthened slightly with a further USD 2 billion disbursement from the IMF following the conclusion of the first review in July. On 17 October, they stood at USD 41.2 billion.

However, they remain very fragile and largely insufficient to service the external debt, especially when considering the BCRA's 'usable' reserves, i.e. excluding the renminbi swap line with the Chinese Central Bank (equivalent to USD 23 billion) and the commercial banks' mandatory foreign currency reserves with the Central Bank (USD 12 billion). By the end of the year, the federal government and the BCRA will have USD 3 billion in USD debt repayments<sup>2</sup> (assuming that the IMF disburses another USD 2 billion at the end of the second review). However, in 2026, the debt service of the public administrations (federal government, Central Bank and regions) is estimated at around USD 22 billion. Added to this is an additional ten billion or so in external financial debt maturities of non-bank private sector companies.

The financial support from the US Treasury has been interpreted as equivalent to a bailout. A bailout is financial support in the event of imminent default and is usually associated with debt restructuring. Argentina is not in this situation at present. The country is simply facing a lack of dollar liquidity. However, it is clear that the difficulty in restoring foreign currency liquidity without IMF support is a cause for concern. Until now, the IMF has granted a waiver for non-compliance with the target for increasing net international reserves (one of the

quantitative criteria for obtaining the institution's approval and the accompanying financial support) because the public finance targets are being met.

In 2026, the sharp slowdown in growth, or even the continuation of the recession, should lead to a contraction in imports. At the same time, exports should not be too badly affected by the increase in US tariffs. Unless there is a further fall in the prices of exported agricultural commodities (soya, wheat, maize), exports should increase. Excluding interest payments on external debt, the current account could thus return to positive territory.

However, interest payments will increase and the cost of borrowing in hard currency remains very high. The authorities will therefore face a dilemma between the necessary strengthening of external liquidity through an even more restrictive fiscal policy and social pressures to support economic activity.

## PUBLIC FINANCES: SOLVENCY RESTORED BUT FRAGILE

Public finance ratios continued to improve despite the slowdown in growth. The primary budget balance declined only slightly to 1.6% of GDP on a 12-month cumulative basis in September 2025, compared with 1.8% in 2024. Revenue fell to 19.7% of GDP in September, compared with 20.2% in 2024, reflecting tax cuts. Primary expenditure (i.e. excluding interest) continued to fall sharply in real terms, but significantly less than in 2024, representing only 18.2% in September 2025 compared with 18.4% in 2024. It should be noted that in 2023, it still accounted for 27% of GDP, reflecting the severity of budgetary restrictions. At the same time, the interest burden continued to ease (1.2% of GDP over 12 months in September, compared with 1.5% in December 2025).

For 2026, the government has committed to a primary surplus target of 2.2% of GDP and a balanced overall balance. However, the underlying assumption of 4.5% growth is already unattainable. Furthermore, the federal government's debt remains largely denominated in foreign currency (55%), mainly in USD. Barring a balance of payments crisis, which is unlikely given the external financial support, the solvency of public finances is not threatened, even in the event of a moderate budget deficit slippage. However, without sustained improvement in the current account and foreign exchange reserves, there will be strong pressure for devaluation. A real depreciation of the exchange rate might restore the external accounts, but at the cost of a more severe recession in the short term and a mechanical deterioration in the public debt ratio. Another dilemma.

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1 As part of the agreement with the IMF, the government has adopted a more flexible exchange rate regime, with the peso trading within a corridor whose limits were set in early April at 1,000 and 1,400 pesos per USD and which is gradually widening (the lower and upper limits decrease/increase by 1% per month). The central bank is responsible for ensuring compliance with this corridor. The aim is to make a smooth transition to a floating exchange rate regime.

2 The swap line could be supplemented by a USD20 bn loan from major US banks if the collateral provided by the Argentine government is accepted or if the US Treasury acts as guarantor.

3 Against all expectations, given the electoral setback suffered in September in the provincial elections in the Buenos Aires region, La Libertad Avanza won 41% of the votes and 64 of the 127 seats up for renewal in the lower house and 13 of the 24 seats in the Senate. LLA is expected to become the largest minority force in the lower house, with around 110 seats including its allies in parliament.

4 Depending on the source, the size of the deficit varies considerably: USD -8.5 bn according to the statistics institute, USD -2.6 bn according to the IMF based on Central Bank data on foreign exchange market transactions. But the trend is the same.

5 In the form of Bopreal issues (bonds issued by the BCRA, repayable in dollars and subscribed by Argentine companies so that they can settle their commercial debt) and USD repo transactions.



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