

ARGENTINA

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LOOKING FOR RENEWED MOMENTUM

The Argentine economy has avoided recession due to strong exports. Fiscal policy is restrictive and will remain so, while inflation has picked up again in recent months. Growth is expected to slow in 2026 before rebounding in 2027. Empowered by his party's gains in the October 2025 mid-term elections, President Milei aims to push through his structural reforms swiftly. With backing from the IMF, the US Treasury and major international banks, foreign exchange reserves have been replenished, and the risk premium has fallen significantly. However, reserves remain low in view of the dollar-denominated debt servicing obligations for the next two years. Although the AI sector has yet to make a significant impact on growth, it is contributing to the development of the mining industry. Environmental protection could suffer as a result.

➡ AGRICULTURAL EXPORTS AND THE MINING INDUSTRY HELPED AVERT RECESSION

The Argentine economy ultimately avoided the recession that economic indicators had suggested was likely. The supply-side activity indicator from the national statistics institute (INDEC), which serves as an excellent proxy for GDP, jumped sharply by 1.8% in December compared with November, after declining over the previous two months. However, the growth rate of this index halved, falling from 6.1% year-on-year in H1 2025 to 2.7% in H2 2025.

For 2025 as a whole, real GDP increased by 4.4%, driven by robust growth in the agricultural sector (+10.6%) and financial services (+26.8% following a decline of -3.3% in 2024). The latter's vigorous performance is likely linked to the lifting of exchange controls. Industrial activity grew by a modest 1.6%, while the construction sector grew by 5.5%, benefiting from a positive carry-over effect at the end of 2024 and the beginning of 2025.

In the second half of last year, industrial production declined and construction activity stagnated. Household consumption, which had recovered between April and September, probably contracted, as year-on-year real retail sales returned to negative growth. Inflation accelerated on average from 1.7% per month between May and August 2025 to 2.5% between September and January. Year-on-year, it rose slightly to 32.4% in January. Only exports remained buoyant (+16% year-on-year in volume terms in Q4). Exports of unprocessed primary agricultural products, which account for 25% of total exports, showed a spectacular increase of over 47% in H2 2025 compared to H2 2024 (in current dollars and in volume). This increase was attributed to a good harvest, price stabilisation and the ongoing reduction in export taxes on key agricultural commodities. Additionally, exports of mining products, accounting for 12% of total exports, also played a role in bolstering trade growth. Without the contribution of exports, GDP would have contracted in the second half of the year.

➡ VERY OPTIMISTIC OFFICIAL FORECASTS

A slowdown in growth in 2026 is the most likely scenario, followed by a resurgence in 2027, subject to a resumption of disinflation, the de-dollarisation of savings held by Argentine corporations and households, and greater direct investment in the real economy.

There are four primary factors contributing to this outlook: first, nominal wages have not yet fully caught up with the cumulative inflation experienced since the end of 2024, which is likely to continue to weigh on household consumption. Second, fiscal policy is expected to

¹ The parliament's rejection of specific budget cuts, the electoral setback suffered by La Libertad Avanza, the president's party, during the by-elections in the Buenos Aires region in early September, and uncertainty over the outcome of the October mid-term elections also played a role.

FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	-1.9	-1.3	4.4	2.5	3.5
Inflation, CPI, year average, %	133.5	219.9	41.9	28.0	14.0
General gov. balance / GDP, %	-4.4	0.3	0.2	-0.5	-0.3
General gov. debt / GDP, %	155.4	82.9	78.2	70.9	66.9
Current account balance / GDP, %	-3.2	0.9	-2.2	-1.7	-2.1
External debt / GDP, %	44.6	43.7	46.6	49.5	51.6
Forex reserves, USD bn	19.0	24.4	32.6	43.0	44.5
Forex reserves, in months of imports	2.5	3.7	3.7	4.6	5.6

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

ARGENTINA: ACTIVITY MAINTAINED BY EXPORTS

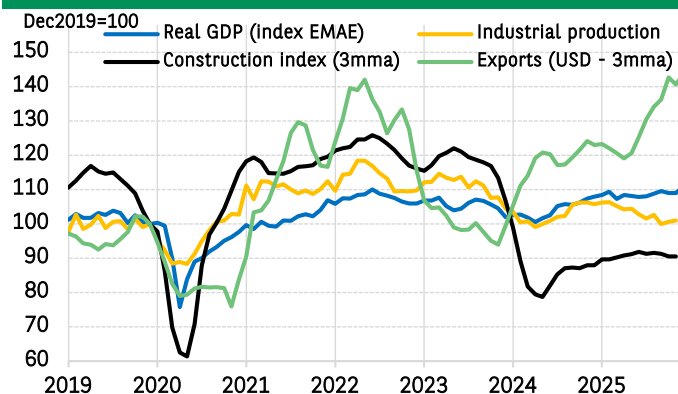


CHART 1

SOURCE: INDEC - ISAC - BNP PARIBAS

remain restrictive. Third, the shift from interest rate management to exchange rate pegging in the monetary and exchange rate policy may lead to significant fluctuations in interbank interest rates, similar to what happened in the second half of 2025¹. Fourth, despite the easing of the exchange rate regime and robust export performance, the deterioration in the balance of payments suggests that the real exchange rate is overvalued and therefore poses a risk of peso depreciation that could fuel inflation.


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Nevertheless, both the IMF and the World Bank remain very optimistic about growth prospects, anticipating a growth rate of 4% in 2026 and 2027. This optimism can likely be attributed to two factors. First, the strengthening of J. Milei's party in the October 2025 mid-term elections provided the president and his government with renewed momentum. They successfully passed the 2026 budget in December (for a feat not achieved with the previous two budgets) and implemented the labour market reform.

Second, financial backing from the US Treasury and major US banks allayed concerns about the repayment of Argentina's dollar-denominated Treasury bond debt, enabling the country to meet its critical January deadline. As a result, the country risk premium, as measured by the CDS spread or EMBI spread, fell to 530 basis points for the 5-year CDS spread, marking its lowest level since 2018.

However, official forecasts anticipate a sharp acceleration from Q1 2026 onwards, although this remains uncertain at this stage.

FISCAL ORTHODOXY MAINTAINED

Fiscal orthodoxy continued in 2025, with the government budget posting a new primary surplus (+1.4% of GDP), albeit slightly lower than in 2024. The reduction in primary expenditure, which accounted for 18.1% of GDP in 2025, was somewhat less drastic than in 2024 (-0.4 percentage points of GDP compared with nearly -7 pp in 2024). At the same time, revenues (15.9% of GDP) fell by 1 percentage point of GDP due to the abolition of the PAIS tax² and the reduction/suspension of export taxes. With interest charges falling to just 1.2% of GDP, the total budget balance showed a very modest surplus.

For 2026, the government's objective is to maintain the primary surplus at least at the same level as in 2025, which implies additional spending cuts to offset the increase in disability pensions and transfers approved by parliament, as well as the possible reduction in corporate taxes as part of labour market reform. However, any fiscal slippage will be limited³.

Following the IMF's second review, a tranche of USD 1.1 billion could be disbursed. J. Milei and his finance minister contend that the current risk premium remains far too high in view of budgetary developments. The issuance of international bonds in US dollars has therefore been suspended for the time being. An improvement in the balance of payments is still needed.

EXTERNAL FINANCIAL SUPPORT STILL NEEDED

The current account balance returned to deficit in 2025, at around USD 15 billion. At the same time, net capital outflows from households and non-financial companies amounted to a cumulative USD 33 billion between April and December, partly due to the lifting of exchange controls (Cepo) for households and partially for companies. Despite this, foreign exchange reserves have nearly doubled from their mid-April 2025 low, reaching almost USD 46 billion in early February. However, this increase is gradual, aided by financial support from the IMF (USD 14 billion released in April 2025, followed by USD 2 billion at the end of the first review of the plan, and an SDR drawdown in early 2026) and international banks (USD 3 billion loan in early January 2026).

The IMF is expected to once again grant a waiver for non-compliance with the target for increasing net international reserves. Foreign exchange reserves remain low in relation to the dollar-denominated debt servicing obligations of the federal government and the central bank (USD 15 billion between now and the end of the year, and USD 29 billion in 2027).

Due to interventions by the US Treasury and the decision in early 2026 to peg the peso to inflation, the currency has stabilised and is now hovering around the lower end of its fluctuation band. However, despite the slowdown in growth in 2026, the current account is expected to remain in deficit, fuelling the debate on the overvaluation of the exchange rate. Despite a 16% depreciation against the US dollar in 2025, the real effective exchange rate remains at the same level as before the December 2023 devaluation.

AI: FUTURE SUPPORT FOR GROWTH BUT A RISK TO THE ENVIRONMENT

According to projections from Oxford Economics, the share of exports related to artificial intelligence is minimal (approximately USD 300 million out of a total of USD 87 billion in goods exports in 2025) and is probably overestimated⁴. The number of data centres is still low (29 compared to 197 in Brazil) and, relative to the population, the number of patents concerning AI since the early 2010s is three times lower than in Brazil. Compared to Brazil, the number of data centres is limited by factors such as electricity generation. The relative shortfall in patents reflects both a shortage of skilled labour in the AI sector and, again in relation to Brazil, a less proactive government strategy to foster development in this sector.

The growth of the mining industry is expected to be the primary avenue through which AI will contribute to bolstering growth in Argentina in the next few years, especially in response to the increasing demand for copper and critical metals such as lithium. Exploratory investments in the extraction of copper and lithium have surged among leading companies in the industry, including Rio Tinto, Glencore, McEwen Copper and Galan Lithium. Argentina is home to 71 lithium-related projects and 35 copper-related projects, all at various stages of development. Mining projects have been revived by the Large Investment Incentive Programme (RIGI), launched by the government at the end of 2024. It is within this framework that OpenAI, in partnership with Argentine investors, announced the Stargate project, which aims to establish a large-scale artificial intelligence data centre in Patagonia. The total investment is expected to exceed USD 25 billion.

However, the development of the mining sector poses environmental risks. A proposed government bill to amend the 2010 law that protects glaciers has been submitted to the parliament.

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² The tax for an inclusive and supportive Argentina was abolished in November 2024, which involved a deposit on imports.

³ The interest burden does not include capitalised interest on short-term securities denominated in pesos. If this were included, the interest expense would amount to approximately 2.4% of GDP, resulting in a budget deficit of around 1% of GDP.

⁴ This estimate is based on the WTO nomenclature, which covers components specifically used to run AI programmes, as well as raw materials and electrical and electronic equipment that may be used by AI programmes (though not exclusively). Therefore the WTO scope tends to overstate exports that are solely related to AI. In Argentina, 87% of exports pertain to items classified in the nomenclature that do not explicitly refer to AI.



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