ARGENTINA: WHAT LESSONS CAN BE LEARNED FROM THE MIDTERM ELECTIONS?

Against all odds, President Milei's party (La Libertad Avanza, LLA) emerged victorious from the 26 October midterm elections, despite suffering an electoral setback less than two months earlier in the provincial elections in the Buenos Aires region. With LLA's allied parties, President Milei now holds 43% of the seats in the Chamber of Deputies, which should reverse the balance of power that he lost over the summer. This electoral turnaround, against a backdrop of economic deterioration, is due to low voter turnout, reflecting voter fatigue, disinflation and Donald Trump's conditional support. The easing of tensions on the peso and risk premia may prevent the Argentine economy from experiencing a prolonged recession. However, GDP growth will slow significantly. Furthermore, the exchange rate policy poses a risk of a new depreciation of the peso. US financial support has been misinterpreted as a bailout, as the government's solvency is not in question. However, due to limited foreign exchange reserves, support from the US Treasury, which is currently acting as guarantor, is necessary in order to reassure investors about the Argentine government's short-term ability to service its dollar-denominated debt.

MIDTERM ELECTIONS: A VICTORY AGAINST ALL ODDS

President Milei's party (La Libertad Avanza) was the big winner in the 26 October midterm elections, with 41% of the vote compared to 33% for the Peronist opposition (Fuerza Patria). This result came as a surprise. In fact, in the provincial elections in the Buenos Aires region on 7 September, the rival party had enjoyed a lead, with LLA obtaining only 34% of the votes compared to 47% for the Peronists. What's more, even in this province, a Peronist stronghold representing 35% of the population, President Milei's party won by a narrow margin (41.5% of the vote compared to 40.8% for Fuerza Patria).

LLA remains very much in the minority, with 80 seats out of 257 in the lower house and 12 seats out of 72 in the upper house. However, with its allied parties, President Milei now holds 43% of the seats in the Chamber of Deputies, which should reverse the balance of power that he had lost since the summer, when Parliament rejected his vetoes on certain increases in the 2026 budget.

What was behind this turnaround given that the economic and social situation has deteriorated significantly since the spring? Can the easing of tensions on the peso and the risk premium, which the country's precarious financial situation had reignited in recent months, enable the economy to avoid falling back into recession? Will US financial support be enough to avert any risk of default on foreign debt?

REASONS FOR THE ELECTORAL TURNAROUND

There are three potential reasons behind the electoral turnaround.

The first reason is the low turnout (67%), the lowest since 1983, despite voting being compulsory in Argentina. This reflects the weariness of voters in general, but probably more so among supporters of the Peronist opposition than among LLA voters. In addition, LLA benefited from the support of former President Mauricio Macri and Patricia Bullrich, former Minister of the Interior in Macri's government, both leading figures in the Propuesta Republicana (PRO), LLA's main ally in Parliament.

The second reason is that the Milei government successfully tackling inflation, with monthly consumer price increases falling to an average of 2.5% since mid-2024, compared to 7% in the two years prior to Milei coming into power at the end of 2023[1]. In addition, the year-on-year inflation rate fell to 32% last September, down from the triple-digit figure at the end of 2024.

Finally, Donald Trump's statement on the eve of the election, making US financial support conditional on Javier Milei's victory, may have convinced Argentinians to vote for LLA. Indeed, downward pressure on the peso and statements about a bailout may have fuelled fears of a sovereign default or even a financial crisis if the US did not come to its rescue.

LOWER GROWTH PROSPECTS FOR 2026

In the aftermath of the elections, the peso appreciated sharply, returning to the fluctuation corridor in which it has been trading since April. The 5-year CDS premium, a proxy for the risk premium on dollar-denominated government bonds, fell to 820 bp from 1200 bp before the elections. The easing of financial tensions may spare the Argentine economy from a prolonged recession[2]. However, GDP growth in 2026 is likely to be much weaker than official forecasts (in its autumn forecasts, the IMF predicted growth of 4.5%).

Firstly, even if the election results strengthen the government's legitimacy, households are paying a heavy price for the restrictive fiscal policy that is now weighing on private consumption. In addition, inflation has eased, but there have been massive job losses. Furthermore, the government has cut its payroll and current transfers to the private sector[3]. However, the agreement with the IMF requires a balanced central government budget in 2026, which means a primary surplus of at least 2% of GDP.

Secondly, the exchange rate regime with fluctuation margins poses a risk of peso devaluation. The current account balance, which was in surplus throughout 2024, returned to deficit in the first half of 2025, with a sharp scissor effect between the acceleration in import volumes, accentuated by the lifting of import restrictions, and much more moderate export growth. The services balance deficit also worsened.

These developments suggest that the real exchange rate may once again be overvalued. Indeed, the 54% devaluation of the peso against the USD in December 2023 has been wiped out by cumulative inflation. Given the modest direct investment that the country receives, the "sustainable" current account deficit is around 2% of GDP, which a priori requires a nominal exchange rate close to the lower end of the corridor[4].

However, if the Central Bank of Argentina is forced to intervene too regularly in order to prevent the exchange rate from depreciating beyond its lower bound, because the current account deficit is not offset by a sufficient financial account surplus, the exchange rate regime will not be deemed credible and this will encourage markets to test the bound. There would be pressure for a readjustment of the corridor, i.e., a devaluation and, therefore, a short-term recessionary impact with a contraction in domestic demand.

EXTERNAL FINANCIAL SUPPORT STILL NEEDED

In September, the US Treasury announced a USD 20 billion swap line, guaranteed by the Exchange Stabilization Fund[5]. This US financial support has been misinterpreted as a bailout. This is because a bailout, which provides support in the event of imminent default, is generally associated with debt restructuring. Argentina is not currently in this situation, as the country is simply facing a lack of dollar liquidity.

Argentina's foreign exchange reserves (USD 41 billion) are insufficient to service its external debt, especially when considering the Central Bank of Argentina's "usable" reserves, i.e., excluding the Central Bank of China's renminbi swap line (equivalent to USD 23 billion) and commercial banks' mandatory foreign currency reserves with the Central Bank of Argentina (USD 12 billion). By the end of the year, the federal government and Central Bank of Argentina's US dollar debt maturities will reach USD 3 billion (assuming that the IMF disburses another USD 2 billion at the end of its second review). In 2026, the debt service of the public administrations (federal government, Central Bank of Argentina and provinces) is estimated to stand at around USD 22 billion. There are also an additional ten billion dollars in external financial debt maturities of non-bank private sector companies on top of this.

Therefore, US financial support appears necessary in order to reassure investors about the government's short-term ability to service its dollar-denominated debt. The government's solvency, i.e., its ability to control its debt, will depend on its ability to maintain a primary surplus, as the gap between the refinancing rate on existing debt and the growth rate is expected to widen. However, the solvency of the Argentine government also indirectly depends on the ability of companies to take advantage of the decline in political uncertainty to invest and therefore support growth.

François Faure

1 In the first half of 2024, inflation figures have been impacted by the devaluation of December 2023.

2 Activity indicators point to a decline in GDP in the third quarter after a decline in Q2 2025 (-0.1% compared to Q1).

3 Primary expenditure (i.e., excluding interest charges) fell from 25% of GDP in 2023 to 18% on a 12-month cumulative basis in September 2025.

4 Based on the observed relationship between the real exchange rate and the current account balance.

5 This swap line could be supplemented by a USD 20 billion loan from major US banks if the collateral provided by the Argentine government is accepted or if the US Treasury acts as guarantor.