Box 2

THE MACROECONOMIC STABILISATION PLAN IN ARGENTINA

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Political consolidation and improvement in financial conditions

The Argentine Government's victory in the mid-term elections on 26 October 2025 reinforced political support for the macroeconomic stabilisation plan and enhanced its credibility. Financial markets were quick to reflect this change in outlook, rallying after a period of high volatility and strong depreciation pressures that had been partially subdued by support from the US Government (Chart 1). The sovereign spread held below 600 basis points (bp) between December 2025 and March 2026, when it rose above that level as a result of the Iran war. Up to that point, the more favourable setting had driven an improvement in financial conditions and an increase in US dollar-denominated sovereign and corporate debt issuance.

However, the external debt maturity profile remains challenging in the short term, with significant obligations falling due in 2026 and 2027 ($13 billion and $20 billion, respectively). This underscores the importance of the Government continuing to accumulate foreign exchange reserves and bolster investor sentiment as a necessary condition to regain steady access to world markets.

Adjustments to the exchange rate regime and accumulation of reserves

Against the backdrop of greater political and social stability,[1] in January 2026 the Government widened the exchange rate band and introduced a mechanism to update monthly its ceiling and floor (which will be adjusted based on actual inflation with a two-month lag) in order to ease exchange rate pressures. The changes aim to mitigate real appreciation of the peso, which had intensified since the mid-term elections as a result of the acceleration in inflation (Chart 3).

In conjunction, the Central Bank of Argentina (BCRA, by its Spanish initials) authorised foreign exchange purchases within the band. This enabled the launch of a programme to build up foreign exchange reserves geared to achieving the goals agreed with the International Monetary Fund (IMF). Depending on money demand, foreign exchange purchases of up to $10 billion are expected under this programme in 2026. In the opening months of the year the BCRA purchased more than $2.4 billion (Chart 2).

The fiscal balance anchor

Fiscal balance remains the stabilisation programme's central plank. In 2025 the Government recorded a primary surplus of close to 1.4% of GDP, down slightly on 2024 (1.8%), but still high. This was possible thanks to government spending discipline and deep cuts in subsidies, which offset the real contraction in government receipts associated with lower tax revenue.

There will likely be less scope for further spending cuts in 2026. Accordingly, fiscal consolidation will depend more on the recovery in tax revenue linked to the rise in economic activity. Against this background, the Government's tax reform[2] aims to streamline the tax system, reduce the number of taxes and improve efficiency in order to widen the tax base and boost tax revenue.

Recent economic performance

After GDP contracted in 2024, the Argentine economy grew by 4.4% in 2025, despite the deceleration in 2025 H2. Growth was mainly driven by the carry-over effect of the recovery recorded in 2024 H2, equal to 2.9 percentage points (pp), and the improvement in private consumption and investment in the first quarter of 2025. However, since then activity has waned, with moderate quarter-on-quarter GDP growth recorded three quarters running. This was largely attributable to the contraction in investment; 2025 Q4 was the third quarter in a row in which it had declined due to the lack of recovery in public works and the absence of larger-scale private projects.

On the supply side, the most buoyant sectors were agriculture, financial intermediation and energy and mining, while manufacturing and construction contracted. Against this background, the leading indicators of activity confirm the economic deceleration in early 2026. In particular, the decline in the monthly estimator of economic activity (EMAE, by its Spanish initials) in January is associated with lower private consumption, affected by real wages that have not yet managed a steady recovery and by insufficient access to credit (Chart 4).

1 The exchange rate operates as the nominal anchor of the stabilisation plan. The priority given to disinflation led the Government to be wary of liberalising the foreign exchange system despite it being one of the International Monetary Fund's main recommendations.

2 2026 reform proposal. Some tax measures are already enshrined in the Labour Modernisation Law.

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Inflation, monetary policy and the nominal anchor

Inflation continued to accelerate in early 2026. In March the monthly inflation rate reached 3.4%, rising year-on-year by 32.6%. This was mainly driven by the surge in regulated prices,[3] food – particularly meat – inflation and higher fuel prices associated with the Iran war (Charts 5 and 6). Some upside risks to inflation also persist: inflation expectations remain unanchored and have continued to rise for 2026 (18.7% in October 2025 to 29.1% in March 2026), amid high inflationary inertia. These dynamics could be compounded by the introduction of the new exchange rate band framework.

There are significant limitations to using the exchange rate as the nominal anchor. Real appreciation of the peso helps to subdue imported inflation, but at the expense of a loss of external competitiveness that weighs on economic activity. Widening the exchange rate bands eases automatic real appreciation, but the lagged indexation of the exchange rate to inflation weakens the nominal anchor that characterised the previous framework.

Chart 1
Sovereign spread and stock market

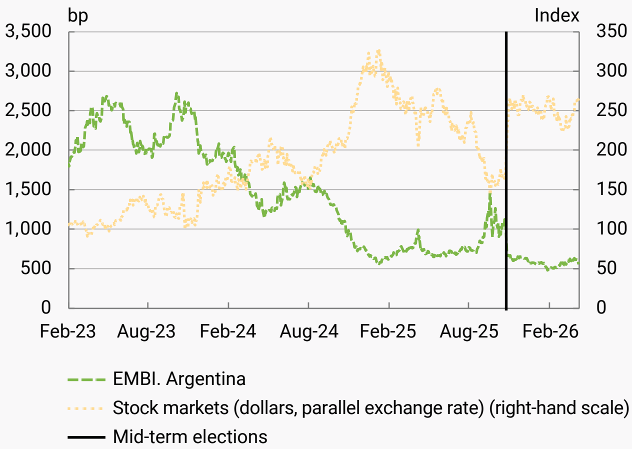


Chart 2
Foreign exchange reserves

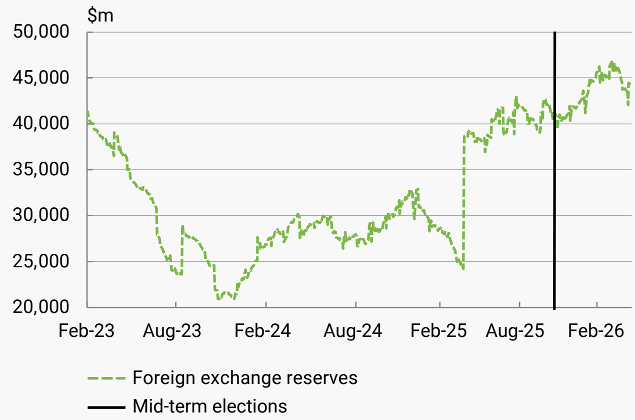
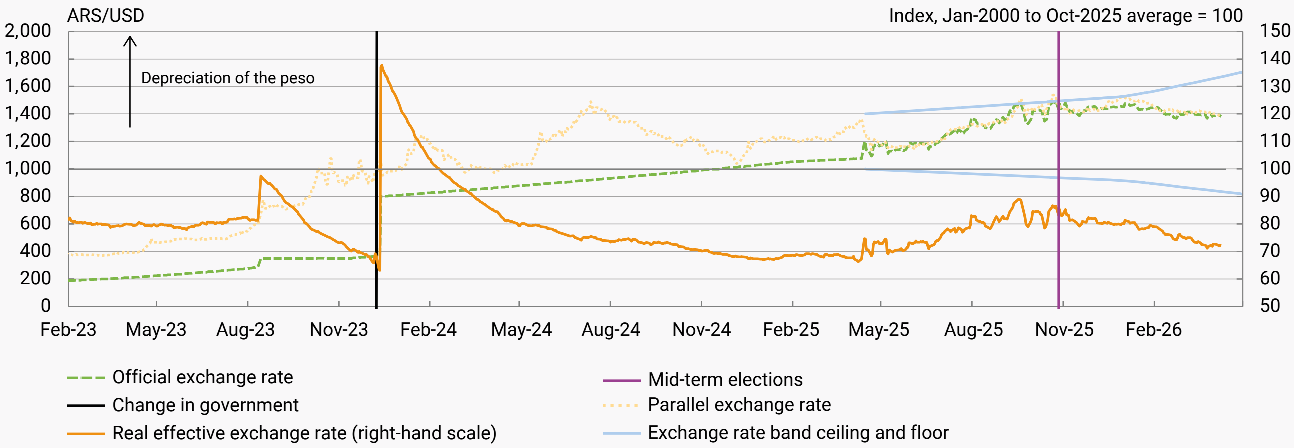


Chart 3
Exchange rates



SOURCES: LSEG Datastream and BCRA.

3 Banco de España. (2024). "Box 1. Recent economic policy measures in Argentina". *Report on the Latin American economy. Second half of 2023.*

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In the monetary area, interest rates have reached very high levels and are highly volatile, and there is a wide spread between peso and dollar interest rates. This has contractionary effects on credit, consumption and investment. In addition, the monetary policy framework based on controlling monetary aggregates limits the role of interest rates as a clear signal of the monetary policy stance, amid elevated dollarisation and particularly volatile money demand. While the BCRA has opted to keep this framework in place to reduce the aforementioned volatility, strict control over the supply of money is slowing the remonetisation of the economy: the monetary base is not expanding despite foreign exchange reserve purchases, as the BCRA and Argentine Treasury are sterilising issuance.

External sector and current account

Despite real exchange rate appreciation, Argentina ran a goods trade surplus once again in 2025, underpinned by a bumper harvest and the sound performance of the energy

Chart 4
Economic activity

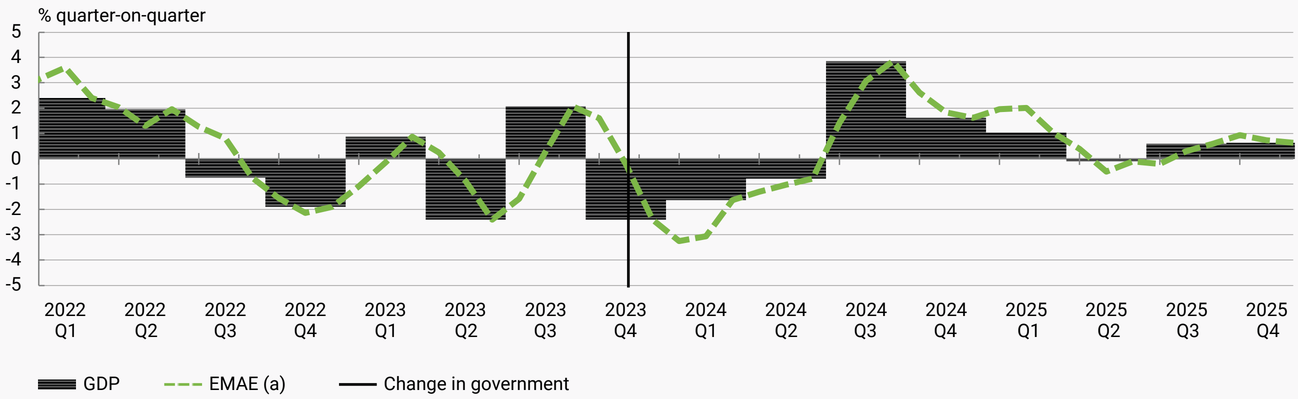


Chart 5
Inflation

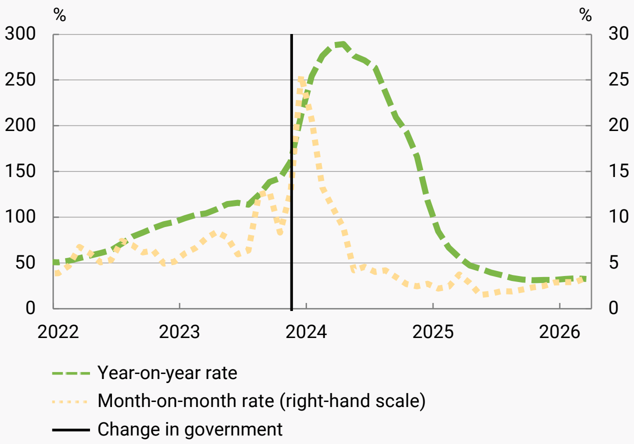
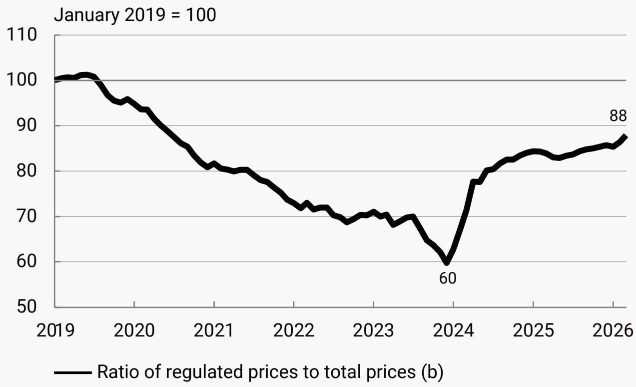


Chart 6
Relative prices of regulated goods



SOURCES: LSEG Datastream, INDEC and BCRA.

a The EMAE is an economic activity index published by Argentina's National Institute of Statistics and Censuses (INDEC), and its quarter-on-quarter rate of growth is considered a sound leading indicator of Argentina's GDP.
b Latest data: March 2026.

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sector (Vaca Muerta oil exports rose,[4] lithium production consolidated and there was less need for liquefied natural gas imports). The recent rise in oil prices associated with the war in the Middle East could push this surplus higher.

By contrast, the services balance continued to deteriorate (due to the increase in trips abroad by Argentines). Combined with the income deficit, this led to a current account deficit in 2025 (Chart 7) that was financed by strong capital inflows (mainly a disbursement by the IMF), which enabled the BCRA to build up substantial reserves despite weak foreign direct investment and portfolio investment.

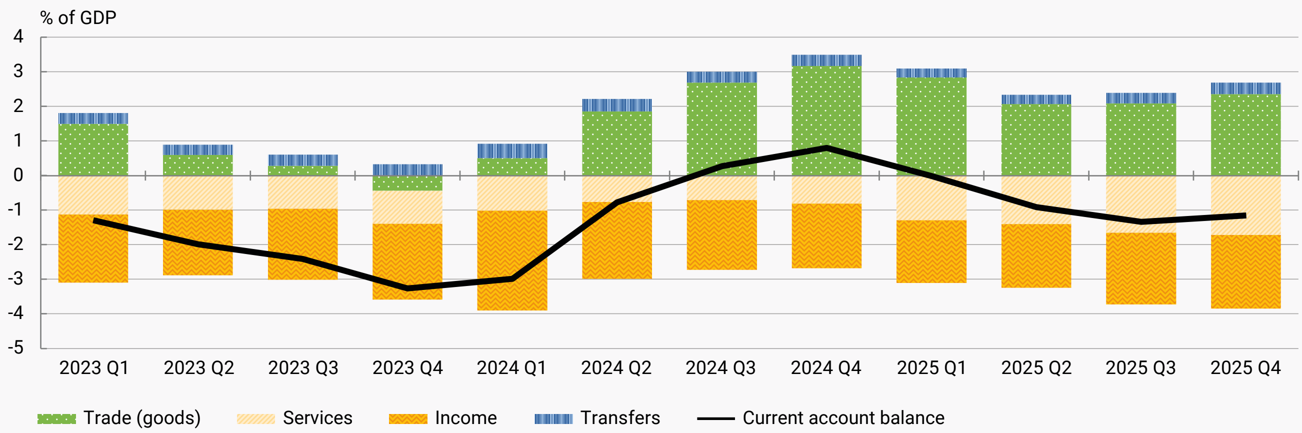
Structural reforms and long-term growth: evidence based on GTAP simulations

Argentina's weak economic performance in recent years, together with low trade openness and the economy's limited integration with global value chains, highlights the need to press forward with structural reforms that drive formal employment,[5] productivity and potential growth. Argentina remains a relatively closed economy, with trade openness[6] below 30% of GDP and little integration with global value chains. This limits its ability to benefit from economies of scale, technology transfer and greater external competition.

Since the beginning of its term of office, the Government has implemented a raft of economic deregulation measures in different areas,[7] which are already yielding some positive results in certain sectors, such as energy and agriculture. These initiatives are in addition to the labour market reform adopted last February, which represents a significant step towards reducing non-wage labour costs and easing the collective bargaining system that introduced significant rigidities and barriers to employment.[8] In particular, the new law makes termination costs more flexible and allows for collective bargaining at firm level.[9]

The Government has also pressed ahead with its trade liberalisation strategy by slashing tariffs on a broad set of products, particularly in the textiles and leather sector and certain electronic goods, such as mobile phones and electrical household appliances. These measures seek to facilitate access to imported capital goods and

Chart 7
Current account balance. Components



SOURCE: LSEG Datastream.

4 The Vaca Muerta Formation is a geologic formation that hosts oil and gas deposits located in the Neuquén Basin in the provinces of Neuquén, Río Negro, La Pampa and Mendoza. It is the world's second largest unconventional natural gas reservoir and the fourth largest unconventional oil reservoir.

5 In 2025 Q4 the informal employment rate was 43%.

6 The sum of imports and exports as a percentage of GDP.

7 See Table 3 in Banco de España. (2025). *Report on the Latin American economy. Second half of 2025.*

8 In April the Argentine judiciary suspended the application of 82 of the Labour Modernisation Law's 218 articles.

9 https://oecdecoscope.blog/2026/02/20/why-argentina-needs-a-labour-market-reform/.

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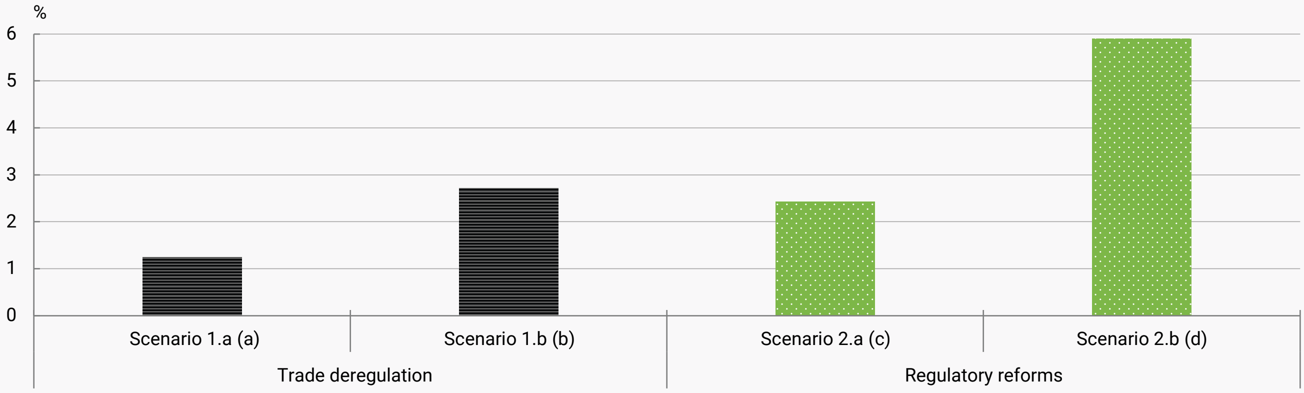
intermediate inputs, lower production costs and make the economy more competitive.

Simulations were performed using the Global Trade Analysis Project (GTAP) model[10] to quantify the macroeconomic impact of these reforms. This model enables consistent analysis of the effects of trade and regulatory policy change on trade, sectoral output and aggregate GDP.

The analysis uses a baseline scenario that reflects economic performance in the absence of the recent trade and regulatory reforms. Two main simulations are conducted. The first analyses two scenarios: 1.a, involving a 50% reduction in tariffs on a series of technological goods[11] which the Government has already started to cut outside the scope of the agreement with Mercosur, and 1.b, where such tariffs are eliminated entirely. In both cases, the results show a sizeable increase in external trade, with greater geographical diversification of imports and a relative reduction in those from Brazil in favour of other trading partners. From a macroeconomic perspective,[12] compared with the baseline these reforms result in an increase in GDP of around 1.3% under scenario 1.a and of up to 2.7% under scenario 1.b (Chart 8). Assuming that the new steady state is achieved over a five-year horizon, the estimated effects of the two scenarios on the level of GDP would be consistent with average increases in year-on-year growth of approximately 0.3 pp and 0.5 pp, respectively, throughout the reform process.

The second simulation assesses the impact of a positive productivity shock of 1.9% associated with the regulatory reforms already implemented,[13] calibrated on the basis of the elasticities estimated by the Organisation for Economic Co-operation and Development (OECD) that link improvements in Product Market Regulation (PMR) indicators to permanent productivity gains.[14] Under this scenario (scenario 2.a), which does not incorporate further reforms, GDP rises by around

Chart 8
Deviation of GDP from baseline scenario



SOURCES: GTAP and OECD.

a 50% reduction in tariffs on capital goods and information and telecommunication goods.
b Elimination of tariffs on capital goods and information and telecommunication goods.
c 1.9% increase in labour productivity across all sectors.
d 4.6% increase in labour productivity across all sectors.

10 The GTAP model is a computable general equilibrium model used to analyse the effect of economic policies on international trade. It is a multi-region and multi-sector model that contains information for 141 countries and 76 economic sectors, and has substitution elasticities that tend to be higher for final goods, since these are more differentiated and are less replaceable than intermediate goods or commodities. In addition, cross-border flows of intermediate goods in the manufacturing stage of the value chain are included in the GTAP model in line with the customs policy between the two countries. See Banco de España. (2025). *Report on the Latin American economy. Second half of 2024*.

11 Transportation equipment, machinery, motor vehicles, electrical equipment and electronics.

12 Lower tariffs drive GDP primarily by making imported goods less expensive and consequently by raising real income. This encourages a reallocation of resources to more efficient sectors.

13 Consistent productivity gains across all sectors.

14 Using as reference the OECD's simulations for 2050.

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2.4%[15] compared with the baseline (Chart 8).[16] Over a longer horizon (scenario 2.b), Argentina's regulatory framework gradually converging with OECD standards could result in a higher increase in productivity and GDP (4.6% and 5.9%, respectively). Assuming gradual convergence to 2050, the estimated effects of these two scenarios on the level of GDP would result in average increases in year-on-year growth of approximately 0.1 pp and 0.2 pp, respectively, during the reform process.

Overall, these simulations highlight that the structural reforms under way have the potential to yield sizeable macroeconomic gains in the medium and long term. However, whether these effects materialise will depend on the continuity and credibility of the reform process, its consistency with the general macroeconomic framework and the economy's ability to absorb the structural reforms in a setting that remains marked by high nominal imbalances.

15 Scenario applied to data from the GTAP-E 11 model. The effects are particularly significant on manufacturing and services output.
16 For 2035 Argentina's PMR indicator converges with the first quartile of the distribution of OECD countries' PMR values for 2025.