ARGENTINA

OUTLOOK 2026

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Table of contents

Executive summary

Argentina approaches a defining moment in 2026, as the early gains from President Javier Milei's radical stabilisation programme meet the far harder challenges of sustaining them. His first two years have delivered a degree of fiscal discipline and inflation control unprecedented in recent Argentine history, yet the path to sustainable growth remains fraught with external financing pressures, structural rigidities and implementation challenges.

The macroeconomic transformation has been striking. Annual inflation fell to 31.3% in October 2025, down from 211% when Milei took office in December 2023, marking the lowest reading since July 2018. By December 2025, analysts project inflation will have moderated to around 30% for the full year, with further deceleration to 10-20% expected through 2026 as the government maintains its fiscal anchor and the Central Bank pursues aggregate monetary targeting. The fiscal turnaround has been equally dramatic: Argentina achieved a primary surplus of 1.4% of GDP through October 2025, exceeding the IMF's 1.6% annual target, after decades of chronic deficits that culminated in pre-election fiscal giveaways in 2023.

The real economy has responded with surprising resilience. GDP expanded 5.8% year-on-year in the first quarter of 2025, driven by investment growth of 31.8%, private consumption gains of 11.6% and export growth of 7.2%. Monthly activity indicators continued rising through mid-2025, with industrial production up 8.5% year-on-year in April and construction surging 25.9%. However, momentum stalled in the second and third quarters as financial volatility and electoral uncertainty weighed on business confidence, with GDP contracting 0.1% in the second quarter. Competing forecasts for 2026 reflect this loss of momentum, ranging from the IMF and OECD's conservative 3-4% growth estimates to Minister Luis Caputo's optimistic 5-10% projection contingent on reform passage.

The October 2025 midterm elections delivered Milei a decisive mandate, with his La Libertad Avanza (LLA) right-wing coalition securing 40.84% of the vote against the left-populist Peronists' 31.64%. This political capital provides Milei with renewed leverage to advance his structural reform agenda in 2026, though the LLA and its allies remain short of majorities in both chambers, requiring coalition-building to pass labour market reforms, tax simplification and the privatisation of state-owned enterprises.

External financing remains the Achilles' heel of Argentina's stabilisation. The country faces over $10bn in external debt obligations in the first half of 2026, including more than $4bn in bond maturities in January alone, against a total debt portfolio of $300bn and outstanding IMF exposure of $55bn. In an important vote of confidence for Milei's reform programme, successful negotiations with the Fund in April 2025 greenlit a new $20bn loan package for Argentina. The government also successfully refinanced 96.48% of domestic debt maturing in November, a sharp improvement from October's concerning 60% rollover rate, but the critical test lies ahead with international obligations. Argentina announced on December 5 its return to international debt markets with the issuance of a four-year, dollar-denominated BONAR 2029N bond carrying a 6.5% coupon, marking the country's first market access since January 2018.

Minister Caputo said the proceeds, which will partially cover the January 9, 2026 payment, represent refinancing rather than new debt, allowing the Central Bank to retain dollars as reserves rather than depleting them for amortisations. The Trump administration's unprecedented $40bn support package—comprising a $20bn private facility to invest in Argentine sovereign debt and a $20bn Treasury-funded currency swap—provides crucial additional breathing room, though details remain pending and the arrangement is explicitly conditional on policy reforms rather than electoral cycles.

Trade surplus narrowed to $5.1bn January-August as imports surged 32.1% whilst exports grew 6.2%. Hydrocarbons delivered a $4.6bn surplus with annual energy projection of $7bn. Current account swung to -2.0% of GDP in 2025, widening to -2.5% in 2026.
Energy and mining show transformative potential: oil production hit record 859,500 bpd, with 20 RIGI (incentive regime for large investments) projects worth $33.6bn submitted and energy potentially generating $19bn annually by 2030.

Capital-intensive export sectors thrive whilst labour-intensive manufacturing collapsed: 17,063 factory closures, 236,845 jobs lost since Milei took office. Formal employment contracted 276,624 jobs (432 daily) between November 2023 and August 2025, concentrated in public administration, construction, transport and manufacturing.

Consumer sectors show recovery: e-shopping giant MercadoLibre invested $2.6bn in 2025, Decathlon entered with a $100mn five-year plan, whilst foreign currency pricing alongside pesos reduced distortions.
Private credit rose by triple figures as Central Bank rates fell 102 percentage points before July's shift to aggregate targeting triggered volatility. TAMAR rates are expected to stabilise around 35% by year-end 2025 and 19.3% by end-2026.
The exchange rate regime remains the most significant policy uncertainty. The exchange rate regime remains unresolved. Following December 2023's devaluation, the government moved from crawling peg to trading bands. By November 2025, the peso traded near the band ceiling at 1,470 per dollar, requiring a US Treasury intervention to prevent a crisis. Settling on a durable regime—widening the band or moving to float—is critical for reserve accumulation.

Poverty fell from 53% to 38.1% between early and late 2024, with extreme poverty declining from 18.1% to 8.2%. Unemployment reached 7.9%, whilst the activity rate of 48.2% suggests reduced labour participation.
The outlook for 2026 is cautiously optimistic but hinges on navigating three critical tests. First, successfully refinancing the $10bn-plus external obligations in the first half without depleting reserves or triggering a currency crisis, leveraging the December bond issuance that reopened international markets, the US support package and potential private bank loans of $6-7bn currently under negotiation.

The BONAR 2029N bond at 6.5%, whilst carrying a premium, represents a crucial restoration of market confidence and establishes a template for future refinancings under local law. Second, maintaining fiscal discipline despite spending pressures from provinces and social demands in education, security and health, whilst advancing structural reforms to labour, pension and tax codes that require congressional coalitions beyond the LLA's core support.

Third, managing the transition to a more sustainable exchange rate regime that allows reserve accumulation and avoids the boom-bust cycles that have characterised Argentina's infamous monetary history.
If these tests are met, Argentina could achieve 3-4% growth in 2026, inflation in the 10-20% range, and lay the foundations for the sustained market-led recovery that has eluded the country for over a decade.

Argentina's trade is dominated by four major partners, though the country runs substantial deficits with its top import sources. Brazil accounts for 14.9% of exports and 24.3% of imports in the first four months of 2025, generating a $2.1bn deficit, reflecting deep supply chain integration particularly in automobiles and auto parts within the Mercosur framework. China, Argentina's second-largest import source, supplies 23.9% of imports whilst purchasing primarily agricultural commodities, resulting in a $4.4bn deficit as manufactured imports substantially exceed soybean and beef exports.

The European Union collectively represents 8.5% of exports and 14.3% of imports, with Germany alone contributing to an $809mn bilateral deficit, whilst serving as a key destination for agricultural products and wine. The United States accounts for 8.7% of exports and 8.6% of imports, maintaining relatively balanced trade, though Trump's November tariff relief deal for Argentina—alongside Ecuador, Guatemala and El Salvador—creates preferential access that has strained Mercosur relations as Brazil, denied similar treatment, views Argentine advantages as potentially undermining the customs union's integrity.

1.0 Politics

1.1 Midterm triumph reshapes congressional arithmetic

The October 26, 2025 midterm elections delivered Milei a strong mandate that few analysts had predicted, fundamentally shifting Argentina's political landscape and providing the libertarian administration with renewed momentum to advance structural reforms. La Libertad Avanza captured 40.84% of the vote nationwide, decisively outperforming the Peronist coalition's 31.64% and expanding the party's congressional presence from 37 to 64 seats in the 257-member Chamber of Deputies. In the Senate, LLA secured 16 of the 24 seats being contested, significantly strengthening the government's position in the upper chamber. Voter turnout of 68%, however, was the lowest since 1983.

The most striking result came from Buenos Aires province, home to 37% of Argentina's population and traditionally a Peronist stronghold, which only a month before dealt a blow to Milei's party during provincial elections. In contrast, at the midterm election LLA secured 41.5% of the vote against 40.8% for the Peronist coalition, defying pre-election polls that had suggested a tighter race or even a Peronist advantage. The victory in Buenos Aires was particularly significant given that Milei had warned explicitly of electoral consequences: in an October meeting at the White House, President Trump reportedly told Milei, "If you lose, we are not going to be generous with Argentina," a conditional endorsement that underscored the high stakes of the midterms.

Trump subsequently congratulated Milei on his "Landslide Victory" via social media, cementing the ideological bond between the two leaders.
The electoral triumph reflected measurable improvements in public sentiment. Confidence in the government surged 17.5 percentage points following the victory, according to a November poll, with positive views on governability jumping 30.6 percentage points. These gains came despite the harsh economic adjustment of Milei's first two years, which saw formal employment contracts by 276,624 registered jobs and 17,063 factories closed.

The electorate appeared to reward fiscal discipline and inflation control over immediate material welfare, a striking departure from Argentina's political history. Minister of the Economy Luis Caputo framed the October primary fiscal surplus of 1.4% of GDP as "reaffirming the absolute commitment to the fiscal anchor" during "the month of the national midterm elections," directly linking fiscal credibility to electoral success.
However, the LLA's expanded congressional presence, whilst substantial, still falls short of the majorities needed to pass legislation without coalition-building.

In the Chamber of Deputies, LLA and its closest allies hold approximately 90 seats, well below the 129 required for a simple majority and far from the 172 needed for constitutional reforms. In the Senate, the balance remains even more challenging. This arithmetic means that Milei's ambitious second-phase reform agenda—including labour market flexibilisation, tax simplification, pension restructuring and privatisation of state enterprises such as Aerolíneas Argentinas—will require negotiations with centrist and provincial parties. The president's capacity to forge these coalitions, having expanded his potential governing coalition from roughly 37% of deputies to nearly 50%, will determine whether 2026 becomes a year of transformative structural change or incremental adjustment.

1.2 Reform agenda: labour, taxes and pensions

Milei's post-election reform priorities centre on three interconnected structural challenges that have hindered Argentine competitiveness for decades: inflexible labour regulations, a complex and distortionary tax system, and unfunded pension liabilities. In late November, following his strong midterm performance, Milei met with Argentine provincial governors, many of whom belonging to the opposition, to seek consensus on the reform agenda. This outreach to provincial leaders represents a tactical shift for a president who had previously relied heavily on executive decrees and a narrow congressional coalition, acknowledging that major structural reforms require broader political support.

The labour market reform aims to reduce the rigidities that have driven businesses to operate informally or relocate to neighbouring countries. Whirlpool's November decision to close its $50mn Pilar factory, citing production costs 25-30% above Brazil, exemplified the competitiveness crisis. The company specifically noted that Argentina's labour regulations, combined with high taxation, made manufacturing unviable even for a facility serving the domestic market. The reform package, informally referred to as "Bases Law II" by analysts, would include provisions to facilitate temporary contracts, reduce severance obligations and limit union powers over workplace organisation.

Itaú Unibanco noted that the package "builds on the bill approved in 2024" which had relaxed tenancy laws and tweaked employment rules "in favour of employers to make the labour market less rigid."
Tax reform focuses on simplifying Argentina's labyrinthine system of federal, provincial and municipal levies, which creates significant compliance costs and distortions. The government eliminated the PAIS tax (a levy on foreign currency transactions) in 2024 and temporarily reduced agricultural export duties to zero in September 2025 (reinstated after the target of $7bn in settlements was met within three days), demonstrating willingness to cut distortionary taxes when fiscal space permits.

The reform agenda includes consolidating provincial sales taxes into a harmonised consumption tax, reducing the tax burden on formal employment and providing certainty for the RIGI projects that require stable fiscal treatment over 30 years.
Pension reform represents perhaps the most politically sensitive element of the agenda. Several provinces have subnational pension schemes that were never transferred to the federal government and have remained unfunded since 2018, creating significant contingent liabilities. Fitch Ratings highlighted this as a key concern in its "deteriorating" outlook for Argentine local and regional governments, noting uncertainty around "structural reforms—particularly subnational pension schemes not transferred to the federal government and unfunded since 2018."

The federal system itself faces sustainability challenges, with retirements and pensions expenditure up 8.1% year-on-year in real terms through October 2025 despite the government's broader spending restraint. Reform options include raising retirement ages, adjusting benefit calculations and potentially requiring provinces to assume greater responsibility for their pension obligations, all of which face strong union and social opposition.

The government's capacity to advance these reforms depends crucially on maintaining fiscal credibility and avoiding economic shocks that could erode political capital. Professor Diego Crochi of Argentina's Universidad Católica, in a June interview with bne IntelliNews, noted that the key difference between Milei's IMF programme and previous iterations was that "adjustments came BEFORE the IMF" rather than being imposed afterward, giving the government political ownership of its fiscal policy. He characterised the fiscal turnaround—"5 percentage points of GDP in two months without major social disturbance”—as unprecedented. This sequencing, combined with the October electoral mandate, provides Milei with the strongest position of any Argentine president in two decades to attempt structural reforms, though success remains far from assured given congressional fragmentation and entrenched interests.

1.3 US-Argentina strategic partnership under Trump

The bromance between Trump and Milei has morphed into an unusually close strategic partnership by the standards of US-Latin American diplomacy, with tangible implications for Argentine economic policy and regional geopolitics. The October White House meeting, where Trump hosted Milei at Blair House, conditioned US support on Milei’s electoral performance, signalling a departure from traditional arm’s-length diplomatic protocols. Following Milei’s midterm victory, US Treasury Secretary Scott Bessent announced an unprecedented $40bn support package comprising a $20bn facility to invest in Argentine sovereign debt and a $20bn currency swap, with Bessent characterising the arrangement as “policy-specific” rather than “election-specific”—code for conditioning support on maintaining fiscal discipline and market-oriented reforms.

The US financial backing proved crucial during the September-October foreign exchange crisis, when the peso tested the upper limit of the Central Bank’s trading band near 1,470 per dollar. Bessent confirmed in October that the US Treasury had purchased Argentine pesos on the open market, the first such direct intervention in an emerging market currency since the 1990s Mexican peso crisis, according to currency traders. Central Bank President Santiago Bausili stated the $20bn swap would be operational within two weeks, and Argentina subsequently tapped “a small amount” of the facility, according to Bessent.

This intervention, combined with over $1bn in Central Bank currency purchases, succeeded in stabilising the peso and preventing a potentially destabilising devaluation ahead of the midterm elections.
The strategic partnership extends beyond financial support to encompass regional security and diplomatic alignment. In a December ceremony marking the 90th anniversary of DAIA (Delegación de Asociaciones Israelitas Argentinas), Israeli Foreign Minister Gideon Saar attended alongside Argentine officials, with Saar explicitly stating that “Argentina is to be the primary broker for Israeli interests in Latin America.”

This recognition of Argentina’s role as Israel’s regional representative reflects Milei’s pivot away from the neutrality or anti-Israel postures of previous Argentine administrations, aligning closely with Trump’s flagship Middle East policies. The move carries domestic political benefits—Argentina has the largest Jewish community in Latin America—but risks alienating Arab states that have been significant agricultural export markets.
However, Trump’s tariff exemptions generate tensions within the Mercosur trading bloc as Brazil, denied exemption on political grounds, views Argentine advantages as undermining the customs union’s integrity. The partnership’s fragility lies in dependence on the Trump administration's support that could shift unpredictably.

1.4 Cristina Kirchner: political exile or resurgence?

Former President Cristina Fernández de Kirchner’s political future took a decisive turn on June 11, 2025 when Argentina’s Supreme Court upheld her conviction for fraud involving 51 road construction contracts awarded during her presidency. The court sentenced Kirchner to six years in prison and imposed a lifetime ban from holding public office, with the ruling particularly focused on contracts funnelled through businessman Lázaro Báez in Santa Cruz province. The conviction crystallises a dramatic fall for a leader who served two presidential terms (2007-2015) and subsequently as vice-president

(2019-2023), whilst her husband Néstor Kirchner's presidency (2003-2007) preceded her own, giving the Kirchner family influence over Argentine politics for two decades under the Peronist banner.

The legal ruling effectively removes Kirchner as a candidate for the 2027 presidential election, though it does not immediately require imprisonment pending appeals to international tribunals. The Peronist movement, which she has dominated since her husband's death in 2010, now faces a succession dilemma. The October 2025 midterm results, where the Peronist coalition secured only 31.64% of the vote and lost its traditional Buenos Aires province stronghold, suggest that Kirchnerism as a political brand may be in terminal decline. Professor Diego Crochi characterised the midterms as "the first real test" of whether "Kirchnerism is dead," with the results strongly suggesting an electoral realignment.

Kirchner retains influence through unions and congressional opposition, regularly publishing policy analyses and maintaining relationships with transport and public sector organisations opposing privatisation.
The Peronist void has created opportunities for alternative opposition figures. Several provincial governors, particularly those from provinces that did not align strongly with either Milei or Kirchner, are positioning themselves as potential 2027 candidates representing a pragmatic centre-left alternative.

The fragmentation of the Peronist vote in October—with multiple candidates splitting the anti-Milei vote—suggests that 2026 will be a year of internal Peronist manoeuvring to determine who, if anyone, can rebuild the movement's electoral coalition.
For Milei, a weakened and divided opposition provides political space to advance controversial reforms, though it also creates risks of extra-parliamentary opposition through strikes, protests and social unrest led by Kirchner loyalists in organised labour unions.

1.5 Regional isolation and the G20 rejection

Argentina's foreign policy under Milei has embraced a deliberate distancing from multilateral consensus that has isolated the country within Latin America and broader emerging market groupings. After Milei took office in December 2023, Argentina refused to join BRICS, a burgeoning trading bloc it was invited to enter under the previous Peronist administration. Another dramatic instance occurred at the November G20 summit in South Africa, where Argentina was the sole attending member nation to reject the final declaration.

The pattern of regional divergence extends to economic integration. In his September address to the United Nations, Milei criticised "supranational governance" and outlined four reform principles that implicitly challenged the UN system itself. Domestically, this posture plays well with Milei's libertarian base, which views international organisations as threats to national sovereignty. Regionally, however, it has strained relationships, particularly with Brazil under President Lula's Workers' Party leftist government, which has taken a leading role in promoting South-South cooperation and multilateral development initiatives that Argentina now opposes.

Within Mercosur, Argentina has pushed for the right of member states to negotiate independent free trade agreements, directly challenging the customs union's foundational principle of collective external trade policy. The December summit in Foz do Iguaçu faces uncertainty around Argentine participation and whether Milei will publicly oppose the EU-Mercosur trade deal that has been under negotiation for over two decades and recently achieved conditional agreement.

Brazil, as Mercosur's largest economy and the deal's principal advocate, views Argentine scepticism as potentially sabotaging years of diplomatic effort. However, Argentine officials argue that the deal's agricultural quotas and regulatory requirements would limit Argentina's export potential whilst exposing domestic industries to European competition without adequate transition periods.

This regional isolation carries both costs and benefits. The costs include reduced influence over regional economic integration, potential complications for Argentine exports to neighbouring markets and limited diplomatic support for Argentina's positions in multilateral forums. The benefits, from the Milei administration's perspective, include freedom from what it views as constraints on market-oriented policies, ability to pursue bilateral relationships (particularly with the US and Israel) without regional consensus requirements, and domestic political gains from positioning Argentina as independent of the left-leaning governments in Brazil, Colombia and Mexico.

The sustainability of this strategy, though, depends substantially on the Trump administration's continued support; without a powerful bilateral patron, Argentina's regional isolation could become a significant economic vulnerability rather than a demonstration of ideological principle.

1.6 Scenarios for 2026

Base case: reform momentum with external fragility (60% probability)

The base case scenario for 2026 envisions Milei successfully leveraging his October electoral mandate to advance a selective reform agenda whilst navigating the critical external financing calendar without a major crisis. GDP growth reaches 3-4%, inflation decelerates to 15-20% by year-end, and the fiscal primary surplus remains above 1.5% of GDP as required by the IMF programme. The government passes labour market flexibilisation and tax simplification reforms with support from centrist provincial parties and business-aligned deputies, though more ambitious changes to pensions and large-scale privatisations stall in congressional negotiations.

The external debt refinancing succeeds through a combination of the December 2025 BONAR 2029N bond issuance (marking Argentina's return to international markets after seven years), the US Treasury's $20bn facility, private bank loans of $6-7bn negotiated in early 2026 and selective additional international bond placements by the Treasury and creditworthy provinces. The 6.5% coupon on the four-year bond, whilst elevated relative to investment-grade sovereigns, represents a meaningful compression from the 10-15% yields that Argentine paper commanded in secondary markets earlier in 2025, reflecting improved credibility following the midterm victory and fiscal performance. The bond proceeds partially cover the January 9 payment without depleting reserves, establishing a template for subsequent refinancings.

The $20bn currency swap remains largely undrawn but provides crucial confidence to currency markets, keeping the peso trading in the lower half of the Central Bank's band for most of the year. Net international reserves accumulate modestly to around $45-48bn by December 2026, sufficient to meet 2027 obligations with less acute financing stress. The energy sector attracts $8-10bn in RIGI-related investment, supporting export growth and trade balance improvement. Foreign direct investment reaches $6-8bn, roughly double the weak 2025 levels but still below the $12-15bn achieved in the mid-2010s.

Domestic recovery remains uneven: capital-intensive sectors perform strongly whilst manufacturing struggles. Retail benefits from reduced inflation and improving credit. Country risk declines to 800-900 basis points.
The principal risk to this scenario materialises if reserve accumulation disappoints in the first quarter, leading to renewed currency pressure that the Central Bank must defend with high real interest rates, slowing credit growth and domestic recovery. Congressional fragmentation could also block key

reforms, reducing medium-term growth potential and dampening investor confidence. Adverse commodity price movements, particularly for soybeans and crude oil, could compress export revenues and widen the current account deficit beyond the projected 2.5% of GDP.

Optimistic case: full reform implementation with strong inflows (25% probability)

The optimistic scenario sees the confluence of factors creating a positive feedback loop that exceeds current consensus forecasts. Labour and tax reforms passed in the first half of 2026 with broad congressional support, including from moderate Peronist factions seeking political relevance. Pension reform succeeds through a compromise that phases in changes gradually whilst addressing provincial imbalances. The government successfully privatises Aerolíneas Argentinas and at least one major public utility, generating privatisation revenues whilst reducing fiscal contingent liabilities. International financial institutions responded by significantly upgrading Argentina's credit profile, with at least two major agencies moving ratings from highly speculative to the B category.

RIGI projects deliver $12-15bn FDI as mining accelerates. Multiple provinces re-enter international markets. Net reserves surge to $52-55bn. Country risk compresses to 600-700 basis points.
The currency strengthens modestly in real terms without causing competitiveness problems, as productivity gains from structural reforms offset appreciation pressures. The Central Bank exits from active exchange rate management by late 2026, moving toward a float with light intervention only for excess volatility. Inflation expectations anchor durably below 20% annual, allowing real interest rates to decline whilst maintaining positive real returns. The current account deficit narrows to around 1.5-2.0% of GDP as export volumes surge and import substitution in energy reduces the hydrocarbon deficit to negligible levels.

This scenario's realisation depends on several low-probability conditions aligning: sustained US support regardless of Trump administration policy volatility, absence of major external shocks (commodity price collapses, global financial stress), and exceptional executive branch skill in building congressional coalitions across historically fractious political groupings. It also requires that the Argentine public maintains patience with reforms that may increase short-term inequality (as labour market flexibilisation typically does) in exchange for medium-term employment gains, a social consensus that has historically proven fragile.

Downside case: currency crisis and reform stagnation (15% probability)

The downside scenario envisions the fragile external financing situation deteriorating into a full currency and debt crisis during 2026, potentially triggered by one or more specific events: larger-than-expected outflows upon the maturing of domestic debt instruments in January-February; US Treasury or private bank financing failing to materialise at anticipated scale or on acceptable terms; a sharp correction in commodity prices (particularly oil and soybeans) reducing export revenues; or political opposition successfully blocking reforms, causing the Trump administration to withdraw or meaningfully reduce its support.

Central Bank depletes $8-12bn defending currency in the first quarter, forcing devaluation to 1,800-2,000 per dollar. Inflation reignites to 50-60%, real rates spike, crushing credit. GDP contracts 2-3%, unemployment exceeds 12-14%, poverty surges above 50%. Labour unions organize strikes, LLA coalition fragments.

This scenario, whilst assigned only a 15% probability, reflects the serious tail risks inherent in Argentina's external financing situation and the government's reliance on conditional international support. The country's history of debt crises—defaults in 2001, 2014 and 2020—demonstrates that whilst such outcomes are not the base case, they occur with sufficient frequency to warrant careful monitoring of early warning indicators, particularly reserve levels, rollover rates and commodity prices.

2.0 Macro Economy

2.1 GDP growth: recovery stalls after strong start

Argentina's economic trajectory through 2025 traced a sharp V-shaped recovery followed by an unexpected loss of momentum, complicating forecasts for 2026 and raising questions about the sustainability of the Milei administration's shock therapy approach. The first quarter delivered surprisingly robust growth of 5.8% year-on-year, driven by an investment surge of 31.8%, private consumption gains of 11.6% and export expansion of 7.2%. The investment-to-GDP ratio reached 20.2% at constant prices, representing a 4.0 percentage point increase compared to the first quarter of 2024, suggesting that business confidence in the stabilisation programme was translating into capital formation.

Monthly activity indicators tracked the recovery through mid-year. The EMAE (monthly economic activity estimator) rose 7.7% year-on-year in April 2025, marking the continued expansion that began in the fourth quarter of 2024. Industrial production posted its fifth consecutive monthly increase with 8.5% year-on-year growth in April, reversing 18 months of negative values. Construction activity surged 25.9% year-on-year in April, driven by pent-up demand in residential and infrastructure projects. Installed industrial capacity utilisation stood at 58.3% in April 2025, up 1.7 percentage points from the same month in 2024, suggesting that factories were increasingly operating at more normal levels after the severe contraction of late 2023 and early 2024.

However, the second quarter delivered a sharp deceleration, with GDP contracting 0.1% quarter-on-quarter according to preliminary estimates, as financial volatility and electoral uncertainty weighed on business and consumer confidence. Activity indicators registered declines in May, June and July, with the cumulative effect erasing much of the first quarter's momentum. Investment remained particularly volatile, oscillating between strong growth and sharp contractions on a monthly basis. Formal employment stagnated before contracting slightly in July, suggesting that the recovery had been concentrated in capital-intensive sectors with limited job-creation capacity. Real wage growth in the formal sector slowed, contrasting with gains in the informal sector where inflation-linked adjustments continued.
Third-quarter data, though incomplete at publication, suggested continued weakness amid heightened financial volatility and political uncertainty ahead of the October midterms. High-frequency indicators showed broad stagnation with mixed sectoral performance.

Agriculture, mining and financial services maintained some dynamism, benefiting from commodity exports and credit expansion respectively. In contrast, industry and construction—which had led the recovery in the first quarter—remained weak. The interbank BADLAR rate's surge from around 30% to 70% in the run-up to the elections dramatically tightened financial conditions, curtailing credit growth and discouraging business investment. Household consumption indicators similarly softened as real interest rates spiked and currency uncertainty encouraged precautionary saving.

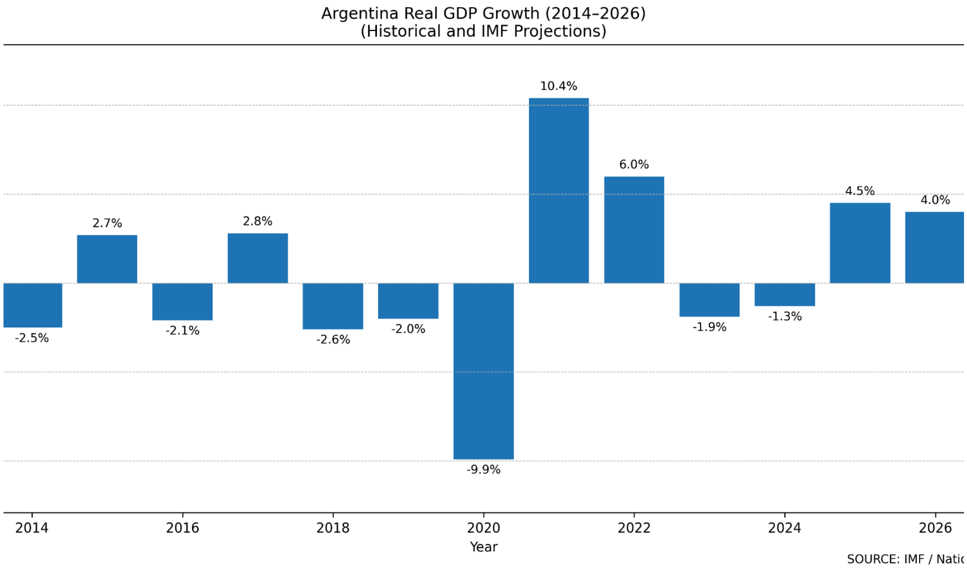
Trade grew 7.3% year-on-year, financial intermediation 27.2% as credit recovered, manufacturing 5.1% with variation across subsectors, mining 6.6%, construction 6.1%, services 4.6%, agriculture 4.1%.
Competing forecasts for 2026 reflect the divergent views on whether the economy can regain momentum or faces extended stagnation. The IMF, in downgrading its projection from 5.5% to 4.5% for 2025 and from 4.5% to 4.0% for 2026, cited tighter financial conditions and the loss of the initial recovery impulse. The OECD similarly revised its 2025 estimate down to 4.2% from 4.5% and its 2026 projection to 3.0% from 4.3%, noting that the structural reforms necessary to sustain higher growth remain pending approval.

Similarly, Allianz projects real GDP to grow 4.4% in 2025 and 3.5% in 2026 as the initial enthusiasm and excitement fade and the medium-term negative effects of Milei's "shock therapy" materialise. The World Bank's more optimistic 4.6% projection for 2025 and 4.0% for 2026 assumes modest investment recovery and continued export sector strength. FocusEconomics, aggregating private sector forecasts, expects growth to average around 3% per year through 2030, contrasting sharply with the zero-growth recorded over the previous decade but well below the Latin American historical average. Minister Caputo's optimistic projection of 5-10% growth for 2026 hinges explicitly on the passage of structural reforms, particularly labour market flexibilisation and regulatory simplification.

In this view, Argentina's post-stabilisation potential growth could be substantially higher than historical averages due to pent-up productivity gains that have been suppressed by decades of policy distortions. The Economist Intelligence Unit's analyst comment captured this perspective: "Investment will be a major contributor to growth, owing to large investments in major projects related to mining and energy sectors under the RIGI… The government's ambitious structural reform agenda, including privatisations and expanded remit of public-private partnerships, will bolster investment opportunities."

The Atlantic Council's August assessment offered a nuanced middle path: whilst acknowledging that Argentina has "defied conventional wisdom that fiscal consolidation must come at expense of growth," with recovery occurring "parallel with sharp reduction in primary public expenditures," the analysis cautioned that "the economy has recovered a sense of optimism, one that had been absent for years" but "success is far from locked in." The report emphasised that sustaining growth requires not just stabilisation but structural transformation: "unlocking investment in high-productivity sectors, removing deep distortions hindering competitiveness… This is not a one-year task—it's a generational challenge."

For 2026 specifically, the growth outlook depends critically on three factors whose trajectory remains uncertain. First, whether the external debt refinancing succeeds without significant reserve depletion or currency depreciation that would reignite inflation and force monetary tightening. Second, whether Congress approves labour and tax reforms in the first half, allowing businesses to make investment decisions based on improved regulatory clarity. Third, whether financial market volatility subsides sufficiently to restore credit growth and business confidence. The base case of 3-4% growth assumes partial success on all three fronts, but outcomes ranging from 1-2% stagnation to 5-6% acceleration remain plausible depending on how these critical uncertainties resolve.



2.2 Inflation and monetary policy: progress and volatility

The moderation of inflation from crisis levels represents perhaps the clearest success of the Milei administration's stabilisation programme. Annual inflation peaked at nearly 300% year-on-year in April 2024, following the large December 2023 devaluation and the elimination of price controls that had artificially suppressed measured inflation in the final months of the previous government. From this peak, inflation has declined continuously, reaching 31.3% year-on-year by October 2025, the lowest reading since July 2018.

This trajectory—from hyperinflationary threshold to manageable double-digit inflation in 18 months—represents one of the fastest stabilisations in recent Latin American history.
Monthly inflation reached 1.5% in May before modest reacceleration to 2.0-2.3% through the third quarter. Limited pass-through from 18.5% currency depreciation (inflation only 5.5%) suggested anchored expectations. Food/beverages rose 22% in the first nine months, down from 86.7% year-earlier. Services inflation also decelerated significantly.

The July monetary shift abandoning LEFIs for aggregate targeting initially triggered chaos, with rates jumping from 30% to 70% within days before the Central Bank reintroduced an interbank repo floor. By late August, acknowledging that the experiment had created excessive financial volatility, the Central Bank reintroduced a floor for the interbank repo rate, providing markets with a benchmark for pricing short-term instruments. The TAMAR rate (a key term deposit rate that replaced BADLAR as the main policy benchmark) peaked at 67% in early September before the Central Bank guided it down to an annualised rate around 45% by late October.

BBVA Research expects the TAMAR to serve as a de facto policy floor until after the elections, after which a recalibration toward a more predictable framework—with a clear reference rate and normalised reserve requirements—is likely.

The trajectory of real interest rates through 2025 demonstrates the monetary tightening cycle. Real policy rates entered the year in restrictive territory, roughly 5-8% in inflation-adjusted terms, providing necessary monetary discipline to anchor expectations. The July framework shift, whilst intended to cement this discipline by focusing on monetary aggregates rather than interest rate targeting, paradoxically created even more restrictive conditions as nominal rates spiked.

By September, with the TAMAR at 67% and monthly inflation around 2%, real interest rates reached deeply contractionary levels exceeding 60% annualised, far above what economic theory suggests is necessary for price stability. This explains much of the third-quarter growth deceleration: at such extreme real rates, business investment becomes financially unviable except for the highest-return projects, typically export-oriented commodity ventures with hard currency revenues.

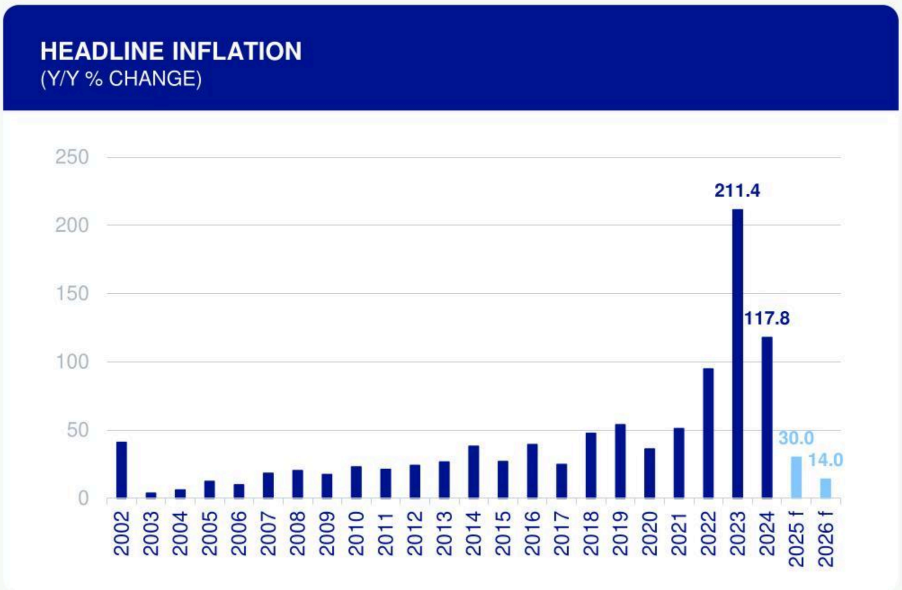
For 2026, monetary policy is expected to ease gradually as inflation moderates, though the pace will depend on maintaining fiscal discipline and avoiding currency pressures that could reignite inflationary expectations. BBVA Research projects the TAMAR falling to around 35% by end-2025 and approximately 19.3% by end-2026, assuming inflation reaches 30% and 14% respectively by those dates. This would maintain positive real interest rates of roughly 5-7%, sufficient to support financial savings in local currency whilst allowing credit conditions to support growth.

The Central Bank’s capacity to ease depends critically on reserve accumulation and exchange rate stability: without comfortable reserve coverage, any attempt to lower rates risks triggering capital outflows and currency depreciation that would force rapid tightening.
The IMF forecasts inflation of 41.3% for 2025 and 16.4% for 2026 under its baseline scenario, somewhat more pessimistic than the BBVA or government targets. These projections incorporate the assumption that the exchange rate continues depreciating at a meaningful pace to avoid real appreciation that would erode competitiveness.

FocusEconomics Consensus expects inflation to decline from around 30% in 2025 to the 10-20% range through 2026, with substantial variation across individual forecasts reflecting uncertainty about monetary policy execution and fiscal discipline maintenance. The risk distribution is asymmetric: whilst achieving single-digit inflation appears unlikely given the exchange rate adjustment still required, a return to 40-50% inflation would occur only if policy credibility collapsed or major external shocks forced sharp currency depreciation.

BBVA Research's October assessment captured the challenge ahead: "The anti-inflation policy is on the right track, although challenges still lie ahead. Overall inflation (and even more importantly, core inflation) has accelerated since it hit its low of 1.5% in May. If the government maintains its fiscal and monetary commitment, inflation will tend to keep falling, but reducing it from these levels becomes more laborious. It will require the support of a solid monetary policy that maintains positive real interest rates (while also limiting their volatility), together with an exchange-rate policy that ensures greater strength in international reserves."

This observation underscores that the easier phase of stabilisation—crushing hyperinflationary expectations through severe monetary contraction—has concluded, and the more difficult phase of consolidating low inflation whilst restarting growth has begun.



Source: INDEC and BBVA Research.

2.3 External accounts: from surplus to sustainable deficit

Argentina's external accounts underwent a significant transformation through 2025, swinging from the robust trade surpluses of 2024 back toward structural current account deficits that reflect the economy's investment needs rather than crisis-driven import compression. The trade balance in the first eight months of 2025 totalled $5.1bn in surplus, approximately one-third of the

$15.3bn surplus recorded over the same period in 2024. This narrowing occurred despite continued export growth, as imports surged 32.1% year-on-year with the economic recovery, whilst exports expanded a more modest 6.2%.

Export performance reflected Argentina's competitive advantages in agriculture, energy and mining, partially offset by the strong real peso that reduced farmers' incentive to liquidate inventory and made manufactured exports less competitive. The main export destinations were Brazil (15.2% of total), the European Union (9.1%), the United States (8.3%) and Chile (8.1%). On the import side, Brazil accounted for 24.9% of purchases, reflecting the deep integration of Argentine and Brazilian supply chains particularly in automobiles and auto parts.

China supplied 22.9% of imports, the EU 14.4% and the US 8.8%. Argentina recorded its largest bilateral trade deficits with China (-$4.8bn through August), Brazil (-$2.7bn) and Germany (-$946mn), whilst running surpluses with Chile ($2.3bn), India ($1.5bn) and Peru ($920mn).
The hydrocarbon balance provided crucial support to external accounts, posting a $4.6bn surplus in the January-August period compared to $3.1bn over the same months of 2024. This improvement reflected the ongoing expansion of unconventional Vaca Muerta production, which allowed Argentina to simultaneously increase oil and gas exports whilst reducing imports of diesel, gasoline and natural gas.

Deloitte projects the annual energy surplus could reach $7bn for 2025, confirming a structural shift from the energy deficits that characterised Argentina for most of the 2000s and 2010s. Looking forward, energy sector analysts expect the hydrocarbon surplus to expand toward $15-20bn annually by the end of the decade as LNG export infrastructure comes online and oil production exceeds 1mn barrels per day.

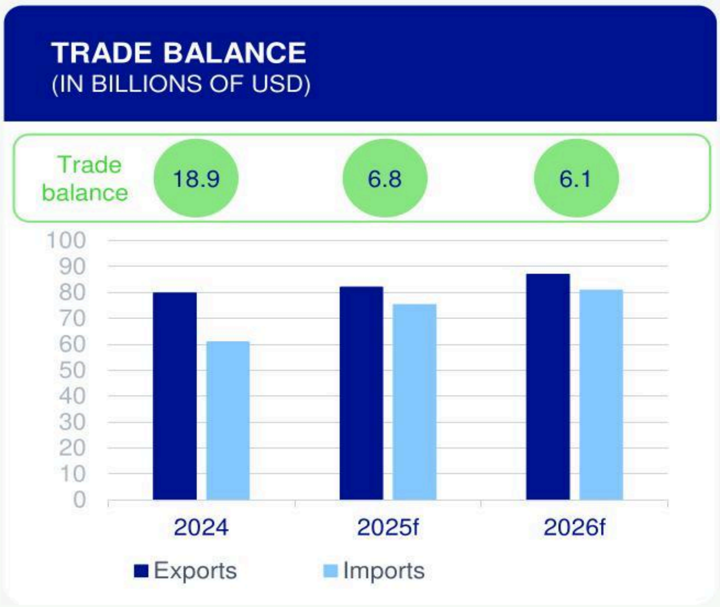
Services deficit reached -$4.5bn in the first quarter, mainly from tourism. Knowledge-based services exports totalled $2.4bn, up 27.8% year-on-year. The current account deficit widened to 2.9% of GDP ($5.2bn in absolute terms) in the first quarter of 2025, after running four consecutive quarters in surplus through 2024. For the full year 2025, analysts project the deficit will reach approximately 2.0% of GDP, with further widening to around 2.5% in 2026.

These deficit levels, whilst requiring foreign financing, remain historically sustainable given the context: they are being incurred during an investment-led recovery rather than a consumption boom, they occur alongside fiscal surpluses rather than deficits, and they are smaller than the 3-4% deficits that proved unsustainable in the mid-2010s when accompanied by loose fiscal policy. The key question is whether the composition of financing—FDI and long-term project finance versus short-term portfolio flows—provides stability or creates refinancing risk.

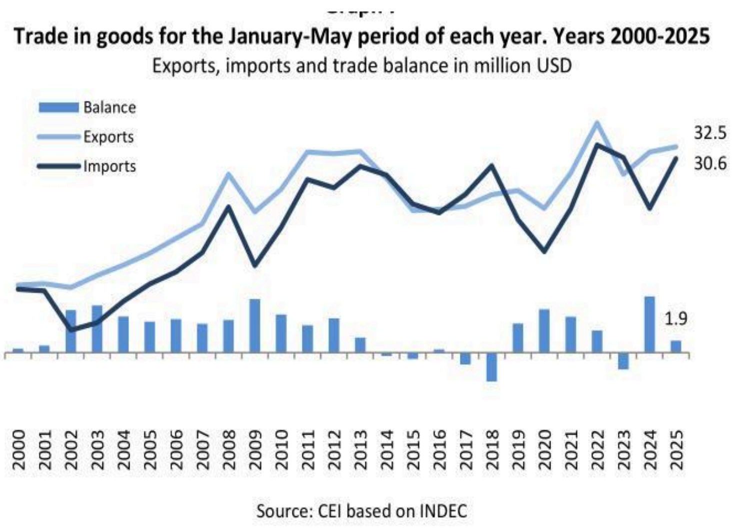
Foreign direct investment flows disappointed in 2025 after the initial optimism about RIGI projects. The first quarter registered only $611mn ($0.3% of GDP), down sharply from $6.2bn in the first quarter of 2024. The decline reflected a sharp contraction in debt instruments as foreign parent companies reduced intra-company loans pending greater clarity on the political and economic outlook. The collapse in FDI from over 4.6% of GDP in Q1 2024 to just 0.3% in Q1 2025 underscored that whilst RIGI had generated significant project announcements—20 submissions exceeding $33.6bn in total—the translation from commitment to actual capital deployment was proceeding slowly pending congressional approval of enabling legislation, clarification of tax treatment and proof that the political and macroeconomic environment had genuinely stabilised.

For 2026, the current account deficit of 2.5% of GDP, in absolute terms roughly $16-17bn at projected nominal GDP levels, will need to be financed through a combination of FDI, multilateral lending (primarily IMF tranches), private debt placements and reserve drawdowns. The base case assumes FDI recovers to $6-8bn as RIGI projects begin capital deployment, the IMF disburses $4-5bn under the Extended Fund Facility programme, and sovereign and provincial bond issuance contributes $3-4bn.

Any shortfall would require either reserve use (feasible if reserves remain above $40bn) or exchange rate depreciation to compress imports. The margin for error is narrow: if FDI disappoints materially or if political uncertainty deters private lending, Argentina could face renewed financing stress despite the US support facilities.



Source: INDEC and BBVA Research.



2.4 Market reopening: the December bond issuance

On December 5, 2025, Argentina announced its return to international debt markets with the auction of a four-year, dollar-denominated bond carrying a 6.5% coupon, marking the country's first market issuance since January 2018. The BONAR 2029N bond, scheduled for auction on December 10 with maturity in November 2029, represents a watershed moment in the Milei administration's normalisation strategy, signalling that international investors are willing to provide financing on terms materially better than the secondary market yields of 10-15% that Argentine paper commanded earlier in 2025.

The significance extends beyond immediate financing. Caputo pointed out that the bond facilitates reserve accumulation: "This is not new debt. By refinancing it, every dollar the Central Bank buys can now be kept as a reserve." Following the large December 2023 devaluation that took the peso from roughly 350 to 800 per dollar, the government initially implemented a crawling peg that allowed 2% monthly depreciation, providing predictability for businesses whilst attempting to outpace inflation to avoid real appreciation. This mechanism was subsequently adjusted to 1% monthly depreciation as inflation moderated, then abandoned altogether in favour of a gradually widening trading band that allowed market forces greater influence whilst providing Central Bank capacity to smooth volatility.

By late November 2025, the peso was trading near the top end of the trading band at approximately 1,470 per dollar, having depreciated sharply from mid-year levels around 1,375. The currency's journey toward the band ceiling occurred despite Central Bank interventions exceeding $1bn and the activation of the US Treasury swap facility for what officials characterised as "a small amount." The September-October period tested the regime severely, as electoral uncertainty, concerns about debt refinancing and technical factors (month-end dollar demand from importers) combined to create intense selling pressure. Market participants widely credited the US intervention—Secretary Bessent's confirmation that the Treasury purchased pesos on the open market—with preventing a potentially destabilising break of the band ceiling that could have triggered panic selling ahead of the elections.

The Central Bank's capacity to defend the regime faces structural constraints that limit how long the current approach remains viable. Net international reserves stood at $41.9bn on December 3 2025, a meaningful improvement from the lows of early 2024 but still insufficient relative to the country's external obligations and the monetary base. The first half of 2026 sees over $10bn in external debt maturities, and whilst the US facility provides backup financing, relying on this support undermines the objective of restoring independent reserve adequacy. The Central Bank has shown limited capacity to purchase dollars even during periods of trade surplus and favourable agricultural export flows, suggesting that private sector demand for dollars (for savings, import payments and financial outflows) consistently exceeds supply at the managed exchange rate.

The real effective exchange rate (REER) appreciated meaningfully through 2025 as inflation, even whilst moderating, outpaced nominal depreciation. Estimates suggest the peso appreciated approximately 15-20% in real terms from its late-2023 post-devaluation level, eroding the competitiveness gains that had made Argentine exports attractive and labour costs internationally competitive. Manufacturers, particularly in labour-intensive industries, have cited the real appreciation as a critical factor in their struggles: Whirlpool's closure announcement specifically noted that Argentine production costs were 25-30% above Brazil, a gap that cannot be offset through productivity improvements alone.

Agricultural producers, facing strong pesos for their dollar-denominated export revenues, delayed selling stocks, contributing to the trade balance narrowing despite good harvest volumes.
Critics, however, warn that such a managed approach is inherently unsustainable. FocusEconomics analysts note that settling on a long-term, durable currency regime is the outstanding task, arguing the country will likely need to move toward a more floating exchange rate.
The government's perspective, articulated by Minister Caputo and Central Bank President Bausili, holds that immediate transition to a free float would trigger excessive depreciation that reignites inflation and destroys the credibility painstakingly built through fiscal discipline. In this view, the managed regime provides a bridge period during which fiscal surpluses, structural reforms and reserve accumulation prepare the economy for eventual float, potentially by late 2026 or 2027.

The Atlantic Council's August analysis supported this gradualist approach, noting that "the government is slowly moving away from the exchange rate anchor (a positive sign)" and that "sizable elements of the cepo [capital controls] were lifted in April 2025," suggesting progress toward normalisation even if incomplete.
For 2026, the exchange rate outlook centres on three scenarios with differing probabilities.

The **base case (60% probability)** envisions the band widening progressively through the year, with the ceiling reaching approximately 1,650-1,750 per dollar by December whilst the floor rises proportionally, effectively allowing 12-15%

depreciation whilst maintaining the managed framework. This pace would roughly match projected inflation, avoiding significant real appreciation whilst providing business planning certainty. The Central Bank would intervene periodically when the peso approaches either band limit, but interventions would be modest (under $1bn per episode) and offset by reserve accumulation during favourable periods, leaving net reserves roughly stable around $40-45bn.

An **optimistic scenario (25% probability)** sees reform momentum, strong RIGI investment inflows and the full deployment of US financial support allowing a more ambitious transition. In this case, the band widened substantially in mid-2026, effectively moving to a float with light intervention only for excess volatility, whilst the peso trades around 1,550-1,600 per dollar by year-end, having appreciated modestly in nominal terms as capital inflows exceed current account financing needs. Net reserves surge to $50-55bn, providing the comfortable coverage necessary to allow the Central Bank to step away from active management. This scenario requires both exceptional execution by authorities and benign external conditions—sustained commodity prices, no major global financial stress—that may prove optimistic.

The **downside scenario (15% probability)** involves failure to manage the regime transition, potentially triggered by external debt refinancing difficulties, disappointing reform progress that causes the Trump administration to reduce support, or exogenous shocks such as commodity price collapses. The peso breaks through the band ceiling in early 2026, forcing the Central Bank to choose between massive intervention that depletes reserves to critical levels or allowing a sharp depreciation. The government opts for the latter, with the peso declining to 1,800-2,000 per dollar by mid-2026, reigniting inflation toward 50-60% annual rates and forcing severe monetary tightening that crushes growth. This tail risk, whilst not the base case, remains uncomfortably plausible given Argentina's history and the narrow margin for policy error.

The exchange rate regime thus represents the critical near-term policy challenge for 2026. Success in navigating this challenge—accumulating reserves, maintaining competitiveness, avoiding inflationary pass-through—would cement the stabilisation and position Argentina for sustained recovery. Failure would likely trigger a broader crisis that could unravel much of the progress achieved since Milei took office, demonstrating once again that in Argentina, exchange rate policy remains the make-or-break element of any economic programme.

In a significant policy shift in mid-December, Argentina said it will expand currency trading bands at the monthly inflation rate starting in 2026, abandoning the fixed 1% pace whilst targeting $10bn in reserve accumulation. With November inflation at 2.5%, bands could widen at more than double the existing rate. Central Bank president Santiago Bausili confirmed the IMF and US Treasury were briefed on changes aimed at achieving "convergence of domestic inflation to the international inflation level."

3.0 Real Economy

3.1 Energy sector: the Vaca Muerta breakthrough

Argentina's energy sector is undergoing a historic transformation driven by the exploitation of the Vaca Muerta shale formation in Neuquén province, positioning the country to shift from chronic energy importer to major regional exporter within the next five years. Oil production reached a record 859,500 barrels per day in October 2025, surpassing the previous peak of 853,000 bpd set in 1998, with unconventional shale production from Vaca Muerta contributing approximately 567,800 bpd, or roughly two-thirds of national output. YPF, the state oil company targeted for potential privatisation under Milei's reform agenda, achieved its own milestone with 190,000 bpd in shale production.

Natural gas output reached 147mn cubic metres per day in September, with shale production accounting for 53% of the national total, eliminating the need for costly LNG imports during peak winter demand periods.
The hydrocarbons trade balance reflects this production transformation. In the January-August period, Argentina recorded a $4.6bn surplus in oil and gas trade, up from $3.1bn over the same months in 2024, driven by increased crude and refined product exports whilst natural gas imports approached zero. Deloitte projects the annual energy trade surplus could reach $7bn for 2025 as a whole, with potential expansion toward $15-20bn annually by 2030 as liquefied natural gas export infrastructure comes online.

This represents a structural shift from the energy deficits that characterised Argentina from the mid-2000s through early 2020s, when declining production from mature conventional fields forced expensive diesel, gasoline and LNG imports that drained foreign exchange reserves during balance of payments crises.
The RIGI framework has proven crucial to attracting the investment magnitudes required for energy sector expansion. By offering 30 years of fiscal stability, exemptions from export duties, free movement of foreign currency and guaranteed legal protections under international arbitration, RIGI addresses the policy uncertainty that has historically deterred long-term energy sector investment in Argentina. Companies can depreciate capital investments rapidly for tax purposes, reducing effective tax rates during the high-expenditure early years, whilst the guarantee of foreign currency availability for profit repatriation eliminates the conversion risk that plagued international energy investors during previous capital control regimes.

Several such projects have been submitted under the RIGI framework, including investments totalling nearly $6.8bn in the first 10 years and an additional $15bn over the following 20 years across the LNG value chain, according to Deloitte analysis.
Base case 2026: oil 900,000-950,000 bpd, gas exceeding 160mn cubic metres

per day, $8-10bn trade surplus. Deloitte projects energy generating $19bn annually by 2030.

3.2 Mining sector: copper and lithium projects

Mining exports reached $5.5bn in 2025: gold 69%, silver 12%, lithium 14%. McEwen Copper's Los Azules project best exemplifies RIGI's potential. The $2.7bn development, approved in September 2025, will become Argentina's first high-purity copper cathode producer when production begins in 2029, targeting 175,000 tonnes annually over a 27-year mine life. "For construction financing, RIGI is absolutely required because the amounts involved in mining projects are substantial, and investors need legal stability," Michael Meding, McEwen Copper's vice-president, told bne IntelliNews in April. The 30-year fiscal guarantees secured backing from Stellantis (18.3% stake), Rio Tinto's Nuton subsidiary (17.2%) and the International Finance Corporation as potential lead lender. Los Azules positions itself as "green copper" using innovative leaching technology consuming five-sixths less water than traditional methods.

The broader copper pipeline includes multiple projects at earlier exploration and feasibility stages. JPMorgan’s November strategic assessment noted that South America accounts for 40% of global copper production and 38% of world reserves, with Chile dominant but Argentina holding significant undeveloped deposits particularly in the Andean provinces. The AI revolution’s acceleration of demand for electricity and data centres—copper is essential for power transmission and electronics—has strategically heightened copper’s importance. Analysts project global copper demand could increase 50-70% by 2040 driven by electrification, electric vehicles and renewable energy infrastructure.
Argentina ranks third in lithium reserves. Production reached ~130,000 tonnes in 2025, but prices collapsed from $80,000 to $10,000-15,000 per tonne, with several projects announcing delays.

Deloitte projects $51.9bn mining investment by 2035. Success requires sustaining RIGI credibility, building social license and developing infrastructure.

3.3 Manufacturing: competitiveness crisis and closures

Argentina’s manufacturing sector endured a devastating contraction through 2024-2025 that exposed the structural uncompetitiveness accumulated over decades of protectionism, high labour costs and currency volatility. The statistics paint a grim picture: 17,063 net factory closures in 2024, equivalent to 28 per day, with 236,845 jobs lost and 143 companies entering preventive crisis procedures, the highest figure since the 2018-2019 recession. Capacity utilisation, whilst improving from crisis lows, stood at only 58.3% in April 2025, suggesting that surviving factories operated well below efficient scale. The closure of Whirlpool’s Pilar factory in November exemplifies the competitiveness challenges. The company cited production costs 25-30% above Brazil as the decisive factor, noting that even for the domestic market—where transport costs and trade barriers might provide natural protection—the cost gap made continued operation unviable. Industrial production posted its fifth consecutive monthly increase with 8.5% year-on-year growth in April, but this represented recovery from an exceptionally weak comparison base rather than restoration of pre-crisis output levels.

Manufacturing lost 55,941 jobs. Companies under 500 workers accounted for 99.63% of business closures. The finding that companies with fewer than 500 workers accounted for 99.63% of employer closures (19,094 of 19,164 total) indicates that small and medium enterprises bore the brunt of adjustment, whilst larger companies could absorb losses through other operations or benefit from scale economies.
Furniture surged 47.0% in the first quarter, radio/TV equipment +31.4%, but traditional industries struggled: textiles 42.6% capacity utilisation.
INDEC: 96% ruled out Q4 employment growth—lowest on record.
Labour reforms could modestly improve competitiveness. Base case 2026: production +2-3%, employment -20,000 to -30,000.

3.4 Agriculture: recovery from drought

Argentina's agricultural sector rebounded strongly in 2024-2025 following the catastrophic 2023 drought, which caused output to collapse 24% and devastated farm incomes. The recovery benefited from favourable weather that restored soil moisture and allowed normal planting and growing conditions, combined with policy changes that reduced export restrictions and improved farmers' incentives to sell production. The soybean complex—soybeans, soybean meal and soybean oil—remains Argentina's largest agricultural export category and a critical foreign exchange generator. The 2024-2025 harvest recovered to approximately 50mn tonnes from the drought-depressed 21mn tonnes of 2022-2023, though still below the 55-60mn tonnes achieved in optimal recent years.

The soybean complex—soybeans, soybean meal and soybean oil—remains Argentina's largest agricultural export category and a critical foreign exchange generator. The country ranks among the world's leading exporters of soybeans and derivatives, with vast pampas grasslands providing ideal growing conditions and an established crushing industry that processes beans into high-protein meal for animal feed and oil for cooking and biofuels. The 2024-2025 harvest recovered to approximately 50mn tonnes from the drought-depressed 21mn tonnes of 2022-2023, though still below the 55-60mn tonnes achieved in optimal recent years. Soybean oil exports showed particularly strong growth in the January-May period, rising $721mn according to trade data, as the government's temporary elimination of export duties in September incentivised farmers to liquidate stored production.

The duty elimination episode itself reveals the complex interaction between fiscal needs and agricultural sector incentives. Argentine governments have historically relied on export duties to capture resource rents and fund government spending, with agribusiness particularly targeted given its high profitability and limited ability to relocate production. Under previous Peronist administrations, duties reached 30-33% for soybeans and derivatives, creating significant distortions: farmers delayed selling, smuggled across borders to Paraguay, or shifted to lower-duty crops.

Milei’s September decision to temporarily reduce duties to zero aimed to incentivise $7bn in settlements ahead of the October elections, both improving Central Bank dollar purchases and demonstrating policy flexibility. The target was met within three days, suggesting that substantial stored production existed waiting for favourable conditions to sell, and duties were reinstated afterward.
Beef regained positioning in US, Canadian, Chinese and Mexican markets after years of restrictions.

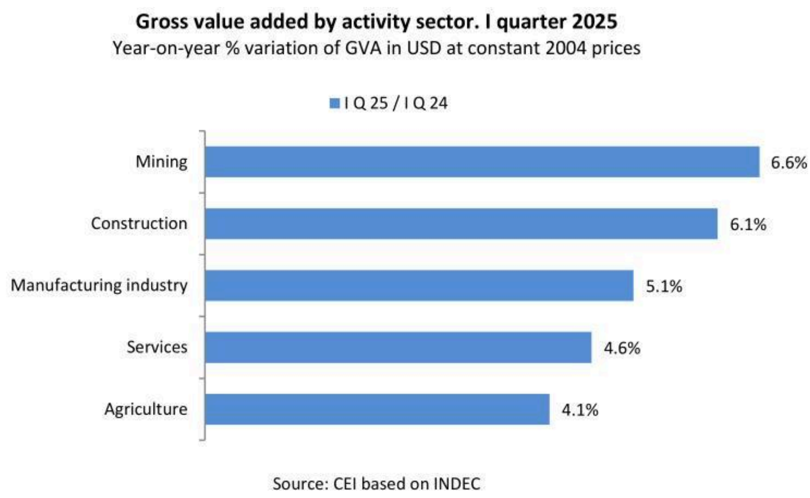
Other agricultural sectors contributing meaningfully to export performance include wheat, corn, barley, sunflower oil (which saw a $144mn export increase through May) and specialty products such as citrus, wine and honey. Argentina ranks among the world’s leading producers of lemons and lemon products, sunflower oil and milk powder, whilst the wine industry has increasingly targeted premium export markets where Argentine Malbec commands strong brand recognition and pricing power. The diversity of agricultural production provides some resilience against commodity price cycles—when grain prices weaken, oilseed or livestock prices may strengthen—though all categories remain exposed to weather risk and global demand fluctuations.

Real peso appreciation created headwinds as farmers received dollars but incurred peso costs.
Climate risk remains elevated. The 2023 drought demonstrated vulnerability to rainfall variability, with climate models suggesting global warming may increase pampas rainfall oscillations.
For 2026, agricultural sector prospects are moderately positive in the base case. Assuming normal weather, production maintains 2025’s recovered levels with soybeans around 50-52mn tonnes, corn 50-55mn tonnes, wheat 18-20mn tonnes and beef 3.0-3.2mn tonnes. Export values reach $33-35bn for agricultural products and derivatives, up modestly from 2025, driven by volume stability and hoped-for commodity price firmness. The optimistic scenario sees exceptional weather and favourable prices combining to generate exports of $38-40bn, whilst the downside case—drought returns or prices collapse—could see exports falling to $28-30bn with severe consequences for the trade balance and fiscal revenues given the government’s dependence on export duty revenues despite the ideological preference for duty elimination.

3.5 Retail and services: green shoots amid macro volatility

MercadoLibre invested $2.6bn in 2025 (+53%), hiring 2,000 workers.
Fourth-quarter items sold rose 18% year-on-year.
Decathlon entered with a $100mn five-year plan.
Carrefour's activity reflected a more complex calculus. The French retailer acquired 16 Super A stores in Mendoza province as part of its €347mn 2025-2027 strategy to add 100 branches and create 2,500 jobs across Argentina. However, persistent speculation about Carrefour considering Argentina exit remained, with multiple parties—including domestic chains Coto, Día, ChangoMás, La Anónima and real estate firm Klaff Realty—reportedly interested in acquiring operations.

The mixed signals suggest that whilst Carrefour sees near-term opportunities justifying investment, the company's long-term view remains uncertain given historical volatility and the possibility of refocusing on core European and Brazilian markets where growth requires less political risk tolerance.
Credit card usage rebounded; payment digitisation accelerated.
Foreign currency pricing alongside pesos reduced exchange rate distortions.
Financial intermediation exploded 27.2% in the first quarter. Knowledge-based services exports reached $2.4bn (+27.8% year-on-year).
Base case 2026: formal real wages grow 3-5%, retail sales +4-6%.



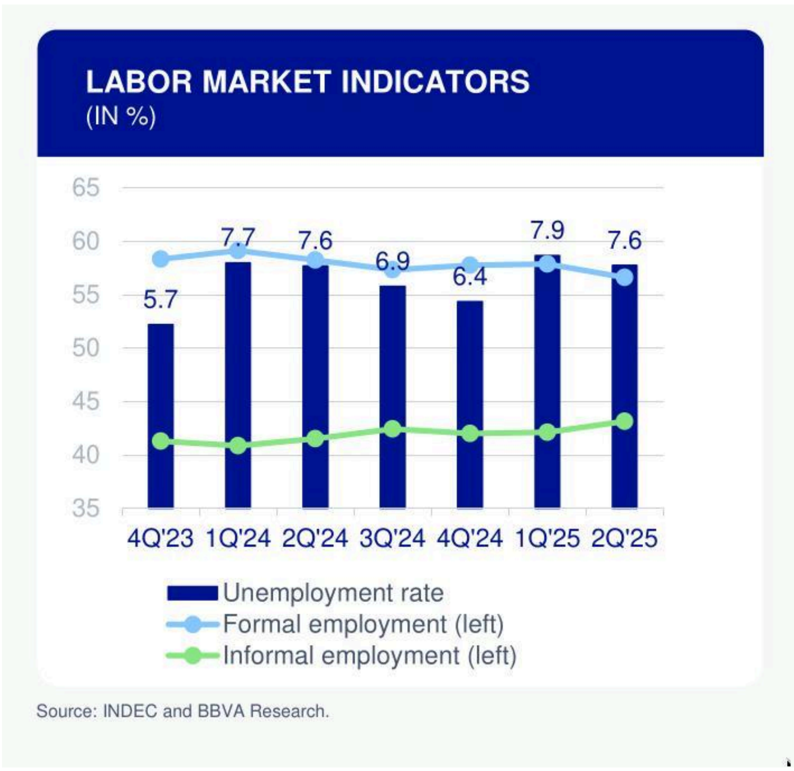
3.6 Employment crisis and labour market adjustment

The labour market adjustment under the Milei administration has been severe, with registered employment falling 276,624 jobs between November 2023 and August 2025, equivalent to 432 job losses per day, reducing total registered workers from 9,857,173 to 9,580,549. The 2.81% decline understates the adjustment's magnitude given that labour force growth typically adds 200,000-300,000 workers annually through demographics. The unemployment rate reached 7.9% in the first quarter of 2025, up marginally from 7.7% a year earlier, but this relatively modest increase reflected declining labour force participation—the activity rate fell to 48.2%—as discouraged workers withdrew from active job search. The unemployment rate reached 7.9% in the first quarter of 2025, up marginally from 7.7% a year earlier, but this relatively

modest increase reflected declining labour force participation (the activity rate fell to 48.2%) as discouraged workers withdrew from active job search.
Losses concentrated in public administration (-86,982), construction (-76,292), transport (-59,838), manufacturing (-55,941). Business closures eliminated ~30 companies daily. Transport services and storage lost 4,685 employers, wholesale and retail trade 3,510, with the overwhelming majority (99.63% or 19,094 of 19,164 total) being firms with fewer than 500 workers.

This concentration among small and medium enterprises suggests that whilst large corporations could absorb losses through operational restructuring, access to credit and political connections, smaller firms lacked the buffer to survive the crisis. The implications for entrepreneurship and economic dynamism are concerning: if the adjustment eliminated precisely the smaller firms that typically drive innovation and employment generation, recovery could be constrained by the loss of this productive capacity.

Informality expanded to 45-50% as formal opportunities disappeared.
Formal sector real wages ended 2025 roughly flat versus late 2023. Informal wages suffered 15-25% real declines.
Labour reforms address supply-side rigidities but don't create hiring demand. Facilitating temporary contracts allows better matching of labour supply to seasonal demand fluctuations in agriculture, tourism and retail, but may reduce employment quality by making precarious arrangements more prevalent. Limiting union veto powers over workplace organisation could improve productivity, but also risks intensifying labour conflict if implemented without social dialogue and consensus-building.
Base case 2026: modest decline of 30,000-50,000 jobs, unemployment edging to 8.1-8.3%.



4.0 Budget & Debt

4.1 Budget framework and 2026 targets

The fiscal framework for 2026 centres on maintaining the primary surplus discipline that has defined the Milei administration's stabilisation programme whilst managing spending pressures from provinces, social programmes and delayed public investment. The government submitted its 2026 budget projecting a primary surplus of 1.5% of GDP and balanced consolidated fiscal accounts (zero financial deficit after interest payments), continuing the 2025 stance that delivered 1.4% primary surplus through October. The revenue side faces challenging dynamics as several temporary factors that boosted 2025 collections reverse or moderate.

The inflation windfall diminishes as monthly inflation stabilises, whilst the import surge that drove customs revenues up 21.7% year-on-year is expected to moderate. At projected nominal GDP growth of 18-24%, tax revenues would reach approximately 22-23% of GDP, maintaining 2025 levels.

On the expenditure side, the budget reflects continued restraint but incorporates pressures that the government can only partially resist. Pension and retirement spending, which rose 8.1% year-on-year in real terms in 2025 as demographic aging and benefits adjustments proceeded, faces similar dynamics in 2026. The government vetoed several congressional attempts to increase pension payments in 2025, using its executive authority to block spending increases it deemed inconsistent with fiscal targets, but sustained political pressure from retiree organisations and opposition parties make some adjustment likely.

Social protection allowances, which increased 6.8% year-on-year in real terms through October 2025, face demands for continued expansion given poverty rates that, whilst declining, remain elevated at 38.1% in late 2024.
Provincial transfers are politically sensitive. Capital expenditure sacrificed to current balance.

4.2 Fiscal risks and downside scenarios

Fiscal risks include revenue shortfalls from weaker growth, peso depreciation increasing debt service, and provincial crises forcing federal bailouts.
Pension reform failure represents the most significant medium-term risk.
IMF programme enforces discipline: missing the 1.6% target risks disbursement suspension.

4.3 Debt sustainability and refinancing strategy

Public debt of $473.6bn (76.2% of GDP at March 2025) shows modestly

favourable dynamics if growth at 3-4%, interest ~5-6%, and primary surplus 1.5% are sustained. The $10bn+ first-half 2026 maturity concentration requires combined December bond, private loans, US facilities and IMF strategy.
The medium-term challenge involves refinancing debt maturities in 2027-2029 that, whilst smaller than the 2026 concentration, still require persistent market access. Roughly $6-8bn annually in external obligations comes due, along with ongoing domestic peso debt refinancing.

Addressing this requires establishing Argentina as a routine market borrower rather than a sporadic issuer that appears only when desperate for financing. The December issuance begins this process, but normalisation requires multiple transactions over 18-24 months that demonstrate consistent access at stable or declining spreads. If Argentina can establish a regular auction calendar—quarterly bond offerings of $1-2bn—market participants gain confidence that the country is a going concern rather than a restructuring candidate.

4.4 Tax reform prospects

Tax reform aims to simplify the complex system. Provincial opposition as consolidation reduces autonomy.
Export duties generate 1-2% of GDP. A September suspension on agricultural exports met a $7bn target in three days alone, but levies were quickly reinstated on US pressure after it triggered a frenzy of Chinese soybean buying and disrupted US grain exports.

5.0 Markets Outlook

5.1 Foreign exchange: gradual transition toward float

The currency outlook for 2026 centres on managing the transition from the current trading band regime to a more market-determined exchange rate whilst avoiding the disorderly depreciation episodes that have characterised previous Argentine liberalisation attempts. The base case envisions the Central Bank gradually widening the band through the year, with the ceiling reaching approximately 1,650-1,750 per dollar by December 2026, allowing roughly 12-15% nominal depreciation that tracks expected inflation and prevents significant real appreciation. This managed approach provides businesses with relative predictability for planning whilst allowing competitive adjustment and reserve accumulation as the Central Bank intervenes only at band limits rather than continuously defending a peg.

The successful execution of this strategy depends critically on reserve accumulation creating the credibility for the Central Bank to step back from active intervention. Net international reserves ending 2025 around $41-42bn, rising to $45-48bn through 2026 via trade surplus, financial inflows and the US support facilities, would provide sufficient comfort for markets that the government can weather moderate volatility without crisis. If reserves instead stagnate at $39-41bn or decline, market participants rationally conclude that the Central Bank lacks the ammunition to defend the regime, triggering speculative attacks that become self-fulfilling. The reserve accumulation itself requires that the fiscal surplus translates into Central Bank dollar purchases rather than Treasury FX purchases to service debt, necessitating coordination between economic ministries to avoid conflicting objectives.

The alternative approach—accelerating to a free float in mid-2026—carries higher risks but could deliver superior outcomes if confidence remains robust. In this scenario, the government announces in May-June, following successful first-half debt refinancings and with reserves around $44-45bn, that the band will be substantially widened effective immediately, essentially moving to a managed float with interventions limited to extreme volatility. If properly communicated and supported by continued fiscal discipline, this could trigger peso appreciation as capital inflows accelerate and speculation shifts from expecting depreciation to anticipating strength. The currency might trade around 1,550-1,600 per dollar by end-2026, having appreciated modestly in nominal terms, with country risk falling below 500 basis points and international market access fully normalised.

However, the risks of premature floating are substantial given Argentina's history. The 2001 crisis followed the unsustainable defence of a currency board regime, the 2018-2019 crisis saw the peso collapse following attempted liberalisation, and the 2023 crisis emerged from unsustainable exchange controls. International experience with exchange rate transitions suggests that success requires fiscal credibility, adequate reserves, current account surpluses or modest deficits, and credible inflation-fighting institutions.

Argentina has made progress on fiscal credibility and moving toward current account balance, but reserves remain tight and inflation expectations, whilst improved, remain elevated. Premature floating could trigger capital flight, peso collapse, inflation resurgence and growth contraction, undoing the stabilisation achievements.
The October electoral victory helped establish credibility, but maintaining it through 2026 requires avoiding policy reversals or errors that suggest commitment wavering.

5.2 Equity markets: selective opportunities in commodity exporters

Argentine equity markets experienced strong performance through 2025, with the Merval index rising approximately 40-50% in dollar terms (much more in peso terms given depreciation), driven by the combination of economic stabilisation, political clarity following the midterm elections, and global investor appetite for high-beta emerging market exposure. The 2026 outlook for equities is constructive in the base case but faces valuation and execution risks that could limit returns or trigger corrections. The market has largely priced in successful stabilisation and moderate reform progress; delivering returns from current levels requires either better-than-expected fundamentals or multiple expansion driven by ratings upgrades and index inclusion considerations.

The sectoral composition of Argentine equities strongly favours commodity exporters, energy companies and banks, creating natural beneficiaries of the economic transformation underway. YPF, whilst government-controlled and facing privatisation questions, has appreciated dramatically as Vaca Muerta production scales and investors recognise the asset value of Argentina's energy wealth. The company's challenge is translating production growth into profits given that domestic fuel prices remain regulated below international parity, forcing YPF to sell domestically at a loss whilst exporting at world prices.

Privatisation, if implemented, could unlock value by removing political constraints on pricing and capital allocation, though the government's majority stake and fiscal dependence on YPF dividends complicate execution.
Banks provide leveraged exposure to economic recovery through credit growth, net interest margin expansion as rates normalise, and declining provisioning needs as non-performing loans decrease. Banco Macro, Grupo Financiero Galicia and others posted strong 2025 results as credit surged from depressed levels whilst maintaining elevated spreads between deposit and lending rates. The sustainability of banking profitability depends on credit quality as lending expands: if the current recovery proves durable, banks could deliver 20-30% annual return on equity; if instead the economy relapses, non-performing loans surge, requiring provisions that consume earnings. Banks also benefit from securities holdings, particularly government bonds, whose value increases as country risk declines and yields compress, generating trading gains.

5.3 Fixed income: gradual normalisation

Country risk stands around 600-650 basis points. Inflation-indexed bonds offer 7.3-7.7% annual real returns for May 2026-April 2027 maturities, whilst peso interest rates are expected to decline toward 35% by year-end maintaining positive real returns.
6.4 Foreign Direct Investment: RIGI as Catalyst
FDI collapsed to $611mn (0.3% of GDP) first quarter from $6.2bn year-earlier as parent companies reduced loans.

The RIGI framework specifically aims to catalyse FDI in capital-intensive export sectors where Argentina has comparative advantages but historically struggled to attract investment due to policy uncertainty. As of September 2025, 20 projects worth $33.6bn had been submitted, with eight approved totalling $13.067bn. These projects concentrate in energy ($6-8bn range), mining ($4-5bn), and emerging sectors like data centres (the OpenAI Stargate project potentially reaching $25bn though likely deployed over many years). Converting these commitments into actual capital spending is the critical challenge for 2026-2027: announcements mean little if projects stall in permitting, financing arrangements collapse, or political support waivers.

The base case for 2026 FDI envisions $6-8bn inflows, roughly doubling the weak 2025 performance but remaining well below the $12-15bn Argentina achieved periodically in the 2010s during commodity boom years. This projection assumes that 3-5 RIGI projects begin significant capital spending, each deploying $500mn-1.5bn, whilst traditional FDI in consumer sectors, agribusiness and services gradually recovers to contribute another $2-3bn. The concentration in RIGI projects creates vulnerability: if regulatory approvals delay, if commodity prices weaken sufficiently to make projects uneconomic despite RIGI benefits, or if political opposition to specific projects succeeds in blocking development, FDI could disappoint materially.
The optimistic scenario achieving $10-12bn requires RIGI acceleration plus traditional FDI recovery. Downside $3-4bn reflects project delays correlating with broader difficulties.

6.0 Conclusion

Argentina enters 2026 having achieved a remarkable macroeconomic stabilisation from the crisis that greeted President Milei when he took office in December 2023. Annual inflation declined from 211% to 31%, the fiscal primary surplus swung from deficit to 1.4% of GDP surplus, international reserves recovered from critical lows, and the economy returned to growth after a sharp recession. These achievements, delivered through harsh adjustment that cost hundreds of thousands of jobs and tested social cohesion, provide the foundation for potential medium-term recovery. However, the path ahead remains narrow, with the country facing external financing pressures, structural competitiveness challenges and political uncertainties that could derail stabilisation if mismanaged.

The December bond issuance marks a symbolic watershed, demonstrating that international investors are willing to provide financing to Argentina at yields that, whilst elevated, reflect confidence in improved policy direction rather than distressed pricing. The critical question for 2026 is whether this market reopening proves durable or ephemeral. Successfully refinancing the $10bn+ external obligations falling due in the first half without depleting reserves requires the US Treasury facility, private bank loans, and sustained bond market access all delivering as anticipated. If any component disappoints materially, Argentina faces the uncomfortable choice between sharply depleting reserves, accepting currency depreciation that reignites inflation, or imposing capital controls that would undermine the liberalisation achievements.

October's victory gives Milei momentum, though achieving congressional majorities requires coalition-building. Labour, tax and pension reforms could improve competitiveness but face formidable opposition.
The relationship with the Trump administration provides crucial financial backstop but creates dependencies and constraints that could become problematic. The US $40bn support package, combining the private facility and

Treasury-funded currency swap, significantly reduced Argentina's near-term default risk and provided the confidence boost necessary to reopen international markets. However, the explicit conditioning of support on policy reforms rather than electoral cycles—Scott Bessent's "policy-specific, not election-specific" formulation—implies that backsliding on fiscal discipline or structural reforms could trigger support withdrawal.

Moreover, Trump administration policies on trade, where Argentina received tariff exemptions denied to regional partners, create tensions within Mercosur and raise questions about sustainable regional integration strategy.
The inflation deceleration from 211% to around 30%, whilst dramatic, leaves Argentina far from price stability typical of successful market economies. Further disinflation from 30% to 10-15% by end-2026, as projected in the base case, requires continued monetary and fiscal discipline combined with currency stability that allows expectations to anchor at lower levels. The July monetary policy shift to aggregate targeting, whilst ideologically pure, created volatility that nearly derailed stabilisation and suggests that the Central Bank's institutional framework requires further refinement to provide the credible nominal anchor that successful inflation-targeting requires.

The exchange rate regime transition from managed band to eventual float represents the most sensitive policy challenge for 2026, with a narrow margin for error between premature floating that triggers collapse and excessive management that prevents necessary adjustment.
The poverty reduction from 53% to 38% between early 2024 and late 2024 demonstrates that stabilisation, despite harsh adjustment, can deliver improvements in social welfare relatively quickly when inflation moderates and real wages begin recovering.

However, poverty at 38% remains unconscionably high for a country of Argentina's natural endowments and human capital, and further reduction requires not just macroeconomic stability but employment generation, improved educational outcomes and social mobility that depend on structural reforms and sustained growth over years to decades. The political sustainability of the stabilisation programme depends on delivering tangible welfare improvements to the majority of Argentines who bore adjustment costs, a test that extends well beyond 2026 and requires patience from a population with rational scepticism given decades of failed promises.

The base case (60%) of 3-4% growth and 15-20% inflation whilst navigating refinancing represents the most probable outcome. The optimistic scenario (25%) of 5-6% growth with full reform implementation would be transformative. The downside (15%) acknowledges tail risks from fragile external financing.
"Is it different this time?" – the questions many started to ask when Milei won the 2023 presidential election on bold promises and radical economic plans – remains unanswered, though distinguishing factors include crisis severity creating adjustment willingness, stronger electoral mandate, structural export demand from energy transition, and US financial support.

For investors, selective engagement is warranted: RIGI projects offer appropriate risk-adjusted returns, whilst bonds provide attractive carry if stabilisation continues.

For 2026, success hinges on three tests: refinancing external obligations without crisis, maintaining fiscal discipline whilst advancing reforms, and managing exchange rate transition toward float. If met, Argentina could achieve 3-4% growth, inflation around 15%, and lay foundations for sustained recovery.