From Crisis to Cautious Optimism: Argentina's Economic Shifts in 2024-25

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Argentina's economy has undergone a notable transition under President Javier Milei's administration, marked by ambitious reforms aimed at stabilizing inflation, addressing fiscal imbalances, and reshaping monetary policy. The government's initial steps included a sharp 54% devaluation of the peso, fiscal austerity measures, and significant monetary policy shifts to curb inflationary pressures. These moves, while necessary for long-term stability, led to short-term economic pain, which is reflected by six consecutive quarters of contraction, before the GDP saw growth in Q4 2024. Poverty levels rose to over 50% in the first half of 2024, according to the government's INDEC Statistical Agency. Despite these hardships, certain economic indicators have shown signs of improvement, offering a cautious sense of optimism.

Addressing the eternal distortions of the Argentinian economy

Argentina's economic challenges stem from elevated inflation, high fiscal deficit, and foreign exchange restrictions. The use of LELIQs (Letras de Liquidez) and parallel exchange rates reflects attempts to manage these issues, but they often create new distortions.

1. **LELIQ debt spiral distortions phased out**

   LELIQs were short-term liquidity bills issued by Argentina's Central Bank (BCRA) to control the money supply in the economy and reduce inflation. The idea was to keep extra money out of circulation by letting banks invest in these securities instead of lending or spending it. However, since the Central Bank had to constantly renew (or "roll over") these securities and pay very high interest rates, its debt kept growing. Over time, this created a substantial financial burden, as the Central Bank had to print more money to cover these interest payments—ironically making inflation worse instead of better.

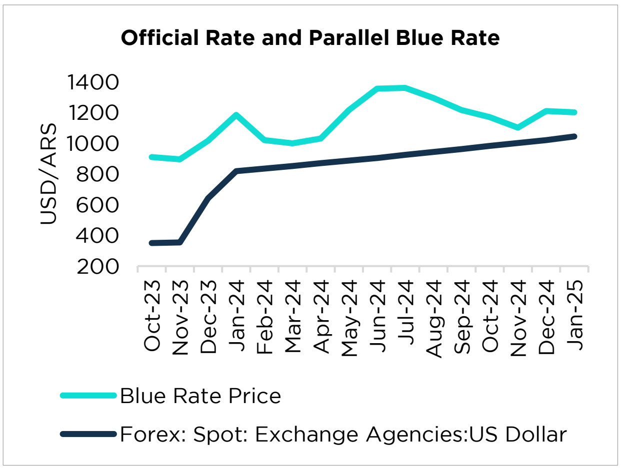
   To address this issue, in December 2023, the BCRA replaced LELIQs with overnight reverse repos as its primary monetary tool and, lowered the benchmark rate to 100% from 133% (it came down further to 29% in January 2025). Unlike LELIQs, overnight repos allow daily adjustments, giving the BCRA greater control over liquidity and interest rates. This move reduces long-term interest obligations, slows monetary expansion, and helps stabilize the peso. Additionally, banks now have more flexibility to lend to businesses and consumers, potentially reviving credit markets. This shift marks a strategic pivot to break Argentina's debt spiral while maintaining financial stability amid high inflation.

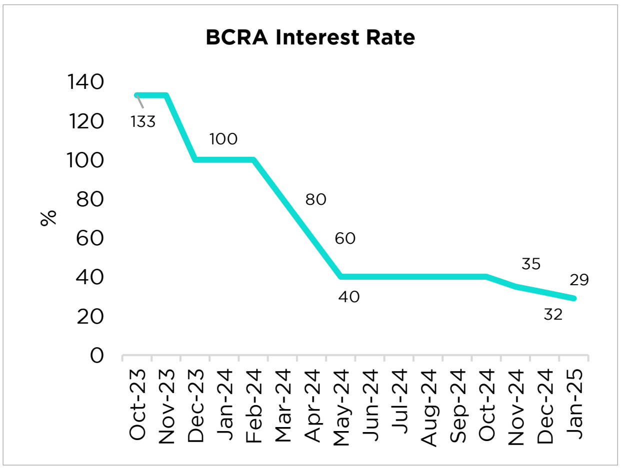
2. **Parallel exchange rate problem addressed, but only through short-term fixes**

   Argentina's foreign exchange controls have led to the development of multiple exchange rates, each serving different purposes but ultimately distorting the economy. The official exchange rate, controlled by the BCRA, is kept artificially low to curb inflation and reduce import costs. However, strict regulations limit access to dollars, creating a shortage. This forces individuals and businesses to turn to alternative markets, such as the Blue Dollar, which is the black-market rate that trades significantly higher due to capital controls. Additionally, financial mechanisms like the CCL (Contado con Liquidación) and MEP Dollar allow companies and investors to acquire dollars legally through stock market transactions. While the CCL enables funds to be transferred abroad, the MEP remains within Argentina, offering an alternative for those unable to access official foreign exchange.

   The widening gap between the official and parallel exchange rates has fuelled inflationary pressures and economic inefficiencies. Many businesses set prices based on the higher parallel exchange rate, leading to cost-push inflation, which raises prices across the board. Importers, unable to access dollars at the official rate, are forced to pay the inflated parallel market rate, increasing the cost of imported goods and worsening inflation. Conversely, exporters are required to sell their earnings at the lower official rate, disincentivizing exports and reducing foreign currency inflows. This creates a mismatch where businesses pay more to acquire dollars but earn less when selling them. As a result, many companies and individuals hoard dollars as a hedge against devaluation, exacerbating the currency crisis. The more people and firms hold onto dollars, the weaker the peso becomes.

To address these distortions, the government introduced a 54% devaluation of the official exchange rate, followed by a gradual devaluation of 2% per month, which has now been reduced to 1% as of February 2025. While this has helped narrow the gap between official and parallel rates and provided temporary relief, the economy remains in a fragile position. The ongoing capital flight through CCL transactions continues to drain investment from Argentina, and the pressure on the BCRA to intervene in the forex market depletes its foreign reserves. Without deeper structural reforms, such as a unified exchange rate system along with confidence-building measures to reduce reliance on parallel markets, the risk of further currency devaluation remains high. The exchange rate crisis highlights Argentina's broader economic instability, where short-term fixes have mitigated immediate risks, but establishing long-term stability remains a challenge.



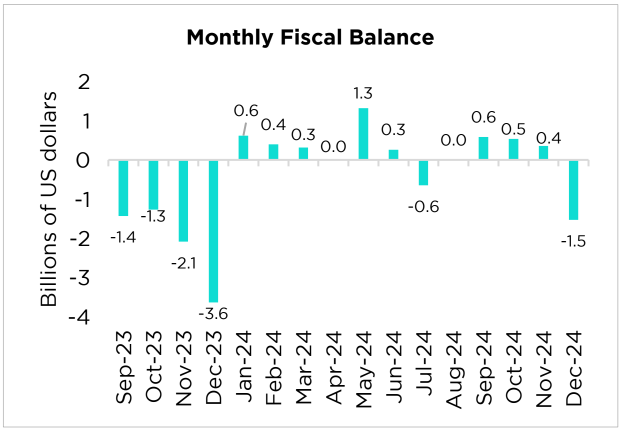


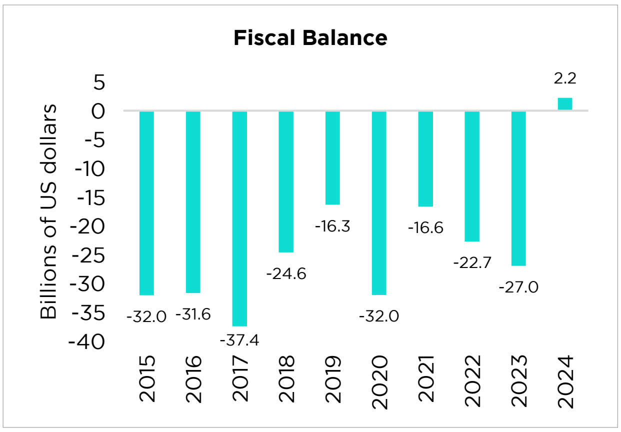
Sources: CEIC

Argentina's Economic Wins: Encouraging Signs, But Stability Not Assured

1. Government Finances

A key pillar of government's economic strategy was the Zero-Deficit goal, a bold departure from Argentina's long history of fiscal imbalances. In 2024, the country achieved a rare and significant fiscal surplus of USD 2.2 billion, led by fiscal reforms such as (i) phasing out of energy subsidies, which accounted for 1.6% of GDP in 2023, (ii) elimination of public transport subsidies, (iii) reduction in size of government. However, the question arises about the sustainability of this trend since it is largely driven by expenditure cuts.





Sources: CEIC

2. Trade Surplus

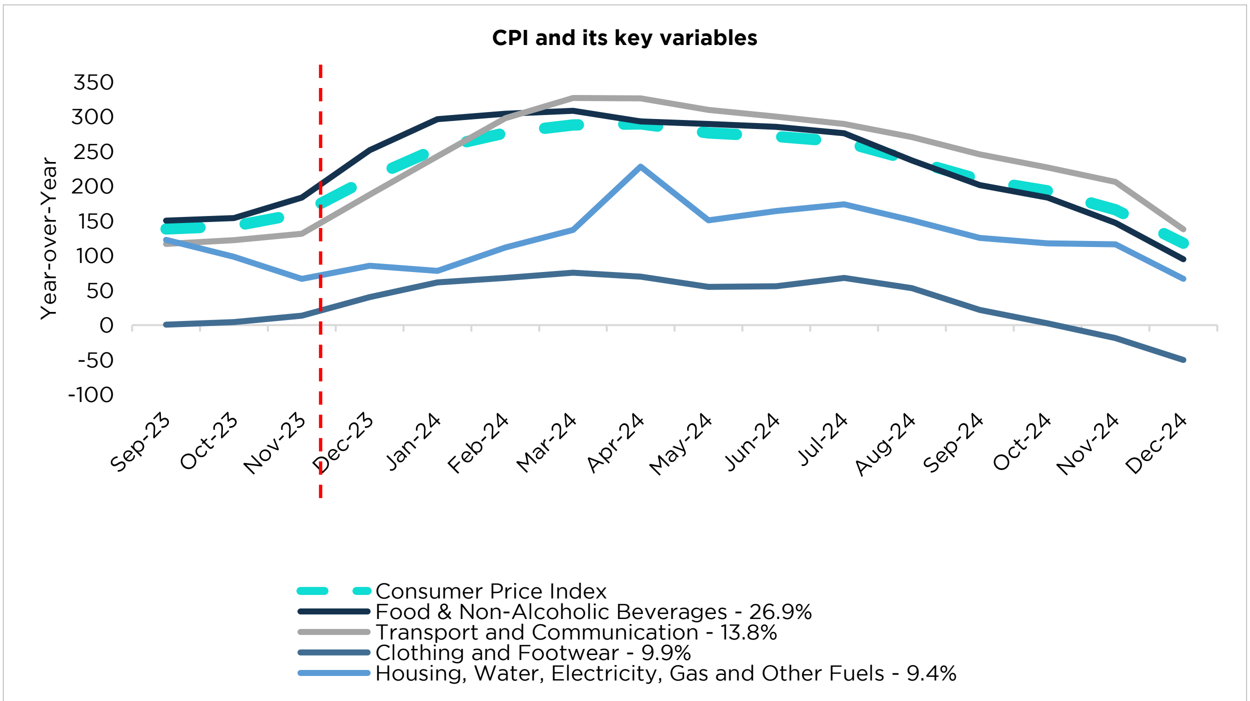
Argentina is a leading global exporter of soy oil, meal, corn, wheat, and beef, and it possesses significant reserves of lithium, shale gas, and oil. Government has relaxed currency controls to promote exports. Additionally, the Government has eased imports of consumer goods to boost competition and lower prices, while also reducing tariffs on agricultural and automotive inputs to enhance competitiveness.

In 2024, Argentina's exports reached USD 79.7 billion, up 19.4% (YoY), driven by a 26.7% increase in export volumes, despite a 5.8% drop in prices, mainly due to exports of soybean meal and pellets, crude soybean oil and wheat. Imports fell 17.5% to USD 60.8 billion, with declines in both prices (-4.0%) and quantities (-14.0%), mainly due to lower costs and reduced imports of fuels, lubricants, and industrial goods, though motor vehicle imports increased. This shift turned a USD 6.9 billion trade deficit in 2023 into a record USD 18.9 billion trade surplus in 2024.

3. Relief in inflation despite broader economic challenges

Argentina's inflation surged from 161% YoY when the current government came into power to a peak of 292% YoY in April 2024, driven by a 54% peso devaluation and fiscal austerity measures. While prices rose across most sectors, housing and utilities inflation saw a sharp jump from 137% to 228% YoY in April due to subsidy cuts and increased gas, water, and electricity tariffs. A significant change was the introduction of higher fixed gas charges, which led to steep increases in household utility bills.

However, some price relief emerged later in 2024. Food prices began falling from September as exchange rate stabilization reduced import costs, and agricultural recovery following the 2023 drought boosted food supply. Clothing and footwear prices also dropped significantly (-50% YoY in December 2024) as weak consumer demand forced retailers to slash prices and clear excess inventory. Trade liberalization, including tariff reductions and the removal of import restrictions, further increased competition, contributing to price declines despite broader economic challenges. As of March 2025, inflation stood at 55.9% YoY.



Sources: CEIC

4. **Commodity outlook**

   Argentina is on the verge of an economic shift, driven by its vast natural resources. It holds the world's fourth-largest shale oil reserves and is second only to China in shale gas reserves. In 2024, Argentina became a net energy exporter for the first time in 18 years, and by 2025, it is set to surpass Colombia as South America's third-largest crude oil producer.

   Additionally, China's Ganfeng Lithium has started lithium production at its Mariana project, boosting the country's role in the global battery supply chain. This energy and mineral growth could expand Argentina's trade surplus, replenish foreign reserves, and improve debt repayment capacity, potentially transforming its economic outlook.

The key monitorables

1. **Political Uncertainty**

   2024 was a transformative year for President Javier Milei and Argentina, but as 2025 begins, a major challenge will shape the future of this stabilization program. In the October 2025 mid-term elections, half of the lower house and a third of the Senate are up for renewal. With La Libertad Avanza (LLA; Milei's political party) holding limited congressional power, a strong performance could solidify Milei's influence, strengthen governance, and boost economic confidence. Success in the mid-terms would also position LLA as a key political force ahead of the 2027 presidential elections, ensuring the continuation of his reforms.

2. **Tariffs**

   In light of the global trade tensions resulting from the tariffs imposed by the Trump administration, Argentina received a 10% base tariff. However, an exemption on petroleum—which represents a notable share of Argentina's export basket—provides some relief. Though the tariffs are currently paused for 90 days, Argentina may be less vulnerable, if and when they are implemented. Exports to the United States make up a relatively small portion of Argentina's trade, suggesting a contained exposure, as the U.S. is not Argentina's primary trading partner. Nevertheless, the actual impact of these measures remains uncertain and requires ongoing monitoring.

Way ahead

Argentina's economy has made measurable progress under the current administration, with declining inflation, a record trade and fiscal surplus, and a more sustainable monetary policy framework. However, the country stands at a critical juncture, where the success of ongoing reforms hinges on maintaining economic stability while addressing social concerns. Looking ahead, Argentina's ability to sustain growth will depend on a delicate balance between fiscal prudence and social welfare, exchange rate stability, and investor confidence. While signs of cautious optimism have emerged, challenges remain, making the road to recovery both complex and uncertain.

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