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MILLION

NET ASSET VALUE PER SHARE
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SINCE INCEPTION*

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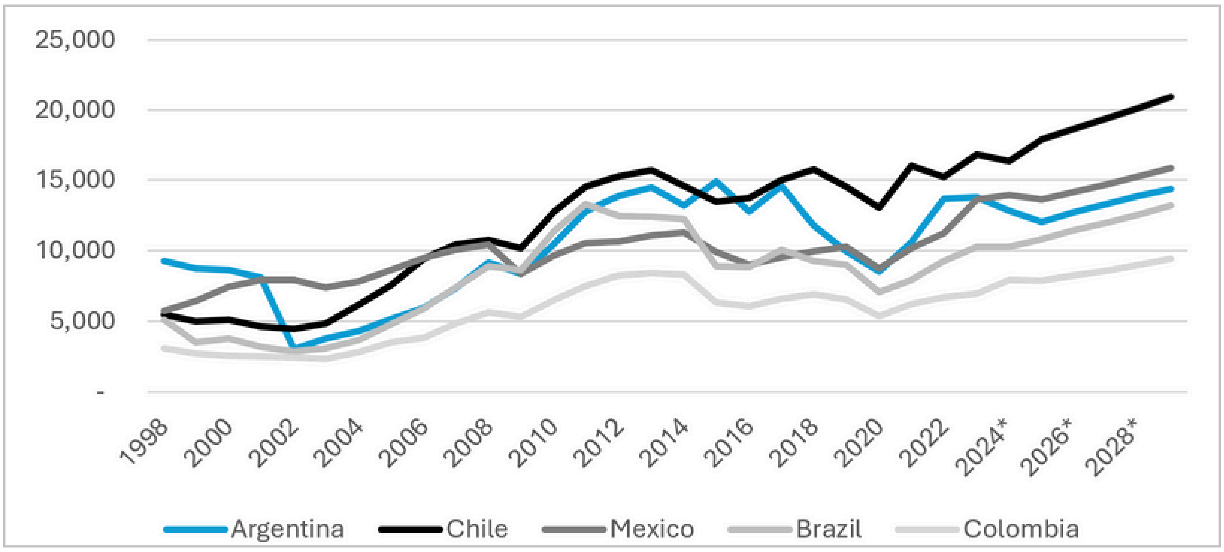
Is this time different? A pivotal moment for Argentina

May 2025

When we think of Argentina, the country is not only renowned for its world-class football and tango, but also for the macroeconomic turbulence it has faced over the past decades. In the late 19th and early 20th centuries, Argentina was among the world's wealthiest nations. According to data from the Maddison Project[1], between 1895 and 1896, Argentina had the 5th highest GDP per capita globally, surpassing countries like Belgium, Netherlands and Germany.

GDP per Capita (USD)



Source: IMF - World Economic Outlook - Oct, 24

However, Argentina's decline began in the mid-20th century, marked by populist economic policies, weakening of institutions, and recurrent crises[2]. Notably, Argentina recorded fiscal deficits in 113 of the past 123 years[3] and has witnessed 9 defaults in its history[4]. While moments of relief, such as the post-2001 debt restructuring and commodity booms, offered temporary respite, they ultimately fell short of resolving the country's deeper structural issues.

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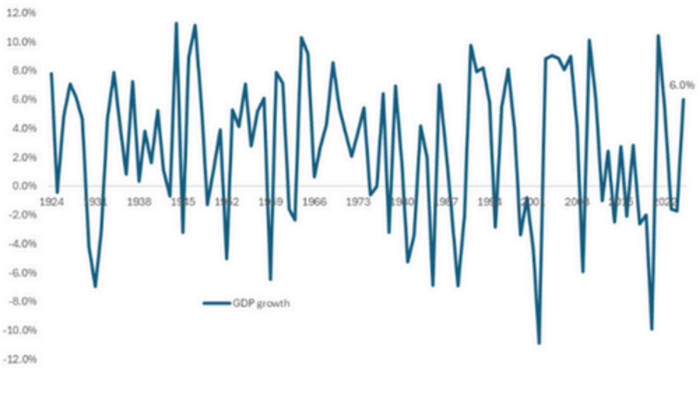
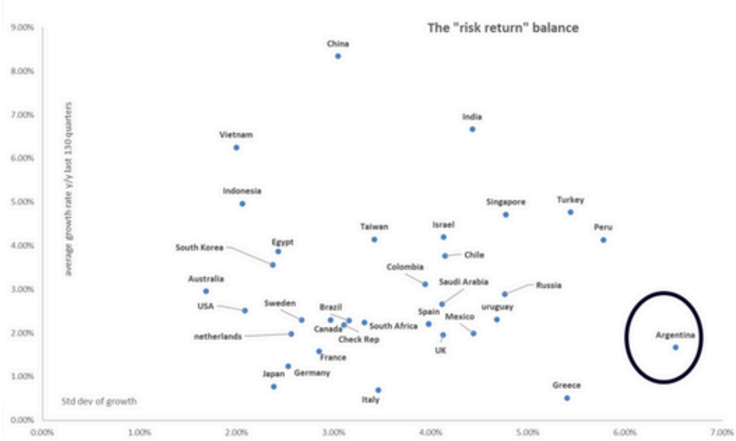
Argentina's high GDP growth volatility:



Source: BTG Pactual / INDEC



Source: BTG Pactual

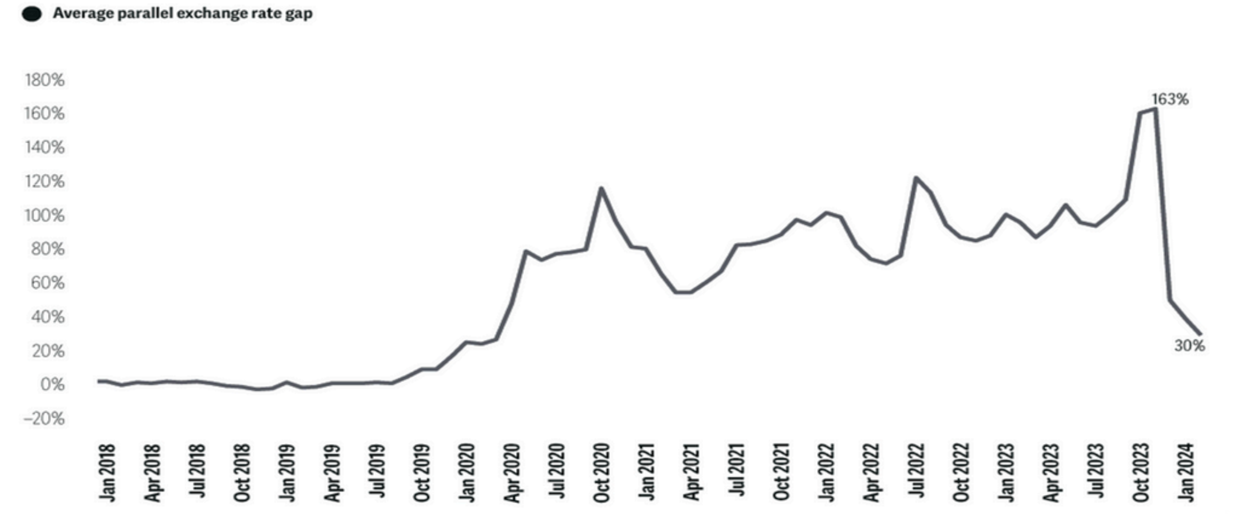
From 2013 to 2023, macroeconomic conditions deteriorated significantly. The country faced severe fiscal imbalances, rapid monetary expansion, and a collapse in central bank credibility. Consumer inflation reached 211.4% YoY by the of end of 2023[5]. Price controls exacerbated market distortions, causing shortages of several essential goods, while GDP contracted in real terms. Fiscal deficits remained entrenched, reaching 4.4% of GDP in 2023[6] and largely financed through inflationary money printing, whilst the central bank's net foreign reserves had negative

Structural Fiscal Deficit (%)

Source: IMF - World Economic Outlook - Oct, 24

Exchange rate controls significantly exacerbated macroeconomic imbalances and undermined external competitiveness. The existence of multiple exchange rates, most notably the official rate and the parallel "blue-chip" rate, led to severe FX misalignment. Prior to Milei's adjustments, the gap between the official and parallel rates widened to over 160%, reflecting a lack of confidence in the Argentine Peso and limiting access to foreign currency for imports and investment. Following Milei's initial devaluation, the gap has narrowed substantially. This adjustment is a key step toward eventual FX unification, and normalising trade and capital flows.

The parallel exchange rate significantly declined following Milei reforms:



Source: From Deloitte with data from Ecosignal, based on Ambito Financiero and Central Bank of Argentina

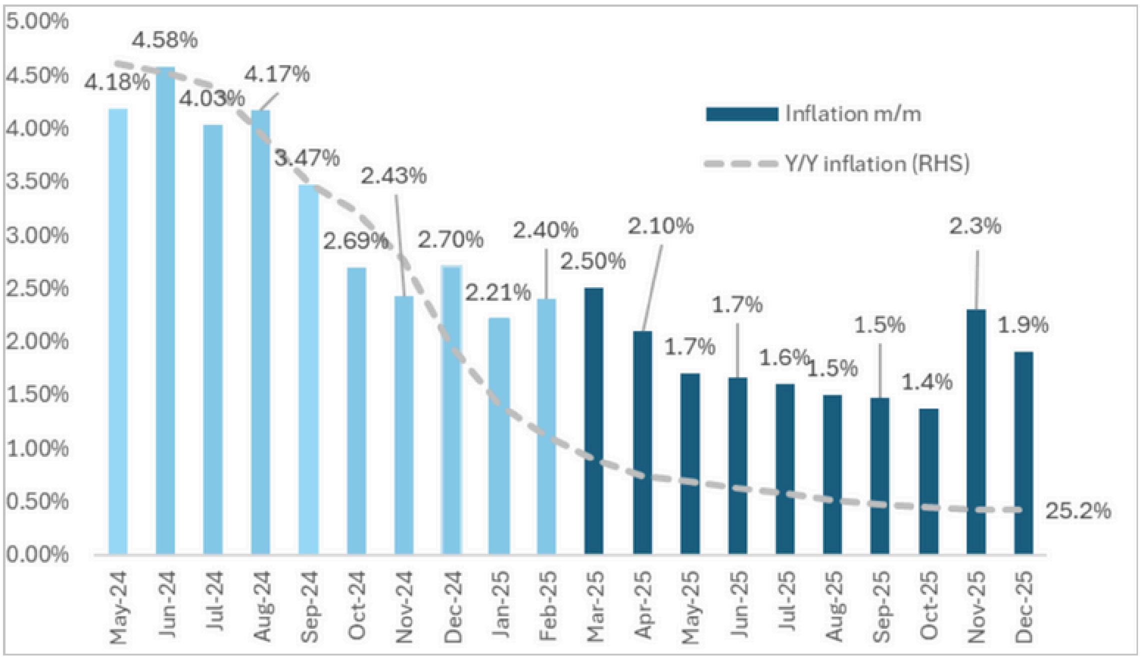
Amid this context, the November 2023 presidential election marked a pivotal political and economic shift. Javier Milei, a libertarian economist and political outsider, was elected president with 55.7% of the runoff vote, defeating former finance minister Sergio Massa[7]. Milei campaigned on a platform of radical economic liberalism, fiscal consolidation, and deregulation. His messaging resonated particularly with younger voters and the private sector, emphasising a rejection of the political establishment and a commitment to transformative change. Notably, Milei's campaign was supported by pragmatic alliances with centre-right figures such as former President Mauricio Macri and Patricia Bullrich, which expanded his electoral reach and support.

Upon assuming office, the Milei administration launched an aggressive stabilisation plan aimed at achieving macroeconomic equilibrium and restructuring the role of the state. Fiscal consolidation was the cornerstone of the program, with the government targeting an aggressive budget to achieve surplus by 2024. Measures included significant cuts to government expenditures[8], downsizing of ministries, suspension of public works, layoffs in the public sector, and a reduction in energy and transport subsidies. Inflationary erosion of public wages and pensions also added to the adjustment. Milei introduced temporary tax increases, though some direct social assistance was maintained and restructured to limit intermediaries and better assist vulnerable populations directly.

On the monetary and FX front, the government implemented a sharp devaluation of the official exchange rate, followed by a crawling peg - a system in which the exchange rate is adjusted gradually over time, in this case initially at 2% monthly - to avoid abrupt fluctuations while containing inflation. Simultaneously, it curtailed monetary financing of the deficit, contributing to the stabilisation of inflation dynamics. A sweeping deregulatory agenda was also introduced, anchored by the Mega-Decree (Decree 70/2023), which reversed rent controls and supply laws, while facilitating the privatisation of state-owned enterprises and labour market reforms. Additional measures, including the comprehensive "omnibus bill" (Basis Law), were submitted to Congress to advance tax reform, privatisation, and investment incentives such as the RIGI (Régimen de Incentivos para Grandes Inversiones) regime aimed at attracting large-scale capital. Complementing this legislative effort, the government created a dedicated Deregulation Ministry tasked with eliminating bureaucratic barriers, with new deregulatory measures announced almost daily to streamline processes and enhance competitiveness.

Despite holding a minority position in Congress (15% of representatives and 10% of senators)[9], the government succeeded in implementing key elements of its agenda. The early results were notable: Argentina recorded its first annual fiscal surplus in over a decade in 2024 (0.3% of GDP nominal surplus and a 1.8% primary surplus)[10], surprising even the most optimistic economists, and monthly inflation decelerated to 2.4% in February 2025 (equivalent to an annualised rate of 66.9%) as per INDEC. While the aggressive stabilisation plan initially led to a 1.7% contraction in GDP in 2024[11], it laid the groundwork for a sustainable recovery.

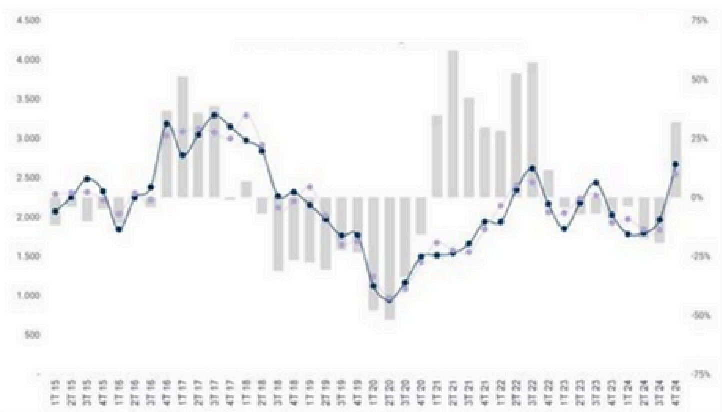
Significant disinflation process since 2024:

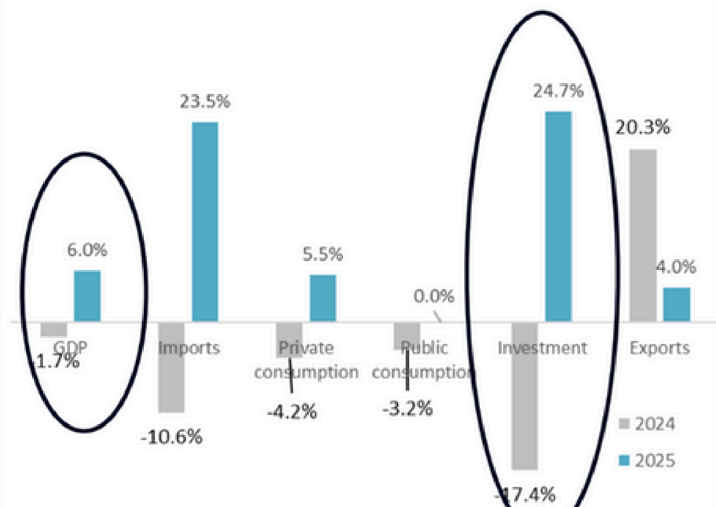


Source: BTG Pactual / INDEC

As confidence returns and market distortions are gradually corrected, GDP is projected to rebound strongly, with growth forecasts of 5.0% in 2025 and 4.7% in 2026[12]. As inflation expectations moderate (forecasts around 23.3% in 2025[13]), the central bank is expected to continue reducing policy rates. The poverty rate, which had surged above 40%[14] amid the impact of the adjustments, began to decline in the second half of 2024. It fell by 15 percentage points during this period, reaching 38.1%[15] and bringing it below the level recorded before the reforms were implemented. Also, as shown in the chart below, capital goods imports, an investment growth proxy, improved in 4Q24, entering positive territory for the first time since 2022, leading to strong growth expectations in 2025.

Capital goods imports (left) and GDP breakdown (right):

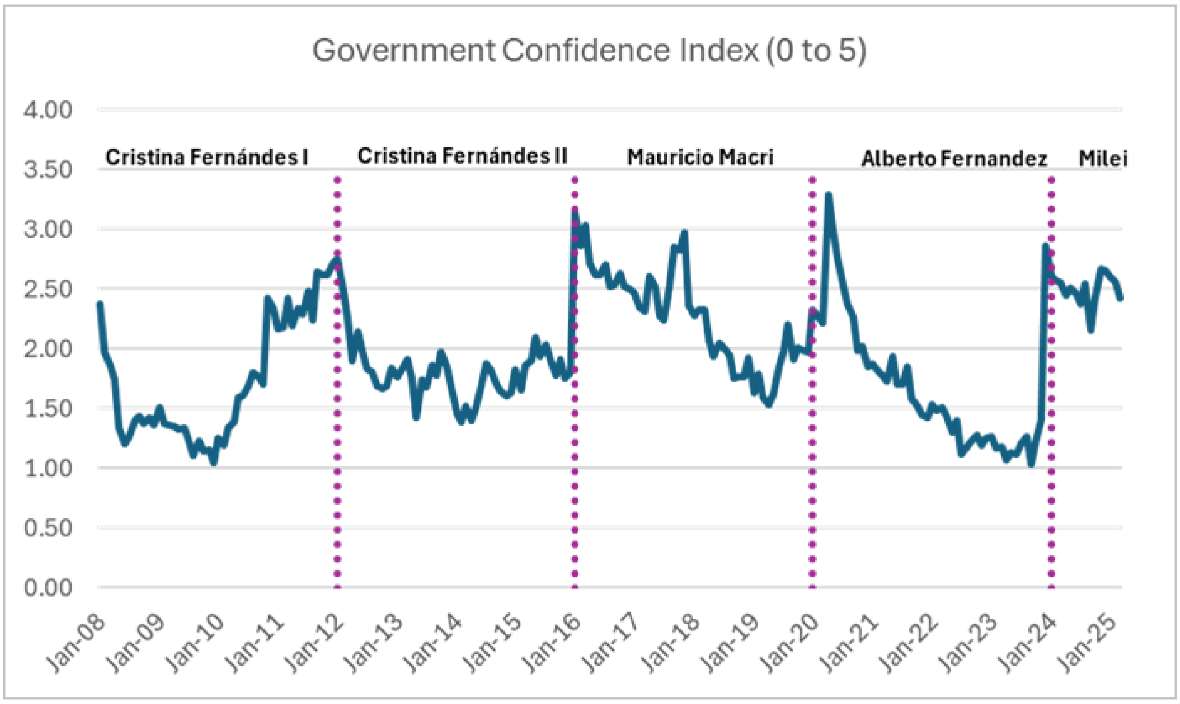




Source: BTG Pactual / INDEC

Source: BTG Pactual / INDEC

Public support has been a critical enabler of the government's program. Despite initial recessionary conditions and a contraction in real incomes, public confidence in the administration has remained resilient, supported by the perception of necessary, albeit painful, reforms. Sustained approval has been essential not only for the continuation of the stabilisation plan but will be key for the October 2025 mid-term elections, which will renew 1/3 of Senate and half the Chamber of Deputies, serving as a test of President Milei's reform agenda and could boost governability, supporting the government to continue with the necessary adjustments.



Source: Índice de Confianza en el Gobierno. Escuela de Gobierno. Universidad Torcuato Di Tella

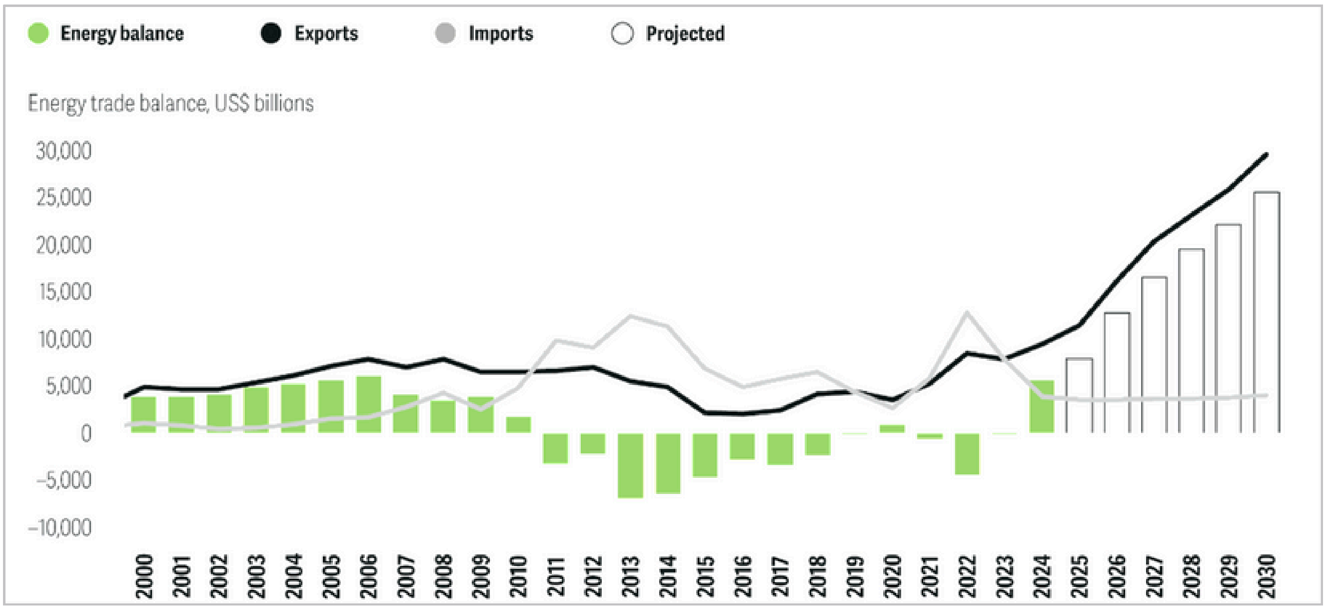
In April 2025, Argentina announced a key program to accelerate the liberalisation of its foreign exchange regime, moving from a crawling peg to a managed floating rate within an exchange rate band set between ARS 1,000 and 1,400, widening 1% per month. The elimination of the dollar blended scheme and the removal of capital flow restrictions for individuals mark a significant shift toward FX market normalisation, while part of the capital controls for companies will remain in place for now. This new framework, supported by the central bank's tighter monetary policy and a strengthened nominal anchor, is designed to stabilise inflation and restore credibility. To help mitigate near-term risks - especially the inflationary impact of a likely higher FX equilibrium - the central bank has committed to a restrictive monetary stance, aiming to limit liquidity and maintain positive real interest rates to curb inflation and support demand for the peso.

This foreign exchange reform and removal of capital controls are underpinned by substantial international support. The International Monetary Fund (IMF) approved a USD 20 billion Extended Fund Facility (EFF), of which USD 12 billion has already been disbursed, with additional inflows from multilaterals such as the World Bank (USD 12 billion) and International Development Bank (USD 10 billion). Combined with two new repo agreements and a renewed USD 5 billion swap line with China's Central Bank (PBOC), Argentina will have over USD 23 billion in freely available resources to stabilise the FX market and address maturing debt obligations. The IMF programme imposes stringent fiscal and structural conditionalities, including a reinforced fiscal anchor targeting a 1.6% of GDP primary surplus in 2025, alongside commitments to continue reducing the size of the state and unlock private investment.

In parallel with macroeconomic reforms, Argentina's oil and gas sector presents a significant strategic opportunity for the country. The Vaca Muerta shale formation, located primarily in the Neuquén province, in Southwestern Argentina, holds world-class reserves of shale oil and gas, ranking 4th and 2nd globally, respectively. Exploitation of these resources has reshaped Argentina's energy matrix and its exports potential.

As of 2024, unconventional reservoirs such as shale and tight formations—which refer to oil and gas trapped in low-permeability rock that requires advanced techniques like hydraulic fracturing to extract - account for approximately 55% of total oil and gas production, up from less than 20% in 2019[16]. Energy production has reached its highest level in nearly two decades, driven by operators such as YPF (state-controlled), Vista, Pan American Energy, Tecpetrol, Shell, and Pampa Energía. Infrastructure projects including the Vaca Muerta Sur pipeline and the Argentina LNG export terminal are key to unlocking further export potential. These developments require substantial investment in infrastructure overall, such as pipelines, storage facilities, port terminals, and others, creating significant investment opportunities. Over time, increased energy exports are expected to reverse the historical energy trade deficit and generate a significant external surplus.

Energy trade balance – Oil & Gas to become a significant source of USD

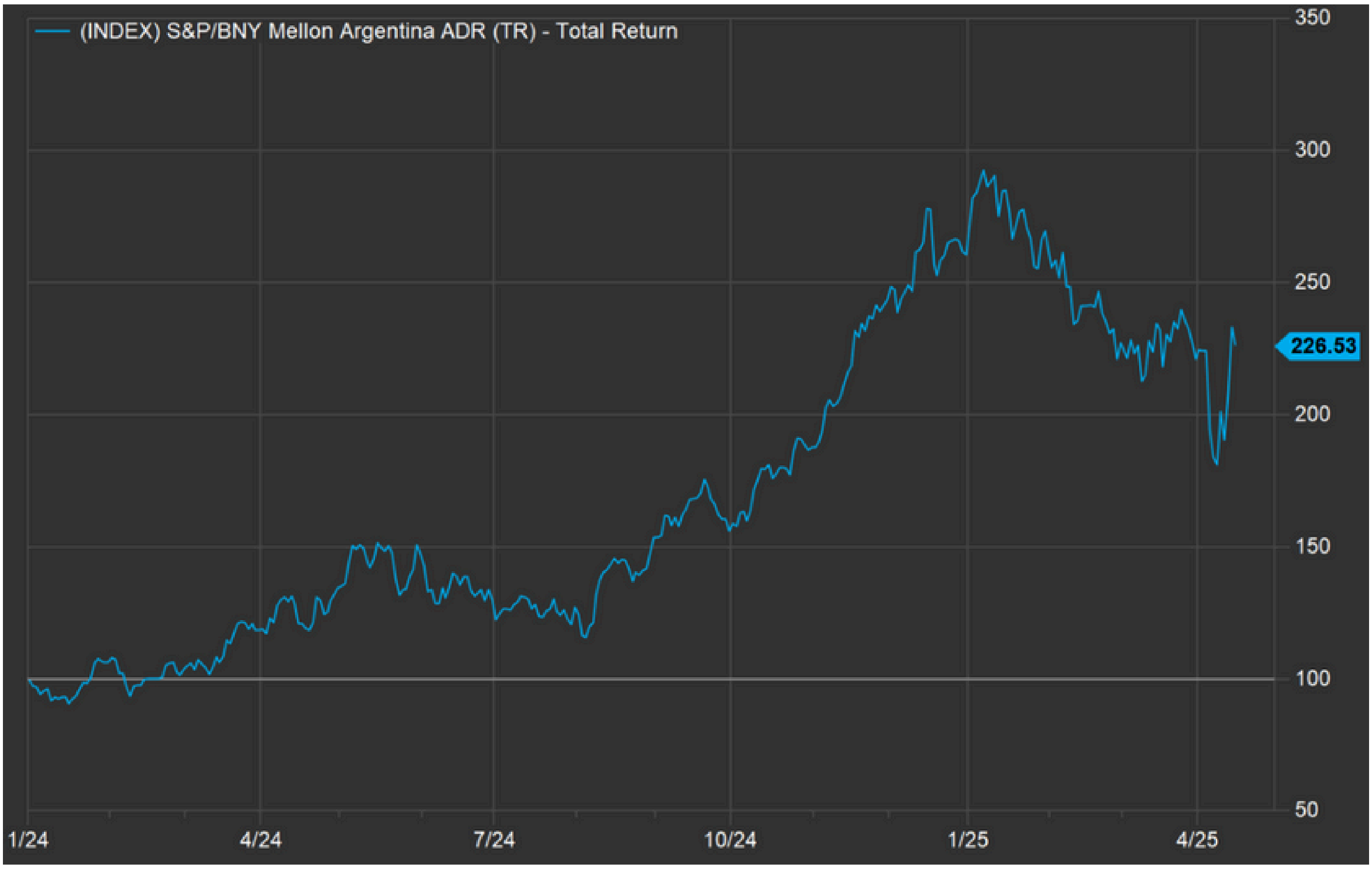


Source: From Deloitte with data from INDEC and Central Bank of Argentina

The Milei administration views its initial reforms as only the first phase of a broader structural transformation. The long-term agenda includes continued deregulation, the gradual unification of exchange rates, and the eventual removal of all capital controls. On monetary policy, the government aims to move toward a framework that includes positive real interest rates and potentially currency competition or dollarisation. The government continues to reiterate that maintaining fiscal balance remains a core policy anchor.

Nonetheless, several risks remain. The key challenge is whether the population can withstand the economic hurdles without triggering social unrest or political backlash. Execution risks are elevated given the scope and pace of reforms. External vulnerabilities, such as adverse weather conditions or global economic headwinds, could also complicate the recovery trajectory. However, the recent approval of the IMF program represents a positive development that, if effectively implemented, could help sustain macroeconomic stability and reinforce investor confidence.

Milei's administration's reform agenda has sparked a significant rally in Argentine assets and change in investor sentiment. In 2024, the S&P Argentina ADR Index delivered a total return exceeding 160% in USD. This market rebound has been underpinned by growing confidence in the government's commitment to in structural reform and stabilisation, despite ongoing execution risks and external vulnerabilities. However, this strong performance has partially reversed year-to-date in 2025, with the S&P Argentina ADR Index falling 13.2%[17], likely reflecting profit-taking after last year's sharp gains and increased global macroeconomic uncertainty.



Source: Factset (index = 100)

Argentina is currently undergoing one of the most ambitious economic overhauls in its modern history. While implementation risks are considerable, the early signs of stabilisation and structural reform are promising. As such, these developments warrant close monitoring. With the macroeconomic environment improving, Argentina may present attractive investment opportunities, and Utilico Emerging Markets has been closely monitoring the country's progress with a view toward identifying investment opportunities as conditions evolve.

Eduardo Greca
22 May, 2025

Source Data: ICM Limited.

[1] [1] Maddison Historical Statistics | Historical Development | Groningen Growth and Development Centre | University of Groningen
[2] PWC - Doing Business in Argentina
[3] Argentina's Milei revs up chainsaw and blender in fiscal deficit attack | Reuters
[4] Argentina defaults on debt, again – DW – 05/23/2020
[5] INDEC - Instituto Nacional de Estadística y Censos de Argentina
[6] Argentina economic outlook | Deloitte Insights
[7] Argentina: Outcome of the 2023 elections
[8] Argentina's Milei marks one year in office. Here's how his shock measures are reshaping the economy | The Associated Press
[9] A successful minority Presidency: Javier Milei's first year | PEX
[10] Milei's Argentina seals budget surplus for first time in 14 years | Reuters
[11] Informe de avance del nivel de actividad. Cuarto trimestre de 2024
[12] World Bank forecasts 5% growth for Argentina in 2025 | Buenos Aires Times
[13] Argentina analysts see 2025 inflation at 23.3% | Reuters
[14] Incidencia de la pobreza y la indigencia en 31 aglomerados urbanos. Segundo semestre de 2024
[15] Poverty dropped to 38.1% in second half of 2024, reveals INDEC | Buenos Aires Times
[16] Argentina oil and gas | Deloitte Insights
[17] FactSet

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