The government faces the challenge of correcting significant macroeconomic imbalances while ensuring the protection of the most vulnerable. Priorities include eliminating the fiscal deficit, realigning prices, and strengthening the Central Bank’s balance sheet. Inflation surged in December but is now declining. Despite the expansion of social programs, poverty rose to an estimated 12.4 percent in 2023. The economy is projected to shrink by 2.8 percent in 2024, with poverty reaching 15.1 percent.

Argentina has faced a decline in GDP per capita over recent decades, marked by a history of recurrent fiscal deficits and highly procyclical fiscal policies. These factors have contributed to economic volatility and repeated crises. Macroeconomic distortions have eroded Argentina’s competitiveness and hindered export diversification, thereby impeding the country’s ability to fully capitalize on its comparative advantages in agroindustry, as well as in select manufacturing and service sectors. As a major food producer, the country has become increasingly susceptible to weather-related shocks.

The country is now confronting the challenge of rectifying significant and enduring macroeconomic imbalances while preserving social stability. The central bank’s monetary financing of persistent fiscal deficits over the last decade has resulted in soaring inflation, which reached triple digits in 2023. The implementation of multiple price controls has led to price misalignments, causing resource misallocation and complicating efforts towards economic stabilization.

To address these macroeconomic imbalances and rebuild economic confidence, comprehensive reforms are essential. The immediate priority is a fiscal consolidation strategy that halts the monetary financing of the fiscal deficit while safeguarding the poor. Such a strategy would need to be coupled with measures to strengthen the Central Bank’s balance sheet and refine the monetary policy framework. Bold reforms are needed to remove barriers to growth, including by improving education outcomes and enhancing the business climate. These reforms (along with a credible and sustainable macroeconomic policy framework) are critical for encouraging private sector investment and job creation.

The labor market’s apparent resilience in 2022-2023, with record low unemployment rates of around 6 percent, belies an unsustainable increase in public employment and a surge in vulnerable independent workers. Informal employment continues to be widespread, accounting for nearly 40 percent of the labor force. Concurrently, real wages have declined by an average of 25 percent between 2018 and 2023, resulting in income losses for all population segments, especially the middle class. Urban poverty rose from 10.9 percent in 2022 to an estimated 12.4 percent in 2023, based on the international poverty line of US $6.85 per day (2017 PPP).

**Recent developments**

The economy is estimated to have contracted by 1.6 percent in 2023, largely due to persistent macroeconomic imbalances, a severe drought that led to a 26 percent year-over-year decline in agricultural production, and related export losses amounting to approximately US$20 billion. The current account deficit expanded to 3.5 percent of GDP, exacerbating pressures on...
international reserves. The trade balance turned into a deficit of US$6.9 billion, driven by a 24 percent fall in exports, which exceeded a 10 percent decrease in imports. Net international reserves were estimated to be negative US$8.0 billion at the end of the year. The drought-induced revenue shortfall, combined with increased spending and tax cuts prior to the presidential elections, widened the Federal Government’s fiscal deficit to 4.2 percent of GDP.

A new administration assumed office on December 10 2023 and immediately began implementing a stabilization program. It announced an ambitious program aiming for a fiscal consolidation target of 5 percentage points of GDP for 2024, along with measures to correct relative price misalignments, fortify the Central Bank’s balance sheet, and deregulate the economy. Key initiatives included a one-time devaluation of the official exchange rate by 55 percent, the introduction of a monthly crawling peg rate of 2 percent, the removal of import controls, and strategies to address the significant importer debt overhang. However, legislative and judicial challenges have obstructed some deregulation efforts and aspects of the fiscal plan.

Inflation surged in December 2023, fueled by the devaluation’s pass-through and the lifting of key price controls, but it has been on a gradual decline. Month-over-month inflation peaked at 25.5 percent in December, decreasing to 13.2 percent by February. Adjustments are still needed for gas and electricity prices. Social protection measures included a doubling (in nominal terms) of the main social programs (universal family allowance and food support) and extraordinary monthly lump-sum supplements to low-income pensioners. Although social assistance is well-targeted, the real value of social benefits, including pensions and social transfers, fell by 30 percent year-over-year by February 2024.

**Outlook**

Real GDP is projected to shrink by 2.8 percent in 2024, largely due to the impact of price realignment and reduced public spending. The brunt of the economic adjustment is expected to be borne by non-agricultural sectors, while agricultural output is anticipated to bounce back from the previous year’s drought, aiding fiscal revenue and reserve accumulation. The current account balance is forecasted to reach a surplus of 0.9 percent of GDP, bolstered by a substantial trade surplus. The fiscal consolidation initiative, along with the effects of inflation on public finances, is likely to result in a 2.1 percent primary fiscal surplus for the central government.

As the country tackles macroeconomic imbalances and rectifies price distortions, inflation is predicted to decline and economic growth to pick up. A stronger fiscal stance, consistent trade surpluses—supported by expected rises in energy and mining exports—and foreign direct investment (FDI) inflows should contribute to a reserve buildup and establish a basis for enduring growth. However, the economic forecast is marred by significant potential downside risks, including societal and legislative opposition to the reform agenda and the country’s vulnerability to external shocks, including climate-related events. Social vulnerabilities are emerging from the steep drop in real incomes in the context of high inflation. The governing party’s limited presence in Congress poses legislative hurdles for economic reforms. On the global stage, an economic deceleration in key trade partners or a fall in commodity export prices could undermine Argentina’s stabilization efforts. Persistent high inflation could lead to a swift appreciation of the real exchange rate, undermining competitiveness. Additionally, any further adjustments to the exchange rate might stoke inflation expectations, jeopardizing the success of the stabilization program.