

Argentina's Debt Crisis, a Way Out?



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Executive Summary

Argentina's economy is flawed. As a result of a series of historically bad economic decisions taken under Peronism, the country now has some of the least competitive industries in the world. Indeed, Instead of focusing on innovation, productivity, and economic development, Argentina has relied on heavy public spending and state intervention to mask the symptoms of an unacknowledged chronic illness.

Extensive social welfare spending, expensive subsidization, and protectionist measures have all but completely depleted public coffers, forcing the country to rely on external debts and expansionary monetary policy to counteract economic shortfalls. Weak institutional structures, inefficient tax collection, and structural government spending have resulted in cycles of hyperinflation, capital exodus, and sovereign defaults. A lack of will to undertake fundamental structural reforms has further exacerbated the situation, making Argentina one of the most enduring defaulters in the world despite the rescue intentions of various international organizations. The IMF, which works as a lender of last resort for countries in critical financial situations, failed to solve Argentina's chronic fiscal mismanagement. Structural economic imbalances, flawed policy designs, and political instability have all been reasons explaining the International Organization's setbacks vis a vis of Argentina.

These countless failures have paved the way for more comprehensive and radical reform proposals, which Javier Milei, Argentina's current President, proposed and is executing. By reducing public spending, repaying public debt, privatizing State-owned companies, and potentially dollarizing the economy (which would de facto kill Argentina's Central Bank), Milei aims to end decades of economic distress and financial irresponsibility. As of now, Argentina's economic situation is stabilizing; inflation has lowered significantly (although it remains at 2 digits high) allowing the Central Bank to lower interest rates (from 126% in 2023 to 29% in the beginning of 2025). Milei's fiscal surplus measures and monetary tightening reduced the peso supply, narrowing the exchange rate gap from nearly 200% in late 2023 to around 13% by early 2025. This stabilization boosted confidence in the financial system, reducing reliance on the informal market and improving economic sentiment. But these improvements have come at the expense of the population, which now faces the highest poverty rate the country has ever seen. Overall, Argentina is moving in the right direction, but the journey is far from over.

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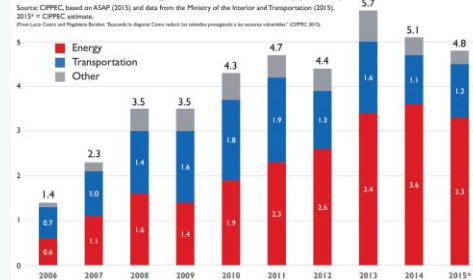
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The wrong trajectory



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Public Service Subsidies in Argentina as Percent of GDP (by Sector)



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Peronism: Ideology that promotes a unique mix of economic nationalism (including trade isolationism and protectionism), state intervention, and social welfare policies, historically associated with Argentina's government policies.

Argentina's Debt Crisis, a Way Out?

Table of Content

Executive Summary	1
Introduction	3
Argentina's Historical Mismanagement	
• Economic Controls	4-8
• Hyper Inflation	
A systematic failure: The IMF	9-12
• The IMF and Argentina	9
• The reasons behind the failure	9-11
• Present situation	12
A Fiscal Savior? : Javier Milei	13-16
Impact on Argentina's economy	17-19
• Argentina's Path to Recovery: Early Signs of Success	17
• Exchange Rate and the Dollar Blue Market	18
• The Social Cost of Milei's Reforms	19
Conclusion	20
Appendix	21

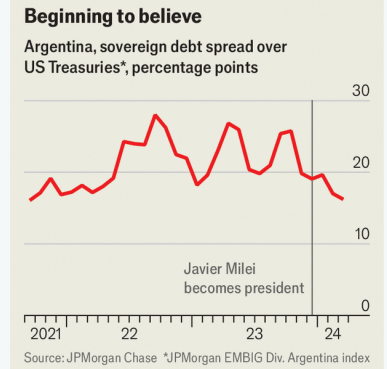
Argentina's Debt Crisis, a Way Out?

Prelude

Argentina and its economy have been in the spotlight permanently; hyperinflation, recession, instability and poverty have come to be the norm. The focus on Argentinian economy has only risen since the controversial pronouncement of the new 'right-wing libertarian' president, Javier Milei, at the end of 2023. Not only did this crisis reduce the purchasing power of Argentinians, but it also resulted in significant social turmoil and a major overhaul of the economic framework of Argentina.

The country's economic model has always been defined by chronic public sector deficits that stem from consistent public overspending of almost half of the GDP while suffering fiscal shortfalls.

This economic analysis paper aims to assess the past and new economic policies brought about in Argentina during Milei's administration. This paper intends to illustrate how the second largest economy in South America is trying to reverse decades of economic neglect through extreme spending cuts and dollarization. Furthermore, the paper will also explore the social, economic, and political dimensions that accompany the policies that have been implemented. By examining these factors, this analysis hopes to connect the new paradigm of economic policies alongside events that shift the society in a nation enduring drastic changes under the mandate of a polemical leader.



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Argentina's Debt Crisis, a Way Out?

Argentina's Historical Mismanagement

Argentina's economic history is a cautionary tale of governments repeating the same interventions to "fix" crises, only to deepen instability. The root cause: a refusal to address structural fiscal imbalances, instead relying on short-term populism or rigid monetary regimes that collapsed under their contradictions.

Argentina's economy is trapped in a delusion: it aspires to European-style social welfare and cheap energy but lacks the tax base, exports, or productivity to fund it. For decades, successive governments have subsidized this fantasy to appease voters, artificially freezing electricity bills, capping transport fares, and bankrolling uncompetitive industries. These subsidies, consuming 3-5% of GDP annually (World Bank Group, 2016), are not acts of generosity but political survival tactics. The result? A nation addicted to spending money it doesn't have. At the end of 2015, electricity customers were only paying 12% of the costs on their bills (the state covers the rest ; now, that figure is over 52%) (Bidegaray, 2023), while farmers and factories enjoy tax breaks to offset unprofitability. To fund this, politicians print pesos or borrow dollars, creating a vicious cycle: subsidies, deficits, inflation/debt, crisis and more subsidies... Argentina is the friend who maxes out credit cards to host lavish parties, only to beg for bailouts when the bills arrive. Until it confronts its refusal to live within its means, by slashing subsidies, taxing elites, or boosting exports, it will remain a prisoner of self-inflicted crises.

In the years preceding the 1980s debt crisis, Argentina faced escalating inflation. The crisis triggered an economic downturn which led the Argentinian government to print money "out of thin air" as a strategy to mitigate the recession's effects. Printing money eroded trust in the peso. Citizens shifted savings to dollars, creating a self-fulfilling currency crisis. This led Argentina to experience several budget deficits, and thus significant inflation levels. In fact, between 1975 and 1990, the average annual inflation rate was 300%, peaking in March of 1990 at 3,046.1% (World Bank Open Data, n.d.). As a consequence, in the 1980s the middle class's purchasing power decreased by 30% (Plummer, 2024), and in 1989 GDP was 15% lower than in 1978 (World Bank Open Data, n.d.-b), per capita GDP had fallen by over 25% (World Bank Open Data, n.d.-c) and fixed investment fell by over 50% (World Bank Open Data, n.d.-d). Poverty hit 47.3% (Patricio Millan-Smitmans, 2010) and the middle class was obliterated, a wound still felt today. The government treated inflation as a symptom rather than the disease. The real disease was chronic overspending, a lesson which the country didn't learn from at all.

By the late 1980s, spiraling inflation had emerged as a critical threat, severely undermining economic stability. The top right figure on the next page illustrates the volatility of Argentina's inflation rates between 1961 and 2023, GDP deflated. (World Bank Open Data, n.d.)



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Argentina's Debt Crisis, a Way Out?

Argentina's Historical Mismanagement

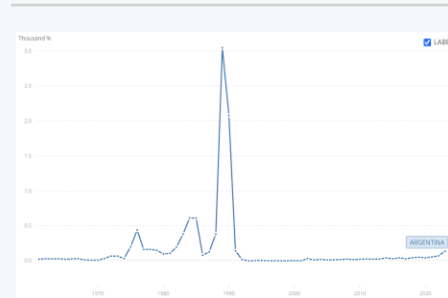
Monetary mismanagement: Failed Pegged Currency

The "austral," which is worth 1,000 pesos, replaced the Argentinian peso in 1985 to combat hyperinflation. But after 1988, annual inflation rates continued to rise, surpassing 300% (World Bank Open Data, n.d.).

Later on in 1991, the Argentinian peso had once again been made the official currency and was anchored to the US dollar at a price of 1 Peso = 1 USD. This move brought much-needed stability to the economy, which had been in chaos for years, and allowed the country to start recovering. The fixed exchange rate stayed in place until 2002, and by then, inflation had dropped to manageable levels, even though the government was still spending more money than it earned.

It also, by law, changed the mandate of the Central Bank of Argentina (BCRA), and imposed a 100% US dollar backing of the monetary base. In this way, it could only print pesos to buy US dollars, shutting down monetary financing of the deficit. Thus, any remaining deficit had to be financed by issuing debt. This was a new attempt to end the policy regime of fiscal dominance that had prevailed in Argentina for decades and to begin a new regime of monetary dominance. Following this, a new law was passed, which gave independence to the Central Bank. Nevertheless, it was a rigid, half-measure reform. In fact, the central bank couldn't print pesos without dollar reserves, but politicians kept overspending, forcing even more debt. By 2001, debt reached 55% of the GDP (Miguel Kiguel, 2011). The peg became unsustainable, as Argentina couldn't devalue to regain competitiveness. The peg hid fiscal deficits, much like covering a bullet wound with a bandage.

As the financial system was highly dollarized, this raised doubts regarding the robustness of the banks and Argentinians knew the peso was overvalued. As a consequence, in early 2001 they rushed to withdraw dollars, but banks couldn't meet demand. Thus, while the currency board implied that the central bank could back 100% of the monetary base, it could certainly not act as a lender of last resort unless it could obtain foreign borrowing in those amounts. Indeed, the central bank lacked sufficient foreign currency reserves to cover both the monetary base and bank deposits during the 2001 bank run, exposing the currency board's fatal flaw: it guaranteed convertibility for pesos in circulation but not for deposits, which far exceeded reserves. The inability of some banks to respond to their depositors led to a deposit freeze by the end of November.



[Inflation, GDP deflator \(annual %\) - Argentina](#)

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Argentina's Debt Crisis, a Way Out?

Argentina's Historical Mismanagement

The freeze lasted only a few weeks, but the crisis led to the abandonment of the currency board by January 2002. The bottom of the recession was the first quarter of 2002, after a drop in GDP of 66% (World Bank Open Data, n.d.-f) from 2001 to 2002. Unemployment reached unprecedented levels, and poverty rates rose 57.5% (Patricio Millan-Smitmans, 2010). Argentina's \$95 billion default marked the largest in modern history, triggering riots, bank freezes (corralito), and 5 presidents in 2 weeks (BBC World Service, 2024).

Economic controls causing market failures

Post-default, President Néstor Kirchner (2003-2007) inherited a shattered economy. However, it didn't prevent him from repeating the same exact mistakes. Argentina's economy has long resembled a patient treated with painkillers for a broken leg, temporary relief masking rotting wounds. Under Néstor, price controls and subsidies acted as these painkillers: freezing utility bills and capping food prices to dull the ache of inflation. But like all quick fixes, the side effects proved catastrophic. Farmers and manufacturers, forced to sell goods at a loss, abandoned markets, spawning shortages of several commodities. Shelves emptied, and black markets thrived, turning into a shadow economy where desperation trumped legality. These policies, though modified, persist today as a costly inheritance. The government still spends 2.1% (World Bank Group, 2016) of GDP annually on energy and transport subsidies, a fiscal morphine drip that distorts prices and starves infrastructure investment. Export taxes levy up to 33% on soy and grains (Reuters, 2022), suffocating the very farms that could anchor growth. In addition, he restructured the defaulted debt in 2005, offering creditors just 25-35 cents per dollar owed (Fund, 2005). While it erased 75% of Argentina's debt overnight, it branded the country as a reckless borrower. Investors saw a nation willing to rewrite rules unilaterally, and by 2010, even after settling with 93% of creditors (Wikipedia contributors, 2025), lawsuits from holdouts like NML Capital dragged Argentina into a 15-year legal purgatory. The message was clear: lending to Argentina meant risking your money on political impulses. This alienated foreign investors, cutting off access to affordable credit and trapping Argentina in a cycle of borrowing from friendlier but costlier lenders (like China) or printing money. Restructuring debt was like refinancing a mortgage by threatening the bank: it solved an immediate crisis but ensured no one would trust you again.

His successor (and wife), Cristina Fernández de Kirchner (2007-2015), worsened this by nationalizing central bank reserves: she used \$6.6 billion in reserves to pay debt (Bloomberg, 2010), violating the bank's independence. Until 2015, she also printed pesos for welfare programs, surging inflation to 41.1% by the end of 2015 (World Bank Open Data, n.d.), and doing the exact opposite of what she was imagining: making people's lives miserable, once again.



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Argentina's Debt Crisis, a Way Out?

Argentina's Historical Mismanagement

Each intervention "solved" a crisis (default, poverty...) but created new ones (inflation, investor departure...). The state became a perpetual crisis manager, and never a long-term planner.

Mauricio Macri's presidency (2015–2019) exposed Argentina's fatal addiction to quick fixes. Like a homeowner using a credit card to pay off a mortgage, Macri tried to "solve" decades of debt and distrust by borrowing even more. He settled with holdout creditors and issued a \$16.5 billion "century bond" at 7.125% interest in 2016 (The Wall Street Journal, 2017), betting that foreign investors would forgive Argentina's past sins. But this optimism was built on a mix of sand and nothing. Macri's critical error was believing Argentina could borrow its way out of the crisis without confronting its structural flaws: a bloated subsidy regime, rampant tax evasion, and industries shielded from competition. When global markets inevitably balked at this gamble, the peso collapsed, and his government turned to the IMF for a record bailout of \$57 billion (Wikipedia contributors, 2024). The IMF's austerity conditions were poison for a society already reeling from inequality. As a consequence, Argentina repeated its oldest story: austerity without equity bred chaos, not stability. Macri's reforms alienated both investors and voters, proving that no amount of foreign cash can substitute for the hard work of dismantling a system built on populism and fiscal denial. His failure wasn't just about numbers, it was about ignoring the root lesson of Argentine history: you can't borrow credibility.

Pandemic Crisis, more economic controls, and spending to support the economy

Alberto Fernández inherited an economy in freefall. The COVID-19 pandemic in 2020 worsened the crisis: GDP collapsed by 9.9% (World Bank Open Data, n.d.-e), and debt surged to 103.8% of GDP (TRADING ECONOMICS, n.d.). To "protect" citizens, Fernández doubled down on controls: he tightened capital controls (cepo cambiario), limiting individuals to \$200/month in foreign currency purchases (Grainger, 2019); he printed money to fund welfare programs and to fund the fiscal deficit (8.4% of GDP in 2020 (FocusEconomics, 2025)); he froze prices on 1,400 products (Grainger, 2021), causing shortages of essentials like sugar and flour. He also renegotiated \$65 billion in bonds (extended maturities, reduced interest rates) (Reuters, 2024). This led to a temporary relief but made inflationary pressures worse, with annual inflation accelerating to 53.8% in 2021 and 69.9% in 2022 (World Bank Open Data, n.d.). Here lies the cruel contradiction: subsidies meant to "protect the poor" have deepened poverty. In 2023, annual average inflation hit 135.4% (World Bank Open Data, n.d.), an echo of the 1980s money-printing sprees.



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Argentina's Debt Crisis, a Way Out?

Argentina's Historical Mismanagement

Just as the 1980s crisis birthed hyperinflation, Fernández's pandemic-era money-printing for welfare programs revived the same beast, proving Argentina's leaders are trapped in a cycle of self-sabotage. Fernández's policies repeated the 1980s' core error: using money-printing as a substitute for fiscal responsibility. While pandemic relief was necessary, financing it through monetary emission, without having proper tax reforms, cutting wasteful spending, or deregulating markets, guaranteed inflation would undo any social gains. The true cost? Trust. Investors flee a nation where policies shift like desert sands, while citizens collect dollars under mattresses, fearing the peso's next collapse.

So we have to wonder: how is it possible that Argentinian politicians keep repeating the same exact mistakes, one after the other?

From our point of view, politicians prioritize short-term survival over structural fixes. Argentina's crises share a common thread: using controls to mask fiscal failures. Price controls hide inflation but kill production, currency pegs create artificial stability until reserves vanish, debt defaults offer temporary relief but deter investment. Argentina's problem is its refusal to break this cycle. Even Milei's reforms risk repeating history if he ignores social costs (53% poverty in 2024 (Salomon, 2024)). Austerity without a plan for growth (like boosting exports, taxing elites) will fail.

Kirchner's controls, like Fernández's, reveal a nation allergic to surgery, addicted instead to fiscal painkillers that numb symptoms but ensure the disease endures. It will remain trapped in the same destabilizing loop until Argentina addresses its addiction to fiscal deficits, whether funded by printing money or international loans. Controls are not the cause of crises; they're a symptom of a deeper disease: political short-termism.



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Argentina's Debt Crisis, a Way Out?

A systematic failure: The IMF

I. The IMF and Argentina

The International Monetary Fund (IMF) has been an essential factor in the Argentinian economic panorama over the last decades. This international organization was established after World War II to serve as a lender of last resort to countries whose economies were too deep in a crisis to emerge on their own. Up to our days, they provide emergency financing to states with three main goals; preventing crises from spreading to other nations in the region, restoring economic stability, and maintaining the global economic order. This financial support normally consists of conditional lending, where assistance is provided as long as the country implements economic reforms and policy adjustments demanded by the IO. These terms typically include: fiscal contraction targets, monetary reforms, structural economic changes, currency, and other exchange restrictions. The limitations of the requirements dictated by the 'men in black' are evident and known to follow a 'one-size-fits-all' approach, widely criticized by countries that need a much more complex solution.

The Argentina-IMF relationship has been complex to say the least, failures, bail-outs and countless loans requested by many former presidents, which have put together sky-high debt levels. Argentina has engaged in 22 agreements with the IMF since it joined the organisation in 1956. Despite the repayments during years, today, Argentina is the IMF's biggest creditor, owing it more than \$31 billion.

II. The reasons behind the failures

Nevertheless, regardless of all that money injection those funds haven't got the country to a significantly stable or better situation. While each agreement has its own particularities, the recurring disappointment of the plans can be attributed to three interconnected issues: Structural economic imbalances, Flawed policy designs, and Political Instability.

(1) Structural economic imbalances:

Structural economic imbalances refer to deeply embedded, long term weaknesses in the economy that can't be easily quick-fixed. For Argentina, these include chronic fiscal deficits (constantly having more public expenditure than revenues), reliance on commodities and primary sector and foreign debt accumulation.



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Argentina's Debt Crisis, a Way Out?

A systematic failure: The IMF

All that while having a persistently high inflation eroding purchasing power.

The structural flaws have hampered the country's capacity to follow IMF guidelines, which usually call for financial restraint and austerity policies. A fixed exchange rate system means a country's government sets and maintains its currency's value at a specific rate relative to another currency. In Argentina's case during the late 1990s, the government pegged the peso to the U.S. dollar to help curb inflation. However, this rigid setup left little room for adjustment when the economy faced external shocks. As a result, instead of allowing the peso to depreciate naturally to absorb these shocks, Argentina had to adopt strict IMF imposed austerity measures. Deep spending cuts and fiscal tightening, further strained the economy and contributed to the 2001 default, 'El corralito', as the fixed rate became unsustainable and quite illogical under the country's worsening economic conditions.

(2) Flawed policy designs

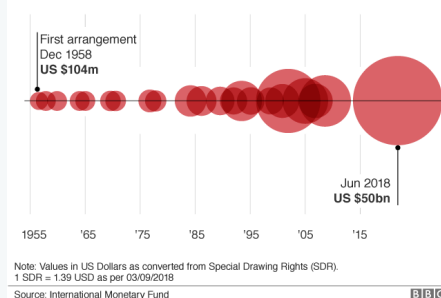
Repeatedly, IMF projects in Argentina have been developed with too rigid and ambitious economic assumptions. Usually with strict terms, the loans demand financial adjustments that could be difficult to carry out in an economy suffering basic problems. Many policies have resulted in undesired results; rather than reducing economic volatility they have increased it.

According to the 2018 IMF program, strict monetary policy execution and government expenditure cuts would help Argentina quickly rebuild investor confidence. But this approach oversaw Argentina's degree of economic turmoil. Instead of helping to stabilize the economy, the moves accelerated capital flight, caused the peso to depreciate significantly, and drove inflation to unheard-of levels. The program's collapse called for a renegotiation in 2022, highlighting the IMF's continuous errors in assessing Argentina's economic situation. Composing a 0% primary deficit by 2019 and a primary surplus of 1% of GDP by 2020, the fiscal targets set for Argentina were overly ambitious and ignored the wider social and economic consequences of such extreme measures.

Similarly, in the 2000–2001 crisis, the IMF dictated spending cuts that reduced domestic demand, therefore aggravating the recession. It was naive to assume Argentina could maintain its dollar peg while implementing austerity policies since the rigid monetary rate system gave way under mounting strain. The IMF later admitted mistakes in its approach and agreed that it had understated the seriousness of Argentina's economic problems.

IMF and Argentina: A long history of lending

Lending arrangements since 1958



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Efectivo: límite de \$ 250 por semana

El Gobierno recortó el uso libre de los depósitos bancarios, incluso en el caso de los sueldos. Así responde a la crisis desatada por la fuga de depósitos. Dice que esta medida durará 90 días, hasta que concluya el pago de la deuda. **max. a a.s.**

ANÁLISIS
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LAS PRINCIPALES MEDIDAS
• Restricción en efectivo: solo se pueden sacar \$ 250 semanales.
• Cheques y transferencias: solo se otorgan en efectivo.
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ENTREVISTA
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“Esto destierra cualquier hipótesis de una devaluación.”

ANÁLISIS
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ESQUEMA
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“Doce claves para el éxito.”

Las tasas de los créditos, sin tope.

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United States Dollar to Argentine Peso



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Argentina's Debt Crisis, a Way Out?

A systematic failure: The IMF

Though early praise was given, the 1990s' projects followed a similar path, what seemed to be a successful stabilization tactic finally led to economic catastrophe as the debt load became intolerable.

(3) Political Instability

Beyond financing errors, political problems have greatly influenced the repeated failures of IMF projects in Argentina. Government replacements have caused constant changes in economic policy in the country, which often results in differences in the implementation of IMF agreements and a lack of consistency that only aggravates the problem.

A clear example of this came following the 2018 IMF loan. Originally signed under President Mauricio Macri's direction, the agreement sought market-oriented policies; but, the election of Alberto Fernández in 2019 changed the economic targets. Using another policy approach that finally failed in restoring stability, the new government reorganized IMF accords. The political unrest has made long-term viability of IMF initiatives difficult since successive governments usually reverse or change important economic policies, therefore reducing the effectiveness of suggested reforms. Together with the IMF's undervaluation of political constraints, the differences between IMF goals and local government greatly contributed to the loan's rejection.

The crisis of 2001 also proved how political unrest shapes economic policies. Mass demonstrations and inadequate popular support for austerity measures backed by the IMF led to quick political turnover; Argentina had a succession of presidents in a short period of time. This instability undermined economic confidence even further and led to the default of the country. Economic and political shortcomings marked the breakdown of the IMF-Argentina partnership in 2001, indicating a turning point in the nation's future contacts with the agency.

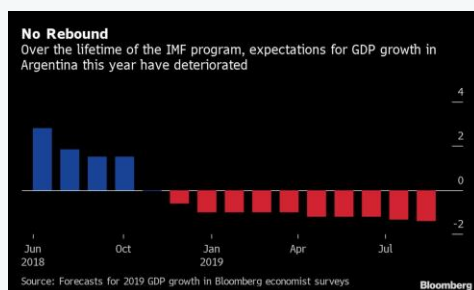
Political instability, ingrained structural imbalances, and ineffective program designs all contribute to the periodic economic crises in Argentina as well as IMF shortcomings. While IMF actions seek to rebuild trust and stabilize the economy, they sometimes create situations aggravating current problems. Because of its disregard of Argentina's political complexity and economic weaknesses, the IMF has struggled to create sensible long-term solutions. Resolving Argentina's economic problems historically calls for pragmatic, flexible policies supported by consistent political commitment, not only for simple cash relief.



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Argentina's Debt Crisis, a Way Out?

A systematic failure: The IMF

III. Present situation

Overseeing the nefast experience, Argentina still needs the IMF's help with its economy. Milei is promising to lift the country's strict capital and currency controls this year known as 'El cepo', at the end of this year. The conflicted FMI-Argentina relationship seems to start getting to a better place and there are two main factors that increase the chances for Milei to receive the desired assistance from the IO:

- Milei is winning good consideration in the IMF officials eyes : They have praised Milei's policies, who in 2024 delivered Argentina's first budget surplus in 14 years. The IMF called Milei's stabilization plan for Argentina's embattled economy "bold" and "far more ambitious" than those put forth by the former rulers, and see the President's victory as a positive given the challenges of its implementation.
- Trump election: The new elected US president, which is the largest IMF stakeholder, shares Milei's ideology and they are coming closer everyday. Trump's political affinity with Milei (and his apparent friendship with Elon Musk) could accelerate Argentina's negotiations with the IMF and ultimately lead to a more generous support package than would have been the case under a Democrat administration.

It is yet to be seen how much and when the help will arrive, but there is a high probability that it happens.

All in all, it is evident that the IMF has played a crucial role in the display of Argentinian's economy. It remains unclear what role it will play from now onwards with the new power in charge.



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Argentina's Debt Crisis, a Way Out?

A Fiscal Savior? : Javier Milei

In November 2023, the liberal party “La libertad Avanza”, led by Javier Milei won the elections with 56% of the votes (Phillips et al., 2023). His victory is associated with social, political and mainly economic reforms. Argentina's political and economic experts say that Javier Milei's victory is largely due to the desperation of the country's population and are therefore looking for innovative solutions to deal with an extreme economic situation.

As mentioned above, one of the main characteristics of this “desperate” situation was hyperinflation that reached over 100% and as a consequence, created one of the highest poverty rates in the world. However, it is important to mention that the desperation of the Argentines was also supported by other factors. On one hand, the Argentine peso lost almost 20% of its value, which caused the Central Bank to increase interest rates up to 60%, making it very difficult for citizens to borrow and obtain financing. On the other hand, the high indebtedness of the country also significantly fed the desperation of the citizens. In 2019, the Government proposed the payment of the debt, which caused fears in the voters due to the high level and continuous growth of the country's indebtedness, finally the project to pay the debt was not carried forward (Phillips et al., 2023).

These economic and monetary crises caused more than 40% of the population to live below the poverty line and the cost of basic commodities to rise by about 30%. This delicate situation resulted in widespread dissatisfaction with failed policies. Also, there was a “political caste” in the country, which, in the eyes of many voters, benefited from the suffering of the people. As a result, many citizens saw Milei as a potential leader who proposed disruptive alternatives that could end the country's poor economic performance and who promised to reduce the size of the state, which could help eradicate the “political caste” that the majority of the population rejected (Buschschlüter, 2023).

One of the main proposals of the party is the reduction of public spending. The public spending of the Argentinian Government, from 2009 to 2023, has been around 24.2% on average of the whole GDP. According to the Argentinian Government, the most important public expenditure was Social Services followed by the “Functioning of the state” expenditure. One of the main proposals of the President is related to Government efficiency. As Milei said, the Government of Argentina must gain efficiency by reducing their costs. Milei's party colleagues have detailed that the plan is not to spend less in all public sectors, but to give priority to certain expenditures. The actual goal in the short-term of the party is to reduce public expenses by 15%.



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Social Services: Education, culture, science and technology, health, drinking water and sewerage, housing and urban planning, Social welfare (subsidies on energy and transport, pensions), and other social services.

Functioning of the state: The functioning of the State is comprised of General Administration, Defense and Security, and Justice.

Argentina's Debt Crisis, a Way Out?

A Fiscal Savior? : Javier Milei

In the long-term, the objective of Milei is to have a fully efficient state by reducing the public deficit to 0. These measures would definitely have a positive effect in inflation and in the nation's indebtedness (Nacion, 2023).

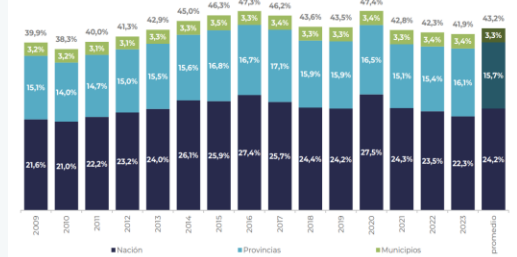
In addition, one of the main proposals of Javier Milei is to privatize as many public entities as possible. Official sources show that non-financial public enterprises produced a deficit of around US\$ 1600000. Milei's goal is to have only public companies that produce profits for the state and that are strictly necessary for the state.. The way that Milei decided to carry out the privatization of these countries was by proposing the "Ley Bases", which included 41 public companies to be privatized.. Finally, the Government reduced the list to 11 companies, and it was approved by the Congress. At the moment several companies are under the process of privatization. One of the main examples is the case of Impsa. This Argentinian company is dedicated to the energy sector, with an estimated debt of up to \$600 million. The government has sold 85% of the stock of Impsa to "Arc Energy", a North American energy company, for 27\$ million. It is expected that the Government will undergo more operations such as the Impsa case (Centenera et al., 2025).

As it is well known, in most of the developed countries, Central Banks are the institutions that develop Monetary Policy. In countries such as Canada, the US or the European Countries the main objective of this organ is to maintain inflation close but below 2%. Hyperinflation has demonstrated that the Central Bank of Argentina, which also has the objective of controlling inflation, has completely failed. Therefore, one of the main proposals of President Milei is to eliminate the Central Bank.

On the other hand, Central Banks are also responsible for granting a healthy financial system, trying to maintain their currency in competitive levels. The Argentinian Peso has performed very negatively, observing a clear Freefall since 2020. This is also a clear representation that the Central Bank of Argentina has been inefficient and incapable of achieving its objectives (Nacion, 2023).

Taking this into account, Milei has stated that shutting down the Central Bank is non-negotiable. Many economists believe that placing monetary policy in the public spotlight can have very negative consequences. They argue that ensuring that an independent body is in charge of monetary policy is the most efficient way of controlling inflation. However, it is not clear what measures Milei will propose as a replacement for the Central Bank.

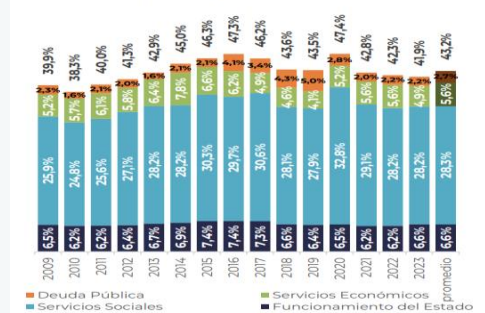
Gráfico 3. EVOLUCIÓN DEL GPC POR NIVEL DE GOBIERNO
En porcentaje del PIB



Fuente: Dirección de Análisis de Política Fiscal y de Ingresos e Instituto Nacional de Estadísticas y Censos (INDEC)

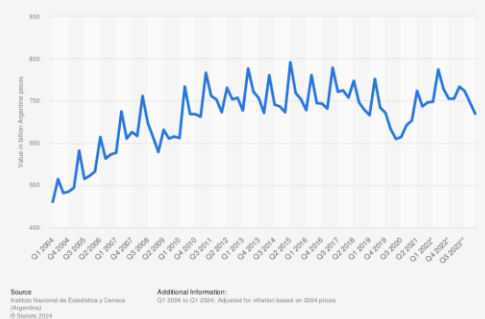
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Gráfico 5. EVOLUCIÓN DEL GPC POR FINALIDAD
En porcentaje del PIB



[Link to picture](#)

Real gross domestic product (GDP) in Argentina from 1st quarter 2004 to 1st quarter 2024 (in billion Argentine pesos)



Source: Instituto Nacional de Estadística y Censos Argentina. Q1 2004 to Q1 2024. Adjusted for inflation based on 2024 prices. © Reuters 2024

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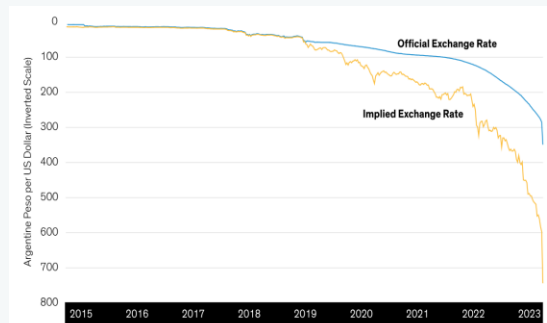
Argentina's Debt Crisis, a Way Out?

A Fiscal Savior? : Javier Milei

Regarding currency problems, Argentina's president wants to tackle this situation by carrying out dollarization. If Milei adopts this course, Argentina will be the 4th country of Latin America to adopt the dollar as their official currency. Nevertheless, the only case in which we have seen that dollarization has been successful is in the case of Panama. Regarding El Salvador and Ecuador, dollarization has not been successful. On one hand this can be attributed to the fact that they cannot control their currency to tackle internal situations, as their currency is subject to external influences. On the other hand, dollarization has increased currency expenses in these countries, directly affecting economic growth. Both countries are in a difficult financial situation with a high risk of defaulting on external debt. Many critics argue that the success of Panama is primarily because its economy is very linked to the USA because of financial services and because of the Panama Canal. Taking this into account, many economists believe that Argentina will face a period of high instability. (Argentina May Be Headed Down The Dollarization Path, 2023).

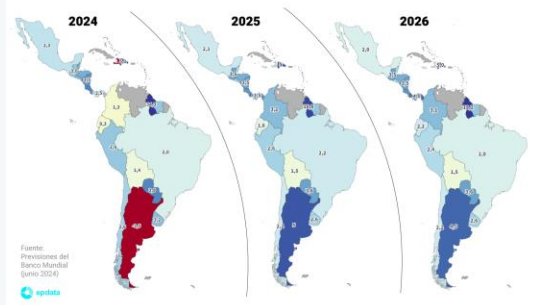
Moreover, "La Libertad Avanza" proposes a radical trade liberalization for Argentina, with the aim of integrating the country competitively into the global market. His plan seeks to eliminate tariff barriers, reduce taxes on exports and imports, and promote free competition as an engine for economic development. According to Milei, this strategy will allow greater efficiency in the allocation of resources, attract foreign investment and facilitate access to better quality goods and services at more competitive prices. However, critical economists point out that Argentina's economic situation must improve significantly for trade liberalization to be effective. Many Argentine producers fear that they will not be competitive enough in the international market and, therefore, are not in favor of this economic liberalization (AduanaNews.com, 2024). Several sources mention that Milei is developing the possibility of free trade with the United States and a more liberal reform of MERCOSUR (Dieguez, 2024).

Countries such as Chile or Perú carried out commercial openness. The experience of these countries show that commercial openness can have positive effects as these countries experienced considerable economic growth. However, it is also worth mentioning that these countries experienced a decrease in the industrialization process, since a large part of their economies became based on the export of raw materials (Bustamante, 2022).



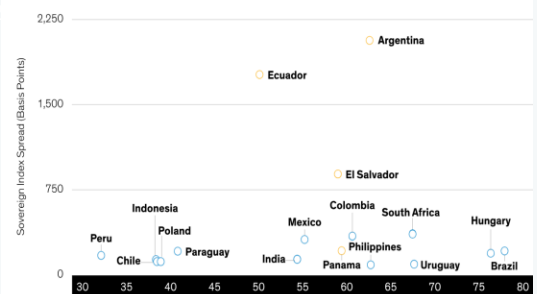
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Previsión de crecimiento del PIB (2024-2026) América Central y Sur



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Sovereign Credit Spread versus Government Debt-to-GDP Ratio



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Argentina's Debt Crisis, a Way Out?

A Fiscal Savior? : Javier Milei

The Big picture

Argentine President Milei proposes radical measures to overcome one of Argentina's most complicated situations. Although some measures, such as reducing public deficit, are short-term focused, many of the measures are intended to have long-term effects. Indeed, both trade liberalization and dollarization could have a lasting effect on the second-largest economy in Latin America. Ecuador and El Salvador are examples of the failure of dollarization. However, Panama is a clear example of the success of this process.

Eliminating the Central Bank and Trade Liberalization, are sources of uncertainty for many economists. The effectiveness of these measures will depend on both internal and external factors that make it very difficult to predict the sustainability of these measures. However, many believe that the situation of the Argentine economy cannot get any worse and that it is very likely that there will be an improvement in the different economic indicators.



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Argentina's Debt Crisis, a Way Out?

Impact on Argentina's economy

Since Milei assumed the presidency more than a year ago, Argentina's economy has undergone significant changes. His radical economic reforms have sparked both optimism and controversy, profoundly reshaping the country's economic landscape. While these reforms aim to reduce government intervention, stabilize inflation, and attract foreign investment, some of their immediate consequences have been severe.

This section of the research paper analyzes key macroeconomic indicators to assess the impact of Milei's policies on Argentina's economy. It examines inflation, exchange rate, poverty rates, and approval ratings to evaluate how these variables have evolved under his administration.

Argentina's Path to Recovery: Early Signs of Success

I. Inflation

Despite the significant challenges posed by Milei's economic reforms, some macroeconomic indicators suggest that his policies are beginning to show favourable results, along with signs of solid recovery.

One of the most notable improvements over the past year has been the sharp decline in inflation, driven mainly by fiscal adjustments from reduced government spending as well as monetary adjustments.

When Milei was elected president in 2023, Argentina had the highest annual inflation rate in the world, reaching 211%, with prices rising at a monthly rate of approximately 13%. As shown in the graph, inflation has since declined significantly, with national monthly inflation now being below 3% and expectations that this downward trend will continue (Grinspan, 2024). In fact, it is expected that the annual inflation rate will fall below 30% by the end of 2025. This indicates that, despite the radical nature of Milei's policies, they have been effective in tackling Argentina's most pressing economic challenge, hyperinflation.



Tasa de inflación mensual en Argentina

Crecimiento a nivel nacional en el índice de precios al consumidor (IPC)

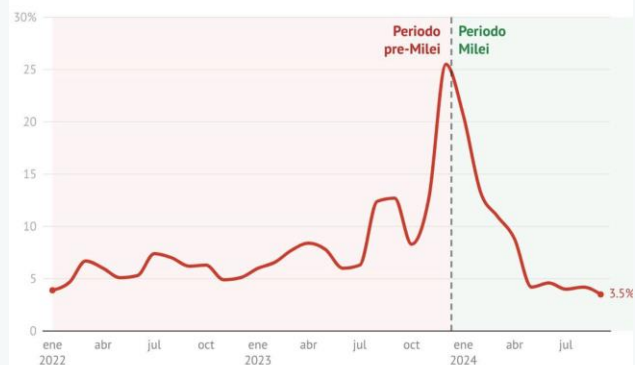


Gráfico: UFM Milei Reform Watch • Fuente: INDEC

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HARRISQUIN

Reformwatch. (2024b, December 7). *El fin del cepo y el cierre de la brecha cambiaria* | UFM Reform Watch. UFM Reform Watch.

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Argentina's Debt Crisis, a Way Out?

Impact on Argentina's economy

Argentina's Path to Recovery: Early Signs of Success

II. Exchange Rate and the Dollar Blue Market

Another key economic improvement under Milei's administration has been bringing stability to Argentina's currency market.

In November 2023, the gap between the official exchange rate and the Dollar Blue reached nearly 200%, meaning that the cost of purchasing U.S. dollars in the informal market was three times higher than the official rate set by the Central Bank. Since the Central Bank lacked sufficient dollar reserves to meet the high demand at its artificially low official rate, it had to ration access to foreign currency arbitrarily. This highly reflects the market dynamics at the time and the demand for a more stable currency than the Argentine peso.

Milei's reforms over the past years, particularly fiscal surplus measures and monetary tightening, have led to a deliberate shortage of pesos in the foreign exchange market. The government pursued this strategy explicitly to close the exchange rate gap, and the results have been significant.

By early 2025, the exchange rate gap had narrowed substantially, dropping to approximately 13%, signaling growing confidence in the financial system. A smaller gap means that businesses and individuals no longer need to rely heavily on the informal market to access foreign currency, as the official exchange rate has become more aligned with market expectations.

This reflects the increasing confidence in the Argentine peso and its growing stability as a currency, contributing to improved economic conditions and improving overall investor and consumer confidence.



Brecha cambiaria

Diferencial entre el tipo de cambio Blue y el tipo de cambio oficial

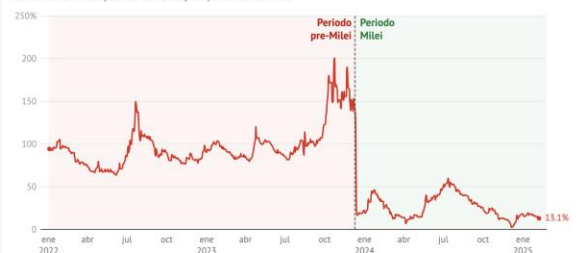


Gráfico: UFM Milei Reform Watch • Fuente: Bluealytics • Descargar la imagen

UFM
UNIVERSIDAD FRANCISCO
MARTINEZ

Reformwatch. (2024b, December 7). *El fin del cepo y el cierre de la brecha cambiaria* | UFM Reform Watch. UFM Reform Watch. <https://milei.ufm.edu/es/2024/fin-del-cepo-cambiario/>



Dollar Blue: Is an unofficial, parallel exchange rate that emerged in response to the strict currency controls imposed by the government of Alberto Fernández, thus making it a key indicator of public trust in the peso and the government's economic policies.

Argentina's Debt Crisis, a Way Out?

Impact on Argentina's economy

The Social Cost of Milei's Reforms

The previously mentioned examples are just a few of the many macroeconomic indicators suggesting that Argentina's economy is becoming increasingly stable. However, these improvements have not come without significant costs and severe socio-economic challenges have emerged as a direct consequence of Milei's policies.

One of the most pressing issues is the rising poverty rates. Many Argentines are increasingly falling into poverty due to the subsidy cuts for public transportation, education and social programs. In addition, without price controls for services like electricity and gas, utility rates have increased significantly, which has left many Argentines struggling to meet basic living standards.

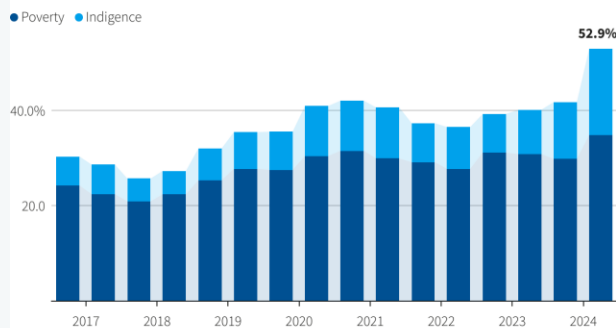
Poverty surged to 53% in the first half of 2024, up from 40% in 2023 – the highest recorded jump in two decades. It has since dipped slightly to 50%, although the number of people estimated to be living in extreme poverty remains at around 6 million. Also, nearly seven in ten Argentinean children are growing up poor, up slightly compared with 2023, according to UNICEF.

Nevertheless, and somewhat surprisingly, despite rising poverty rates, Milei continues to maintain a relatively high public approval rating. In fact, between August 2024 and November 2025, his approval rating increased from 46% to 54% (*Approval Tracker: Argentina's President Javier Milei*, 2025). Not only is Milei enjoying strong support from Argentines, but he is also gaining admirers abroad, particularly among U.S. President-elect Donald Trump's inner circle. Trump has repeatedly praised Milei, referring to him as his "favorite president."

Overall, Milei's first year in office has been characterized by macroeconomic consolidation and financial restructuring. While his administration has taken necessary steps to stabilize inflation and restore fiscal discipline, these gains have come at a social cost. The key question moving forward is whether these reforms will lay the foundation for long-term economic growth or further exacerbate inequality and instability in Argentina.

Argentina: poverty jumps

Argentina's poverty rate shot up to nearly 53% in the first half of 2024 amid triple-digit inflation and a tough austerity drive under libertarian President Javier Milei.

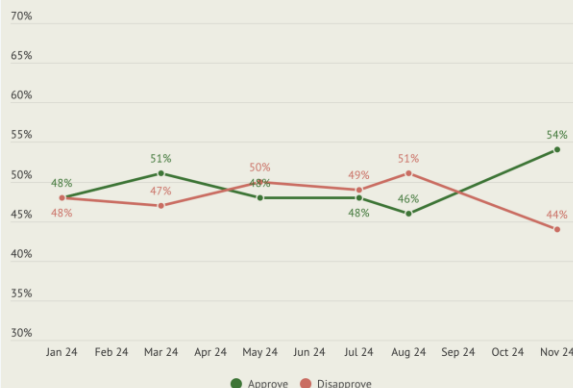


Source: INDEC



Milei's approval over time

Encuesta de Satisfacción Política y Opinión Pública asks every other month: "In general, do you approve or disapprove of the government of President Javier Milei?"



Argentina's Debt Crisis, a Way Out?

Conclusion

In conclusion, Argentina, under Javier Milei, has been undertaking significant measures, hopefully breaking self-repeating patterns of economic mismanagement and financial irresponsibility. In the short run, the positive effects of Milei's policies are already observable. A slash in government spending of 30% (in real terms) and a strict monetary policy made inflation decrease substantially, reaching 117.8% in 2024, which was 93.6 percentage points lower than the previous year (The Economist, 2025). Moreover, the government recorded its first budget surplus in 10 years.

Both of these metrics have been reassuring for both international and domestic investors. Consequently, Argentina's credit market has improved. The Central Bank of Argentina lowered its interest rate, reducing the cost of borrowing and thus stimulating investment (UBS BB forecasts, 2024). Internationally, Argentina's credit rating has improved since 2024, with Moody's upgrading its long-term foreign and local currency issuer ratings from Ca to Caa3 (Moody, 2025).

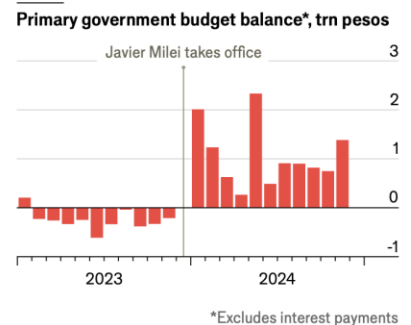
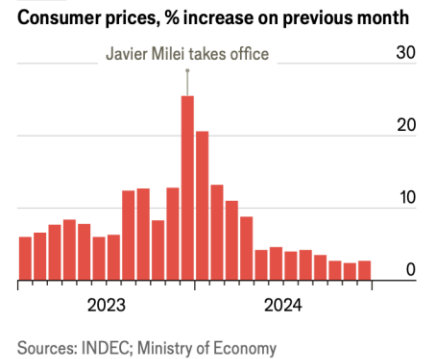
The severe cuts in social welfare spending and the reduction of subsidies on energy and transport, as part of the objective of reducing public deficit, have increased poverty all over the country. Surprisingly, Milei's approval has maintained relatively high approval ratings, marking the end of decades of political short-termism, one of the causes of Argentina's poor economic performance.

Dollarization, one of Javier's Milei most controversial measures, does not seem to be happening. In our opinion, this is good news as even though it would bring stability to Argentina's economy, it would lead to new challenges and uncertainties, particularly in terms of monetary policy independence.

The IMF's long-standing relationship with Argentina has been marked by repeated difficulties and unfulfilled program goals, placing the Fund's credibility under scrutiny. Despite numerous setbacks, the IMF continues to engage with the country, signaling hope that this time lessons from the past will be applied to avoid repeating the same mistakes. By once again lending support, the IMF has effectively put its reputation on the line, reflecting a shared desire to secure a more stable and prosperous future for Argentina.

In the long run, it's too early to say whether Argentina will be back on its feet thanks to its new economic paradigm. In our opinion, Argentina's path toward trade liberalization is still too little for its industries to become competitive internationally. It will require the second-largest economy in Latin America to invest in long-lasting productive sectors such as technology and mining, as Argentina has large reserves of critical minerals (Reuters, 2024).

In short, It will take more than financial discipline to become again one of the largest economies in the world.



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