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ARGENTINA'S LATEST STABILIZATION

WILL HISTORY REPEAT ITSELF?

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Argentina's latest stabilization

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Abstract

Argentina’s latest attempt at economic stabilization follows a familiar script—fast disinflation, a strengthening peso, a sharp rebound, and an uncertain future. But can a fiscal anchor alone break the historical cycle and put the program on solid footing? Looking at the past might offer some clues. In this piece, we compare Argentina’s 2024 stabilization effort to previous ones and explore what that tells us about its chances of lasting success.

At first glance, Argentina’s 2024 stabilization looks like an early success—defying market expectations with fast disinflation and a stronger peso. Why did so many analysts get it wrong? One reason is the divergence between the actual stabilization program and the policies outlined during the presidential campaign, reflecting an information asymmetry between government and markets. Moreover, early skepticism about the viability of the administration’s shock therapy—particularly its ambitious fiscal consolidation—fueled concerns about a political and social backlash. Yet, as the government demonstrated fiscal discipline, public tolerance exceeded expectations, reinforcing the program's credibility.[3]

Argentina, like many Latin American economies, has been here before. The country attempted multiple exchange rate-based stabilization (ERBS) programs, many of which—as was often the case of ERBS elsewhere—successfully curbed inflation and triggered rapid, albeit temporary and ultimately failed, economic recoveries (Calvo and Végh 1999; Reinhart and Rogoff 2004).

Will this time be different? While the answer remains uncertain, history offers valuable insights. A comparative analysis of key macroeconomic variables across past and present ERBS in Argentina helps identify critical similarities and differences, providing a longer-term perspective on the—increasingly debated—sustainability of the current program.

[3] See (Kiguel and Liviatan 1992) for an early discussion of credibility problems in past ERBS programs and the incidence of market skepticism in the disinflation trajectory.

Now and then (in 10 charts)

By the end of 2023, Argentina's economic strategy was caught in a familiar balancing act—trying to juggle three competing goals:

1. **Bringing down inflation**: The government's top priority and key to keeping its campaign promise and winning mid-term elections. Frontloaded spending cuts and a tight exchange rate policy have delivered fast results, but at a cost.
2. **Stabilizing the exchange rate and rebuilding reserves**: Critical for restoring market confidence, lifting capital controls, and laying the groundwork for investment.
3. **Reviving investment and growth**: With public spending slashed, private investment needs to step up—but uncertainty, a strong peso, and slow financial market normalization are holding it back.

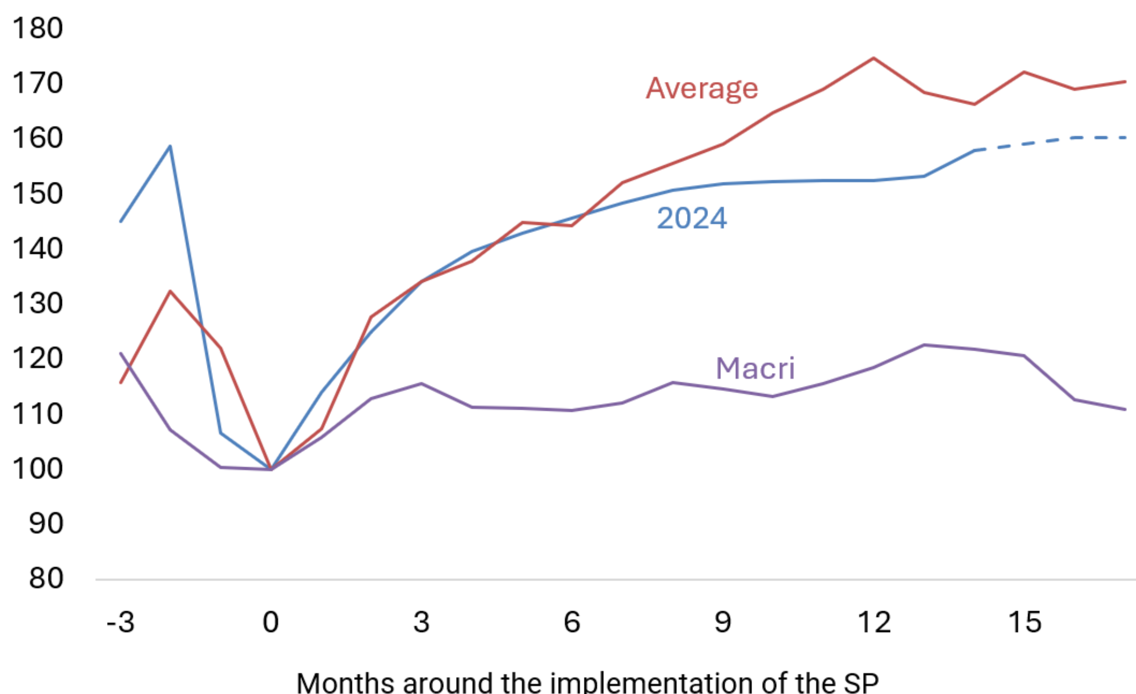
Faced with this **macroeconomic trilemma**, the government has so far prioritized low inflation at the cost of exchange rate appreciation and reserves accumulation, and because of an across-the-board fiscal adjustment that affected both consumption and infrastructure investment, possibly short-term growth. But how does this pattern emulate or differ from Argentine stabilizations in the past? Let us build the comparison of one key variable at a time.

The exchange rate anchor

As expected, the exchange rate anchor—a pre-set 2% monthly devaluation—has led to a 35% real appreciation of the peso. This follows a familiar pattern: Past ERBS programs also saw early inflation inertia and price rigidities eat away at the initial exchange rate correction. In past stabilizations, the typical playbook included an upfront devaluation of around 33%, followed by an FX anchor that reversed the gain within three months. This time, the government started with a bigger devaluation but committed to the crawling peg through 2025. The result? The real exchange rate has now fallen below its lowest point under Macri's 2016-2017 stabilization—closely mirroring past cycles.[4]

[4] As was the case in past ERBS, the government is confident that gains in productivity—driven by lower financing costs, nominal stability, and deregulation—will ultimately compensate for the strong peso before appreciation begins to undermine economic activity and the current account.

Figure 1. Strong real appreciation follows ERBS (*Real Exchange Rate, indexed to t0 = 100*)



Sources: BCRA; Adcap.

Note: The chart illustrates the evolution of the bilateral real exchange rate (RER) with the U.S. around implementing various exchange rate-based stabilization (ERBS) programs. The "average" line includes the 1958, 1976, and 1985 Austral stabilization programs, along with the 1991 Convertibility Plan. Zero on the x-axis denotes the month the stabilization program is implemented.

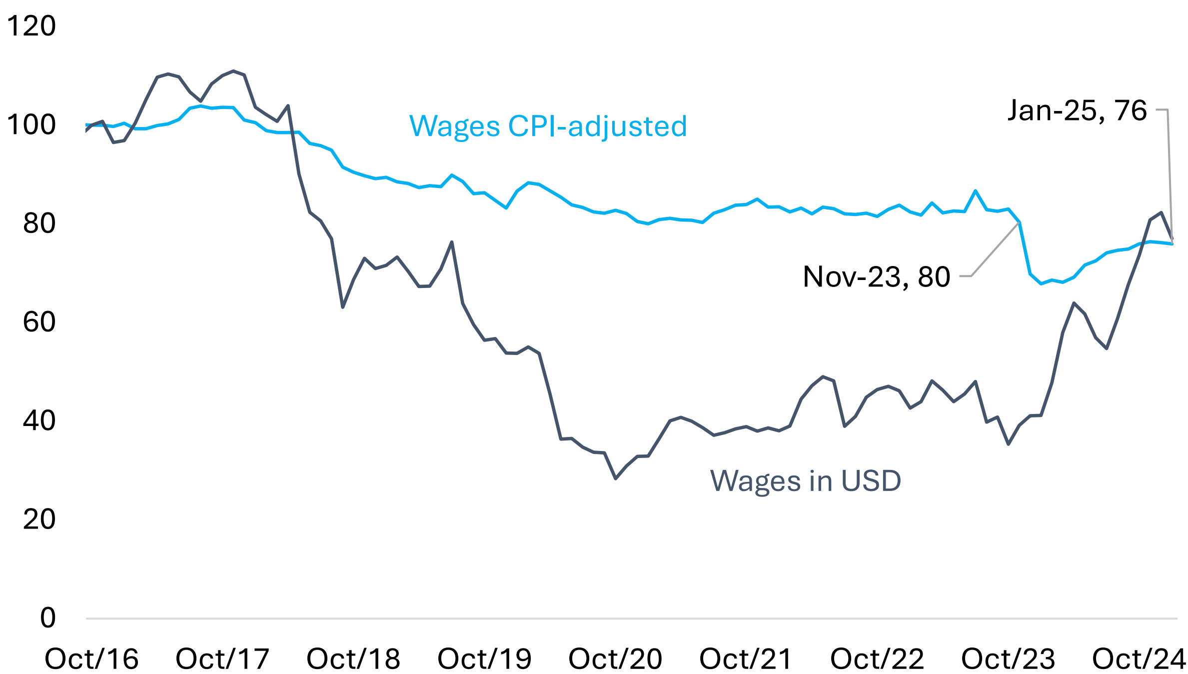
The wage anchor

Wages have played a familiar role in Argentina's stabilization strategy—keeping real incomes low to help tame inflation. In past ERBS programs, governments often stepped in with formal income policies to coordinate wage adjustments and soften the blow of disinflation. This time, however, the government took a hands-off approach, letting wages adjust on their own. The result? A delayed recovery and stubborn inflation in the service sector. Unlike goods, which are more directly linked to exchange rate shifts, service prices tend to track labor costs more closely. That is why real wages, despite stabilizing at a lower level, have kept service-sector inflation from cooling as quickly as expected.[5]

[5] Faced with these persistent pressures, the government's laissez-faire stance seems to be shifting toward a more interventionist approach in 2025.

Figure 2. Real wages (in the registered private sector) plateaued at a lower level

Private sector real wages, indexed to Oct-16 = 100



Sources: INDEC, BYMA, Adcap.

Note: This chart displays private-sector wages adjusted for inflation and the parallel exchange rate.

The inflation decay

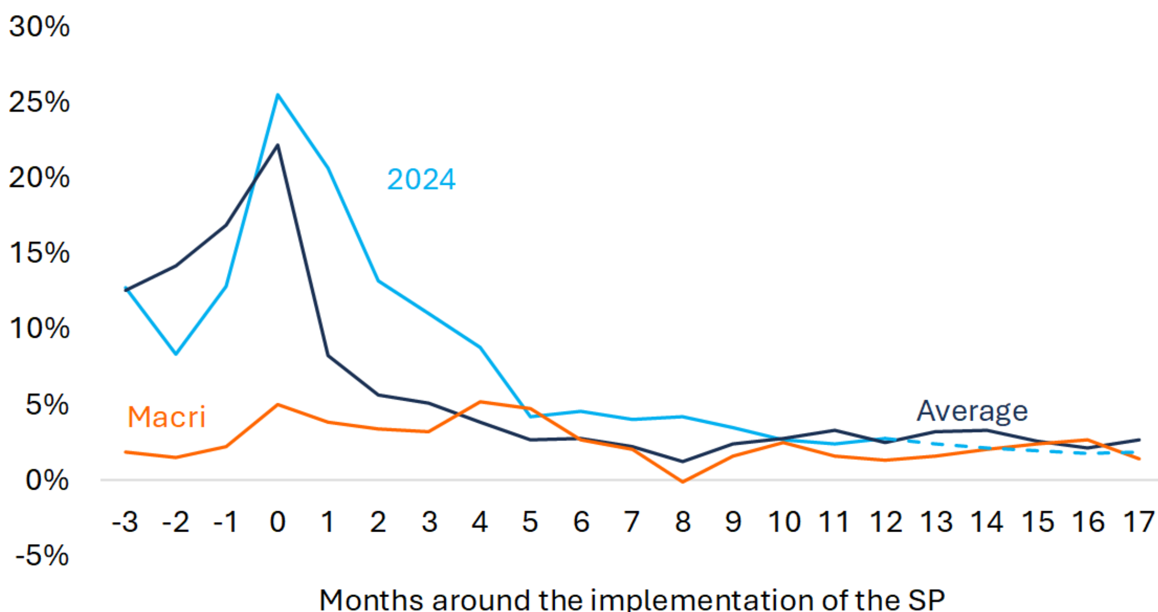
As in past ERBS programs, inflation fell sharply following the initial stabilization measures and is expected to decline more gradually throughout 2025. However, the failure to break below the 4% monthly inflation threshold in Q3 2024 temporarily weakened confidence in the sustainability of the crawling peg, fueling speculation about the model's durability. Looking ahead, the inability to bring inflation into single digits in the near term—a recurring challenge in past ERBS episodes—could reignite similar concerns—a risk the government is determined to avoid in an election year.[6] Key differences from the latest stabilization attempt (2016-2017)? This time, the government's score card *benefited* from a higher initial inflation rate, postponed utility

[6] Historical ERBS experiences suggest that breaking through the single-digit annual inflation threshold is particularly challenging, as inflation persistence often emerges after the initial shock (Heymann and Leijonhufvud 1995).

price hikes, and enforced a far more contractionary fiscal stance than the expansionary approach in 2016.

Figure 3. Inflation collapses following an ERBS

Monthly Headline Inflation, m/m



Sources: INDEC, Adcap

Note: The chart illustrates inflation dynamics around the implementation of past ERBS programs. The "average" line includes the 1958, 1976, and 1985 Austral stabilization programs, as well as the 1991 Convertibility Plan.

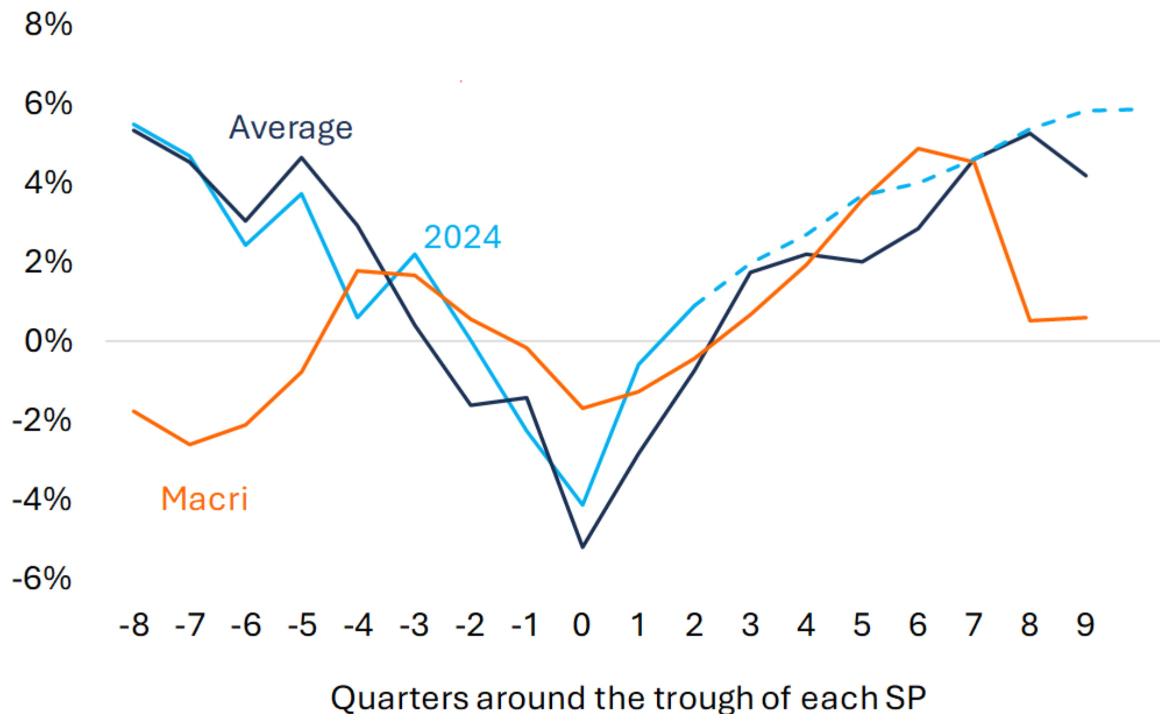
The growth rebound

So far, Argentina's economic rebound looks similar to past ERBS programs—although, compared to Macri's stabilization, this recovery is coming off a much deeper contraction, largely due to the government's far tighter fiscal stance.

For now, inflation is down, confidence is up, and short-term optimism is holding. But history offers a warning: Initial rebounds often mask deeper vulnerabilities. Whether these gains last depend on how well the government navigates three persistent risks—an overvalued exchange rate, slow reserve accumulation, and weak investment—the very same weaknesses that have derailed past ERBS programs. Without a course correction, Argentina may once again find itself trapped in a cycle of fleeting recoveries.

Figure 4. V-Shaped recoveries are the norm after ERBS

Chart: Output Gap (% deviation from trend GDP)



Sources: INDEC, Adcap

Note: This chart illustrates the output gap, measured as the percentage difference between real GDP and its estimated trend (calculated using the Hodrick-Prescott filter), around the implementation of past ERBS programs, including the 1976 stabilization, the 1985 Austral Plan, and the 1991 Convertibility Plan.

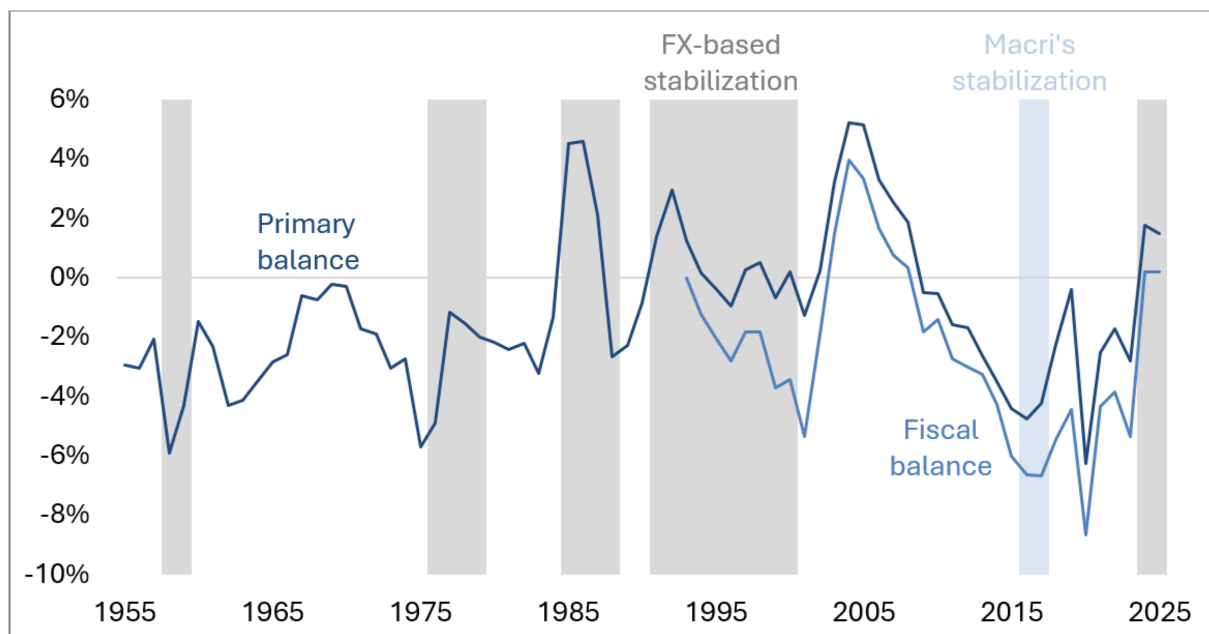
The fiscal adjustment

Argentina's fiscal adjustment in 2024 has been sharp—far more aggressive than the stable-to-rising public spending seen under Macri. In real terms, primary expenditures have dropped by an estimated 37% since December 2023 through January 2025—cutting about 5% of GDP from the primary deficit. Early on, the inflation shock triggered by the devaluation of the official exchange rate, eroded public spending. As new indexation formuli started to kick in, by mid-2024, the government had to enforce deliberate spending cuts to keep the fiscal balance on track. Over the full period, the drivers behind the fiscal consolidation were almost evenly distributed between dilution—including pensions (-6.6%), public sector wages (-5.7%), and social programs (3.4%)—and spending cuts—subsidies (-8.1%), transfers to provinces (-5.0%), public investment (-4.7%), and transfers to universities (4.2%). Whereas the government promises further consolidation in 2025, the decline in inflation coupled with backward indexation is

partially reversing the dilution gains, pointing at a comparable primary surplus and a neutral fiscal impulse.

Figure 5. An unprecedented Fiscal Consolidation

Chart: CPI-Adjusted Primary Expenditures, Indexed to Dec-23 = 100



Sources: INDEC, Adcap

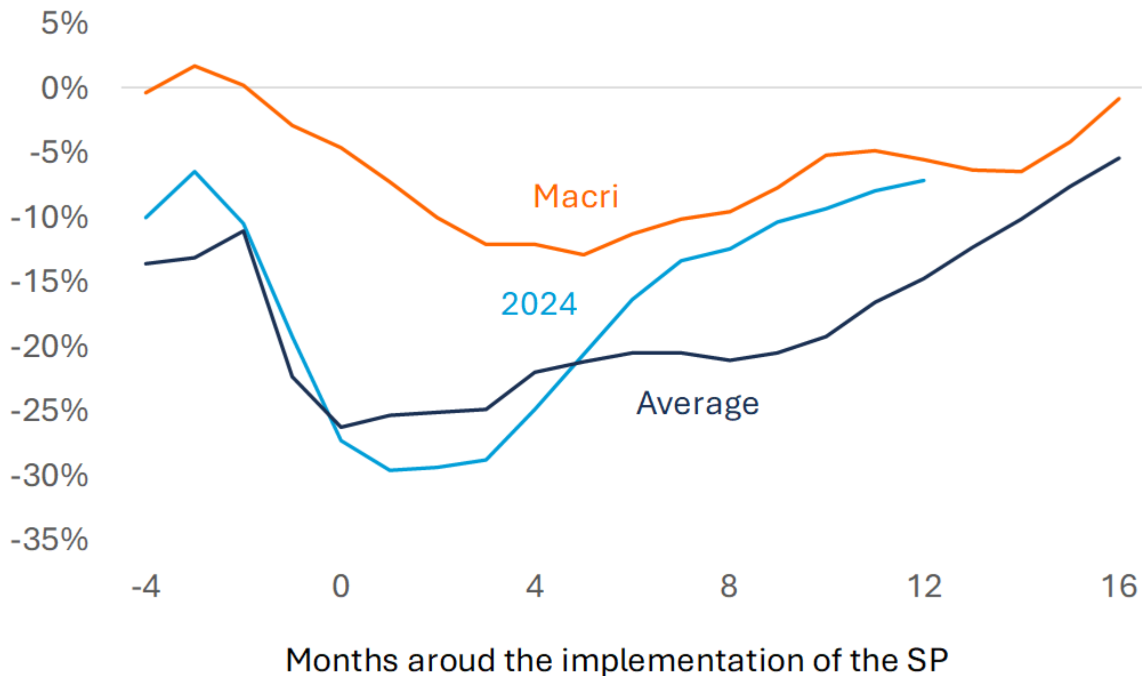
Note: This chart tracks real primary expenditures by the central government, adjusted for inflation.

The credit boost

Short-term credit is bouncing back—faster than in past ERBS programs (IMF, 2024), though from historically low levels. This recovery in lending is helping to fuel economic activity, easing some of the pressure on fiscal and monetary policy to curb inflation. But the real question is: Is this credit expansion driving investment or just filling short-term liquidity gaps? The answer will be key to determining whether growth is truly taking hold. For now, the rapid credit rebound has also increased the economy's reliance on the exchange rate anchor—since the downturn is no longer acting as a natural brake on inflation.

Figure 6. Credit recovery has historically lagged—but not this time

Chart: Credit Gap (% deviation from trend, inflation-adjusted)



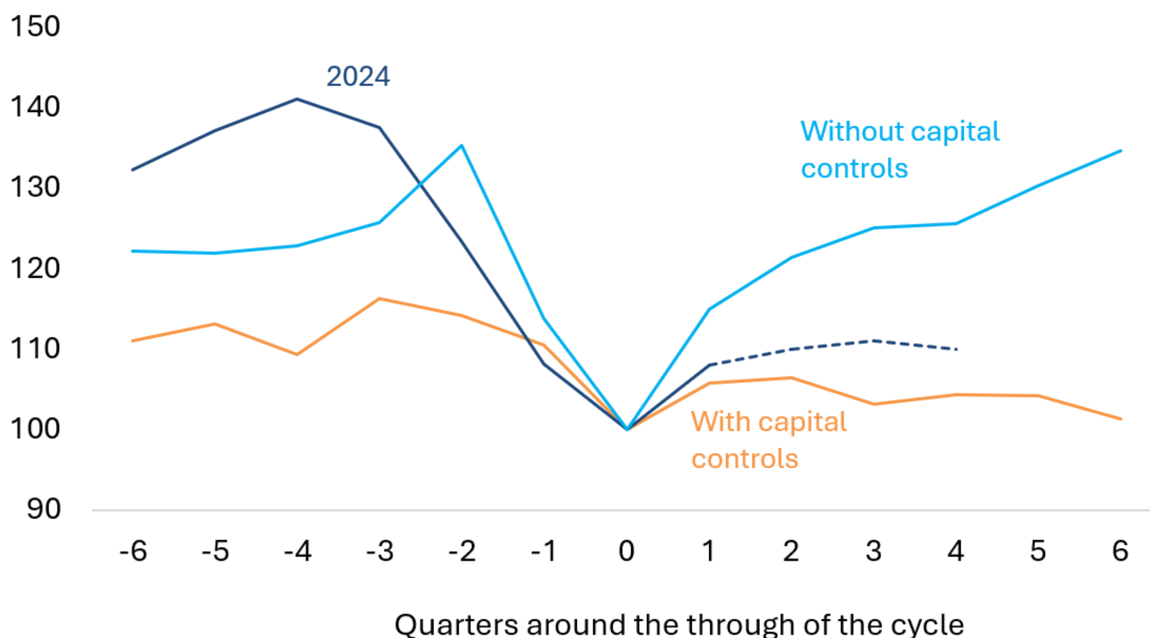
Sources: BCRA, INDEC; Adcap

Note: The chart tracks the credit gap—measured as the percentage deviation of inflation-adjusted credit from its estimated trend (using the Hodrick-Prescott filter)—around the implementation of past ERBS programs, including the 1976, 1985 Austral, and 1991 Convertibility plans.

The investment delay

So far, investment has been the missing piece in Argentina's recovery. Public infrastructure spending has taken a hit due to deep fiscal cuts, while private investment remains stalled by policy uncertainty, an overvalued peso, and sluggish financial market normalization. Past stabilizations, like the 1991 Convertibility Plan, sparked a foreign direct investment (FDI) boom through privatizations. But this time, foreign capital has yet to show up in force. And while credit is expanding faster than in previous ERBS programs, it is still unclear whether that money is funding real medium-term investment—or just covering short-term needs. One key factor? The persistence of capital controls, which may be holding back investment—while also fueling expectations of a real rebound once they are lifted.

Figure 7. Investments typically rebound decisively following recessions



Sources: INDEC, Adcap

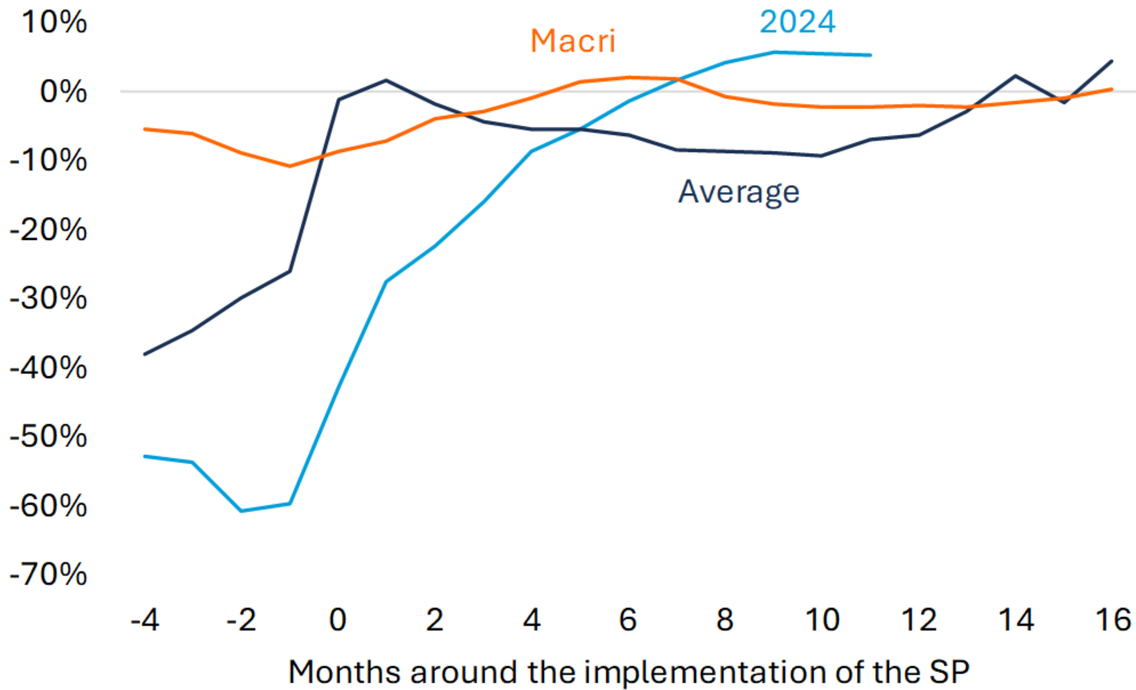
Note: The charts depict the evolution of investment around business cycles, indexed 100 = through of the business cycle.

The monetary policy (under financial repression)

Unlike past ERBS episodes, Argentina's latest stabilization began with loose monetary policy, relying on exchange controls (cepo) to ease pressure on the central bank's balance sheet. But as inflation slowed, the government switched gears, tightening policy to keep prices in check. At the same time, in an effort to balance its quantitative monetary target with the need to expand domestic credit, the government has floated an untested idea: Bringing hoarded dollars into the formal banking system to ease peso liquidity shortages—a move aligned with its broader vision of eventual dollarization. If this strategy fails to offset declining loanable peso balances, and the central bank sticks to its monetary target, the government could soon face a familiar tradeoff: monetary expansion or economic growth.

Figure 8. A unique case: real interest rates and tightening policy

Chart: Ex-post real interest rates



Sources: INDEC, Adcap

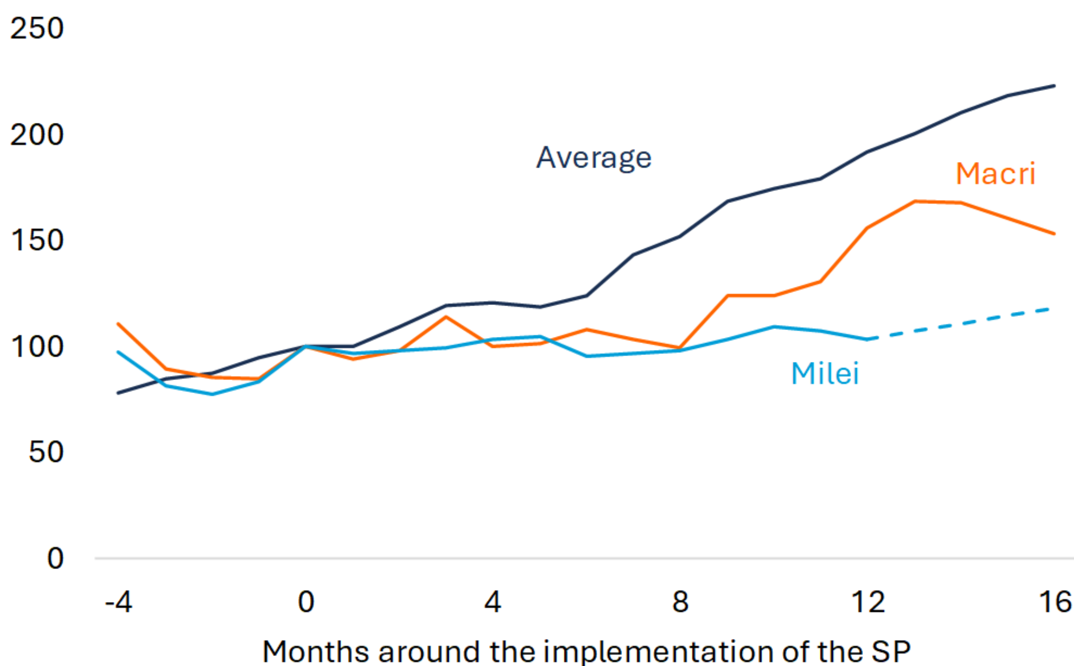
Note: This chart tracks ex-post real interest rates based on the central bank's monetary policy reference rate, comparing the current ERBS to past stabilization programs, including the 1976 stabilization, the 1985 Austral Plan, and the 1991 Convertibility Plan.

The stagnant reserves

For Argentina, successful stabilization has always required strong capital inflows. But this time, reserves are accumulating more slowly than in past ERBS programs (Damill, Frenkel and Maurizio 2002). Previous stabilizations relied on sovereign debt issuance (as in the 1991 Convertibility Plan, or the dollar funding of fiscal spending in 2016), FDI (as in the Austral Plan), or, more generally, financial liberalization to boost reserves. In contrast, Argentina's 2024 program faced two key constraints: limited market access and capital controls—both of which are making it harder to attract foreign capital.

Figure 9. Cumulative gross and net reserves: falling behind

Chart: Gross reserves, indexed to implementation (t0 = 100)



Sources: BCRA, Adcap

Note: These charts depict the evolution of gross and net reserves around the implementation of past stabilization programs, including the 1958 stabilization, the 1976 stabilization, the 1985 Austral Plan, and the 1991 Convertibility Plan.

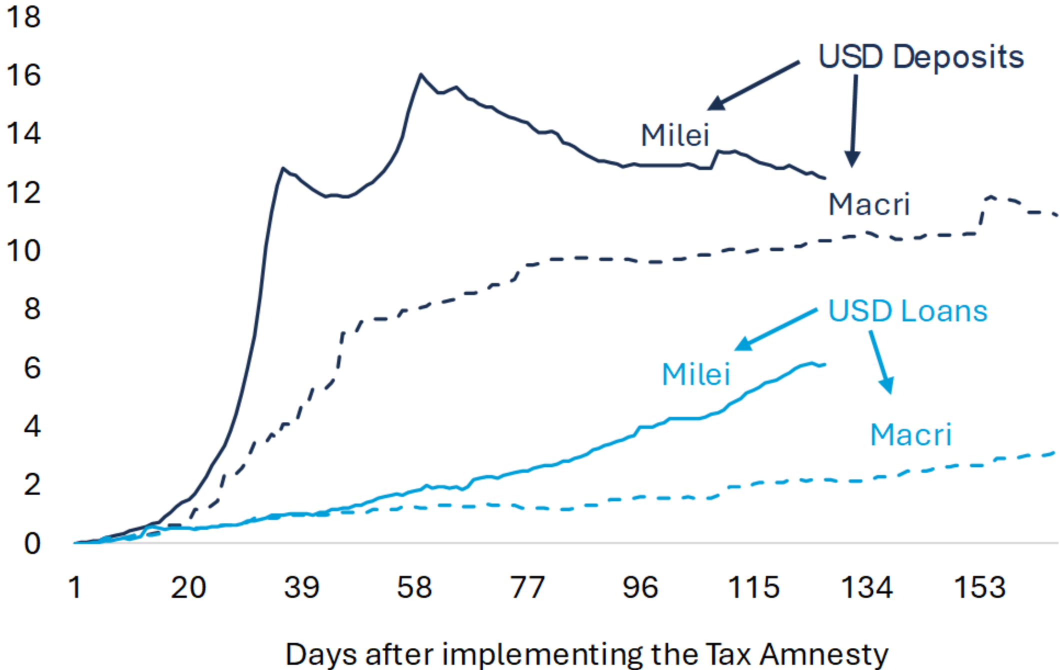
With reserves lagging, the government needs to find new ways to attract non-debt capital inflows—whether through FDI incentives (such as the RIGI), trade competitiveness measures, or selective financial liberalization. But peso appreciation is already weighing on the trade surplus—and possibly, on FDI—forcing Argentina to lean more on external financing. This underwhelming reserve print came despite a successful tax amnesty that brought onshore a significant amount of dollars "under the mattress."[7] Ironically, the very thing that has helped stabilize the economy—the aggressive fiscal adjustment—may also be limiting reserve accumulation. Unlike in past

[7] Thanks to a generous incentive (zero tax on domestic bank holdings), the tax amnesty has attracted more "mattress dollars" to local banks than Macri's 2016 initiative. However, only a small fraction of these funds is being channeled into net reserves, as most remain in dollar deposits rather than boosting the central bank's balance sheet. Uncertainty remains about whether these tax amnesty deposits—held in Cuentas Especiales de Regularización y Ahorro (CERA)—will stay onshore once the mandatory holding period expires by end 2025.

cycles, where fiscal deficits were financed offshore with hard currency debt (which helped build reserves), Argentina's decision to avoid this approach has left fewer inflows to replenish the central bank's balance sheet.

Figure 10. Tracking the impact of the tax amnesty

Chart: U.S. dollar deposits following the tax amnesty (in million USD)



Sources: BCRA, Adcap.

Note: This chart illustrates the evolution of bank deposits resulting from the tax amnesty, compared to past ERBS experiences.

The scorecard

Argentina's current ERBS strategy has evolved. Early on, it relied heavily on lower aggregate demand from fiscal tightening. But now, it leans almost entirely on the exchange rate anchor—a familiar pattern in past stabilization efforts. Like previous ERBS programs, it has delivered fast currency appreciation, sharp disinflation, and a growth rebound—while real wages remain suppressed.

Yet, this time there are some key differences.

On the upside: The fiscal adjustment has been more aggressive and credible than in past attempts. And a shift in export composition—with greater reliance on natural

resource-intensive sectors like oil, gas, and mining—has helped strengthen the external balance.

On the downside: Exchange controls (cepo) remain in place, something previous ERBS cycles did not have to navigate. While this has allowed for lower interest rates and a stronger peso, it has also delayed reserve accumulation and weighed on investment—despite a faster expansion in credit. The government has promised to lift these controls after the October election, but until then, they remain a structural constraint.

Can it hold?

In the short term, Argentina’s stabilization program remains viable—as long as the government secures additional financing. Officials and markets expect funding from the IMF and multilaterals, along with smaller contributions from private creditors through structured deals like January’s repurchase agreement with banks. These could extend the sustainability window—but will not eliminate long-term risks.

The IMF’s conditions will be key. History suggests it will likely demand a more flexible exchange rate and possibly further fiscal adjustments—both of which could test political and market stability. On the upside, the exchange rate passthrough to prices may be lower than in 2023, thanks to a more stable environment and strong fiscal footing. Still, much will depend on how well the government negotiates these terms without losing domestic political support.

As noted, emerging economies often face an inherent macroeconomic trilemma: they cannot simultaneously maintain low inflation, a stable exchange rate, and strong economic recovery without external financial support. So far, Argentina’s strategy has prioritized inflation control—at the expense of exchange rate stability and growth. This is evident in slow reserve accumulation, which remains heavily reliant on hard currency liabilities rather than organic inflows. Without stronger capital inflows, maintaining the exchange rate peg could eventually require another contractionary adjustment.

This time around, the dilemma is further complicated by the ongoing trade wars: A substantive universal tariff imposed by the U.S. followed by a devaluation of the Chinese yuan should put pressure on emerging market currencies, deepening the perceived overvaluation of Argentina's peso. This will make the crawling peg—or any predetermined exchange rate policy such as a narrow crawling band—harder to maintain, regardless of the size of an IMF-led package. Ultimately, it may make the ERBS approach self defeating, as the “nominal anchor” dividend is offset by expectations of a delayed exchange rate correction.

The biggest threats?

- **A perceived peso overvaluation leaves Argentina vulnerable to external shocks**, like a stronger U.S. dollar, weaker global commodity prices, or a slowdown in China and Brazil.
- **With the peso potentially overvalued, Argentina remains exposed to external shocks**—whether from a stronger U.S. dollar, weaker global commodities, or a slowdown in China and Brazil
- **Investment remains sluggish**, with FDI inflows still weak.
- **External financing remains crucial**, but capital controls must be lifted carefully to rebuild market confidence.

For Argentina's stabilization to hold, the government will need to strike a careful balance on three fronts:

✓ **Exchange rate management**: The crawling peg has helped control inflation, but delaying FX market normalization could worsen imbalances—raising the risk of a painful correction.
✓ **Reserves and external financing**: IMF funding is essential, but staged capital control removal will be just as critical for attracting FDI.
✓ **Investment recovery**: Austerity has hit public investment hard. Incentives—like infrastructure-focused public-private partnerships—could help jumpstart long-term growth.

History lessons

Like past ERBS programs, Argentina's stabilization faces a tough trade-off: It cannot have low inflation, a stable exchange rate, and strong growth all at once. Whether the government shifts its priorities away from inflation control to focus on external stability and investment will determine the path of Argentina's economy in the months ahead.

There is, no doubt, an elephant in the room of the previous comparison: Argentina resorts once and again to varieties of exchange rate rules, instead of embracing the more flexible arrangements that have prevailed globally—and, more critically, among formerly inflationary Latin American neighbors—since the stream of currency crises in the 1990s and early 2000s moved the consensus away from conventional pegs—an historical pattern that seems to elude Argentina's policymakers.

History offers yet another lesson: **Exchange rate anchors are easy to enter and hard to exit**. The longer the government waits to adjust, the greater the risk of a painful

correction. If managed well, stabilization could buy time to rebuild reserves, attract investment, and lay the groundwork for sustainable growth. If mishandled, Argentina risks once again being trapped in a cycle of fleeting stabilizations.

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