INTERNATIONAL MONETARY FUND

ARGENTINA

SELECTED ISSUES

May 11, 2026

Approved By
Western Hemisphere Department

Prepared by Luiza Antoun de Almeida, Maksym Ivanyna, Tannous Kass-Hanna, Pablo Tillan, Juan Yépez Albornoz (WHD), Ana Cebreiro, Rosario Lopez Palazzo, Julieth Pico Mejía (FAD), and Jean-Marc Fournier, Andres Gonzalez (RES), under the direction of Luis Cubeddu and Bikas Joshi (both WHD).

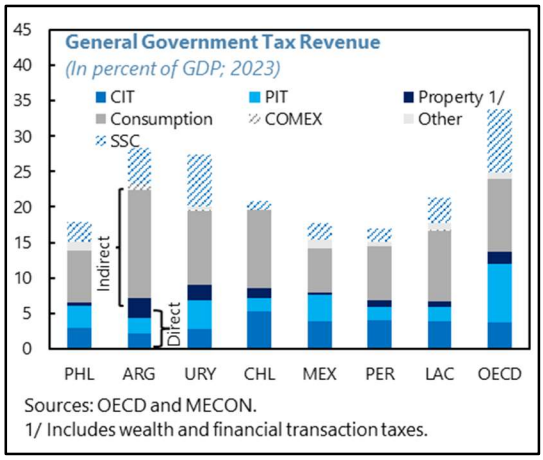
CONTENTS

ARGENTINA'S TAX SYSTEM AND REFORM CONSIDERATIONS[1]

This chapter describes Argentina's tax system and highlights reform options to improve its efficiency and equity, taking into account fiscal constraints and federalism. It also quantifies the pervasive effects of some of the most distortionary taxes, underscoring the need for reform.

A. Argentina's Tax System

1. Argentina's tax system remains complex, highly distortive, and unstable, weighing on growth and competitiveness. General government tax revenue is high by regional standards (about 27 percent of GDP in 2025), reflecting a system characterized by high statutory rates, a narrow base shaped by multiple special regimes, and an excessive number of taxes (over 155) that are subject to frequent changes. The tax mix relies heavily on indirect taxes, as well as on highly distortive taxes—notably trade, financial transactions, and provincial turnover taxes—that currently account for over one-quarter of tax revenue (about 7 percent of GDP). The system's elevated burden and complexity encourage tax avoidance and weaken enforcement by creating overlapping tax bases, fragmented intergovernmental responsibilities, and multiple opportunities for noncompliance. These weaknesses in the tax framework reduce transparency and increase administrative burdens, weakening effective compliance monitoring, as reflected in Argentina's low VAT and CIT compliance rates relative to the region (Pelaez, 2024), while extensive carve outs aggravate inequities.



2. The federal fiscal system has exacerbated distortions and complicated reform efforts. Major taxes—CIT, PIT, wealth, excises, and VAT—are collected federally and shared with provinces through a complex *coparticipación* scheme, while provinces mobilize own revenues through the cascading turnover tax (*ingresos brutos*), stamp and property taxes, and municipalities tax economic activities and consumption. In the context of high macroeconomic volatility and spending rigidities, this has led the federal government to increasingly depend on distortive trade and financial transactions taxes which are not co-participated, with provinces relying on turnover taxes (Centrangolo et al., 2010). Meanwhile, tax reform efforts have fallen short of expectations given challenges arising from federal-provincial coordination (Afonso et al., 2025).

3. While recent tax adjustments have been generally positive, a more fundamental reform of the system is still required. Since early 2024, reform efforts have focused on (i) expanding the PIT base through a lower exemption threshold; (ii) eliminating distortive FX access

[1] Prepared by Luiza Antoun de Almeida, Ana Cebreiro, Rosario Lopez Palazzo, Julieth Pico Mejía, and Pablo Tillan.

taxes and rationalizing trade taxes, with emphasis on imports;[2] (iii) reducing the very high statutory tax rate on wealth; and (iv) reducing social security contributions. These measures have reduced tax revenues by about 2.5 percent of GDP. Meanwhile, and similar to Chile's past tax promotional scheme (DL600), a new large investment regime (RIGI) has been introduced to provide tax and regulatory certainty to attract large FDI in the energy, mining, and agro-industrial sectors. That said, key weaknesses remain, weighing on growth, competitiveness, and informality, especially as the economy becomes more open.

B. Tax Reform Considerations

4. A comprehensive tax reform must balance equity and efficiency considerations while strengthening the fiscal anchor. Reforms at the federal level (see text table) should focus on (i) reducing tax expenditures in core taxes (VAT, PIT, CIT); (ii) improving PIT efficiency (including the regime for autonomous workers, *monotributo*); (iii) simplifying the CIT; and (iv) strengthening excises. The yields from these reforms would permit a gradual reduction in trade and financial transactions taxes, while creating space for provinces to strengthen their tax structure (given increases in coparticipation transfers). At the provincial level, consideration could be given to replacing distortive turnover taxes by a dual VAT in a broadly revenue-neutral manner and increasing the reliance on property tax collection. Estimated yields from such measures could reach up to 3.3 percent of GDP, with around half accruing to provinces. Changes to social security contributions are not considered, as these are outside the scope of the analysis and would form part of any comprehensive pension reform.

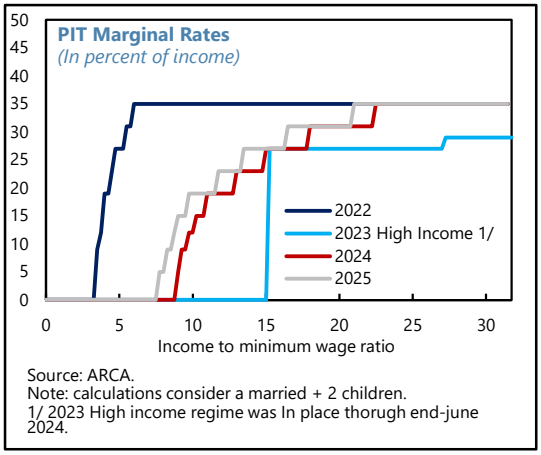
Estimated Potential Gains from Tax Reform
(Percent of GDP)

Removing tax exemptions	**0.8**
Eliminating VAT tax exemptions while compensating vulnerable households	0.4
Elimination of Special Economic Zones' tax exemptions	0.4
Expanding income tax base and uniformizing categories	**1.4**
Expanding PIT base (in line with 2019 tax scale)	0.4
Aligning monotributo with general PIT system	1.0
Updating excises with inflation erosion and uniformizing	**0.5**
Fuel excises	0.3
Tobacco excises	0.2
Strenghtening provincial property tax collection	**0.6**
Total	**3.3**

Souces: MECON and IMF staff estimates.

6. Revenue-raising reforms at the federal level should be aimed at broadening the tax base and improving the equity of the system by:

- ***Reducing tax expenditures.*** Tax expenditures are large (about 3.5 percent of GDP), mainly from VAT (1.2 percent of GDP), *monotributo* (1 percent of GDP), and special regimes (0.5 percent of GDP).[3] Options include unifying VAT rates with targeted compensation for vulnerable households (net fiscal



Source: ARCA.
Note: calculations consider a married + 2 children.
1/ 2023 High income regime was In place thorugh end-june 2024.

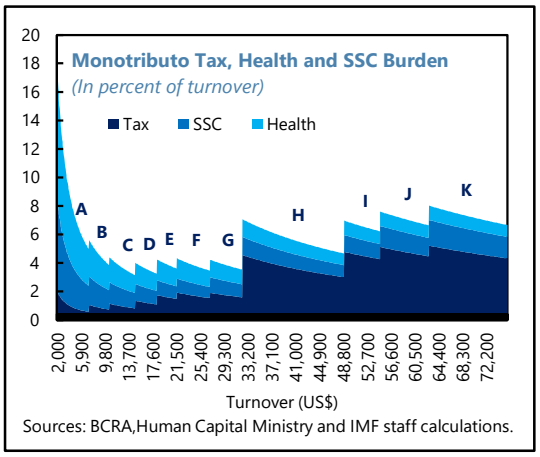
[2] Since end-2023, the effective weighted average import tax (including *impuesto pais*) has declined from 16.4 percent to 5.5 percent and export taxes from 8.3 to 6.7 percent.

[3] The estimate for tax expenditures in special regimes does not include revenue forgone related to the RIGI regime.

gains of 0.4 percent of GDP) and scaling back preferential regimes.

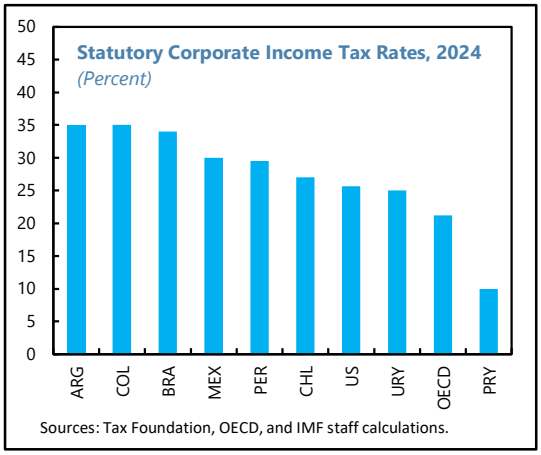
- ***Expanding the PIT base.*** PIT revenue (1.8 percent of GDP) remains below regional and OECD peers. The 2023 reform sharply narrowed the base, leaving less than 1 percent of formal workers paying PIT. Although partly reversed in 2024, the exemption threshold remains above its pre-2023 level. Reform should lower the threshold so that at least 20 percent of workers pay PIT (as in 2019), raising about 0.4 percent of GDP; while harmonizing deductions across employment categories and simplifying the rate structure.

- ***Reforming the monotributo.*** While the regime simplifies compliance, promotes formalization, and expands health and pension coverage, it imposes a much lower effective burden than the general system, leading to firm fragmentation, and limited business growth. The fixed-payment structure also creates sharp jumps in tax liability between thresholds that discourage moving to higher categories. Any reform should reduce threshold effects, align effective rates and social contributions with the general regime, and leverage digital tools to simplify compliance.



Sources: BCRA,Human Capital Ministry and IMF staff calculations.

- **Simplifying the CIT.** The top CIT rate of 35 percent exceeds the global average of 25 percent and the existing progressive rate schedule based on firm size/income encourages avoidance behavior.[4] Consideration could be given to the establishment of a turnover-based minimum tax combined with a flat 30 percent CIT rate credited against it. In addition, a more balanced treatment of investment income (dividends, interests, capital gains) at the personal level could also reduce a potential bias in favor of debt financing relative to equity and alter incentives for dividend distribution.



Sources: Tax Foundation, OECD, and IMF staff calculations.

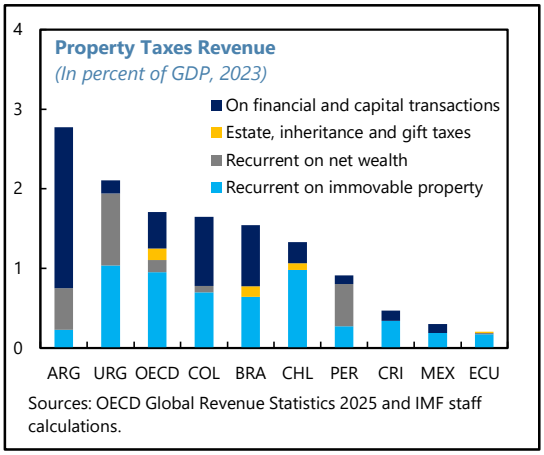
- **Strengthening excises.** Adopting a mixed tax system—combining specific excise taxes with ad-valorem taxes—for tobacco, alcohol, and sugar-sweetened beverages, with a stronger emphasis on specific excises and a streamlined ad valorem structure, could more effectively correct consumption-related market failures, eliminate implicit subsidies, and enhance revenue generation. World Bank simulations suggest that raising tobacco excises to around historical peak levels and indexing them to inflation could generate 0.2 percent of GDP. In addition, continuing to adjust fuel excises for inflation erosion could yield about 0.3 percent of GDP.

[4] Under the temporary special investment regimes, RIGI and RIMI, the CIT rate was lowered to 25 percent, with accelerated depreciation and reduced withholding taxes on dividends. The original labor market reform draft proposed reducing the top two CIT brackets from 35 to 31.5 percent and from 30 to 27 percent, respectively, but the measure was later dropped due to provincial concerns over losing shared revenues.

7. These revenue-enhancing reforms should provide space to gradually phase out distortive trade and financial transactions taxes. Emphasis should be given to gradually reducing export taxes, especially of Argentina's main agricultural exports (soy, wheat, corn), and unwinding the financial transactions taxes. Associated revenue losses would be offset not only by measures to expand the tax base, but also by efforts to better tax the agricultural sector and by eventual effects on growth, exports and financial intermediation (see ¶9).

8. Importantly, as the share of co-participated taxes increases, there will be an opportunity to reform subnational taxes by:

- ***Strengthening property taxation***. Immovable property tax revenue (0.3 percent of GDP) is significantly below that among peers. Reducing exemptions, taxing rural properties once export taxes decline, and improving valuations[5] could raise revenues by up to 0.6 percent of GDP by closing most of the gap with peer countries.

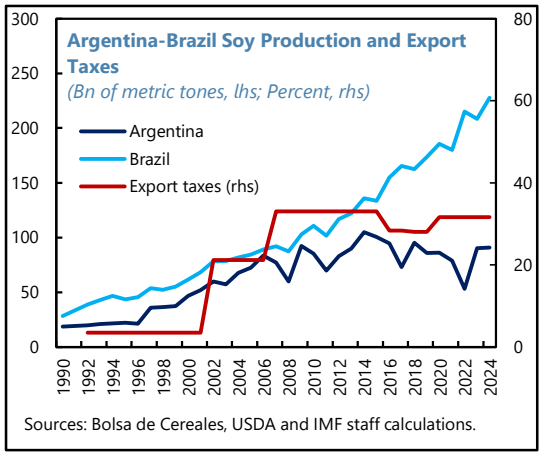


Sources: OECD Global Revenue Statistics 2025 and IMF staff calculations.

- ***Replacing provincial turnover taxes with other less distortive revenue sources.*** Provincial reliance on *ingresos brutos* has risen sharply despite its highly distortive cascading effects. One option could be to replace it with a dual VAT (federal plus provincial), as implemented in India (2017) and Brazil (2022), would eliminate cascading effects and shift taxation from production to consumption. Revenue risks for some provinces could be mitigated through transfers and transition arrangements,[6] alongside reforms to strengthen provincial revenues. International experience suggests that a dual VAT can preserve subnational fiscal autonomy through rate setting or joint administration.

C. Reform Implications: The Impact of Reducing Distortive Taxes

9. Distortionary taxes continue to restrain growth, exports, and capital market development. Export taxes create a wedge between international and domestic prices, lowering producer prices and weakening incentives to invest, expand cultivated areas, and adopt productivity-enhancing technologies. Reflecting these distortions, soybean production has grown more slowly than in peer exporters. Since 2000,



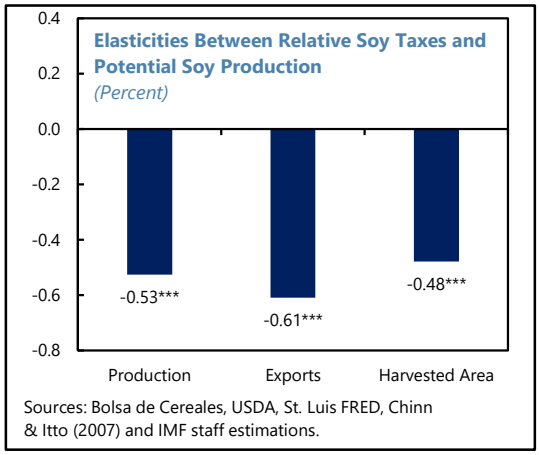
Sources: Bolsa de Cereales, USDA and IMF staff calculations.

[5] This would require legislation to base immovable property values on the higher of the provincial valuation or the valuation determined by the *Organismo Federal de Valuaciones de Inmuebles* (OFEVI) using a unified methodology.

[6] For example, provincial VAT revenues could initially be allocated based on the current distribution of *ingresos brutos* and gradually transition—over about 10 years—to the allocation implied by destination-based taxation.

Brazilian soybean production has more than tripled, while Argentina's has increased by only about 40 percent. Differential tax rates across products further distort relative prices and reduce allocative efficiency. In addition, the financial transactions tax—currently scheduled to expire in December 2027—encourages cash transactions, promotes informality, weakens financial intermediation, and hinders financial deepening.

10. Staff's empirical analysis suggests there are sizable gains from reducing distortive taxes. Specifically, a 1 percent reduction in export taxes on soybeans and derivatives relative to other crops is associated with about a 0.5 percent increase in soybean production, exports, and harvested area.[7] Additional staff's estimates imply that eliminating export taxes could increase exports of raw and processed oilseeds and cereals by around 10 percent,[8] raising annual FX earnings by about US$5 billion and boosting GDP by about 0.4 percentage points. Other studies point to similar gains. In a dynamic general equilibrium framework, Grundke and Folders (2010) and Cicowiez et al. (2016) find that reducing export taxes—particularly when offset by higher direct taxation to preserve fiscal balance—promotes stronger investment and long-term growth.[9] Similarly, reducing financial transaction taxes could also yield important gains through stronger financial intermediation. Fenochietto et al. (2015) have found that a 0.1 percentage point reduction in the net financial tax rate could increase bank deposits by about 3 percent in the long run.



[7] The analysis regresses Argentina's soybean production gap (actual vs. potential) on soy export taxes relative to the average export tax across other crops, controlling for international soy prices, capital controls, and drought years during 1992-2025. Potential production assumes Argentina's performance relative to Brazil's HP trend is unchanged relative to that in place during 1990-2001 (prior to export taxes). Estimates are robust to other definitions of the production gap.

[8] Staff assumptions draw on Beckman et al. (2018) and findings are broadly consistent with Gutiérrez (2025) as well as the projections from the *Bolsa de Cereales de Buenos Aires*, which estimate that removing export taxes would raise cereal and oilseed exports by approximately 9 percent over ten years relative to baseline. It is also worth noting that the 2015 reduction in export taxes led to crop reallocation in response to relative price changes (Allan et al., 2024) and increased adoption of higher-productivity technologies (World Bank, 2024).

[9] Lower export taxes would also broaden the income tax base by increasing taxable profits and labor income in the agricultural sector. While it would also lead to higher domestic (food) prices, this impact is expected to be modest (Cabello and Ciancio, 2021) and could be offset by targeted and temporary support if needed.

References

Afonso, S., and S. Galiani, 2025. "Motives and Constraints in the Implementation of Argentina's 2017 Tax Reform." NBER Working Paper, 34442.

Allan, T., K. Corfield, J. O'Farrell, and C. Freytes, 2024. Discutir los derechos de exportación: hacia un nuevo marco fiscal para el agro. Fundar.

Beckman J., C. Estrades, M. Flores, and A. Aguiar, 2018. "The Impacts of Export Taxes on Agricultural Trade." NBER Working Paper 24894.

Cabello, A., and A. Ciancio, 2021. "Impacto de los precios agrícolas en los principales alimentos." Escuela de Economía y Negocios, Documentos de Economía Regional y Sectorial 73, March 2021.

Cetrangolo, O., and J. C. Gomez Sabaini, 2010. "Tax Policy in Argentina: Between Solvency and Emergency." Chapter 3 of Book Taxation in Developing Countries, Columbia University Press.

Cicowiez, M., J. Alejo, L. Di Gresia, S. Olivieri, and A. Pacheco, 2016. "Export Taxes, World Prices, and Poverty in Argentina: A Dynamic CGEMicrosimulation Analysis." International Journal Of Microsimulation (2016) 9(1) 24-54.

Fenochietto, R., C. Pessino, and E. Crivelli, 2015. "Impact of the Bank Transactions Tax on Deposits in Argentina," in Ruud de Mooij, and Gaëtan Nicodème (eds), Taxation and Regulation of the Financial Sector (Cambridge, MA, 2015; online edn, MIT Press Scholarship Online, 21 May 2015).

Gutiérrez Cabello, A., 2025. "Es posible eliminar los derechos de exportación sin afectar las cuentas fiscales? El caso de la soja y derivados." Revista de la Facultad de Ciencias Económicas.

Grundke, R., and Folders, F., 2010. "The economic and social consequences of agricultural export taxes: A CGE analysis for Argentina." Presented at the 13th Annual Conference on Global Economic Analysis, Penang, Malaysia.

IARAF, 2025. "División de la alícuota de IVA entre Nación y provincias."

Pelaez F., 2024. "Efficiency and Tax Gap in Latin America and the Caribbean: Value Added Tax and Corporate Income Tax", CIAT ISSN 2219-780X.

World Bank, 2024. "Hacia un sector agroalimentario más competitivo, inclusivo y resiliente en Argentina." Washington, DC.

LESSONS FROM STABILIZATION PROGRAMS[1]

Drawing on cross-country experience and model-based simulations, and recognizing the complexities and idiosyncrasies of stabilization processes, this chapter examines how Argentina's stabilization strategy has evolved relative to other stabilization cases and discusses options to deliver a gradual yet sustained disinflation, along with external stability and growth.

A. Argentina's Stabilization: A Comparative Perspective

1. Argentina's stabilization plan stands out for the speed and magnitude of its fiscal adjustment and its rapid initial disinflation (Figure 1, top two panels). The fiscal tightening of about 5 percent of GDP, implemented by the Milei administration within one month of taking office, was exceptionally large by international standards and has been central to restoring stability and policy credibility. Disinflation has been faster relative to past stabilization episodes[2], supported initially by an exchange rate anchor under a crawling peg regime, which helped to anchor expectations during the early phase of the program. This rapid disinflation took place in the context of a correction in relative price misalignments, removal of price controls, and an easing of trade and interest rate restrictions. Early efforts were made to heal the central bank balance sheet and reduce the quasi-fiscal deficit, including through negative real interest rates enabled by strict capital controls. Unlike in past stabilization episodes (i.e., Bonex Plan of 1990, Default and Asymmetric Pesification Plan of 2001-02), contracts and debt obligations have been fully respected, and explicit efforts were made to encourage the repatriation of assets (through the 2024 tax amnesty). Improved confidence and deregulatory reforms led to a rapid recovery in economic activity and demand.

2. Like other plans, Argentina's stabilization plan has been adjusted as conditions and constraints evolve. Against the backdrop falling reserves, an appreciating real exchange rate and domestic and external (trade war) uncertainties, upon the approval of a new IMF program in April 2025, the central bank allowed for greater exchange rate flexibility by introducing an exchange rate band (which widened over time) and removed most FX restrictions and controls, thereby relinquishing earlier reliance on financial repression. The new FX regime was complemented by a strict monetary targeting framework, where liquidity conditions would be tightened as needed to protect the upper end of the band. Despite the smooth early implementation of the new monetary and FX regime, external pressures emerged ahead of the mid-term elections, as political uncertainties led to a collapse in peso demand and pushed reserves to dangerous low levels. In response, and as market conditions normalized, exchange rate flexibility has been further enhanced and a reserve purchase program has been introduced, signaling a greater focus on external stability.

[1] Prepared by Jean-Marc Fournier, Andres Gonzalez, and Juan Yépez Albornoz.

[2] Argentina's adjustment is compared to more than 50 historical stabilization episodes, primarily in emerging markets, in which year-on-year inflation declined by at least 50 percentage points. Some cases exhibit even faster disinflation, but these typically occurred following hyperinflation episodes (such as Argentina's own Convertibility stabilization), which differs from the current context.

3. Despite impressive stabilization gains over the past two years, reserve accumulation and the recovery of money demand have lagged relative to stabilization programs, reflecting in part heightened political uncertainty during 2025 (Figure 1, bottom panel). Recent adjustments to the monetary and FX regime along with steady FX purchases are starting to reverse 2025 trends, but sustained implementation will be required. These improvements, alongside the narrowing or elimination of other macroeconomic imbalances, will leave the economy better prepared ahead of the 2027 elections.[3] With inflation now in double digits, the challenge now lies in balancing the objectives of disinflation, reserve accumulation, and economic recovery, underscoring the importance of adopting policy frameworks better suited to a lower-inflation environment.

B. Features of Successful Stabilization Episodes

4. Cross-country experience suggests that durable disinflation relies on credible and agile policy frameworks supported by strong institutions (Table 1). While stabilization episodes vary widely, reflecting differences in initial conditions and policy priorities, successful episodes share several common characteristics:

- **The fiscal anchor is nonnegotiable.** An ambitious and credible fiscal anchor is essential to bring down inflation, restore debt sustainability, reduce spreads, and avoid overreliance on tight monetary policy, which tends to add to vulnerabilities.[4]

- **Monetary and FX frameworks evolve**. Reliance on the exchange rate as a nominal anchor tends to be eventually abandoned, with the exchange rate increasingly serving as a shock absorber and risk mitigant to financial vulnerabilities.[5] As such, transitioning towards a new, transparent and well-communicated nominal anchor is essential to anchor expectations and reduce inflation persistence. This involves having properly articulated reaction functions—along with a transparent explanation of policy objectives and instruments. Given the volatility of money demand, as inflation falls, successful cases transition from targeting monetary aggregates to targeting inflation (see ¶5).

- **External stability is a key priority.** Successful programs prioritize unsterilized foreign reserve accumulation to enhance resilience to external shocks, secure durable market access, and in turn attract financial inflows.[6] In many cases, reserve accumulation was the main source of money creation (base money was backed by external assets, further supporting re-monetization). Importantly, successful cases were characterized by greater reliance on stable long-term capital

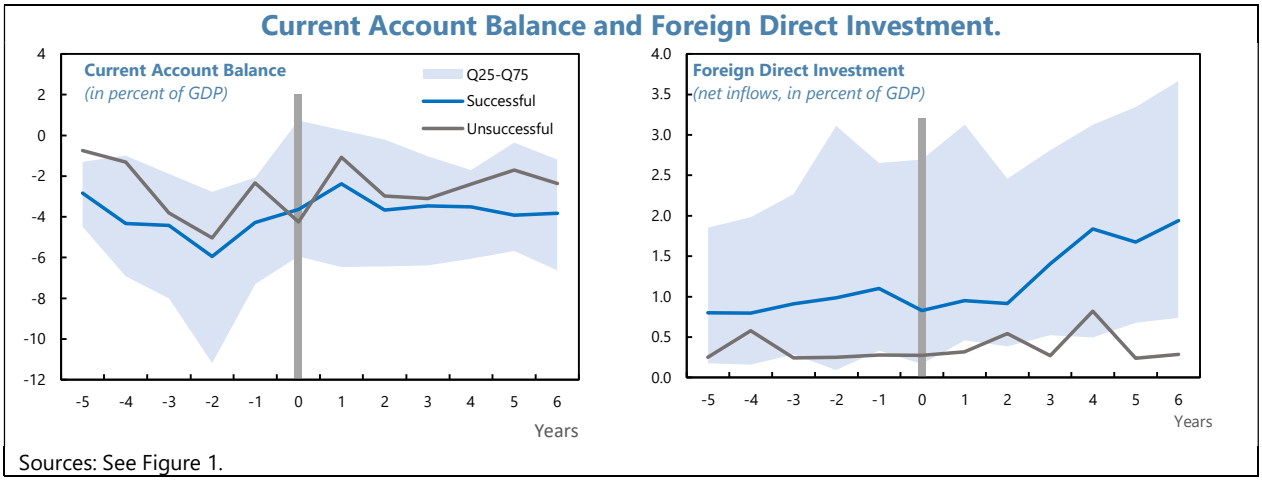
[3] In the early 1990s, Peru, which also faced large fiscal deficits, heavy FX and price controls, import backlogs, high dollarization, quickly rebuilt reserves, although its stabilization program involved an immediate lifting of FX restrictions and a normalization of creditor relationships post 1980s default. See Velarde and Rodriguez (1992).

[4] Recent work by Arellano et al. (2026) finds a positive relationship between spreads and inflation in EMs.

[5] Obstfeld et al. (2017) find that countries with fixed exchange rates are more likely to experience financial vulnerabilities—rapid credit and house price growth and bank leverage—than those with more flexibility.

[6] Calvo (1991) shows that sterilization of reserve inflows during a disinflation plan may raise inflationary expectations by increasing the stock of domestic-currency government debt.

inflows, enabling somewhat larger yet more sustainable current account deficits once the external position had strengthened.



Sources: See Figure 1.

- **Focus is given to growth and structural reforms.** Durable disinflation episodes coincided with a sustained expansion of economic activity and demand, following an initial contraction. In most cases, growth was underpinned by credible and comprehensive reform packages that combine tight and balanced policies and deep structural reforms (including openness) that support productivity and encourage stable and longer-term capital inflows (see above).

- **Economic institutions are strengthened.** Over time, successful stabilization cases adopt legislation establishing fiscal rules and medium-term frameworks and strengthening the central bank's autonomy and accountability. As shown by extensive empirical evidence, a strong central bank charter, underpinned by a clear mandate of price stability, enhances the effectiveness and credibility of monetary policy, better anchoring inflation expectations.

- **Disinflation takes time.** Successful programs balance the pace of disinflation against broader macroeconomic stability objectives and growth. Attempts to reduce inflation too rapidly, with excessive reliance on an exchange rate anchor (leading to an overvalued exchange rate) and volatile capital inflows, often resulted in their stabilization programs terminating abruptly (see Goldfajn and Valdes, 1999). Experience shows that while reducing inflation from triple to double digits tends to be quick, bringing it down to single digits takes much longer –on average an additional 3-4 years in successful disinflation cases, and even longer in highly dollarized economies (taking about five years in Peru and about seven years in Uruguay).

C. Transitioning to a More Robust Monetary Policy Framework

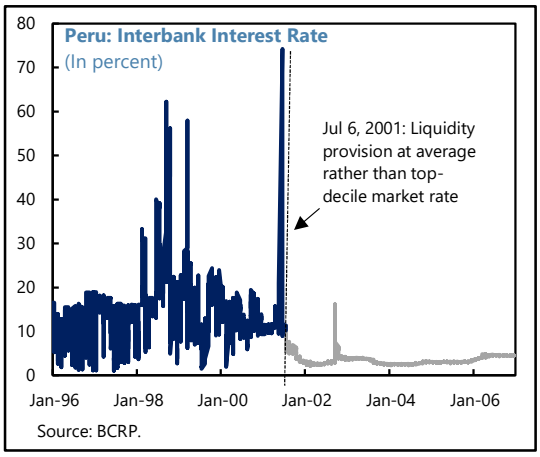
5. Monetary frameworks usually evolve as stabilization progresses. While in the early stages, rigid nominal anchors—such as exchange-rate pegs or monetary aggregate targets—can help establish credibility, their effectiveness typically diminishes as inflation declines and money demand becomes less predictable. Successful programs transition gradually toward interest-rate-based operational frameworks, with inflation expectations playing a greater role as intermediate

targets. This shift allows central banks to maintain credibility while supporting re-monetization, rebuilding external buffers, and preserving policy flexibility to respond to shocks.

6. Both theory and practice support this transition. Early models (Sargent and Wallace, 1975) raised concerns that interest rate rules could leave prices indeterminate. Subsequent research showed that systematic interest rate responses to inflation can effectively anchor prices (McCallum, 1981; Taylor, 1993; Woodford, 1994). By contrast, strict reliance on monetary aggregates becomes less effective as inflation declines because the link between money and prices weakens, money demand becomes harder to forecast, and rigid quantity targets can generate excessive volatility in interest rates and output (Svensson, 1997). By the late 1990s, central banks of advanced economies had largely operationalized these insights, using interest rates as their primary instrument (Bindseil, 2004; Borio, 1997).[7] This path was followed by some emerging market economies. Countries such as Chile, Peru, and Colombia transitioned from exchange rate or monetary anchors toward interest-rate-based operational frameworks, increasingly relying on inflation expectations to guide monetary policy.[8] Operational tools, including standing facilities, were introduced to smooth short-term interest rate volatility—Peru introduced a liquidity facility in 2001 priced at the average rather than the top-decile market rate, while Uruguay alternated between monetary and interest-rate targets as credibility evolved, ultimately converging to interest-rate targeting.

Cross-Country Correlation Between Inflation and Money Growth

correlation of inflation with:	Lagged inflation: High (> 100 percent)	Medium (> 40 and < 100 percent)	Low (< 40 percent)
Base money growth	0.45	0.59	0.19
Broad money growth	0.92	0.61	0.47



7. Model simulations highlight the risks of strict monetary aggregate targets. An open-economy model calibrated to the Argentine economy, based on Portillo and Ustyugova (2015), shows that rigid adherence to monetary targets under volatile money demand generates substantial volatility in interest rates, inflation, and output.[9] In a rigid monetary targeting regime, a sudden drop

[7] For example, the U.S. Federal Reserve used interest rate corridors while monitoring M1 and M2, the German Bundesbank combined interest rate operations with M3 targets, and Switzerland adopted a three-month policy rate alongside a medium-term inflation objective.

[8] Chile (1999) and Peru (2002) adopted interest-rate instruments once inflation had moderated, while Colombia shifted in the late 1990s to counter persistent moderate inflation and volatile money demand amid an open capital account (Dornbusch and Fischer, 1993; Burton and Fischer, 1998; Urrutia et al., 2014).

[9] This small-scale forward-looking model aims to capture the exchange rate, expectations, and credit channels. Aggregate demand and monetary conditions matter for the short-run inflation dynamics, but not for the long-run. The exchange rate is governed by the uncovered interest rate parity, and aggregate demand depends on monetary conditions. The model is solved without linearization, allowing deviations from the steady state.

in money demand requires an aggressive monetary expansion that raises inflation, which in turn would eventually need a sharp tightening in monetary conditions. Conversely, a sudden increase in money demand would lead to overly tight monetary conditions with an unduly contraction in economic activity. By contrast, a monetary framework focused on inflation forecasts allows the central bank to look through temporary money demand shocks, reducing volatility and better anchoring disinflation (Figure 2).

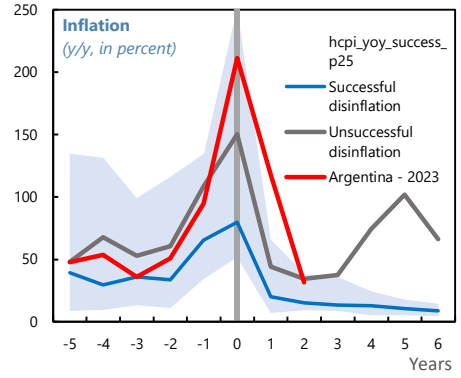
8. Simulations also highlight several conditions critical for sustaining disinflation. Maintaining sufficiently tight monetary conditions is necessary to support money demand while foreign reserve accumulation is underway. These results also suggest that stronger central bank credibility—reflected in a stronger balance sheet, greater independence, and clear communication—enhances the effectiveness of monetary policy while reducing the associated output costs. Gradually transitioning to a more robust and proven monetary regime—with an interest-rate-based operational framework and inflation targets—would support the stabilization process as disinflation naturally becomes more challenging.

Text Table 1. Selected Emerging Economies: Successful Stabilization Episodes

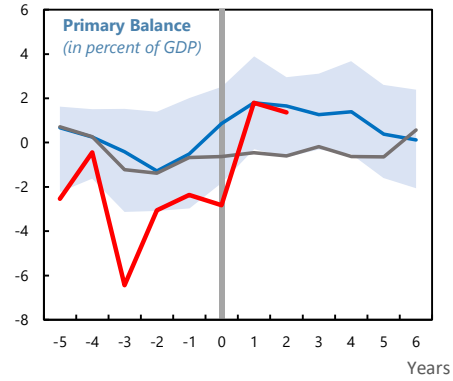
Country	Initial Anchor / Policy Framework	Key Features	Transition Path	Outcome / Notes
Chile (1978)	Monetary aggregates with an exchange rate band in real terms	Banking crisis (1982), uneven disinflation, effective pro-growth policies, interest rate operational target	Transition to more exchange rate flexibility (initially with an exchange rate band in real terms); inflation gradually becomes nominal target	Durable disinflation; stable macro environment
Colombia (2000s)	Inflation targets	Wage indexation, fiscal accommodation, starting point of moderate inflation	Stable framework	Reduced inflation to single digits; enhanced credibility
Israel (1985)	Exchange-rate-based stabilization	Large initial public debt and fiscal adjustment, gradual adjustments of the FX band	Transition to more exchange rate flexibility; inflation gradually becomes nominal target.	Durable disinflation; stable macro environment
Mexico (1994)	Exchange-rate-based stabilization	Fiscal adjustment, pre-announced FX purchase plans. Large US and IMF support.	Gradual transition to the interest rate as operational target and to inflation targeting	Lower inflation, more stable reserves
Peru (1990s)	Base money / exchange-rate anchor	Negative foreign reserves, high dollarization, price controls, fiscal deficits. Rapid reserve accumulation and remonetization.	Gradual strengthening of CB independence; shift from monetary aggregates → loosely defined inflation targets	Rebuilt reserves quickly; sustained disinflation; stabilized expectations
Argentina (2023–2025)	Exchange-rate anchor + large fiscal adjustment	Large stock imbalances, FX restrictions and controls, structural reforms, tight monetary conditions. Relatively high dollarization.	Increased FX flexibility / scope for remonetization and rebuilding reserves; evolving monetary framework	Initial rapid disinflation; FX and monetary frameworks require refinement for durability

Figure 1. Argentina: Argentina vs. Other EMs: Large and Sustained Disinflation Experiences

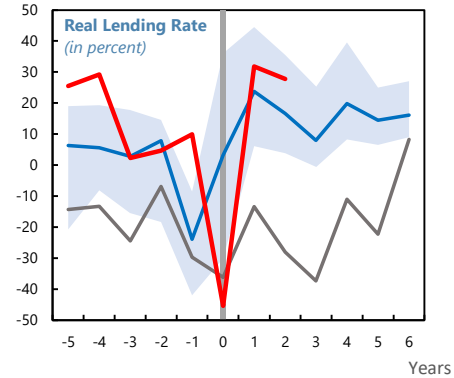
Argentina has been relatively quick to reduce inflation ...



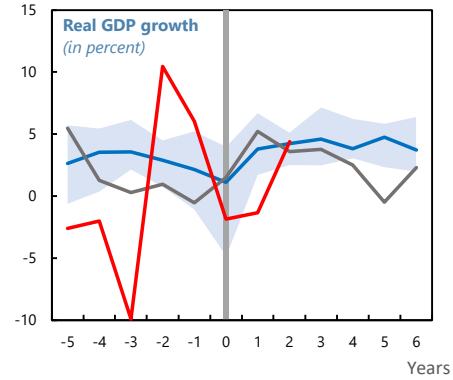
... on the back of comparatively large fiscal adjustment ...



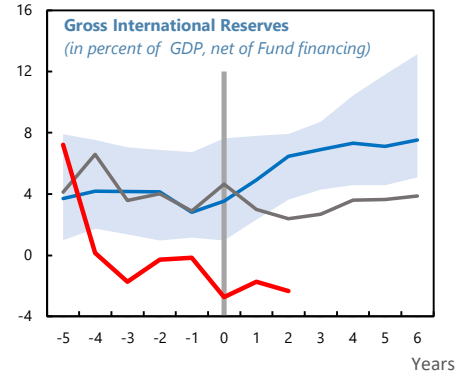
....and tight monetary conditions (after a short period of financial period and capital controls).



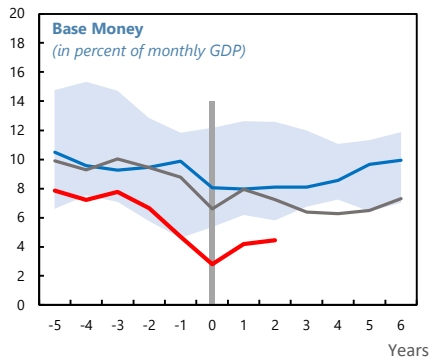
While growth recovered relatively quickly...



...there has been more limited progress in rebuilding reserves (from a weak position) ...



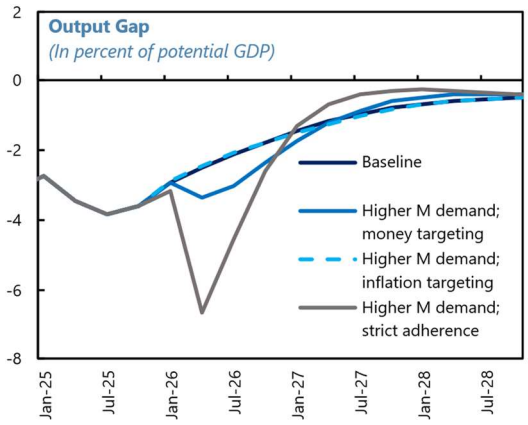
... as money demand has yet to recover.



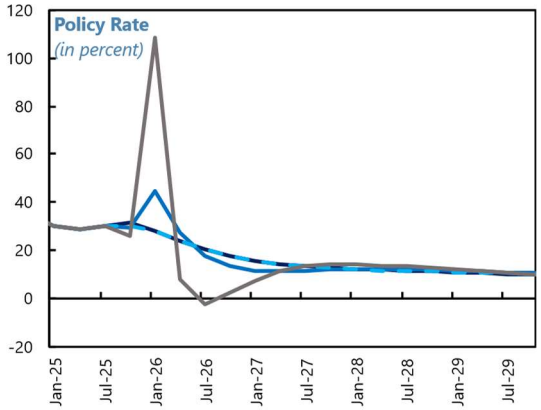
Note: A disinflation episode is defined as a sequence in which y/y inflation declines at least 50 percent and does not bounce back by more than 10 percentage points during the subsequent year. Successful disinflations are those in which moderate inflation of less than 40 percent is maintained over 5th to 7th years after the first y/y decline of more than 50 percent. Other cases are defined as unsuccessful. Solid lines of successful and unsuccessful cases report medians.
Sources: Ha, Jongrim, M. Ayhan Kose, and Franziska Ohnsorge (2023). "One-Stop Source: A Global Database of Inflation." Journal of International Money and Finance 137 (October), Worldbank, BCRA, Indec, IMF Working Paper No. 2020/052), Talvi (1995), Kaminsky, G. L., C. M. Reinhart, and C. A.Végh, "When It Rains, It Pours: Procyclical Capital Flows and Policies". in Mark Gertler and Kenneth S. Rogoff,(eds.). and IMF staff calculations.

Figure 2. Argentina: Disinflation Dynamics Under Different Monetary Frameworks

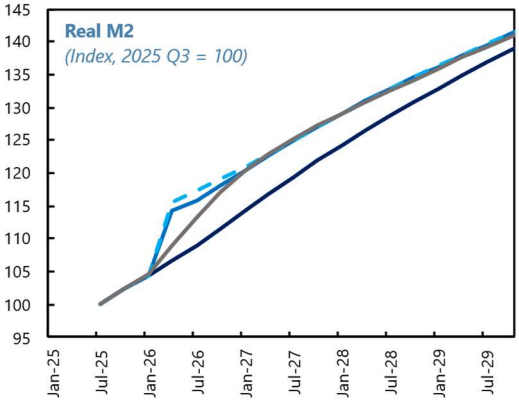
Monetary targeting exacerbates output volatility...



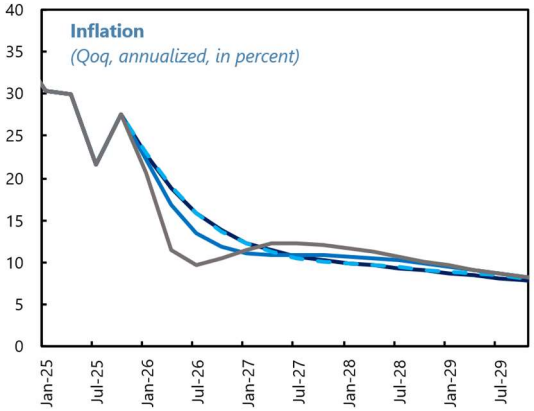
... as fluctuations in money demand translate into heightened interest rate volatility.



Under inflation targeting, money demand and supply adjust endogenously...



... reducing output volatility and better supporting disinflation.



Sources: BCRA, INDEC, and Staff calculation.
Note. Simulations are based on a quantitative new-Keynesian open economy model extended to include a role for money targets (see Portillo and Ustyugova 2015) calibrated to match the disinflation process in Argentina. In the strict adherence simulation, the central bank decides the money aggregates and the market is cleared with a fully endogenous interest rate.

References

Arellano, Bai, Mihalache (2026). Monetary Policy and Sovereign Risk in Emerging Economies (NK-Default). Quarterly Journal of Economics.

Bindseil, Ulrich. 2004. The Operational Target of Monetary Policy and the Rise and Fall of Reserve Position Doctrine. ECB Working Paper No. 2004.

Borio. Claudio E. V. 1997. Monetary policy operating procedures in industrial countries, BIS Working Paper No. 40.

Burton, David, and Stanley Fischer. 1998. Ending Moderate Inflations. International Monetary Fund.

Calvo, Guillermo. A. 1991. The Perils of Sterilization. IMF Staff Papers, Vol 38, No 4.

Dornbusch, Rudiger and Stanley Fischer. 1993. Moderate Inflation. The World Bank Economic Review, Volume 7, Issue 1, January 1993, Pages 1–44.

Goldfajn Ilan, and Valdes Rodrigo. 1999, The Aftermath of Appreciations, The Quarterly Journal of Economics, Vol 114, No 1.

McCallum, Bennett T. 1981. Price Level determinacy with an interest rate policy rule and rational expectations. Journal of Monetary Economics.

Portillo, Rafael and Yulia Ustyugova. 2015. A Model for Monetary Policy Analysis in Uruguay. IMF Working Paper No. 15/170.

Obstfeld, Ostry, Qureshi, 2017. A Tie That Binds: Revisiting the Trilemma in Emerging Market Economies, IMF Working Paper No. 2017/30.

Sargent, Thomas J, and Neil Wallace. 1975. "Rational" Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule. Journal of Political Economy, 83(2): 241–254.

Svensson, Lars E. O. 1997. Inflation forecast targeting: Implementing and monitoring inflation targets. European Economic Review, Volume 41, Issue 6, pp. 1111-1146.

Taylor, J.B. (1993), "Discretion versus policy rules in practice", Carnegie-Rochester Conference Series on Public Policy, 39, pp. 195-214.

Urrutia, Miguel, Hofstetter Gascón, Marcel, and Hamann S. Franz A. 2014. Inflation Targeting in Colombia, 2002-2012, IDB Working Paper Series, No. IDB-WP-487, Inter-American Development Bank (IDB), Washington, DC.

Velarde, Julio and Martha Rodrıguez. 1992. El programa economico de agosto de 1990: evaluacion del primer año. Documento de Trabajo No. 2, Universidad del Pacıfico.

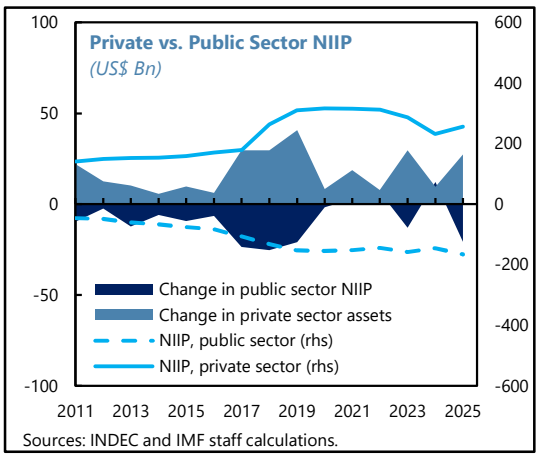
Woodford, Michael. 1994. Credit policy and the price level in a cash-in-advance economy, Economic Theory, Vol. 4, No. 3, pp. 345-380

STRENGTHENING ARGENTINA'S EXTERNAL POSITION[1]

Despite recent progress, Argentina's external position remains vulnerable, weighing on market access and ability to manage shocks. Drawing on the vast cross-country experience, this chapter discusses policies to secure a sustained improvement in Argentina's external position supported by stronger trade surpluses and more stable private capital inflows,

A. A Case for Rotating External Stock Imbalances

1. Argentina's positive net international investment position (NIIP) reflects a long legacy of prolonged macroeconomic instability. Unlike most peers, Argentina has maintained a positive NIIP over the past two decades, masking significant underlying imbalances. While private savings are substantial, much of them are held outside the formal financial system in U.S. dollars abroad or in cash. The counterpart is a weak public sector balance sheet, with low reserve coverage (38 percent of the IMF's ARA metric) and high public external debt vulnerabilities (197 percent of exports). Persistent flow imbalances explain most of these dynamics, as a long history of large fiscal deficits—often financed through monetary expansion—and high inflation have led to massive private capital outflows, reserve losses and an underdeveloped domestic capital market.



2. The recent reduction in Argentina's NIIP responds to stabilization efforts and associated valuation gains. Specifically, between end-2023 and end-2025, the following took place:

- *Public sector external liabilities increased in the context of lower spreads and higher indebtedness, including from official creditors to support reserves*. Gross public external debt holdings (net of reserves) rose reflecting valuation gains (sovereign spreads fell from about 1900 bps at end-2023 to about 560 bps by end-2025) as well as some increase in external government borrowing (See DSA Annex for details). including from the IMF to support reserve rebuilding and by the BCRA to regularize legacy import payment arrears (BOPREAL) and strengthen resilience (BIS swap).

- *Private sector liabilities rose amid stronger market sentiment.* Improved sentiment and

[1] Prepared by Maksym Ivanyna and Pablo Tillan.

investment prospects supported a strong equity rally in both local markets (up 111 percent in USD terms) and international listings (up

- 135 percent). Argentine corporates also returned to international markets, issuing about US$8 billion since end-2023 at favorable terms, supported by strong balance sheets and opportunities in the energy and mining sectors.

Net International Investment Position, 2023-25
(In Billions of U.S. dollars)

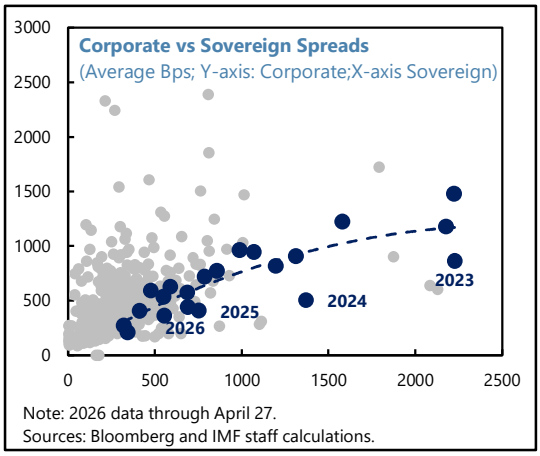
	2023	2024	2025	Diff 2023/2025
Overall NIIP	**105.4**	**56.3**	**48.5**	**-57.0**
Public NIIP 1/	**-108.6**	**-115.8**	**-145.0**	**-36.4**
Assets	30.9	37.6	49.0	18.1
Gross Liabilities	139.5	153.4	194.0	54.5
o/w valuation gains 2/	*0.0*	*17.2*	*33.3*	*33.3*
Private NIIP	**214.0**	**172.1**	**193.5**	**-20.6**
Assets	409.0	418.3	445.7	36.7
Gross Liabilities	194.9	246.2	252.2	57.3
FDI	135.6	178.7	181.0	45.5
o/w valuation gains 2/	*0.0*	*32.2*	*29.9*	*29.9*
Portfolio and other	59.4	67.6	71.2	11.8
o/w valuation gains 2/	*0.0*	*10.7*	*5.0*	*5.0*
Memorandum Items				
FX bank deposits in ARG	15.8	31.4	36.9	21.1

Sources: INDEC; and Fund staff calculations.
1/ General government and central bank.
2/ Accumulated stock since end-2023.

- *Resident holdings of foreign assets also rose*, especially during 2025 with the easing of capital account restrictions and political uncertainty ahead of the mid-term elections. Positively, a large share of these dollar savings entered the domestic banking system adding to gross international reserves (public assets) through an increase of banks' reserve requirement deposits at the BCRA (US$20 billion).

3. Going froward, a further strengthening of the public sector's external balance sheet will be essential to crowd in long-term private capital inflows and reduce external vulnerabilities.

- Empirical evidence for emerging markets suggest that countries with rising public external debt experience a higher cost of borrowing for corporates and greater capital flight (resident domestic savings in FX assets and abroad). In the case of Argentina, a US$1 deterioration in Argentina's public sector IIP is associated with an increase in private sector external assets of 60 cents.[2] The findings are robust to the choice of timing or exclusion of outliers and are corroborated by similar results in other emerging markets.



Note: 2026 data through April 27.
Sources: Bloomberg and IMF staff calculations.

- Special focus should be given to keeping external public debt in check, while rebuilding reserves (see below). This would help to support market access, limit the amplifying effects of exchange rate volatility, and encourage longer-term inflows and asset repatriation. Reforms that deepen

[2] Based on annual data, 1996-2024, with public sector international investment position defined as reserve assets less gross public sector liabilities at face value.

domestic capital markets and encourage FDI will need to be considered to boost domestic savings and long-term investment in Argentina's tradable sector.

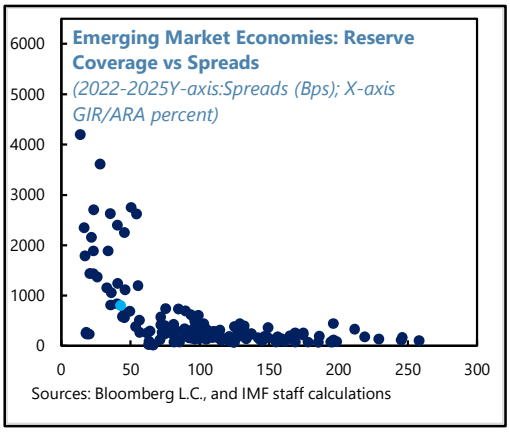
Public Sector IIP and Private Capital Flows: Selected Specifications

Dependent variable:	Δ Priv. Sector Assets/GDP					Δ Priv. Other Inv. Assets/ GDP	
Sample	Argentina		EMs			Argentina	EMs
Subsample	All years	Excl. crises 1/	All EMs	Pub. sector IIP>0	Pub. sector IIP<0	All years	All EMs
Δ Pub. Sector IIP/GDP	*-0.55*** (0.17)*	*-0.49*** (0.15)*	*-0.41*** (0.11)*	*-0.39 (0.27)*	*-0.34** (0.16)*	*-0.61*** (0.21)*	*-0.30*** (0.11)*
Δ Pub. Sector IIP/GDP squared	*0.03** (0.01)*	*0.02** (0.01)*	*0.01** (0.00)*	*-0.01 (0.01)*	*0.01** (0.00)*	*0.03* (0.01)*	*0.01** (0.00)*
Constant	*2.04*** (0.48)*	*2.30*** (0.38)*	*-11.53 (20.75)*	*8.65 (18.34)*	*-12.42 (21.66)*	*1.04 (0.62)*	*-2.30 (19.04)*
Country and time fixed effects	No	No	Yes	Yes	Yes	No	Yes
Observations	31	27	1433	409	1024	31	1314
R-squared	0.29	0.33	0.08	0.32	0.09	0.23	0.09

Standard errors in parentheses. Statistical significance: * p<0.10; ** p<0.05; *** p<0.01. Years: 1980-2024 (non-balanced; most observations in 2000s). Country coverage: Emerging Markets (EMs) - all non-advanced, non-PRGT eligible countries with GDP of over US$2bn, and with public sector IIP of between -100 and 50 percent of GDP (results are robust to changes in these limits). Private sector assets include FDI, portfolio, and other investment asset claims on non-residents. Public sector IIP is defined as the difference between reserve assets and public sector external debt at face value.
1/ 2001-02; 2018-19.

B. A Case for Organic Reserve Accumulation

4. Entrenching macroeconomic stability requires building adequate reserve buffers. Reserves help absorb shocks, support confidence in the domestic currency, contain exchange rate volatility, and reduce the risk of abrupt adjustments. A large empirical literature[3] finds that inadequate reserves are a strong predictor of external crises, with benefits of accumulation highest when initial coverage is low, consistent with the negative and nonlinear relationship between



Sudden Stops by a Country Group

		Exchange rate			
		Hard peg	Managed	Float	Total
Fiscal balance	<-1	5	26	2	33
	-1 to 1	3	9	1	13
	>1	1	7	1	9
	Total	9	42	4	55

1/ Sudden stops with growth impact: private capital outflows of at least 2pp of GDP with a subsequent GDP growth slowdown below 10th percentile of the sample. Period: 1990-2019, 60 EMs and Frontiers

[3] See Gourinchas (2026), Gourinchas and Obstfeld (2011) and Cubeddu, Hannan, and Rabanal (2023), among others.

reserves and sovereign risk premia. Even under flexible exchange rate regimes, sudden stops—often driven by private sector vulnerabilities or external shocks—can trigger large capital outflows. Low reserves signal limited capacity to stabilize FX markets in the face of these outflows, thus amplifying exchange rate pressures and weakening confidence.[4] Reserves also not only buffer against sudden stops, they can also foster FDI by insuring it against capital controls.[5]

5. The manner in which reserves are accumulated also matters. Empirical evidence suggests that organic (non-borrowed) reserve accumulation reduces sovereign risk more than accumulation financed through public borrowing, including from official creditors (Sosa Padilla and Sturzenegger, 2021). Estimates for Argentina suggest that increasing reserves by 1 percent of GDP could lower sovereign spreads by about 100–150 basis points if achieved through stronger trade surpluses, with somewhat smaller—though still significant—effects if driven by capital inflows.[6] The narrowing of sovereign spreads, after controlling for global factors (including the Middle East War), alongside the BCRA's reserve purchase program is generally consistent with these findings .

6. Cross-country evidence points to similar conclusions. Successful reserve accumulation episodes in Peru, Chile, and Brazil in the 90s and early 2000s were typically supported by stronger trade balances and sustained long-term capital inflows, particularly FDI, under credible macroeconomic frameworks and exchange rate flexibility. Broader evidence from emerging markets suggests that large-scale reserve accumulation—around 1 percent of GDP annually for 5-10 years—is feasible (with over 100 instances over the last 35 years) and is most often driven by improved trade balances, FDI (at later stages of the stabilization process), export growth supported by structural reforms, and competitive exchange rates, with government external borrowing playing only a limited role.

7. Political-economy considerations remain critical. Experience with other stabilization cases suggests that countries that successfully managed to exit cycles of instability did so by building durable consensus around strong policy frameworks, often highlighting the role of reserves as a public good. Short-lived stabilization experiences in other countries suggest that not enough priority was placed on establishing sufficient reserve buffers, with implemented policies delaying the necessary adjustments, often reflecting political economy (time-consistency) considerations as well

[4] In Argentina the exchange rate tends to act as a shock absorber in orderly market conditions (when daily exchange rate variability is moderate). However, large abrupt increases tend to beget further bets against peso. For example, both cash trade balance and capital flows deteriorated ahead of the mid-term elections despite a sizeable exchange rate depreciation. The correlation between the spot exchange rate and the market-implied depreciation expectation (ROFEX, 12 months ahead) tends to be much stronger when the spot exchange rate changes are large (based on the parallel market rate, daily data in 2024-25).

[5] See Cappa, Levy Yeyati, and Vazquez, 2026.

[6] The estimates were obtained in two stages. First, Argentina's fiscal risk was linked to macroeconomic fundamentals using two models: IMF (2022), a parsimonious logit used to simulate reserve accumulation scenarios, and Moreno Badia et al. (2022), a machine-learning model capturing nonlinearities using a large set of explanatory variables. Second, fiscal risk was linked to logged sovereign spreads using a cross-country panel with a quadratic specification.

as deep-seated institutional issues, especially present in extractive economies.[7]

Episodes of Large Reserve accumulation in 1990-2025: Key Drivers
(Change comparing to before the Episodes; Sample Average) 1/

	All episodes		Low reserves starting point 2/	
	Whole episode	First 3 years	Whole episode	First 3 years
(in percentage points of GDP)				
Reserves	1.1		1	
Trade balance	1.4	1	0.9	1.4
Exports	1.7	0.8	2.3	1.7
FDI	0.2	0.1	0.5	0.2
Official lending	0	0	-0.1	0
(in percent)				
Terms-of-trade improvement	-1	-2	-3	-1
REER depreciation	5	5	6	8

1/ Based on 120 non-overlapping episodes in non-resource rich, large (GDP over US$ 5 billion) middle-income economies, when reserves grew by more than 5 percentage points of GDP within 7 years, and remained stable or continued growing for at least 3 years after the episode.
2/ Reserves to GDP ratio of less than 5 percent

8. As such, sustaining a buildup in reserve will require a set of macroeconomic and structural policies aimed at generating a sustainable balance-of-payments. Argentina will need to generate sufficiently large trade surpluses over the medium term to support reserve accumulation and stable market access to refinance debt obligations, while also meeting external interest obligations and dividends associated with FDI. While Argentina's energy and mining sectors offer substantial export potential, policies will need to be carefully calibrated to avoid boom-bust dynamics and mitigate Dutch disease risks. In this context, a more flexible exchange rate will remain critical to absorbing external shocks, with consideration given to saving commodity windfalls.

[7] See also Alesina (1998), Tornell and Lane (1999), and Acemoglu and Robinson (2012).

References

Acemoglu, D., & Robinson, J. A. (2012). Why nations fail: The origins of power, prosperity, and poverty. Crown Publishers.

Alesina, A. (1998). The political economy of macroeconomic stabilizations and income inequality: Myths and reality. In V. Tanzi & K.-Y. Chu (Eds.), Income distribution and high-quality growth (pp. 299–326). MIT Press.

Ciappa, C. M., Levy Yeyati, E., & Vazquez, F. M. (2026). Reserves as insurance: International buffers and inward FDI in emerging markets (Documentos de Trabajo No. 2026/08). Universidad Torcuato Di Tella, Escuela de Gobierno.

Cubeddu, L., Hannan, S. A., & Rabanal, P. (2023). External financing risks: How important is the composition of the international investment position? Journal of International Money and Finance, 131, Article 102772. https://doi.org/10.1016/j.jimonfin.2022.102772

Gourinchas, P.-O. (2026, March 5). Adequate reserves shield economies from shocks and strengthen resilience. IMF Blog. https://www.imf.org/en/blogs/articles/2026/03/05/adequate-reserves-shield-economies-from-shocks-and-strengthen-resilience

Gourinchas, P.-O., & Obstfeld, M. (2012). Stories of the twentieth century for the twenty-first. American Economic Journal: Macroeconomics, 4(1), 226–265. https://doi.org/10.1257/mac.4.1.226

International Monetary Fund. (2022). Staff guidance note on the sovereign risk and debt sustainability framework for market access countries (Policy Paper No. 2022/039). IMF. https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/08/08/Staff-Guidance-Note-on-the-Sovereign-Risk-and-Debt-Sustainability-Framework-for-Market-521884

Moreno Badia, M., Medas, P., Gupta, P., & Xiang, Y. (2022). Debt is not free. Journal of International Money and Finance, 127, Article 102654. https://doi.org/10.1016/j.jimonfin.2022.102654

Sosa-Padilla, C., & Sturzenegger, F. (2021). Does it matter how central banks accumulate reserves? Evidence from sovereign spreads (NBER Working Paper No. 28973). National Bureau of Economic Research. https://doi.org/10.3386/w28973

Tornell, A., & Lane, P. R. (1999). The voracity effect. American Economic Review, 89(1), 22–46. https://doi.org/10.1257/aer.89.1.22

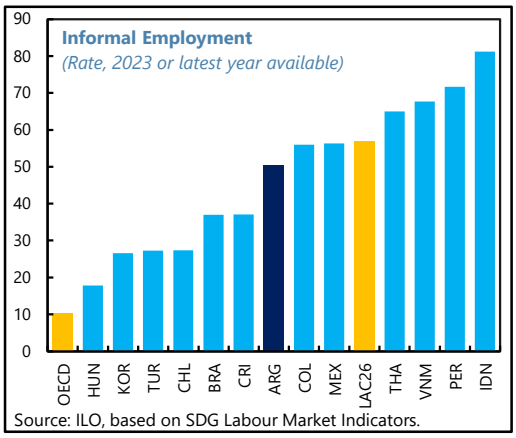
LABOR MARKET REFORM IMPLICATIONS[1]

This chapter examines the potential employment effects of the new Labor Modernization, law which seeks to address long-standing labor market rigidities and segmentation. It also discusses complementary reforms needed to support durable and inclusive gains and to limit near-term adjustment costs amid the ongoing structural transformation.

A. Background

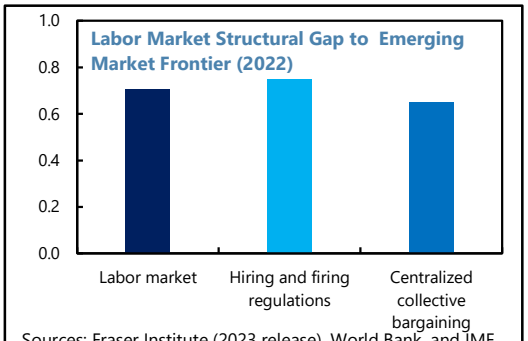
1. Argentina's stringent labor market regulations have contributed to significant segmentation and informality, weighing on productivity.

- Strict employment protection, centralized collective bargaining, high labor tax wedge, and legal uncertainties raise the cost of formal hiring and firing. Adjustments to economic shocks have tended to occur largely through changes in informality, which has grown as a share of overall employment. This has resulted in a dual labor market, in which protected formal workers coexist with a sizable informal and self-employed workforce facing low and volatile incomes. These features have limited labor reallocation, constrained the tax base, and weakened incentives for human-capital accumulation, weighing heavily on productivity.



Source: ILO, based on SDG Labour Market Indicators.

- Employment protection in Argentina has been more stringent than among regional peers, reflecting high and uncapped severance payments, restrictive dismissal rules, lengthy court procedures, and elevated litigation risks. These factors raised both formal hiring and separation costs, contributing not only to informality but also to the increased incidence of unemployment across the younger population. Labor market rigidities have been exacerbated by a highly centralized collective bargaining system, under which sector-level agreements are automatically extended to all firms and workers in that sector. Around 90 percent of employed workers in the formal sector are covered by sectoral agreements, limiting



Sources: Fraser Institute (2023 release), World Bank, and IMF staff calculations.
Note: a gap closer to 1 denotes a wider gap with the EM frontier, best performer for a given year and variable.

[1] Prepared by Tannous Kass-Hanna, in collaboration with Rosario Lopez Palazzo (FAD), Marina M. Tavares, Yomna Gaafar, and Brittany Niu (all RES).

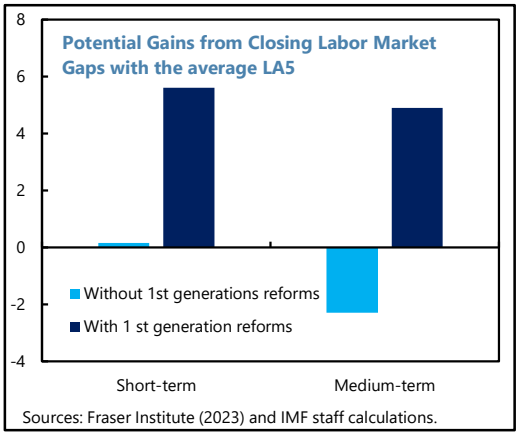
firms' ability to set wages and working conditions below agreed sectoral standards or to adjust them in line with productivity, local conditions, or economic shocks. Moreover, agreements remained in force until renegotiated, which resulted in contractual terms persisting beyond their economic relevance.

2. The landmark Labor Modernization bill seeks to start correcting these structural bottlenecks to employment and formality. The new law aims to decentralize collective bargaining systems, reduce formal hiring costs, legal uncertainties, and entrenched rigidities that have weighed on formal employment, and is constraining labor mobility as the economy opens to trade (see Staff Report Box 2). While the law is now officially in effect, certain specific provisions have delayed implementation dates (i.e., the new employer-funded severance system goes into effect in June, while certain specialized labor regimes will only be repealed in January 2027). Appropriate implementing regulations will also be key.

B. Reform Potential

3. According to the literature, labor market reforms, if well designed and sequenced, can support meaningful employment gains over the medium term. As emphasized by a large body of empirical work (see Budina et al., 2023, Duval and Furceri, 2018), employment gains are largest when labor reforms are embedded in a broader and well-sequenced reform agenda, particularly in economies with sizable initial distortions. Specifically, labor reforms are most effective when preceded by measures that ease key binding constraints, including external sector reforms, governance improvements, business deregulation, and improved tax compliance and collection. Moreover, to boost the effectiveness and durability of reforms, implementation needs to account for business cycle considerations as well as political economy and distributional risks (Alesina et al., 2020). Targeted complementary policies are often necessary to mitigate potential short-term adjustment costs, especially when the economy is opening to trade and financial flows. Accordingly, labor reforms should be seen not as a standalone driver of growth and employment, but as an enabling framework that supports efficient resource reallocation across sectors.

4. Staff analysis suggests that closing Argentina's labor market structural gap with regional peers could raise employment by up to 5 percentage points over the medium term. Using estimates based on local projections (following Budina et al., 2023), we find that aligning Argentina's hiring and firing regulations and collective bargaining systems more closely to those of Latin American peer countries could yield employment gains of over 5 percentage points within two years, with similar gains from closing the gaps over the medium term. However, these gains critically depend on complementary reforms, in the governance, business regulation, and external areas (see also Box 5, of the April 2025 Staff Report). In fact, in the absence of other reforms, labor



Sources: Fraser Institute (2023) and IMF staff calculations.

market liberalization could prove counterproductive, with employment declining by around 2 percentage points over the medium term. Ongoing efforts to liberalize product markets, ease credit and FX restrictions, and reduce regulatory burden and trade barriers should support the gains of the proposed labor market reforms, although care will need to be taken in managing the dislocation effects from the ongoing opening of the economy (see ¶7 and 8).

5. Consistent with experience elsewhere, the proposed decentralization of collective bargaining is expected to raise employment and formality. Using a monthly micro-level panel for the period 2014–25 combining formal employment data with contractual wages negotiated under Argentina's centralized collective agreements, we find that higher contractual wages are associated with weaker formal employment growth (see forthcoming Kass-Hanna and Palazzo). We also find that this result is amplified within formal sectors that have the highest incidence of centralized sectoral bargaining schemes, suggesting that high contractual wages under centralized systems can constrain formal hiring/expansion decisions and reduce labor demand. Results are consistent with findings in other studies (see Fanfani, 2023, for an application to Italy); centralized agreements tend to also constrain smaller and newer firms from formalizing, in the absence of effective opt-out mechanisms that would allow firm-level renegotiations in the face of frequent shocks. Beyond firm-level constraints and particularly relevant to Argentina's labor market characteristics, studies suggest that centralized bargaining also fails to account for large regional differences in productivity and labor market conditions, amplifying employment losses in less productive regions.[2] Using a search-and-matching model, Nores Koljatic et al. (2025) find that Argentina's nationally uniform wage floors suppress formal employment in less productive regions, with simulations suggesting that locally determined wages could raise equilibrium employment by 4–20 percentage points.

Text Table 1. Panel Regression Results: Contractual Wages, Employment

	(1)	(2)	(3)	(4)
Dep. variable:	Δln e(+12)	ln w(+3)	Δln e(+12)	Δln e(+12)
Sample:	Full	Full	High coverage	Low coverage
ln(contractual wage)	-0.1109*** (0.0186)	0.0621** (0.0293)	-0.3160*** (0.0429)	-0.0237* (0.0139)
Δln EMAE (t−1)	0.0382*** (0.0122)	-0.0309** (0.0135)	0.1123*** (0.0246)	0.0047 (0.0067)
ln(median wage)		0.6407*** (0.0417)		
Δln e (lag 1)	0.4997** (0.2153)		1.4023 (0.9649)	0.0939 (0.1310)
Observations	1,596	1,722	684	912
R^2 (within)	0.062	0.431	0.177	0.008
Sector & time FE	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes

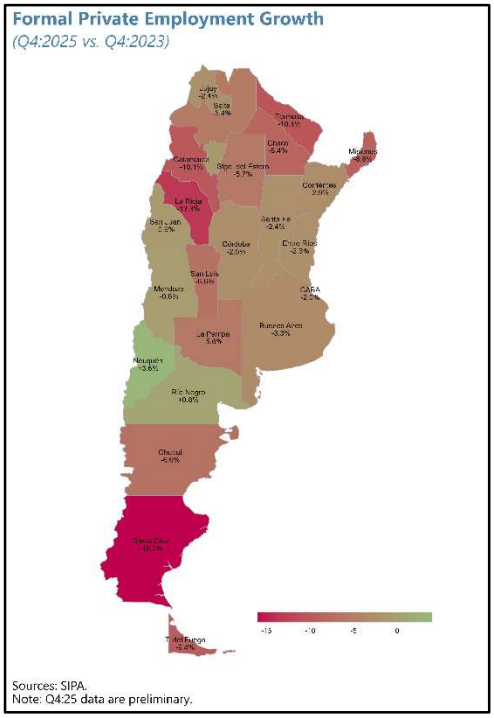
Notes: All specifications estimated with two-way fixed effects (sector and time) using PanelOLS with entity-clustered standard errors. Dependent variables: Δln e(+12) = 12-month forward cumulative log employment growth; ln w(+3) = log 3-month forward median wage. Regressors: ln(contractual wage) = log contractual wage floor (level); Δln EMAE (t−1) = one-period lag of log sectoral activity growth. Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

[2] Boeri et al., 2021 documents that Italy's centralized wage bargaining flattens wages across regions, leading to higher unemployment and labor misallocation in low-productivity areas, while Germany's more decentralized system allows wages to adjust to local productivity and supports more efficient labor allocation. Along the same lines Dustmann et al. (2025) documents how opting out of national collective bargaining agreements in Italy reduces wages but boosts employment and firm survival, with net earnings effects that are slightly positive in the productive North but negative in the South.

C. Complementary Reform Considerations

6. The proposed labor reforms should be complemented by well-designed active labor market policies, supported by stronger education and training systems. Elevated rates of informality among the less skilled and high school drop-out rates (about 25 percent of individuals aged 25–34 lack an upper-secondary qualification) point to potential skill gaps for formal sector firms (see also Panel Figure 1). The new redesigned *Volver al Trabajo* program attempts to address this gap, by combining training, work placements, hiring incentives, and continued income support in line with best practices (OECD, 2025), although consideration should also be given to expanding and modernizing technical and vocational schools to upgrade and better align skills with evolving demand. (see IMF, WB and WTO, 2017).

7. This is especially important given Argentina's ongoing structural transformation. While employment in sectors and provinces with comparative advantage (energy, mining, agricultural) is expected to benefit from the ongoing resource boom—reflected in the strong employment performance in resource-rich provinces like Neuquen and Rio Negro (see heatmap)—targeted policies should be considered to strengthen cross-linkages and enable workers and firms outside these resource sectors and provinces to also benefit, especially in the provision of related services.[3] Pairing deregulation, openness and pro-competition reforms with measures that reduce barriers to formal hiring and strengthen spillovers from primary activities to other sectors can help lower dislocation and adjustment costs while making the gains from liberalization more durable and inclusive. In fact, recent work by Dix-Carneiro et al. (2026) suggest that the scope for medium-term efficiency gains from openness reforms in economies with high levels of informality, like Argentina, are correspondingly larger as liberalization reallocates activity toward more productive formal firms.



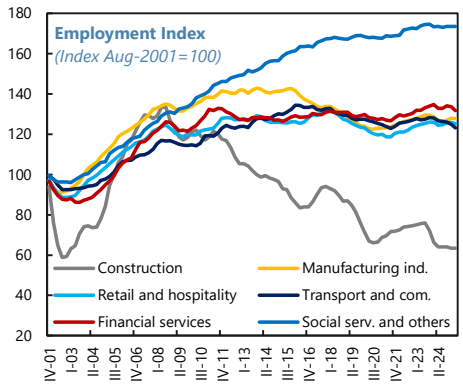
8. Critically, however, macroeconomic policy settings should support the reform process. Prudent policies supporting a more flexible exchange rate will be essential to allow Argentina to better adjust to shocks and the ongoing structural transformation. These lessons are particularly relevant for Argentina, where ambitious labor market reforms in the early 1990s, implemented under

[3] Feyrer et al. (2015) found that during the US' fracking boom employment and wage gains were substantially larger within surrounding regions than in the extraction location itself. Recent studies in Chile (see Atienza et al., 2021, and Ruiz, 2017) suggest that the spillovers from mining to other sectors were more modest. Results generally underscore the importance of mobility, local matching, and skills for spreading benefits across space and sectors.

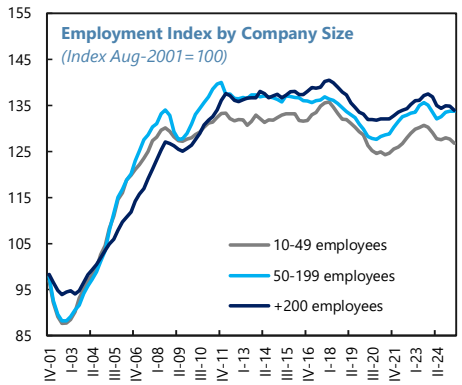
the convertibility regime amid an overvalued exchange rate and downward nominal wage rigidities, led to unintended increases in informality and inequality (Alvaredo et al, 2018 and Cruces et. al, 2018), undermining support for reforms.

Figure 1. Argentina: Labor Market Dynamics

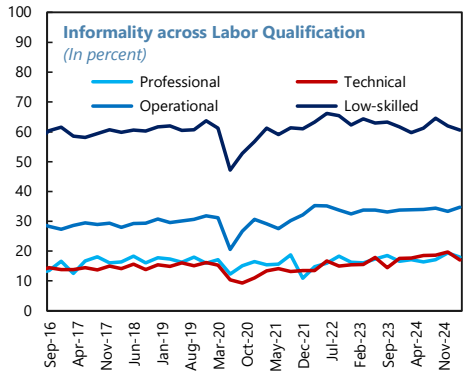
Formal employment has exhibited protracted growth across most sectors since the late 2000s…



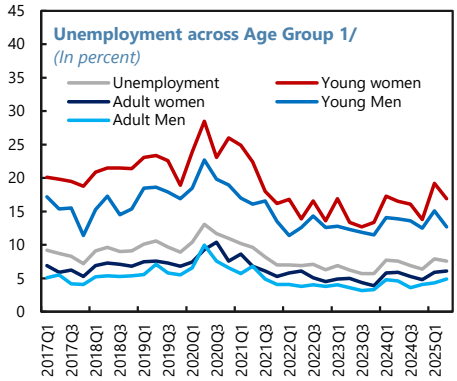
…weighing notably on small firms.



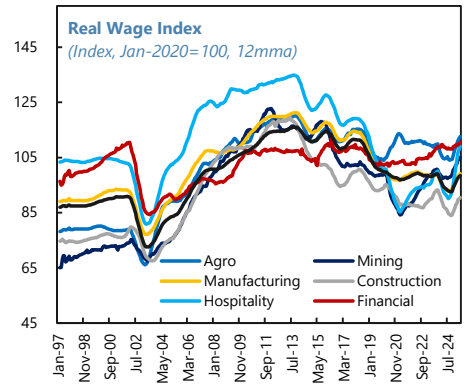
While more prevalent among low-skilled workers, informality also extends to a significant share of higher-skilled labor.



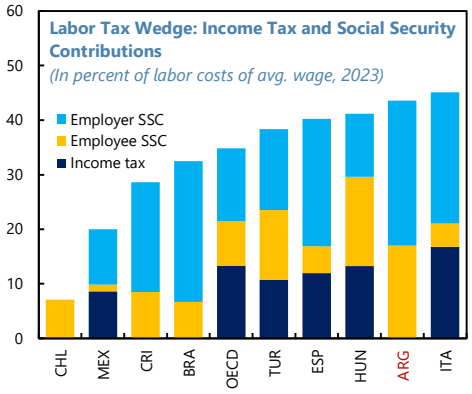
Headline unemployment rate obscures more fragile labor market outcomes, especially for younger workers.



Real wage adjustment has been less pronounced in sectors with high collective bargaining coverage…



…which combined with a higher labor tax wedge than Latin American peers weigh on formal employment.



Sources: Argentine Human Capital Ministry, INDEC, OECD.
1/ Young=14-29; Adult=30-64.

References

Alesina, A, Furceri, Ostry, Papageorgiou, & Quinn (2020). Structural Reforms and Elections: Evidence from a World-Wide New Dataset, NBER Working Paper No. 26720

Alvaredo, F., Cruces, G., & Gasparini, L. (2018). A short episodic history of income distribution in Argentina. *Latin American Economic Review*, *27*(1), 7.

Atienza, M., Lufin, M., & Soto, J. (2021). Mining linkages in the Chilean copper supply network and regional economic development. *Resources Policy*, *70*, 101154.

Boeri, T., Ichino, A., Moretti, E., & Posch, J. (2021). Wage equalization and regional misallocation: evidence from Italian and German provinces. *Journal of the European Economic Association*, *19*(6), 3249-3292.

Budina, M. N., Ebeke, C., Ebeke, M. C. H., Jaumotte, M. F., Medici, A., Panton, A. J., ... & Yao, B. (2023). *Structural reforms to accelerate growth, ease policy trade-offs, and support the green transition in emerging market and developing economies*. International Monetary Fund.

Cruces, G., Porto, G., & Viollaz, M. (2018). Trade liberalization and informality in Argentina: exploring the adjustment mechanisms. *Latin American Economic Review*, *27*(1), 13.

Dix-Carneiro, R., Goldberg, P. K., Meghir, C., & Ulyssea, G. (2026). *Trade and domestic distortions: The case of informality*. Econometrica (Forthcoming)

Dustmann, C., Giannetto, C., Incoronato, L., Lacava, C., Pezone, V., Saggio, R., & Schoefer, B. (2025). *Opting Out of Centralized Collective Bargaining: Evidence from Italy* (No. w34076). National Bureau of Economic Research.

Esther Perez Ruiz. (2017). *Mining Spillovers in Chile*, IMF Working Papers 2017, 177, https://doi.org/10.5089/9781484312698.001.

Duval, R., Furceri, D., 2018. *The Effects of Labor and Product Market Reforms: The Role of Macroeconomic Conditions and Policies*. IMF Economic Review 66, 31-69.

Fanfani, B. (2023). The employment effects of collective wage bargaining. *Journal of Public Economics*, *227*, 105006.

Feyrer, J., Mansur, E. T., & Sacerdote, B. (2017). *Geographic dispersion of economic shocks: Evidence from the fracking revolution.* American Economic Review, *107*(4), 1313-1334.

International Monetary Fund, World Bank, & World Trade Organization. (2017). *Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment*. International Monetary Fund.

International Monetary Fund. (2025). *Argentina: Request for an Extended Arrangement Under the Extended Fund Facility-Staff Report*, Box 5, *IMF Staff Country Reports* 2025, https://doi.org/10.5089/9798229009188.002.

Kass-Hanna, T., Palazzo, R.L. (2026). *Collective Bargaining and Labor Market Outcomes in Argentina*. Working Paper (Forthcoming).

Nores Koljatic, I., Acosta, F. A., Bentivenga, L., Huerta, C., Linardi, F., & Ramos Cancio, J. (2025). Rigidez colectiva y productividad desigual: *Cómo la negociación nacional moldea los mercados laborales regionales y los desafíos de una reforma laboral en la Argentina* Working paper.

OECD (2025), *OECD Economic Surveys: Argentina 2025*, OECD Publishing, Paris, https://doi.org/10.1787/27dd6e27-en.