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OECD Economic Surveys: Argentina 2025

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Foreword

This Economic Survey was prepared by Priscilla Fialho, Adolfo Rodriguez-Vargas, and Mafalda Trincão, with contributions from Emilia Soldani and Gulen Devren Sahin, under the supervision of Jens Arnold. Administrative and editorial support was provided by Sophie Jenkins and communication assistance by Laura Fortin.

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Basic statistics of Argentina, 2024

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2023)	45.5		Population density per km ² (2023)	16.6	(39.2)
Under 15 (% , 2023)	22.2	(16.9)	Life expectancy at birth (2022)	76.1	(80.6)
Over 65 (% , 2023)	12.2	(18.2)	Men (2022)	72.9	(78.0)
International migrant stock (% of pop.)	4.3	(15.7)	Women (2022)	79.3	(83.2)
Latest 5-year average growth (%)	0.4	(0.4)	Latest general election	October 2023	
ECONOMY					
Gross domestic product (GDP)			Value added shares (% , 2023)		
In current prices (billion USD)	635.6		Agriculture, forestry and fishing	7.0	(2.7)
In current prices (billion ARS)	579245.8		Industry including construction	29.8	(27.1)
Latest 5-year average real growth (%)	0.3	(1.7)	Services	63.2	(70.2)
Per capita (thousand USD PPP, 2023) ¹	30.1	(59.0)			
GENERAL GOVERNMENT					
Expenditure	31.4	(43.7)	Gross financial debt (OECD: 2023)	85.3	(110.5)
Revenue	32.3	(38.8)			
EXTERNAL ACCOUNTS					
Exchange rate (ARS per USD)	911.38		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	417.55		Vegetable	28.2	
In per cent of GDP			Food Products	14.4	
Exports of goods and services	15.3	(30.5)	Miscellaneous	14.2	
Imports of goods and services	12.8	(30.1)	Main imports (% of total merchandise imports)		
Current account balance	0.9	(-0.3)	Machinery and electronics	25.9	
Net international investment position	9.3		Chemicals	18.3	
			Transportation	15.1	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %, 2023, OECD: 2024)	58.5	(58.0)	Unemployment rate, Labour Force Survey	6.1	(4.9)
Men (2023, OECD: 2024)	68.2	(65.4)	Youth (aged 15-24, %, 2023, OECD: 2024)	17.9	(11.1)
Women (2023, OECD: 2024)	49.6	(51.0)	Long-term unemployed (1 year and over, %, 2023, OECD: 2024)	2.0	(1.0)
Participation rate (aged 15 and over, %, 2023, OECD: 2024)	62.3	(61.0)	Tertiary educational attainment (aged 25-64, %, 2023)	23.7	(41.0)
Mean weekly hours worked (2023, OECD: 2024)	37	(36.7)	Gross domestic expenditure on R&D (% of GDP, 2022)	0.5	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2022, OECD: 2023)	1.8	(3.7)	CO ₂ emissions from fuel combustion per capita (tonnes, 2022, OECD: 2023)	3.9	(7.6)
Renewables (% , 2022, OECD: 2023)	9.2	(12.5)	Renewable internal freshwater resources per capita (1 000 m ³ , 2021)	6.4	
Exposure to air pollution (more than 10 µg/m ³ of PM 2.5, % of population, 2020)	99.1	(56.5)	Municipal waste per capita (tonnes, 2021, OECD: 2023)	0.4	(0.6)
SOCIETY					
Income inequality (Gini coefficient, 2022, OECD: latest available)	0.407	(0.316)	Education outcomes (PISA 2022 score)		
Poverty gap at USD 6.85 a day (2017 PPP, %, 2022)	3.3		Reading	401	(476)
			Mathematics	378	(472)
Public and private spending (% of GDP)			Science	406	(485)
Health care (2021, OECD: 2023)	9.7	(9.2)	Share of women in parliament (%)	42.4	(33.3)
Education (public spending, % of GNI, 2021)	4.8	(4.4)			
Pensions (ARG: public spending, 2023, OECD: 2021)	9.8	(9.9)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries. 1. OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

Key messages

Against the background of a difficult legacy of macroeconomic imbalances, Argentina has embarked on an ambitious reform process, starting with an unprecedented upfront fiscal adjustment. Reforms have started to pay off. Inflation has receded and the economy is set for a strong recovery, but significant challenges still lie ahead.

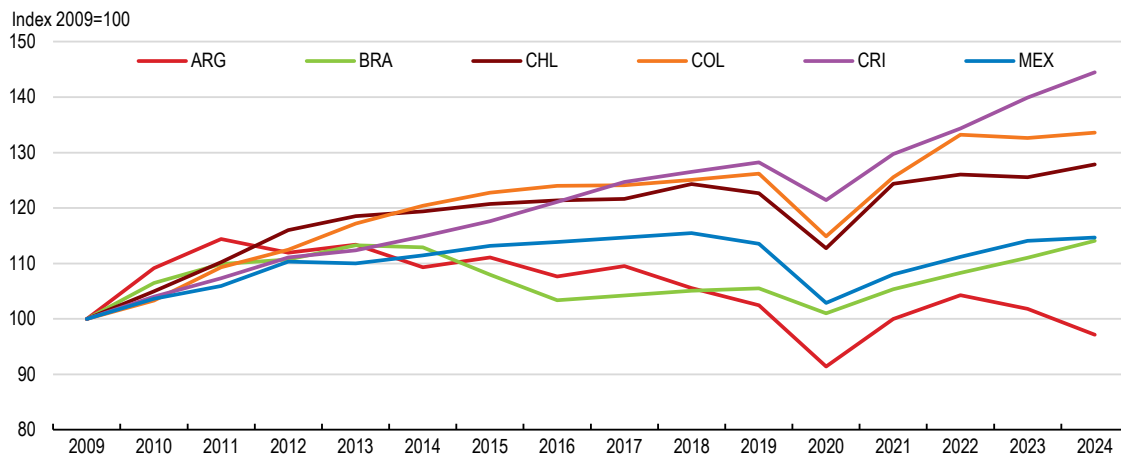
- Maintaining the fiscal consolidation process in the coming years will require a continuous phasing out of subsidies and improvements in public-sector efficiency, while replacing distortionary taxes with broader income and consumption tax bases.
- Enhancing the flexibility of labour market regulations and lowering non-wage labour costs for low-income workers would help tackle high labour market informality.
- Promoting renewable energy sources and developing the lithium industry requires improvements in support infrastructure and an appropriate management of water resources.
- Continuing reducing barriers to domestic and international competition, while also improving the quality of public services and strengthening public sector integrity, would foster productivity growth.

The Argentine economy has reached a turning point


Against the background of a difficult legacy of macroeconomic imbalances, Argentina has embarked on an ambitious reform process, starting with an unprecedented upfront fiscal adjustment. Reforms have started to pay off. Inflation has receded and the economy is set for a strong recovery. Building on these efforts can put Argentina on a sustainable growth path, which could foster a process of convergence towards its peers (Figure 1). With its natural resource abundance and a historically well-educated workforce, Argentina has significant potential. Maintaining the reform momentum will be key to restore confidence, boost investment and productivity growth.

Figure 1. Argentina has consistently lost ground relative to other Latin American economies

Real GDP per capita



Source: OECD database.

StatLink  <https://stat.link/xio3ha>

Recognising that weak fiscal fundamentals have been at the core of Argentina's macroeconomic instability for years, a new administration embarked on a significant fiscal consolidation process as of December 2023. The marked fiscal adjustment put an end to years of monetary financing, which was instrumental for gradual disinflation. Inflation and market expectations have now declined to levels that Argentina has not seen in years (Figure 2).

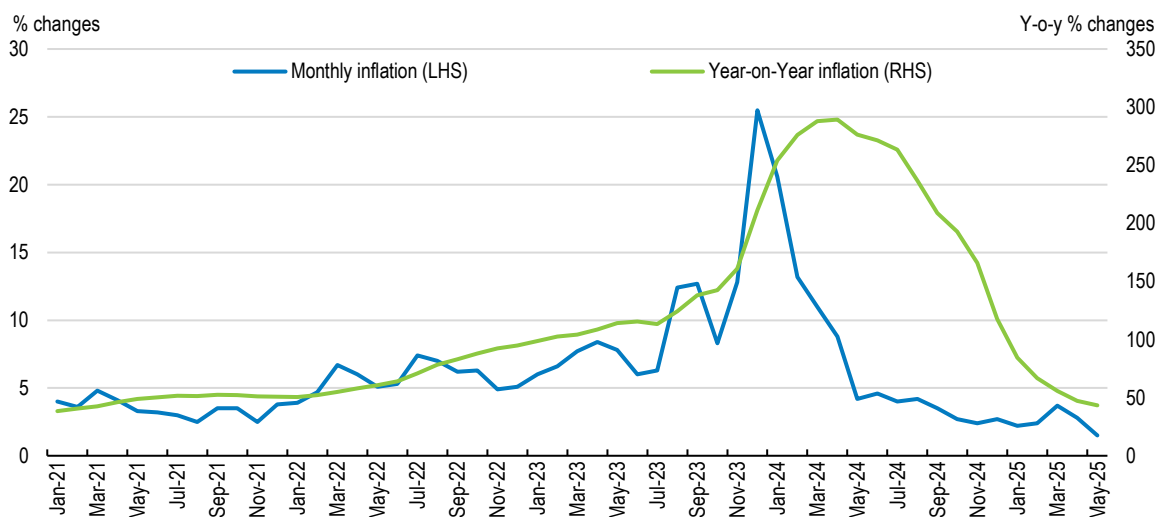
Although fiscal consolidation weighed on domestic demand in the first half of 2024, economic activity rebounded in the second half of the year. The economic recovery now seems firmly underway and is expected to gather momentum in 2025 (Table 1). GDP is projected to grow by 5.2% in 2025 and by 4.3% in 2026. The removal of most currency and capital controls in April 2025 will support further improvements in economic sentiment and investment.

Table 1. A strong economic recovery is underway

Annual % change unless specified

	2023	2024	2025	2026
Gross domestic product (GDP)	-1.9	-1.3	5.2	4.3
Private consumption	1.0	-2.9	9.6	3.8
Government consumption	2.1	-3.8	-0.2	0.5
Gross fixed capital formation	-2.0	-17.2	29.8	15.4
Exports of goods and services	-9.5	19.8	6.8	6.4
Imports of goods and services	1.9	-10.2	42.1	13.5
Consumer Price Index (annual average)	133.5	219.9	36.6	14.9
Current account balance (% of GDP)	-3.0	0.9	-0.3	0.1

Source: OECD Economic Outlook database; INDEC main economic indicators.

Figure 2. Inflation has fallen to levels not seen in years

Source: Banco Central de la República Argentina.

StatLink  <https://stat.link/bq2u6e>**Continuous efforts will be necessary to sustainably improve Argentina's fiscal position**

In their successful attempts to engineer a rapid turnaround of the public finances, fiscal authorities focused initially on measures that did not require congressional approval. This included improvements in public spending efficiency but also discretionary cuts in capital spending which, if maintained over a long period of time, may have damaging effects on the quality of infrastructure and productivity growth in the long term. While improving Argentina's fiscal position in the coming years is as a precondition for re-gaining access to international capital markets, fiscal policy will require further fine-tuning to maintain fiscal prudence while boosting potential growth.

Primary budget surpluses have been recorded almost every month in 2024, something Argentina had not seen since 2010. The primary fiscal surplus reached 1.8% of GDP in 2024, a significant turnaround from the 2.9% deficit observed in 2023 (Figure 3). The successful fiscal

adjustment has already led to a significant drop in Argentina's country risk premium. For 2025, fiscal authorities target a 1.6% primary surplus. A package of tax measures approved in June 2024 is already helping to improve fiscal outcomes in the near-term.

Beyond the significant achievements already made, scope remains for further reforms both on the spending and the revenue side of public accounts. Argentina's public expenditure is high in international comparison and there is scope for enhancing spending efficiency in several areas. One avenue for further progress is to continue cutting back inefficient subsidies. Another area where Argentina stands out is its sizeable public sector, despite recent staff cuts at the federal level, while perceptions of public services are weak. Digitalisation could create opportunities to reap further efficiency gains in the public sector. Improving the execution of public works while sharing some of the risks with the private sector could be another source of fiscal savings.

Argentina's tax system is complex and includes a plethora of distortionary instruments. Continuous increases in public spending over the years have been partly financed by new distortionary taxes, often meant to be temporary and to respond to short-term urgent financing needs. These have left their mark on investment and consumption decisions and the allocation of resources across the economy.

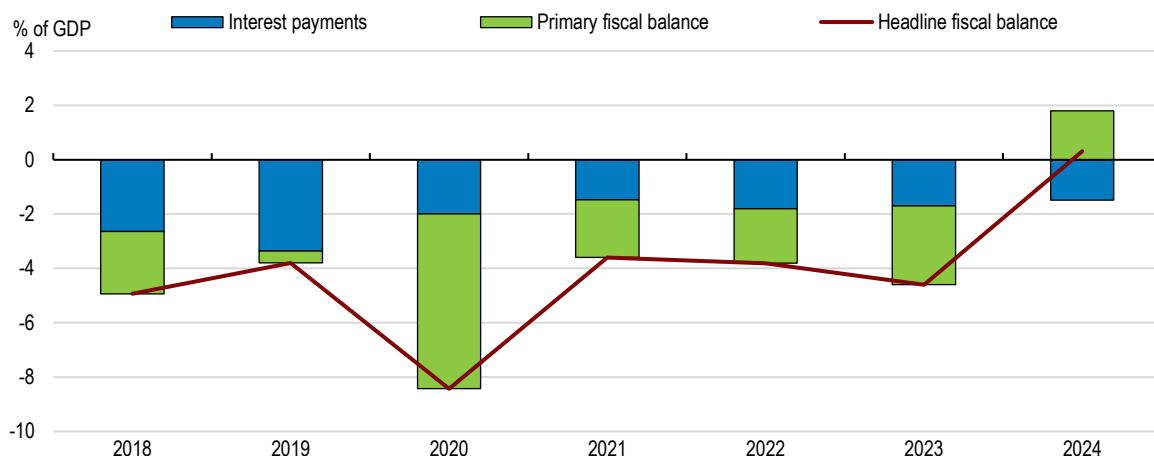
Phasing out the most distortive taxes requires identifying alternative revenue sources, so as not to jeopardise ongoing fiscal consolidation efforts. Expanding the personal income tax base holds significant potential for raising revenues in a progressive way and would allow reducing

other taxes whose distributional effect is unclear. Eliminating/reducing VAT exemptions and reduced rates could bring additional fiscal revenues. Tax compliance could be improved by strengthening and modernising the tax administration, including through improvements in information systems. Besides challenges with compliance, corporate taxes are characterised by targeted tax regimes for specific sectors and locations, which could be re-assessed.

Argentina's fiscal federalism features a significant imbalance between provinces own resources and their expenditures. As a result, a complex system of intergovernmental transfers has been developed to distribute federal tax revenues to the provinces. Revenue sharing with provinces does not necessarily reflect their population weight or spending needs. These automatic transfers are complemented by discretionary transfers that have frequently been used to create political coalitions. Improving the structure of the federal-provincial transfer mechanisms once the public finances have been put on a more sustainable footing would help to improve public-sector efficiency and reduce territorial disparities.

Provinces should be encouraged to participate in the ongoing fiscal consolidation effort and to comply with fiscal rules. Adherence to fiscal rules at the provincial level is voluntary and two provinces have not yet agreed to these rules.

Figure 3. A strong fiscal adjustment has been achieved in 2024



Source: CEIC and OECD database.

StatLink  <https://stat.link/h87wvd>

Increasing formalisation would raise productivity and incomes

While poverty rose during 2023 and the early months of 2024, it has since declined markedly as inflation has come down, falling to levels below those observed in 2022. A high prevalence of informality reduces opportunities for low-income workers to receive on-the-job training and move into jobs with higher earnings and greater income stability. Informality also holds back productivity and social mobility. Overcoming the challenges of informality requires a comprehensive strategy.

Restrictive labour market regulations increase the cost of formal employment and may limit opportunities for less productive workers in the formal labour market. Recent changes to the labour legislation aim to strike a better balance between fostering formal job creation and protecting workers. Further improvements could result from accelerating lengthy court cases, which create uncertainty and contingent litigation risk. Procedures for collective dismissals are particularly onerous and severance payments are high in international comparison.

High tax wedges may act as a disincentive to formal employment, especially for low-skilled workers. At about 44%, Argentina has the highest average labour tax wedge in Latin America, above most OECD countries. Almost all of this can be attributed to social security contributions. Lowering social security contributions, especially for workers with low incomes, could improve incentives for formal job creation.

Reforming the pension system would help to strengthen incentives for formal job creation. A pension system that

combines a tax-financed universal basic pension with a contributory pillar for those with higher incomes could deliver adequate pension benefit levels while minimising disincentives for formal job creation.

Education and training are the most effective policies to strengthen households' capacity to generate market income, access formal jobs and reduce social assistance dependency. However, the performance of students in standardised tests has barely improved over time, especially among those from weaker socio-economic backgrounds. Frequent grade repetition and early school drop-out prevent many students from developing their potential. Expanding vocational education and training at the secondary education level could increase opportunities for youths. Close cooperation with the private sector, regular curriculum updates and systematic quality control could help to align training content with changing labour market requirement.

The energy transition provides significant opportunities for Argentina

Argentina has much to benefit from the global energy transition, both with respect to the production of renewable energy itself and with respect to key inputs into the transition towards renewables. The country has the fourth largest offshore wind potential in the world, and the largest potential for onshore wind energy in Latin America and the Caribbean. Argentina is also home to 20% of the world's lithium identified resources and has significant scope to expand production and developing activity in midstream segments of the lithium value chain. To make the most of these opportunities, Argentina needs appropriate support infrastructure and water resource management.

Argentina's arid regions offer ideal conditions for extracting lithium in an energy-efficient and carbon-friendly manner. However, the process demands large quantities of freshwater, raising concerns about water scarcity and potential resource depletion. Strengthening the implementation of the regulatory framework to promote the integration of efficient water management solutions could position Argentina as a leader in responsible resource management and help to attract additional investments.

Regulatory reforms would also help direct investment into technologies of the future. Stronger competition in the generation, transmission and distribution segments of electricity markets, and retail prices that reflect marginal costs would strengthen the development of Argentina's competitive edge in renewables.

The deployment of renewable energies on a larger scale also depends on improvements in the grid and storage infrastructure. A simplified electricity pricing scheme based on a two-part tariff, one variable and another fixed,

could be envisaged to finance grid maintenance and expansion. Regulations for capacity transfer between energy producers should cover and promote battery parks and energy storage systems.

Getting price signals right is crucial to steer investment towards the most efficient projects, including renewable energies. In the past, prices have not always been able to channel resources into the most promising directions.

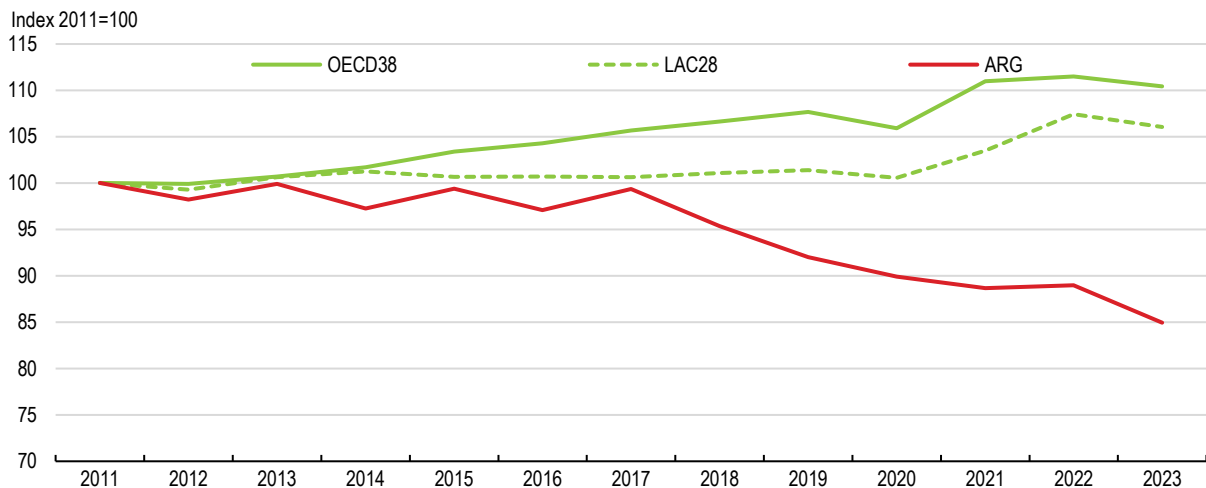
Subsidies for electricity and gas, which are now being phased out, have kept prices low and encouraged overconsumption. These subsidies are one of the reasons why effective carbon rates, which measure the total price of carbon emissions, are low in international comparison. Appropriate carbon prices will be key for Argentina to harness its comparative advantage in activities that will be in high demand in the future.

Improving the business environment would help boost productivity growth


Recent policy actions to streamline business regulations and reduce trade barriers have led to considerable improvements in the business environment. Reforms should lead to further progress and lift productivity growth, which has declined over the years (Figure 4). For decades, high entry and trade barriers have reduced competition in key sectors. Infrastructure bottlenecks, a complex tax system and slow judicial procedures have added to costs, curtailing competitiveness. Better regulations and lower trade barriers will strengthen competitive pressures and incentives for firms to operate more efficiently. Improving the quality of public services, including through digitalisation, can significantly reduce costs and improve Argentina's attractiveness to investors.

Figure 4. Productivity has been falling

GDP per person employed, constant 2021 PPP \$



Source: WorldBank WDI.

StatLink  <https://stat.link/bvle07>

There is ample room to make domestic markets more competitive. Regulatory processes have been simplified in a short time, but entry barriers remain high in several services sectors, while the effects of regulatory changes on competition are not systematically assessed. Subnational governments would benefit from a strategy to support regulatory quality improvements across all levels of government.

The competition authority could play a stronger role. An independent competition authority, mandated by law, has yet to be established. The current authority has limited resources. Allowing below-threshold merger investigations could enhance the authority's effectiveness.

Despite recent progress, trade barriers remain high. Tariffs on some consumer goods and inputs have been reduced recently, but lower trade barriers on intermediate and capital goods could boost competitiveness. Costly non-tariff barriers should be reviewed systematically. Relaxing

restrictions to foreign direct investment could improve inflows of capital and technology. Taxes on exports should be phased out.

Infrastructure bottlenecks affect roads, railways and ports. Increasing private sector participation in infrastructure investment and operation would hinge on sound regulatory frameworks. Digital infrastructure deployment could be sped up by streamlining administrative procedures at the local level.

Digitalisation can increase the efficiency of the judiciary. Judicial processes are often long and costly. Fostering digitalisation of the judiciary and promoting schemes for alternative dispute resolution can increase judicial efficiency. Fragmented legislation on integrity in the public sector could be addressed by implementing the revised Public Ethics Law. Establishing a public registry for lobbyists would make regulation of that activity more transparent and fairer.

MAIN FINDINGS	KEY RECOMMENDATIONS
Strengthening macroeconomic policies	
Inflation has fallen considerably from 211% year-on-year at the end of 2023 to 43.5% in May 2025.	Ensure a restrictive monetary policy stance consistent with a durable disinflation process.
An upfront fiscal consolidation process and the end of monetary financing helped to bring down inflation from a peak of 25.5% in December 2023 to 1.5% in May 2025.	Maintain the fiscal consolidation process with a focus on measures that can sustainably improve fiscal outcomes in the medium to long-term.
Frequent and unexpected changes in tax policies had a detrimental impact on investment and resulted in a complex tax system that relies on highly distortionary taxes.	Implement a comprehensive tax reform with a focus on eliminating the most distortive taxes, reducing tax complexity and broadening tax bases.
The current complex system of intergovernmental transfers does not generate incentives for subnational fiscal responsibility.	Link automatic revenue sharing with provinces to population weight and spending needs and eliminate discretionary transfers.
Fostering formal employment	
Despite recent efforts to extend the trial period, Argentina still has stricter employment protection legislation than other Latin American countries for permanent contracts.	Simplify administrative procedures for collective dismissals.
Argentina has the highest average labour tax wedge in Latin America. Almost all can be attributed to social security contributions, which are well above the OECD average.	Lower social security contributions for employees with low incomes.
Enrolment in vocational education programmes is low and has been falling over time.	Increase cooperation with the private sector to detect changing skill requirements in the labour market and adapt training curricula.
Reaping new opportunities from the global energy transition	
Argentina is home to 20% of global lithium reserves, but lithium production requires a careful use of water and energy resources.	Ensure the provision of the necessary infrastructure and effective water management for the development of a sustainable lithium production chain.
Water consumption tariffs are not always based on volumetric water meters. Often, users pay a fixed rate regardless of the water volume consumed, contributing to overconsumption and waste.	Continue to progressively roll-out water metering technologies across the country and replace the fixed tariff scheme with consumption-based pricing.
End-user electricity tariffs have been below cost recovery, encouraging overconsumption and providing little incentives for prospective investors in generation, transmission and distribution.	Align electricity prices with full costs, including the costs of investments in transmission and distribution infrastructure.
Only 17.4% of GHG emissions are covered by a positive net effective carbon price. Net effective carbon prices in the industry, buildings, and the electricity sectors are null or even negative. Fossil fuel subsidies have helped bring down energy prices and contain inflation but failed to steer resources into investments with the largest economic potential in the medium to long-term.	Continue to phase out fossil fuel subsidies and remove the carbon tax exemption for natural gas and Liquefied Petroleum Gas used for heating purposes, in industry, and in the electricity sector, while supporting low-income households through targeted transfers.
Improving the business environment	
Significant regulatory streamlining has been achieved in a short time, and entry barriers are lower across many sectors, including network sectors.	Continue streamlining business regulations to reduce entry barriers in services sectors and lower administrative burdens for new firms.
The National Competition Authority and its subordinated bodies mandated by the competition law still have not been created. Resources for the current competition authority are limited.	Create an independent, well-funded National Competition Authority, in line with provisions set forth in the competition law.
Argentina's economy is less integrated into world markets than comparable emerging economies, both in terms of imports, exports, and participation in global value chains.	Continue reducing tariffs, especially on intermediate inputs and capital goods, and continue adjusting non-tariff trade barriers, like unwarranted technical regulations. Phase out export taxes.
Argentina receives comparatively little foreign direct investment, which is concentrated in highly protected manufacturing activities.	Reduce remaining foreign equity ceilings.
Legislation concerning integrity in the public sector remains fragmented.	Implement the revised Public Ethics Law to address fragmentation of legislation.
The Anticorruption Office has made progress in raising awareness of conflicts of interest among public servants, but further efforts are needed.	Ensure systematic consultation of government agencies with the Anticorruption Office and improve the enforceability of its guidance.



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1 Macroeconomic developments and policy challenges

Priscilla Fialho, OECD

After years of turbulence, Argentina is going through an ambitious stabilisation and reform period. Reform efforts have started to bear fruit, as inflation is coming down, fiscal outcomes have improved, the economy is now beginning to recover, and poverty started decreasing again. The stabilisation was based on an upfront and unprecedented fiscal consolidation starting in 2024, which put an end to years of monetary financing of fiscal deficits and was instrumental for taming high inflation. A new monetary and exchange rate regime, and structural reforms to improve the business environment and progressively open up to international markets, have contributed to improving economic sentiment. Going forward, fiscal policy will require further fine-tuning to maintain fiscal prudence while boosting potential growth.

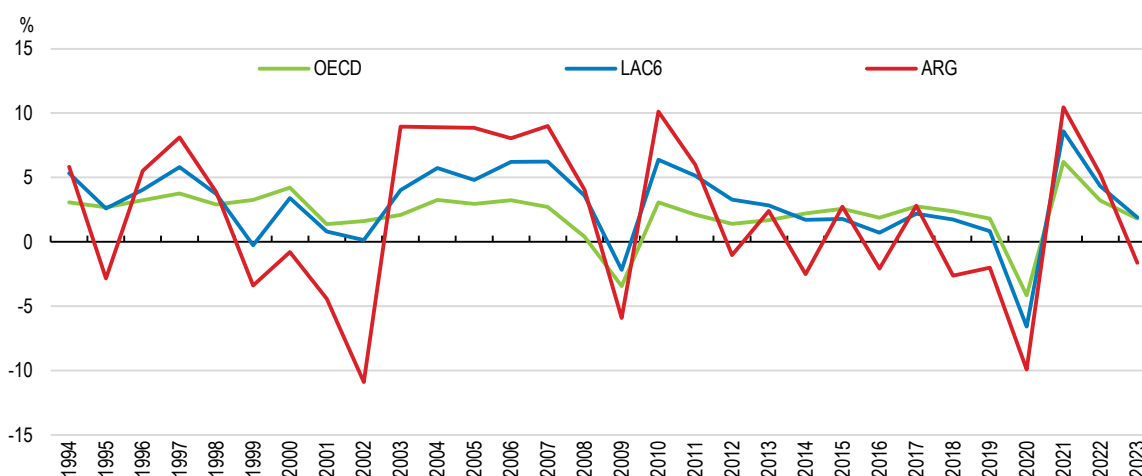
1.1. After a successful stabilisation, the economy has reached a turning point

The Argentine economy has had a turbulent history characterised by a series of boom-and-bust cycles (Figure 1.1). A major financial and economic crisis in 2001 marked the end of a currency board exchange rate regime and resulted in a currency, banking and debt crisis. The 2002 recession saw a contraction of GDP of 11.1% and a significant exchange rate depreciation while inflation reached 41%. After that, rising commodity prices and favourable global liquidity conditions allowed growth to recover, raising real incomes, and reducing poverty in the mid-2000s.

Still, longstanding structural policy challenges continued to hold back productivity, competitiveness, human capital and the quality of institutions. After the commodities cycle ended in the 2010s, external and fiscal imbalances built up again, amid public spending pressures that exceeded revenue capacity. With little access to international financial markets, deficits were mostly financed through monetary expansion and the seizure of private assets. This fuelled inflation and further aggravated the lack of investor confidence. Capital controls, import restrictions, and foreign currency rationing were introduced to avoid further deterioration of the macroeconomic situation, but at the cost of hindering the efficient allocation of resources and further depressing productivity growth.

Figure 1.1. The Argentine economy has been through many ups and downs

Real GDP growth



Note: LAC 6 is the unweighted average of the GDP growth for Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico.

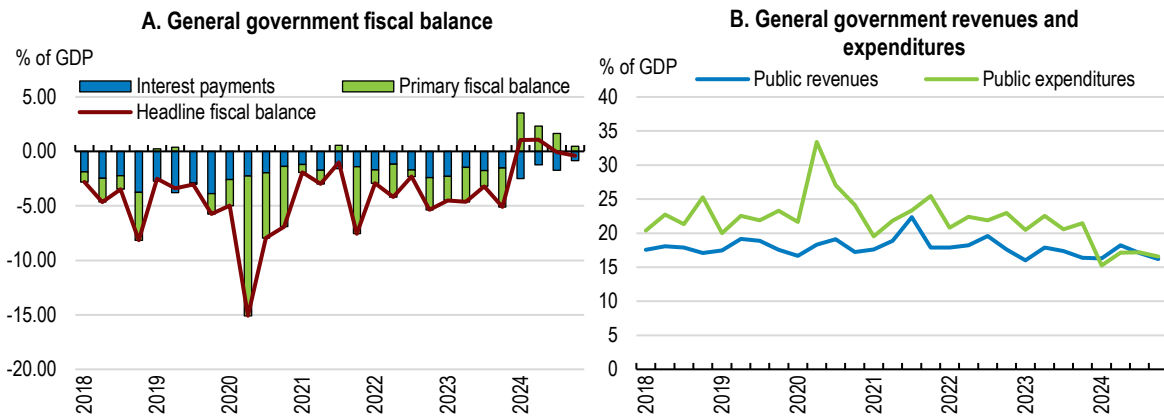
Source: OECD Economic Outlook database.

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A stabilisation programme that started in 2016 managed to tame inflation for some time and saw macroeconomic imbalances improve, but remaining vulnerabilities, including in the fiscal accounts, eventually caused a return of economic instability with inflation exceeding 200% in late 2023. In fact, weak fiscal fundamentals have been at the core of Argentina's macroeconomic instability for years. Previous attempts to address Argentina's macroeconomic imbalances failed to frontload the painful task of addressing persistent fiscal deficits, leaving the economy vulnerable to external shocks and shifts in investor sentiment.

Recognising that, a new administration that took office in December 2023 embarked on an upfront fiscal consolidation process. Primary budget surpluses were recorded for most of 2024, something Argentina had not seen since 2010. The primary fiscal surplus reached 1.8% of GDP in 2024, a significant turnaround from the 2.9% deficit observed in 2023. The headline fiscal balance reached a small surplus of 0.3% of GDP, a 4.9 percentage point improvement from 2023 (Figure 1.2). History holds few examples of such a sharp fiscal adjustment, and none of Argentina's previous stabilisation attempts managed to reduce fiscal vulnerabilities so decisively.

Figure 1.2. A significant fiscal consolidation process has started

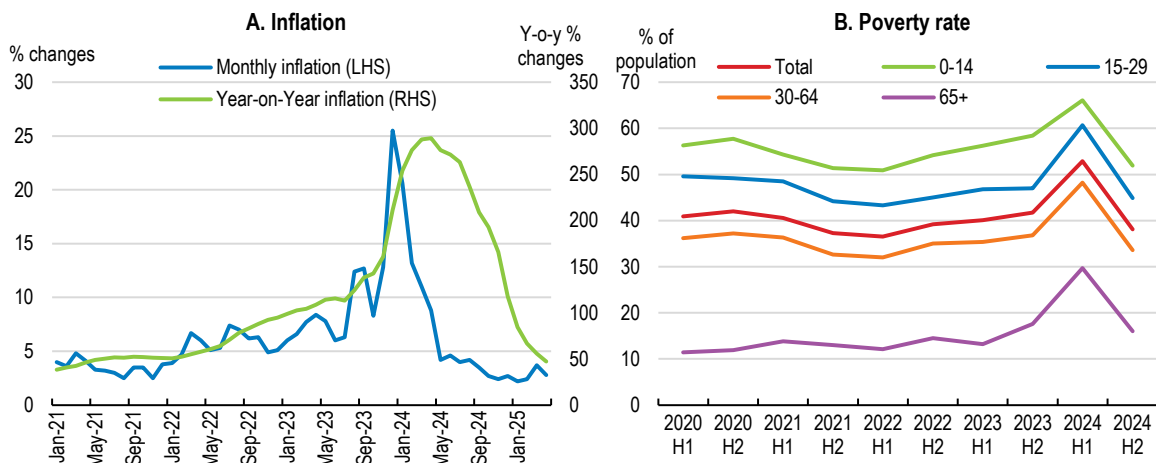


Source: CEIC, OECD ADB dataset.

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The marked fiscal adjustment put an end to years of monetary financing of fiscal deficits, which together with improvements in the central bank’s balance sheet, was instrumental for taming high inflation. Since the end of the currency board, an accumulated 60% of GDP had been transferred from the Central Bank to the Treasury as an “inflation tax” while money held by the private sector lost its purchasing power. High inflation disproportionately affected low-income households given their limited capacity to hedge against inflation through financial instruments. Inflation has now fallen from 211% year-on-year in December 2023 to 44.7% year-on-year in May 2025 and market expectations of inflation have declined to levels that Argentina has not seen in years (Figure 1.3, Panel A). As inflation has receded and well-targeted social spending has been scaled up (Chapter 2), poverty decreased again at the end of 2024, after a historical peak in the first quarter of the year (Figure 1.3, Panel B). Poverty has now fallen below levels observed in late 2023 for all age groups (Figure 1.3, Panel B).

Figure 1.3. Monthly inflation has fallen considerably since December 2023

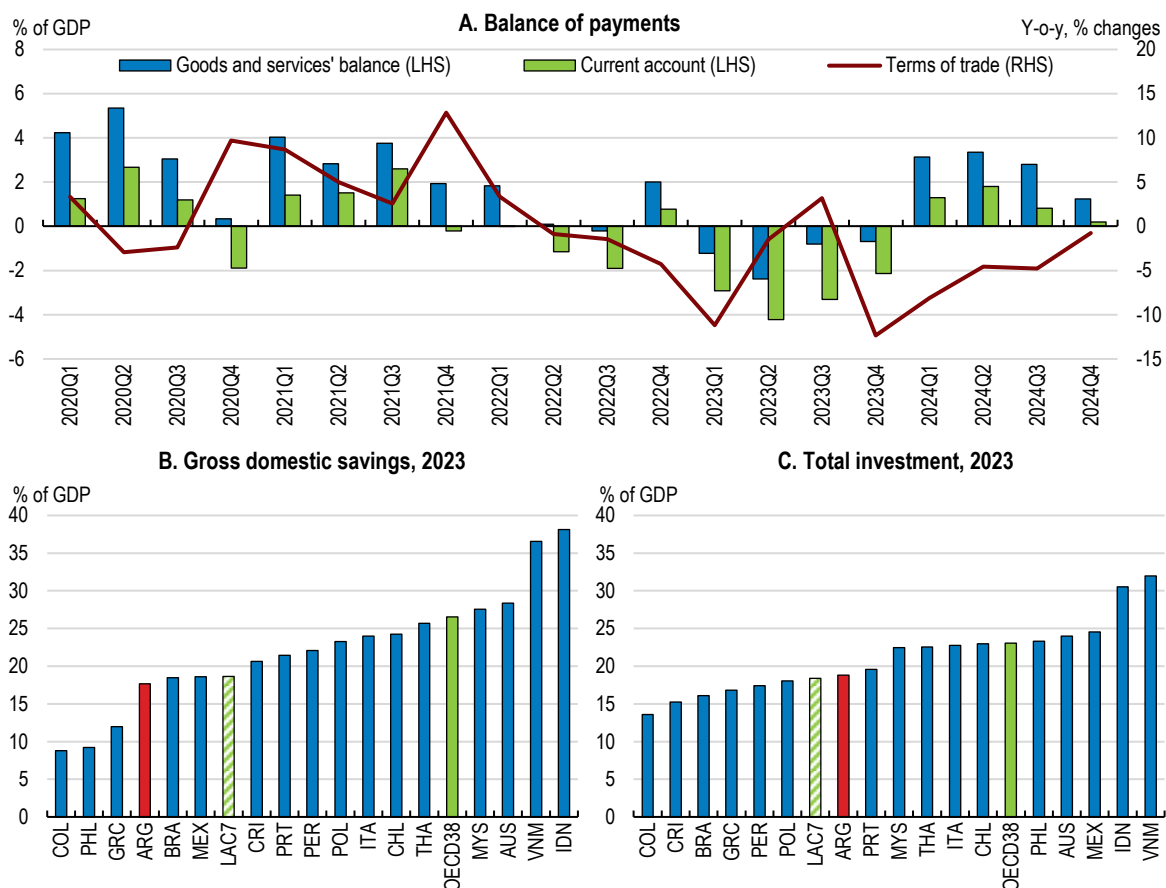


Note: Poverty in Panel B is measured as the share of households with an income below the poverty line. The poverty line is calculated based on a basket of goods and services considered of basic necessity, including food items, clothing, transportation, education and health.
Source: Banco Central de la República Argentina; Instituto Nacional de Estadística y Censos de la República Argentina.

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External accounts and a dependence on foreign financing have been another traditional vulnerability of Argentina's economy. Current account deficits have been recorded in 12 of the past 15 years, often in the context of fiscal deficits and currency overvaluation. The current account improved to a 1% of GDP surplus in 2024, up from a 3.2% deficit in 2023, as a sharp currency devaluation in December 2023, together with a stronger harvest and weaker domestic demand, significantly strengthened the goods and services trade balance (Figure 1.4, Panel A). Improvements in public finances also contributed to improve domestic savings and reduce external financing needs, although gross domestic savings and investment remain low in international comparison (Panels B and C).

Figure 1.4. The trade balance reversed to a surplus boosting the current account balance



Note: LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

Source: OECD ADB dataset, WorldBank WDI, IMF World Economic Outlook (WEO) - October 2024 Edition.

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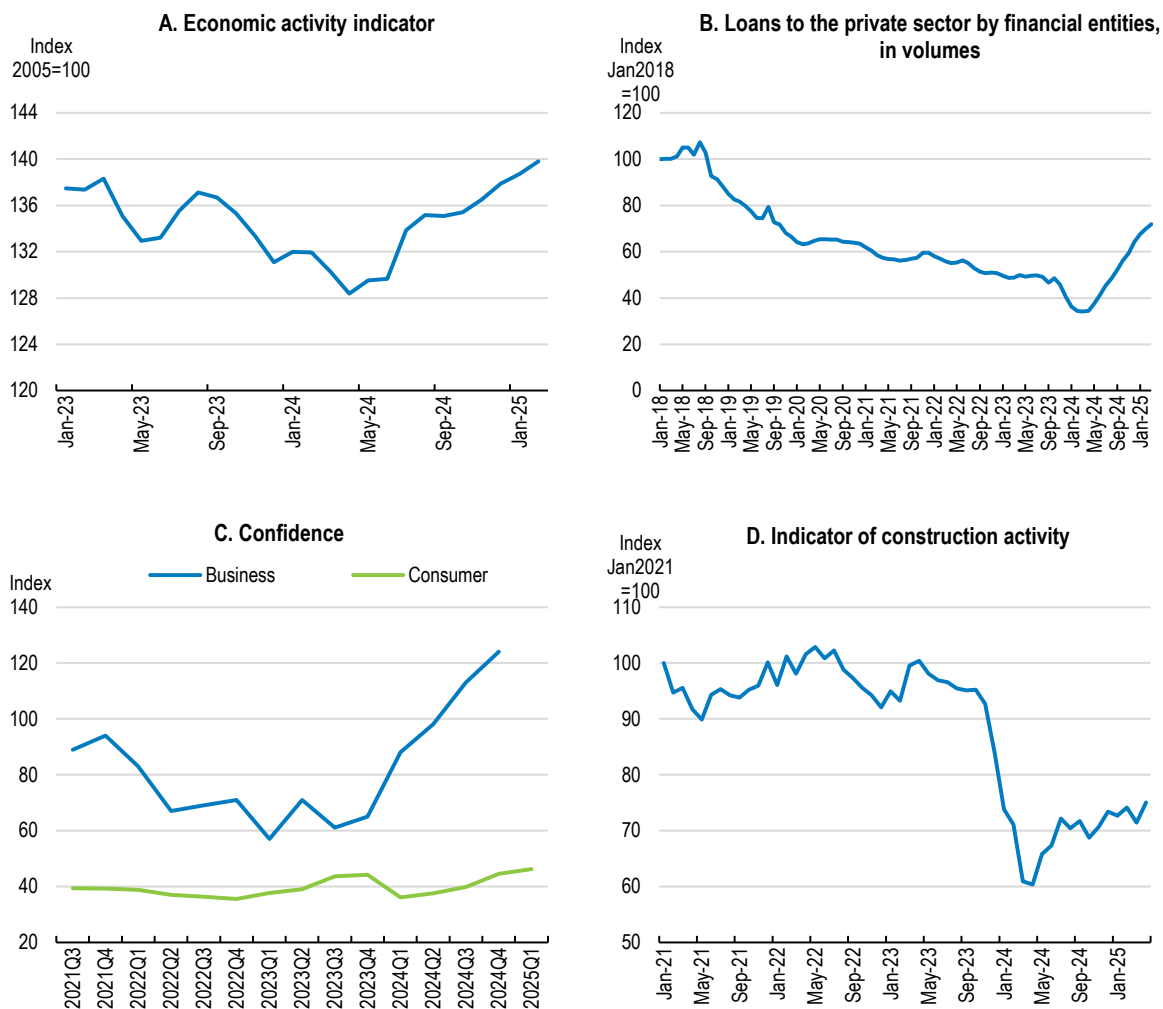
A new IMF Extended Fund Facility programme of USD 20 billion, with an upfront disbursement of USD 12 billion in April 2025, bolstered international reserves, allowing the government to lift almost all remaining currency and capital controls. At the same time, a new monetary and exchange rate regime has been introduced, enhancing exchange rate flexibility (Section 1.3). The new regime is expected to strengthen economic sentiment, private investment, and medium-term growth, while also supporting further foreign reserve accumulation and improving resilience to external shocks.

Ongoing structural changes in the energy sector, including new gas production in the *Vaca Muerta* shale formation and new pipelines, will likely transform Argentina into a net energy exporter, favouring better prospects for external accounts and reducing external vulnerabilities (Chapter 3). The energy sector has already started to generate trade surpluses in 2024.


Structural reforms have been a key element of the stabilisation process and are an important factor behind improving economic sentiment. Significant progress has already been achieved and sustaining the reform momentum will play a crucial role in the near future (Box 1.1). Further improving the business environment, progressively opening-up to international markets, and strengthening institutions have strong potential to pave the way for a strong investment cycle, boosting productivity, competitiveness and exports (Chapter 4).

The ambitious reform efforts have started to bear fruit, and the economy has now reached a turning point. After a strong contraction in the first half of 2024, when economic activity fell by about 6% at annualised rates, activity bounced back to growth of more than 17% in annual terms in the third quarter of 2024 and 8% in the last quarter of 2024 (Figure 1.5, Panel A). The strong recovery observed in the second half of the year led to a much softer contraction than initially expected, with real GDP declining by 1.3% during 2024. This rebound will lay the grounds for strong growth in 2025 and 2026.

Figure 1.5. Economic activity is picking up



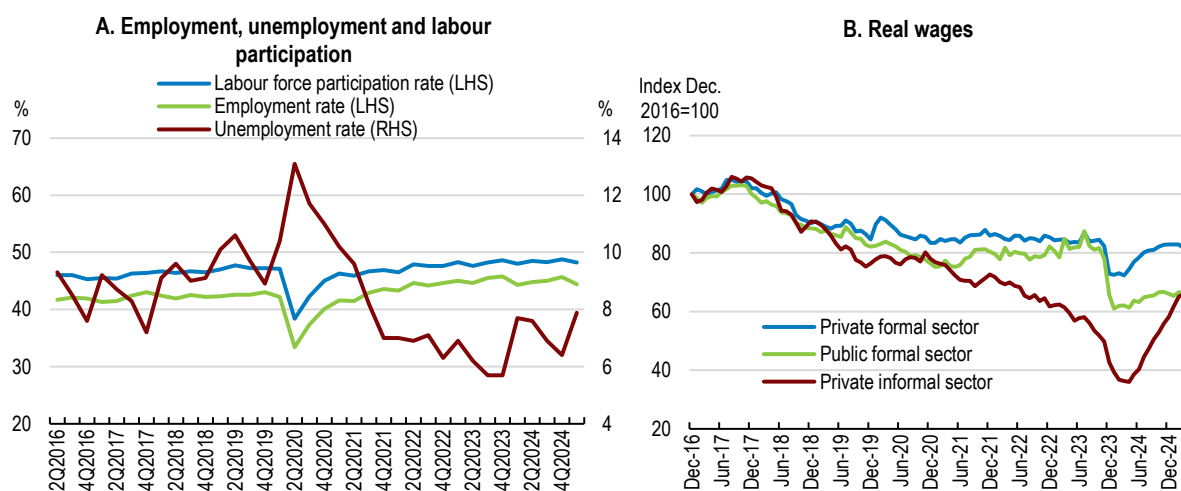
Source: BCRA; INDEC; Centro de Investigación en Finanzas (CIF) de la Universidad Torcuato Di Tella; Vistage.

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Short-term indicators are pointing towards further improvements. Credit to the private sector is recovering quickly (Panel B). Survey indicators suggest that consumer confidence already exceeded its December 2023 level in the last quarter of 2024, and business sentiment has also improved (Panel C). Construction has started to recover from its sharp decline in December 2023 (Panel D).

Private consumption has been one driver of the recovery, sustained by gains in purchasing power and a remarkably resilient labour market (Figure 1.6). Private investment also bounced back in the second half of 2024. Investment has benefited from improved business sentiment amid strong reform momentum, including the introduction of a new preferential regime for large projects in September 2024 (Box 1.1). As of April 2025, 13 projects have been submitted for a total amount of USD 16 billion in investments, about 2% of GDP. This includes two projects worth USD 2.7 billion that have already been approved. Further projects are expected to be submitted in 2025.

Figure 1.6. The labour market has been resilient and real wages started their recovery



Source: Instituto Nacional de Estadística y Censos de la República Argentina.

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Box 1.1. Recent progress in structural reforms

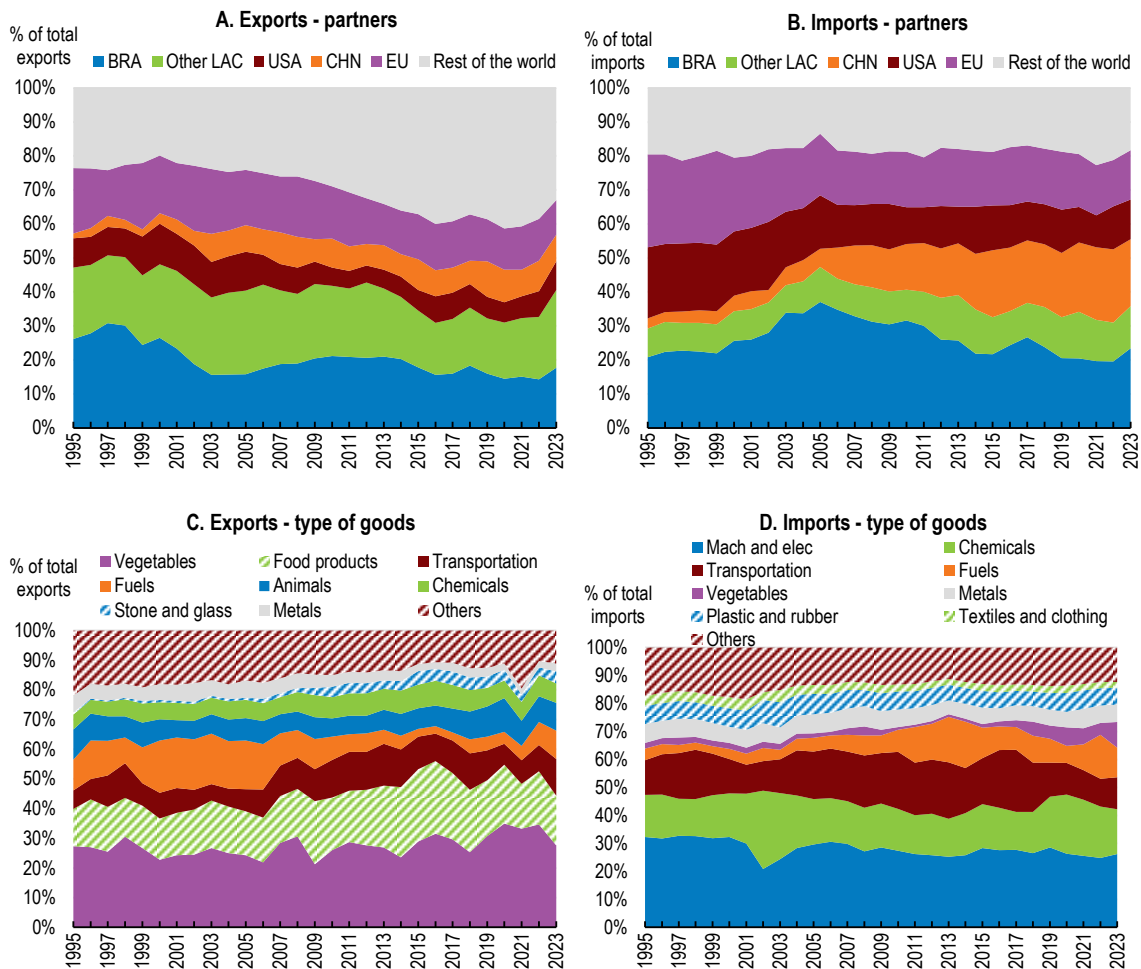
- Most currency and capital controls were lifted in April 2025.
- A new incentive regime grants tax, customs, and foreign exchange benefits for large investments above USD 200 million, guaranteed for 30 years.
- The personal income tax base has been increased and corporate tax compliance costs reduced.
- A temporary tax amnesty has created incentives to disclose undeclared assets, increasing the availability of USD financing in the economy.
- Pension benefit indexation has been adjusted to preserve long-term benefit purchasing power.
- A labour market reform has increased the length of the probationary period and the scope for temporary hires. Spending on well-targeted social assistance programmes has increased.
- Product market regulations are being simplified and modernised. Import processes have been streamlined and waiting times for approvals reduced. Some import tariffs have been reduced.

1.2. A strong recovery is projected for 2025 and 2026

The economic recovery is expected to continue, with GDP growth of 5.2% in 2025 and 4.3% in 2026 (Table 1.1). Private investment will gain further momentum as currency and capital controls have been lifted. Real wages will continue improving as inflation declines, supporting private consumption. Export growth will slow compared to 2024, affected by the real appreciation of the currency in early 2025 and global uncertainty. Imports will continue their strong recovery, sustained by higher purchasing power, lower trade barriers and the easing of current account restrictions.

Headline inflation is projected to slowly continue its downward path, falling to 37% in 2025 and 15% in 2026, based on yearly averages, sustained by lower import costs, continuously balanced public accounts and positive real interest rates. Markets reacted positively to the lifting of currency and capital controls and the exchange rate remained close to its level prior to the announcement, limiting pass-through to inflation (Section 1.3). Inflation expectations only rose by an average of 0.5 percentage points after the announcements of the new exchange rate regime and inflation even eased in April compared to the previous month.

Figure 1.7. The agriculture sector accounts for a large share of Argentina’s exports



Source: OECD calculations based on UN Comtrade, United Nations Commodity Trade Statistics (database).

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After deteriorating in 2025, the current account balance is expected to improve slowly, sustained by a positive energy and mining balance and a more flexible exchange rate regime to cushion external shocks. Other exports are expected to become more competitive in the medium-term amid improvements in productivity due to policy reforms. Foreign

direct investment inflows will help to finance current account deficits in the meantime, while Argentina is expected to improve its access to international financial markets.

The outlook is subject to significant risks, particularly in the context of a more challenging external environment. New tariffs in key export markets and lower global demand could result in lower export growth and prices for commodities. Global uncertainty could weigh on economic sentiment, private consumption and investment growth. Higher international interest rates could make it more difficult to accumulate international reserves and swiftly re-access international capital markets. On the upside, export prospects in the agricultural and livestock sector could also benefit from changing trade patterns. In addition, the economy is vulnerable to tail risks, with a potentially significant impact on the projections (Table 1.2). Extreme weather events could affect agricultural performance, leading to lower than anticipated export growth. Heightened geopolitical tensions could raise government borrowing costs and lead to lower capital inflows, or even capital outflows, with repercussions on the exchange rate and the current account balance.

Table 1.1. The economic recovery will strengthen, while inflation will continue to fall

	2021 (Current prices ARS billion)	2022	2023	2024	2025	2026
Gross domestic product (GDP)	46,219.1	6.0	-1.9	-1.3	5.2	4.3
Private consumption	29,096.4	9.5	1.0	-2.9	9.6	3.8
Government consumption	7,356.1	2.8	2.1	-3.8	-0.2	0.5
Gross fixed capital formation	7,991.6	10.5	-2.0	-17.2	29.8	15.4
Final domestic demand	44,444.1	8.5	0.6	-5.8	11.2	5.1
Stockbuilding ¹	363.1	0.3	0.0	-1.5	2.0	-0.0
Total domestic demand	44,807.2	9.0	0.6	-7.3	13.9	6.6
Exports of goods and services	8,350.3	4.6	-9.5	19.8	6.8	6.4
Imports of goods and services	6,938.4	17.5	1.9	-10.2	42.1	13.5
Net exports ¹	1,411.9	-1.8	-1.8	4.0	-4.3	-1.1
Potential GDP		2.0	2.4	2.0	2.1	2.3
Output gap ²		1.4	-2.8	-6.0	-3.1	-1.3
Headline inflation (annual average)		72.4	133.5	219.9	36.6	14.9
Current account balance ³		-0.5	-3.0	0.9	-0.3	0.1

1. Contribution to changes in real GDP.

2. As a percentage of potential GDP.

3. As a percentage of GDP.

Source: OECD Economic Outlook database; INDEC main economic indicators.

Table 1.2. Tail risk events that could lead to major changes in the outlook

Shock	Possible impact	Policy response option
Unexpected extreme weather events.	Lower agricultural exports and export growth. Wider current account deficit in 2025.	Further reductions in import tariffs for agricultural inputs may be one way to address such a shock, while reducing export taxes and phasing out other distortionary taxes.
Rising geopolitical tensions, potentially involving a lower risk appetite among global investors.	Higher external financing costs and lower capital inflows requiring even higher fiscal surpluses to finance the current account deficit.	Such events may require tightening the monetary stance even further. Accelerate the implementation of structural reforms.

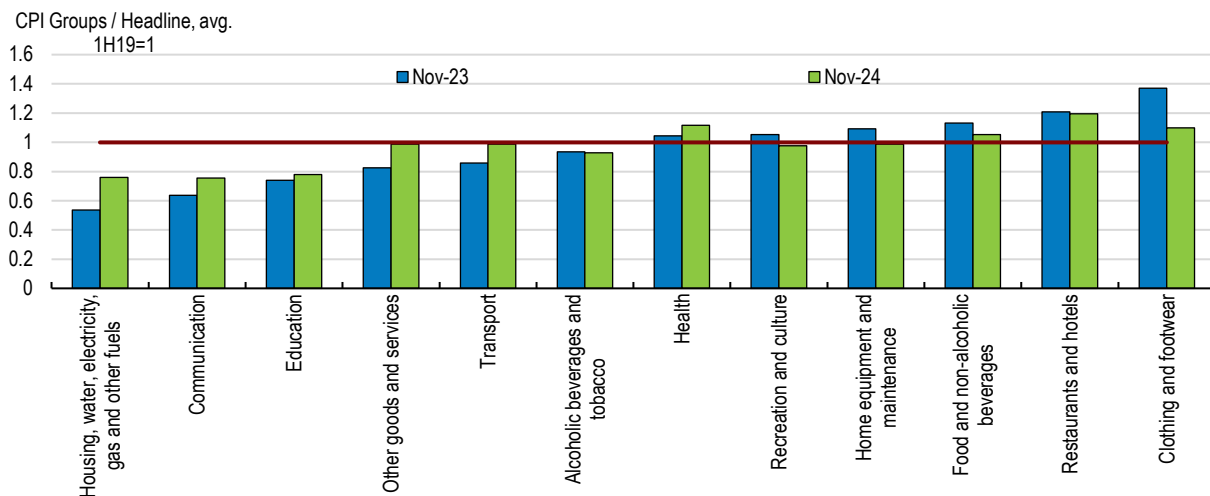
1.3. Monetary and exchange rate policies are going through significant changes

Headline inflation has fallen from 211% year-on-year at the end of 2023 to 43.5% in May 2025, while core inflation declined to 44.7% year-on-year in May 2025. Short-term expectations of inflation continuously overestimated inflation during 2024 and continue to adjust downward. Market participants surveyed by the central bank in May 2025 expect year-on-year headline inflation to come down to 28.6% at the end of 2025, 16% at the end of 2026, and reach 10% by 2027 (BCRA, 2025^[1]).

The decline in inflation is particularly remarkable in light of increases in regulated prices that were necessary to phase out expensive and inefficient public subsidies for energy, water and transport. Prices for electricity, gas, and other fuels increased 3.5 times faster than headline inflation in 2024, while public transport prices increased 2.8 times faster. Taken together, administered prices increased 88 percentage points above CPI inflation in 2024. Regulated prices for public services and utilities are now significantly closer to production costs, at 91.5% for electricity, for example.


More generally, a significant process of relative price adjustments took place throughout 2024 (Figure 1.8). This also reflects the unwinding of price controls through agreements with suppliers and manufacturers of food and basic goods, which had led producers to supply less, consumers to demand more, and supermarkets to introduce new varieties in the shelves at higher prices (Aparicio and Cavallo, 2021^[2]). Price controls have now been fully eliminated.

Figure 1.8. Relative price adjustments have started to unwind past distortions



Note: Each bar represents the ratio of the CPI group over the general CPI in November 2023 or November 2024, compared to the same ratio in the first half of 2019, a period of stable prices. Below 1 are groups whose relative price remains below what it was during a stable period. Above 1 are groups whose relative price remains above what it was during a stable period.

Source: Instituto Nacional de Estadística y Censos de la República Argentina, OECD calculations.

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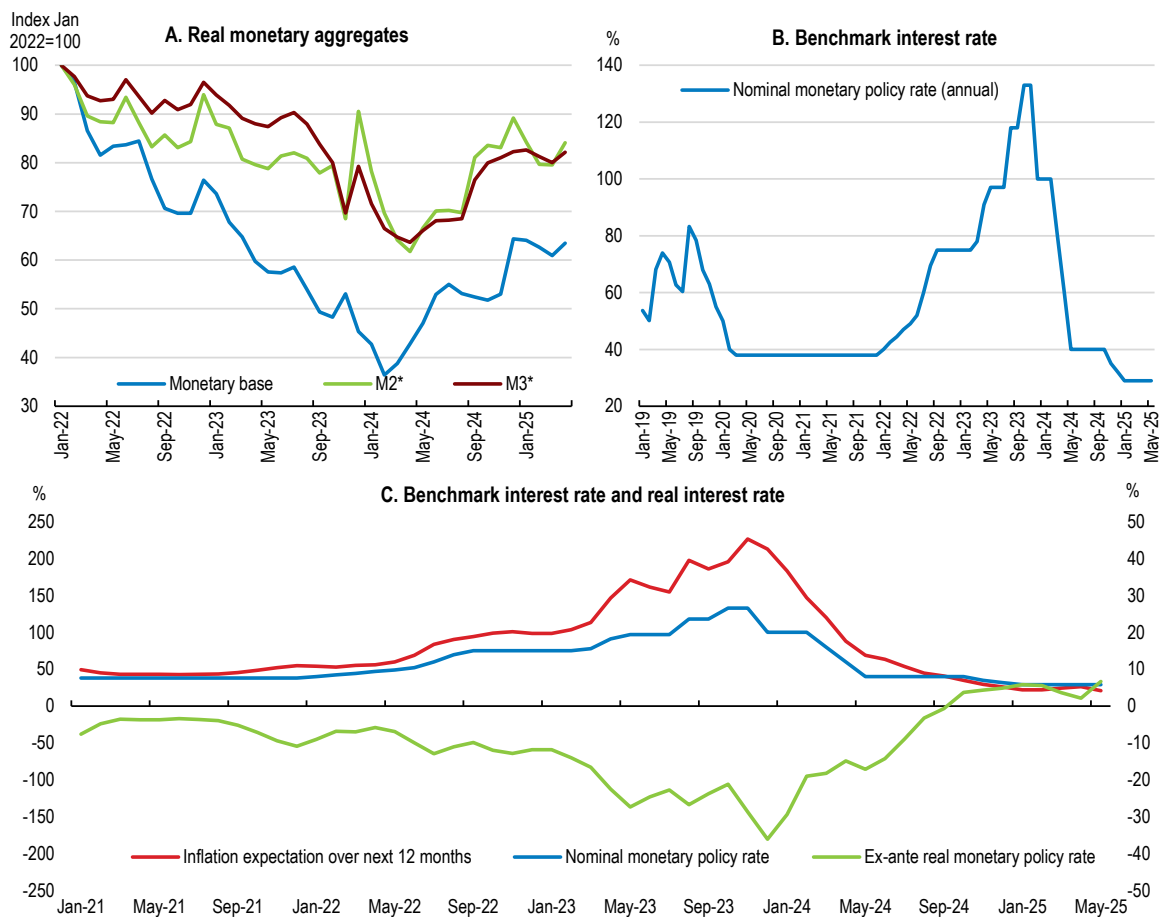
1.3.1. The monetary policy stance has become more restrictive

Beyond the sustained fiscal surpluses, monetary policy has also played a role in the ongoing stabilisation by putting an end to both direct and indirect monetary emission, which had been used to finance the fiscal deficit before. The central bank had abandoned its inflation-targeting framework in 2018 and in the years leading up to 2023, central bank money issuance to finance the fiscal deficit led to a strong expansion of unwanted money supply. Much of the resulting excess liquidity was absorbed through remunerated central bank bonds with short maturities, whose outstanding stock had reached 15% of GDP or 3.5 multiples of the monetary base in 2023. This large stock of central bank bonds, and the high cost of serving it through new monetary emission, had become a major risk.

To address this risk, the benchmark monetary policy rate was cut nine times between December 2023 and January 2025, from 133% to 29%. In the specific context of Argentina, with a weak credit channel due to shallow credit markets, lower interest rates did not have the expansionary effect that they would have had in more standard circumstances. In fact, with large outstanding volumes of remunerated central bank liabilities, lowering the key interest rate reduced the debt servicing cost of central bank bonds, which was entirely financed by new emission, and was crucial for containing money supply. In addition, the central bank established a cap on the broad monetary base (Figure 1.9, Panels A and B).


Cutting interest rates was part of a broader strategy to close almost all sources of money creation other than accommodating an increase in money demand, including from central bank reserve purchases, which have been sterilised since July 2024. The downside of this strategy was that holders of domestic-currency assets received negative returns during much of 2024. This was only possible in the context of tight currency restrictions and added pressure on the exchange rate (Section 1.3.2). Monetary aggregates have been increasing again since April 2024, reflecting higher money demand amid a strengthening economic recovery, while real interest rates are slowly becoming positive as inflation declines (Figure 1.9, Panel A and C).

Figure 1.9. Despite cuts in the benchmark rate, monetary policy became more restrictive



*Includes deposits in national and international currency.

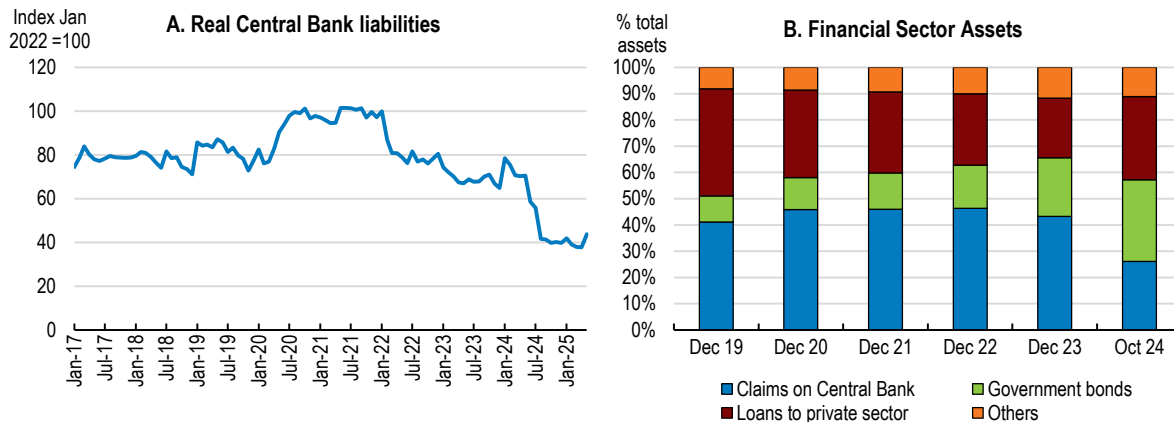
Source: Banco Central de la República Argentina, OECD database, INDEC, OECD calculations.

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Significant efforts to strengthen the central bank's balance sheet have been undertaken in parallel. The central bank has stopped offering interest-bearing instruments and most of the outstanding short-maturity central bank bonds have by now been replaced by Treasury bonds (Figure 1.10). This has transferred the debt-service burden from the

central bank to the government, which further underscores the effort that was needed to achieve the observed fiscal consolidation. On the asset side of the central bank's balance sheet, longstanding weaknesses are being addressed, especially through a sharp reduction of treasury debt to the central bank that was held in the form of so-called non-transferable treasury bonds. These bonds could not be sold on the market and therefore had no market price. As these bonds are being scaled back, a larger share of central bank assets is now valued at market prices. The four-year Extended Arrangement approved by the IMF in April 2025 was partly used to buy back the non-transferable treasury bonds maturing in 2025 and 2026, further strengthening the central bank's balance sheet and rebuilding its international reserves (Section 1.3.2).

Figure 1.10. Central bank liabilities have decreased and been transferred to the Treasury



Source: BCRA, INDEC.

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In April 2025, the authorities announced a new monetary policy regime. The central bank abandoned the broad monetary base ceiling and will instead monitor the evolution of the private M2 monetary aggregate to ensure that its growth rate is consistent with estimates of money demand. This includes currency in circulation, checks and non-remunerated sight deposits in domestic currency by the non-financial private sector. Under this arrangement, the monetary policy rate becomes endogenous and will adjust so that the money market remains balanced. In addition, a target has been established for the growth of net domestic assets, defined as the difference between the monetary base and net international reserves. Finally, the central bank implemented changes to the minimum cash requirements with the aim of supporting the bank-based transmission of monetary policy. Deductions for excess reserves have been reduced, leading to a significant increase in reserve requirements deposited in the central bank in April 2025. This new regime is meant to provide a more robust framework to achieve durable declines in inflation.

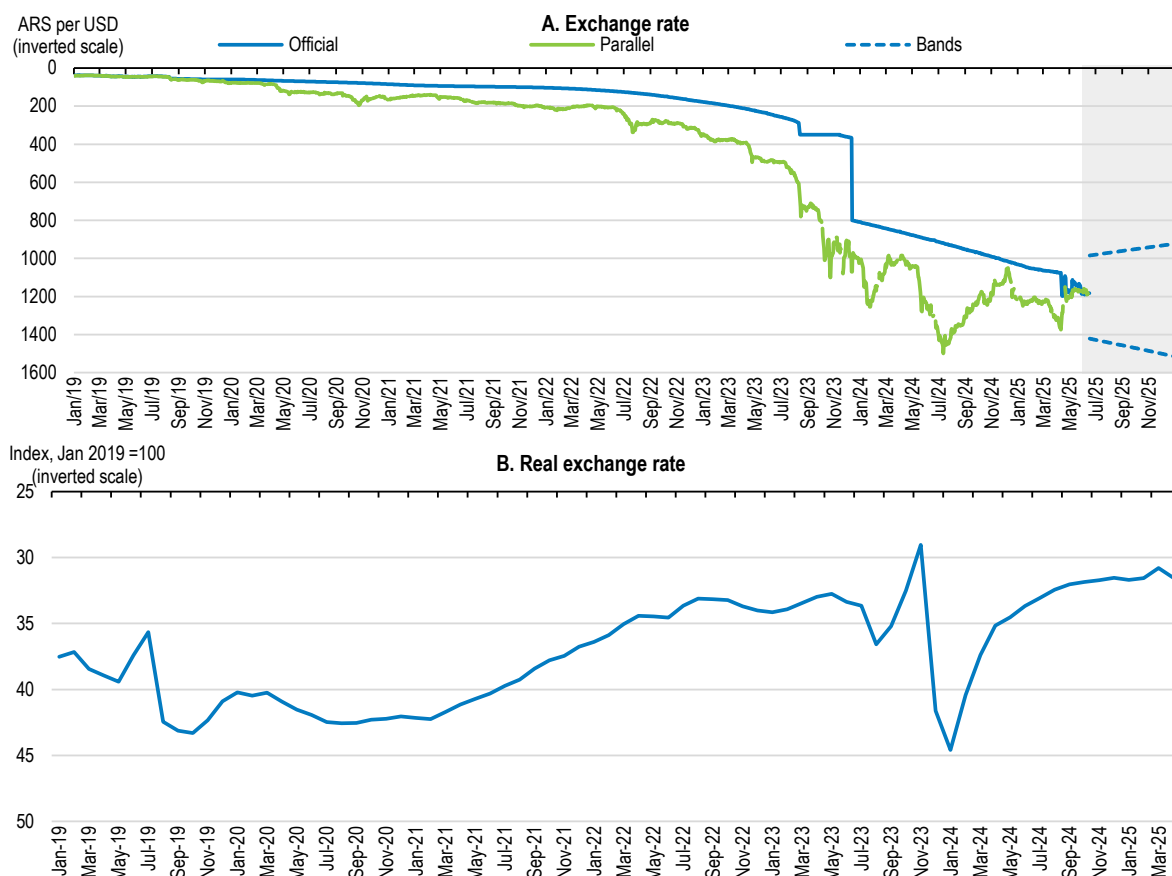
A continuously tight monetary stance will be necessary to build on past progress in reining in inflation. Beyond the monetary stance, Argentina should also continue to strengthen the balance sheet of the central bank and work on a continuous update of the central bank's analytical tools and forecasting models to capture and evaluate inflationary pressures, as well as to gain insights into relationships between macroeconomic variables and the time frame for monetary policy impulses to affect inflation. These ongoing improvements could help prepare the grounds for eventually considering an inflation-targeting regime.

1.3.2. Most controls have been lifted and the exchange rate has become more flexible

Until April 2025, under Argentina's managed exchange rate regime and crawling peg to the US dollar, scheduled devaluations regularly fell short of the inflation differential between Argentina and its trading partners, leading to an increasingly overvalued official exchange rate and a rising gap between the official and the parallel rates (Figure 1.11). In December 2023, the gap between the informal and the official exchange rates exceeded 100%. A one-off 54% devaluation in December 2023 was followed by more rapid monthly devaluations of 2%. The scheduled

depreciation of the official exchange rate helped anchor inflation expectations throughout 2024. As monthly inflation and inflation expectations declined, the pace of monthly devaluations of the official exchange rate was reduced to 1% in February 2025. However, the gap between the official and the parallel exchange rates persisted at around 15%, despite USD sales on the parallel market by the central bank, which hampered the accumulation of international reserves in March and April 2025 (Figure 1.12).

Figure 1.11. Argentina is moving toward a more flexible exchange rate regime



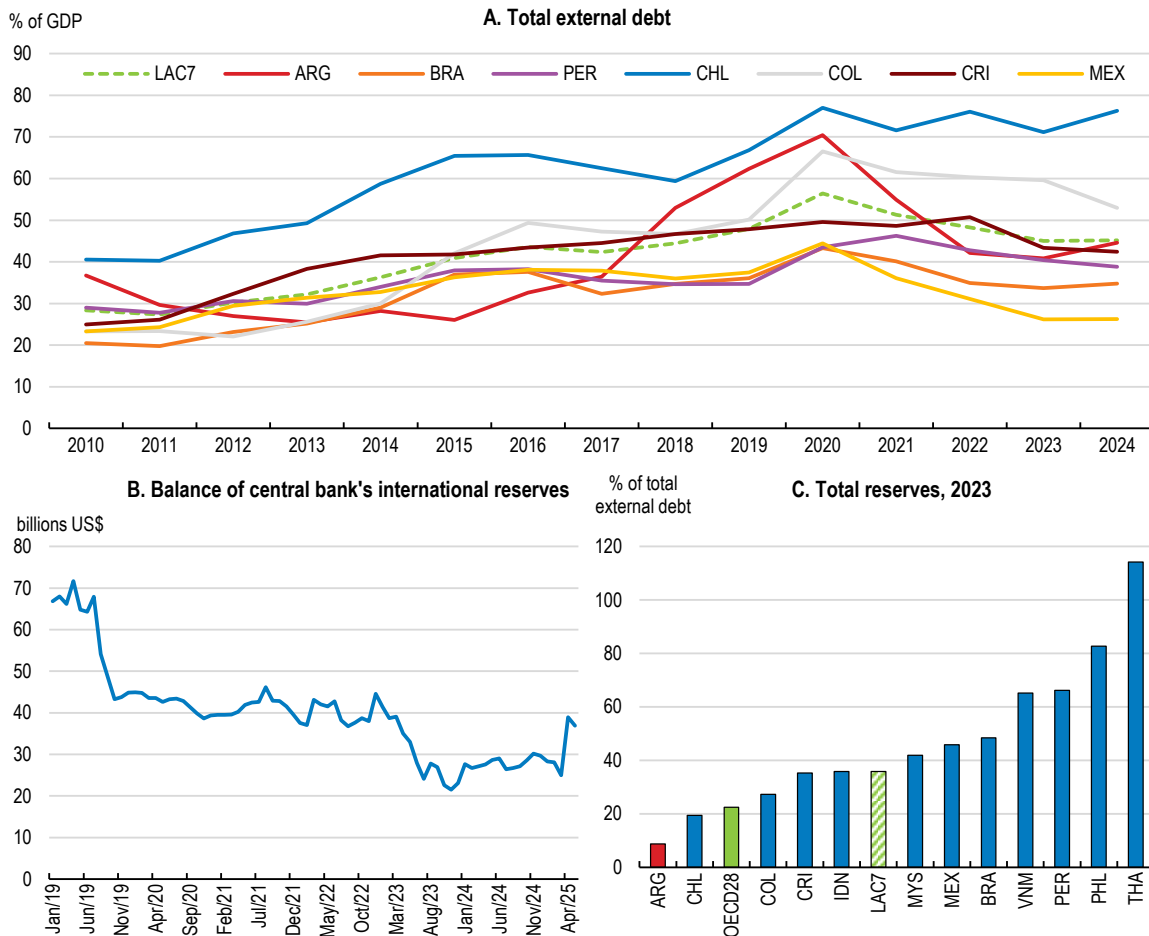
Source: OECD Exchange rate database, Ambito.com, INDEC, OECD Consumer price indices, COICOP 1999, OECD calculations.

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The April 2025 IMF programme supported international reserves and provided medium-term balance of payments assistance to support the next phase of their stabilisation to entrench macroeconomic stability. Argentina will also receive financial support from the World Bank and the Inter-American Development Bank for another USD 12 billion and USD 10 billion over three years, respectively. The boost in international reserves allowed Argentina to lift most of the currency and capital controls that had been in place since 2019. Individuals now have access to the foreign-exchange market without any restrictions. Firms can pay for most imports of goods and services with no need for payments in instalments, and profits accrued after January 1st, 2025 will face no repatriation restrictions. Access to the exchange market is still regulated, however, for the large outstanding stock of profits accrued before that date. The government will issue a dollar-denominated bond to progressively unwind these stocks. Non-resident investors are also able to access the official exchange market without prior approval to repatriate new investments with a minimum maturity of six months. These measures, together with the tax amnesty programme encouraging residents to declare foreign assets and the special investment regime RIGI (Box 1.1), are expected to encourage new Foreign Direct Investment and to attract currency inflows.

Following the easing of currency and capital controls, the authorities announced a new and more flexible exchange rate regime under which the exchange rate is allowed to float within bands that are set to widen by 1% every month (Figure 1.11, Panel A). Initial market reactions to the announcement were positive. The official exchange rate remained well within the bands and Argentina’s country risk premium fell from 900 to 726 basis points. The new exchange rate regime will facilitate the transition to a floating exchange rate in the future while rebuilding reserves and supporting disinflation.

Figure 1.12. The new IMF programme will help addressing external imbalances



Note: LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

Source: IMF World Economic Outlook (database), Banco Central de la República Argentina, IMF International Financial Statistics (database).

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1.4. Financial stability risks appear contained

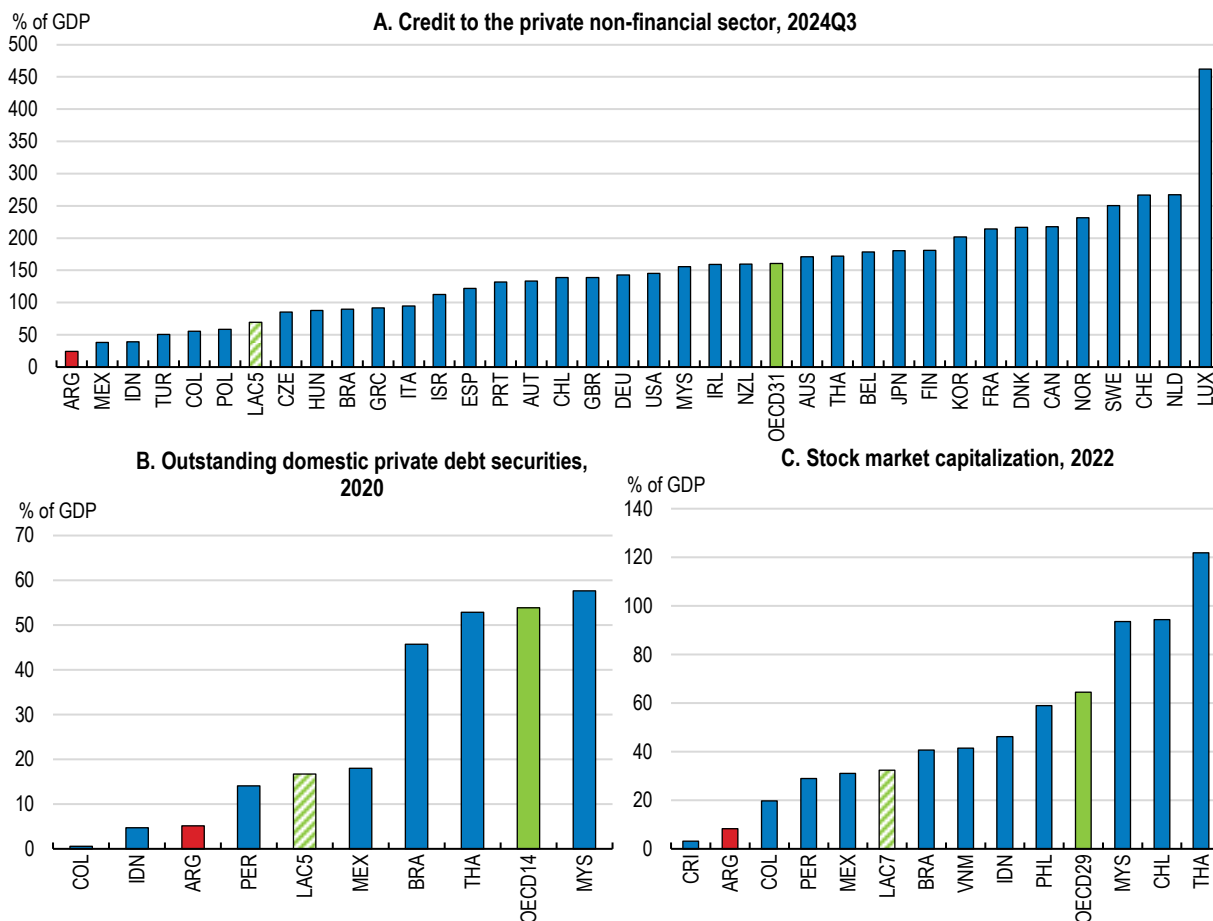
Argentina’s financial system is small compared to other Latin American and emerging countries. Credit to the private sector, the main source of financing, has been historically low hovering at around 10% of GDP, while local capital and stock markets also remain comparatively small (Figure 1.13).

History has limited public trust in the role of the domestic banking system as a savings vehicle. Decades of macroeconomic instability, sharp exchange rate swings and a forced conversion of dollar-denominated deposits in local banks in 2001 have nourished a tradition of saving in foreign currency, especially in cash and abroad, while keeping savings at a financial institution remains the exception rather than the norm (Figure 1.14, Panel A).

Consequently, bank deposits, the main source of bank funding, are significantly lower than in regional peers of similar income levels (Figure 1.14, Panel B).

This may be one explanation for the limited degree of financial intermediation and maturity transformation provided by the banking sector. Companies and households mostly rely on their own funds for key production and investment decisions. Mortgage lending, for instance, represents only a small share of total bank credit, historically around 1.5% of GDP, and the real estate market largely operates in cash (Carrera, Aguirre and Raffin, 2020^[3]; BCRA, 2024^[4]). Bank funding and assets are mainly short-term and linked to the transactional needs of households and businesses' operations.

Figure 1.13. The financial system remains shallow



Note: In Panel A, LAC 5 is an unweighted average of ARG, BRA, CHL, COL and MEX, and in Panel B includes ARG, BRA, COL, MEX and PER. LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

Source: BIS, World Bank Global Financial Development Database, World Bank WDI.

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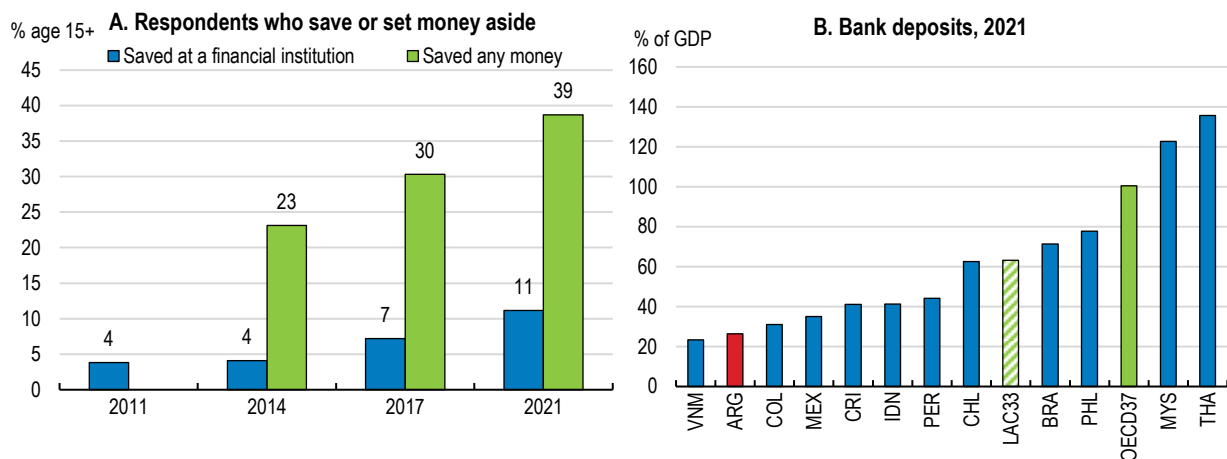
Credit to the private sector in domestic currency fell to its lowest level in more than twenty years in the first quarter of 2024, to only 5% of GDP, but then recovered to 8.5% of GDP in February 2025, reflecting exceptionally strong credit growth in historical comparison. The dynamic of private sector credit and deposits in foreign currency has been particularly impressive, largely explained by the tax amnesty. Credit to the private sector in foreign currency increased by 250.2% year-over-year in USD. Deposits in foreign currency increased by 130.3% over the same period (BCRA, 2025^[5])(Figure 1.15).

Loans growing faster than deposits led to a slight decline in bank liquidity at the end of 2024, but bank liquidity ratios remain largely comfortable (BCRA, 2025^[5]). Bank capitalisation is well-above regulatory minimums and compares

quite favourably to other countries. The rapid credit growth has increased banks' exposure to non-performing loans, but analysis by the Central Bank suggests that banks remain well-prepared to face a deterioration of repayment capacity given historical lows (Figure 1.16). Banks' risk coverage margins in terms of liquidity, provisions and capital are high compared to previous years and economic downturns (BCRA, 2025^[5]). Bank profitability remains positive, with a rate of return on equity of around 15% and a rate of return on assets of 4% accumulated over 12 months up to February 2025 (BCRA, 2025^[5]).

In a highly dollarised economy, exchange rate swings affect financial stability. Based on the lessons from the 2001-02 financial crisis, supervisory authorities have reduced the potential adverse effect of exchange rate swings on depositors, debtors and banks (Carrera, Aguirre and Raffin, 2020^[3]). For example, banks' foreign currency deposits may only be used to finance borrowers who have foreign-currency receivables from foreign trade transactions and related activities. In December 2023, the stock of loans to the private sector in foreign currency accounted for only 13.5% of total loans to the private sector, while the stock of deposits in foreign currency totalled 25% of private sector deposits (BCRA, 2024^[6]). Capital flow management measures have also limited the risks from exchange rate volatility in the past. Now that capital controls have been lifted, supervisory authorities will have to be particularly vigilant of potential hidden currency mismatches. Macprudential tools and instruments may need to be adapted to minimise systemic risks.

Figure 1.14. Trust in the banking sector is limited



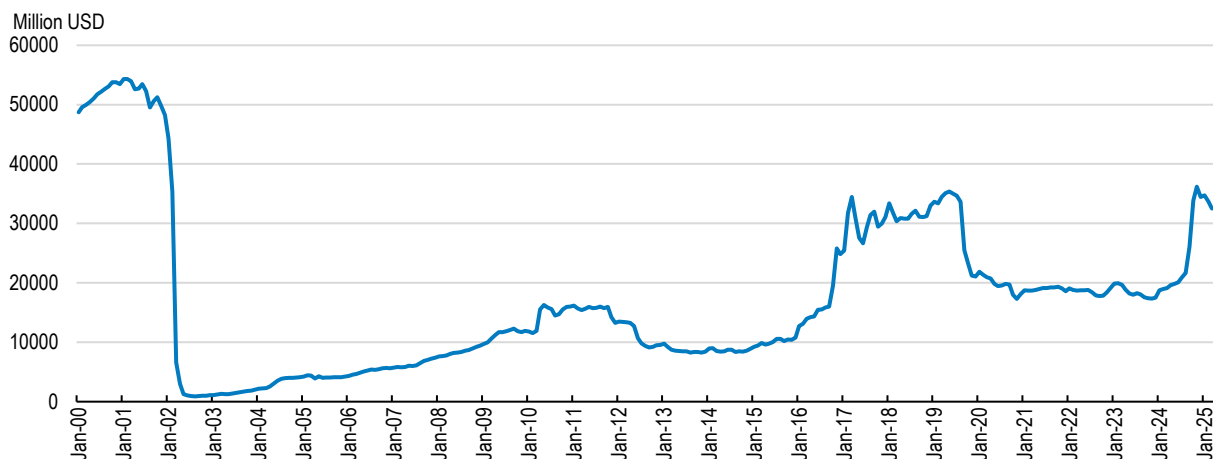
Note: Panel A: % of respondents who report saving or setting aside any money at a bank or another financial institution, and for any reason and using any mode of saving. LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

Source: Global Financial Development Database; BCRA, OECD Annual GDP and components - expenditure approach.

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Figure 1.15. Banks have recently been attracting private domestic savings in foreign currency

Balance of total deposits and bonds in foreign currency

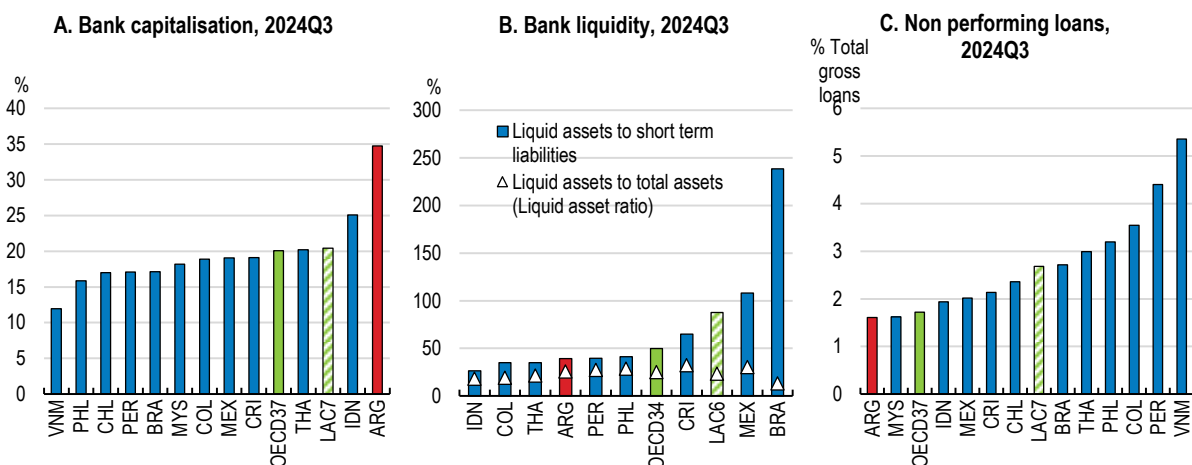


Note: Liabilities of the financial sector vis-a-vis the total sector.

Source: Banco Central de la República Argentina.

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Figure 1.16. Indicators of financial stability remain comfortable



Note: LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX. LAC 6 excludes CHL. Data for 2024Q3 except for PHL, BRA, COL, MEX and IDN (2024Q4); VNM (2024Q2); and MYS (2024Q1).

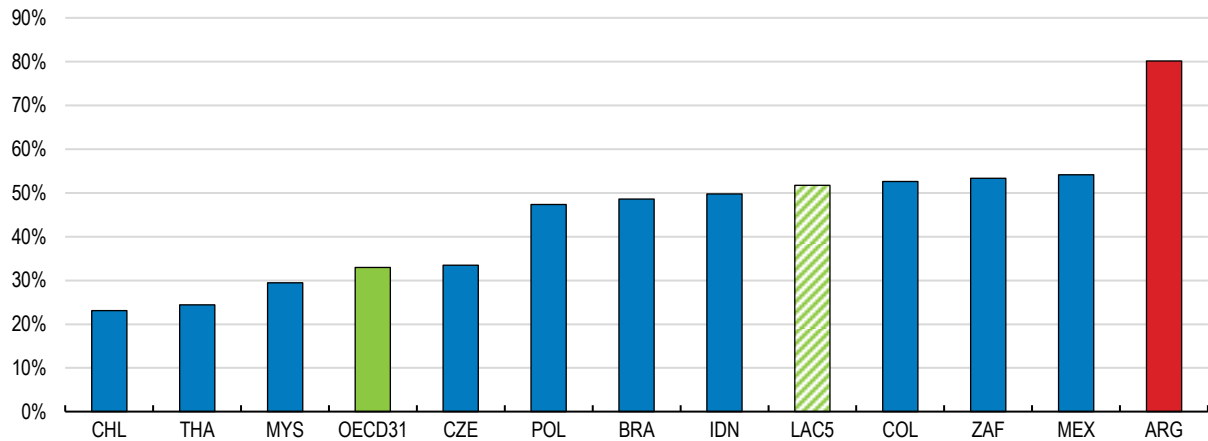
Source: IMF Financial Soundness Indicators database.

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Another important financial risk for Argentina's banking system has traditionally been its relatively high exposure to the public sector (Figure 1.17). This situation has improved significantly over the last year. The share of financial system assets made of government securities, credit to the public sector and instruments from the central bank fell from 50% at the end of 2023 to nearly 35% in February 2025 (BCRA, 2025^[5]). While this is still far from the historical low of about 20%, banks' exposure to the public sector is expected to continue falling as public-sector financing needs decline, leaving room for additional growth in private sector credit.


Figure 1.17. The main financial risk remains banks' exposure to sovereign risk

Credit to the general government as a percentage of total credit to the non-financial sector, 2024Q3



Note: National data sources for Argentina suggest a decline to 46.3% based on the latest available data from BCRA (March 2025).

Source: BIS.

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Despite recent progress, financial institutions in Argentina are still subject to a number of regulations that distort competition by restricting the offer of financial services, interfering with price setting and stifling financial innovation. Several regulations limit the volume of services that financial institutions can offer. Minimum cash reserve requirements, which limit the availability of funds to provide loans, have been used with multiple non-prudential goals and are relatively high in international comparison. In the case of demand deposits, minimum cash reserve requirements can go up to 45% compared with below 15% in most economies (IMF, 2022^[7]). In the future, there may be a case for using minimum reserve requirements only for prudential and monetary motives (D'Amato et al., 2024^[8]).

Similarly, a measure requiring banks to get central bank approval to distribute dividends was introduced in 2019, in a context of financial stress, and was meant to be temporary. Although the limit for distributing dividends was increased from 40% to 60% in 2024, the measure remains in force. The continuation of measures unrelated to prudential considerations could foster regulatory uncertainty and mistrust in the financial system (D'Amato et al., 2024^[8]).

There is also a differentiation on the maximum length of time to transfer funds to businesses from credit card payments, with shorter times for SMEs and firms in the health and hospitality sectors. This can distort competition between financial institutions depending on their relative concentration of purchases in businesses that receive this benefit (D'Amato et al., 2024^[8]). These measures do not have any prudential or monetary policy justification and should be eliminated.

Going forward, developing capital markets in local currency with a broad domestic investor base remains another key challenge for Argentina's financial system, and depends crucially on the successful stabilisation of the economy. The tax amnesty programme launched in 2024 had a positive impact on corporate debt issuance and total financing in capital markets (Box 1.1). In October 2024, corporate debt issuance reached an historical high that had not been seen since 2015. Public debt management will also have an important role to play by creating a reference yield curve in domestic currency. Future pension savings could also play a role in deepening financial markets (Chapter 2). Developing domestic capital markets would improve access to finance for many companies, including SMEs.

1.5. Sustained fiscal consolidation is key for preserving macroeconomic stability

1.5.1. A rapid fiscal turnaround has been achieved during 2024

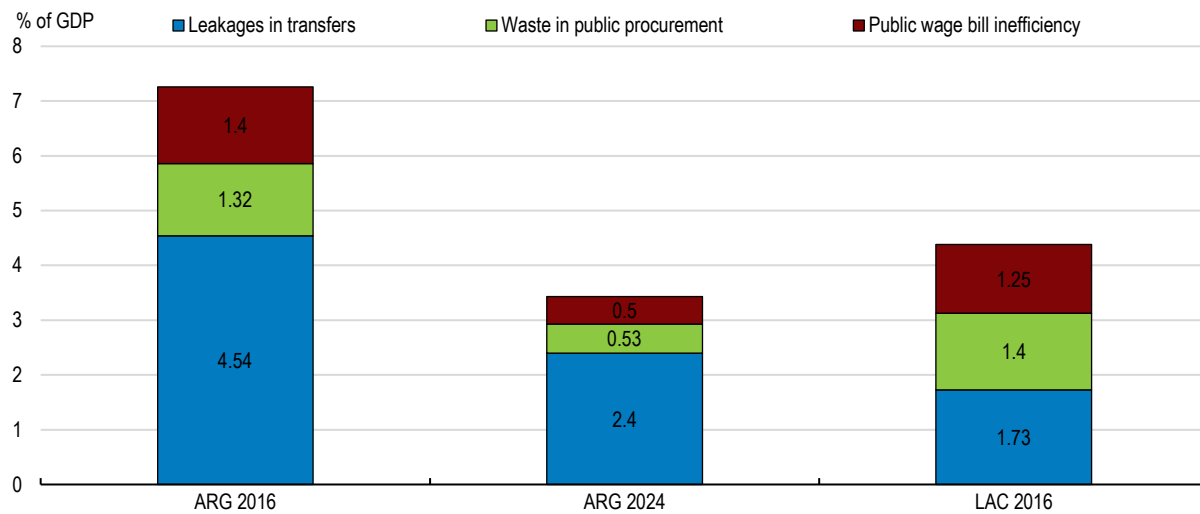
Fiscal consolidation has been at the centre of the stabilisation plan initiated in late 2023. An impressive fiscal adjustment has been achieved since then, with spending cuts of almost 5 percentage points of GDP, resulting in a headline fiscal surplus of 0.3% of GDP in 2024. By comparison, most consolidation episodes in recent history improved the cyclically adjusted primary balance by 1-2 percent of GDP per year over 3 to 4 years (Balasundharam et al., 2023^[9]).

In their successful attempts to deliver a rapid turnaround of the fiscal deficit, fiscal authorities focused initially on expenditure cuts through measures that did not require congressional approval. This included discretionary cuts in capital spending and transfers to provinces, limits to public wage increases, downsizing parts of the public sector that were not deemed effective and progressively reducing energy, transport and water subsidies. To improve spending efficiency, the authorities also scaled back the role of intermediary social organisations in the delivery of social benefits. As a result, spending inefficiencies associated with social transfers, public procurement and the public wage bill have been significantly reduced (Figure 1.18). On the revenue side, temporarily increasing the tax rate on foreign exchange access for imports, known as the PAIS tax, helped partially offset declines in real tax revenues.


Continuous efforts will be necessary to sustainably improve Argentina's fiscal position in the coming years, as a precondition for re-gaining access to international capital markets. For 2025, fiscal authorities target a 1.6% primary surplus. A package of tax measures approved in June 2024 is already helping. The package included a reduction of the basic allowance for personal income taxes (PIT), which had been raised in 2023, while the 2019 OECD *Economic Survey of Argentina* had recommended reducing it. As a result of the 2024 change, around 800 000 individuals who had been exempted of PIT under last year's rule will now pay PIT again. The change is expected to bring an additional 0.5 percent of GDP in tax revenues each year. Moreover, wealth taxes now apply from a higher threshold and at a lower rate, but the change is expected to frontload tax revenues as taxpayers can benefit from preferential rates for anticipating payments. In addition, the scope of a targeted tax regime for small enterprises, known as "*monotributo*", has been expanded by updating the eligibility thresholds and brackets, which is expected to decrease tax revenues slightly in the immediate term, while increasing tax revenue collection in the medium-term and reducing compliance costs.

On the expenditure side, recent changes in the pension indexation formula will generate fiscal savings in the medium to long-term. The pension index used to be adjusted every quarter to changes in formal wages and social security revenues, which made it highly pro-cyclical. As a result, old-age poverty tended to increase sharply during downturns and no buffers were built up during periods of economic expansion. Moreover, this pension adjustment formula performed poorly with respect to preserving the real value of pension benefits amid high inflation in 2023 and early 2024. Instead, the new pension indexation formula introduces monthly adjustments based only on monthly inflation. The new indexation formula raised pension spending by about 0.4% of GDP in 2024 but is expected to generate savings as inflation decelerates and the economy recovers. For 2025, these savings have been estimated at around 0.7% of GDP (OPC, 2024^[10]).

Figure 1.18. Inefficiencies associated with social transfers have been significantly reduced



Source: Navajas, F., A. Izquierdo, C. Pessino, D. Artana, K. Astudillo, O. Natale, M. Panadeiros, and N. Susmel. Forthcoming. "Changes in Subsidy Leakage in Energy, Social Assistance and Tax Expenditures in Latin America and the Caribbean." IDB Working Paper Series. Washington, DC: Inter-American Development Bank.

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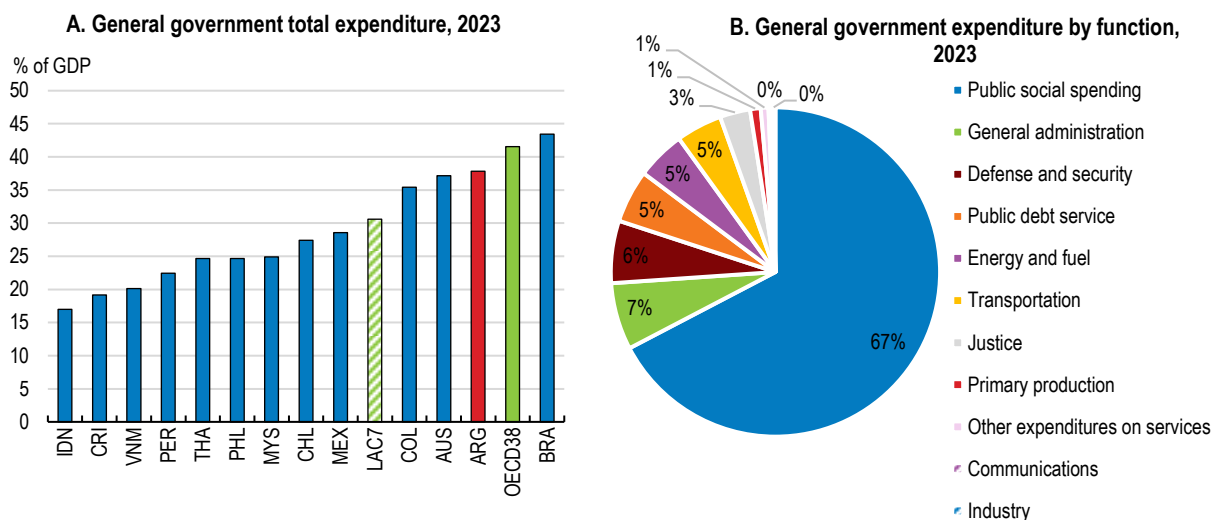
1.5.2. Public spending efficiency can still be improved

Beyond the significant achievements already made, scope remains for further reforms both on the spending and the revenue side of public accounts. Argentina's public expenditure is high in international comparison (Figure 1.19) and there is still scope for enhancing spending efficiency in several areas.

One area with scope for further progress is with respect to cutting back inefficient economic subsidies. Subsidies for residential energy, water consumption and public transportation have been introduced after the deep economic crisis of 2001-02. The subsidies were implemented through a combination of price caps and compensatory government payments to energy, water and transport providers. However, these price caps are broad-based and poorly targeted, with overall regressive distribution effects and high fiscal costs, similar to the experience of other OECD countries (Hemmerlé et al., 2023^[11]). Moreover, by creating a gap between the price paid by end-users and production costs, price caps reduce incentives to save energy and water (Chapter 3).

Energy subsidies have been progressively scaled back since December 2023 and fell by about 0.5% of GDP in 2024 (Figure 1.20). In addition, energy tariffs have been increased progressively for higher-income segments, who are now paying close to production costs. These adjustments have been progressively extended to medium- and low-income users since February 2025, following a pre-announced schedule. Similarly, monthly increases in the social tariff for water has been outpacing inflation to reduce public subsidies, starting with regions with higher property valuations. Subsidised public transportation tariffs, on the other hand, which have had a positive distributional impact (OECD, 2019^[12]), have been mostly preserved, falling from 0.5% of GDP in 2023 to 0.35% of GDP in 2024. The government should continue to phase out energy and water subsidies while redirecting some of the fiscal resources to more efficient forms of social protection (Chapter 2). Preliminary data from the first quarter of 2025 suggests that economic subsidies have continued to decrease.

Figure 1.19. Public expenditure is high compared to other emerging economies

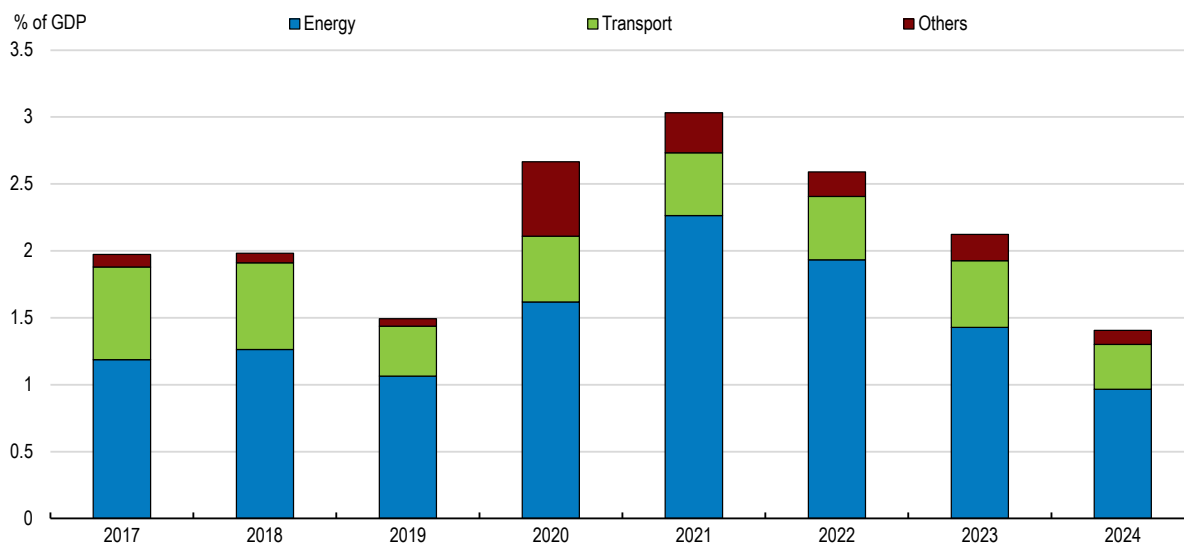


Note: In Panel A, data for 2023 except for BRA, CRI and THA (2022); and VNM (2021). LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

Source: IMF World Economic Outlook database: April 2025, Ministerio Economía de la República Argentina

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Figure 1.20. Subsidies have been reduced



Note: "Others" includes mostly subsidies to the water and sanitation sector.

Source: ASAP - Asociación Argentina de Presupuesto y Administración Financiera Pública, EO database.

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Another area with scope for improvement relates to public sector efficiency. Public employment, including all levels of governments and public enterprises, accounts for more than 15% of total employment (Figure 1.21). This level of public employment contrasts with the perceived low quality of public services in international comparison (Chapter 4). At the federal level, significant progress has been made to streamline functional areas and public employment. At present, 66% of civil servants are employees of provincial governments. Scope for rationalising public employment therefore appears concentrated in subnational governments, which spend 7% of GDP on staff costs, but with visible heterogeneity across provinces. Relative to total spending, staff costs range from 29% in Santiago del Estero to 61%

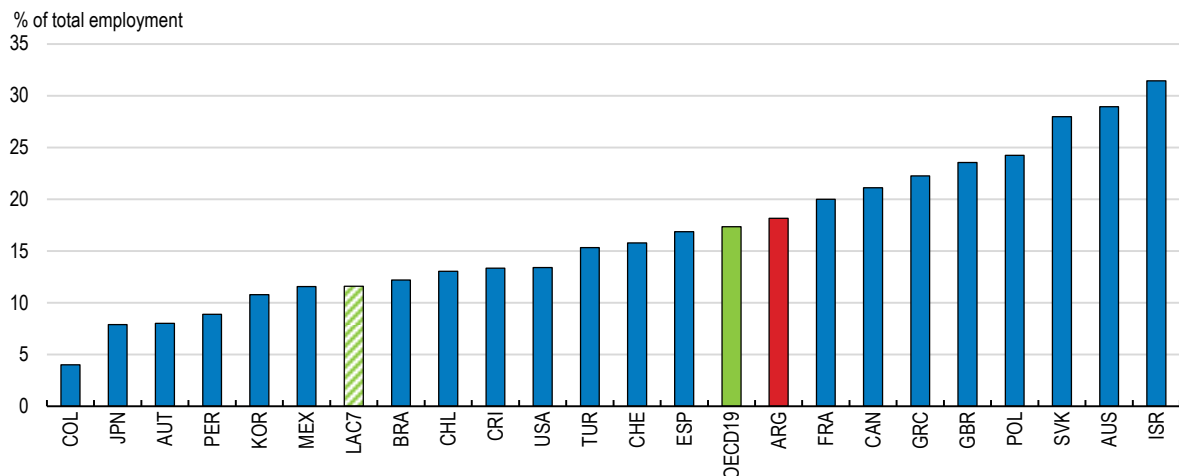
in Rio Negro (OPC, n.d.^[13]). Most provinces are not compliant with a 2018 rule limiting subnational public employment growth to population growth (Section 1.5.5). In 2022, one province had 128 public employees for each thousand inhabitants, while 4 others had above 100.

A careful assessment of the potential impact of cost-cutting measures on public employee engagement may be warranted to avoid losing high performers and employees with essential skills. To bring efficiency gains, public administration restructuring would need to be complemented with forward-looking human resource management practices. Several OECD countries eliminated tenure-based components in their public compensation schemes, replacing them with bonuses and opportunities for career progression based on performance. Performance objectives should be clearly set and followed up with regular progress reviews. Senior managers need to be held accountable when performance fails to progress. On-going and frequent communication with staff has also proved effective in keeping public employees engaged (OECD, 2016^[14]). Finally, digitalisation creates an opportunity to reconsider the work of civil servants and focus it on high value-added tasks (Chapter 4).

Reducing inefficiencies in the execution of public works could be another source of fiscal savings. In 2024, part of the burden of a rapid fiscal adjustment fell on public investment as capital expenditure decreased from 1.6% of GDP to only 0.4% of GDP, the lowest in 25 years. However, low levels of public investment may have damaging effects on the quality of infrastructure and productivity growth in the long-term (Chapter 4). Fiscal policy will have to strike a more sustainable balance between fiscal prudence and addressing infrastructure bottlenecks. Sharing the risks associated with large projects with the private sector may be one way forward to increase cost-effectiveness and encourage timely project delivery while reducing the financial burden on the public sector (Chapter 4).

Figure 1.21. There is scope to rationalise public employment in subnational governments

Public sector employment, 2023



Note: Data from 2023, except Korea (2019), Greece (2020), Australia, Japan, and Israel (2021), and France and the Slovak Republic (2022). LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

Source: ILO, based on Labour Force Statistics.

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The merits of delivering infrastructure services through Public-Private Partnerships (PPPs) should be carefully weighed against those of traditional procurement, in each case, taking into account the specificity of the asset under consideration (Araújo and Sutherland, 2010^[15]). When opting for PPPs, their long-term impact on public accounts should be published in a transparent manner in the budget and long-term budget planning, avoiding any off-budget liabilities. A thorough assessment of the long-term fiscal implications should be part of the decision-making process.

Public procurement would be another area where there is scope for gains in public spending efficiency. Argentina lacks a public procurement law setting general principles, and e-procurement remains underdeveloped as the procurement platforms COMPR.AR and CONTRAT.AR are mostly informative and provide limited support for

transactions. The authorities should also make sure that procurement offices have adequate human resources to conduct their activities.

Systematic spending reviews have proven to be a useful tool across many OECD countries to identify potential efficiency gains in public spending (OECD, 2022^[16]). Many OECD countries have integrated spending reviews as a permanent feature of the annual budget process, allowing recommendations from spending reviews to be reflected in fiscal management and policy. The spending review timetable should be planned so that findings are available in time for the budget formulation process.

1.5.3. A comprehensive tax reform would also enhance efficiency and equity

Argentina has traditionally been characterised by a high tax burden compared to other Latin American countries (Figure 1.22, Panel A). Continuous increases in public spending over the years have been partly financed by the introduction of highly distortionary taxes, often meant to be temporary and to respond to short-term urgent financing needs. Regular and unexpected changes in taxes created uncertainty and imposed additional costs on households and firms. By disrupting business plans, this had a detrimental impact on investment decisions and economic growth. Most of these taxes, however, were never fully phased out and an inefficient and unequal tax system emerged.

Like other emerging-market economies, Argentina has traditionally found it easier to tax consumption, trade flows and financial transactions rather than personal income, partly related to the high levels of labour market informality (Chapter 2). This is reflected in Argentina's current tax structure, which differs significantly from OECD countries, but less so from OECD members in Latin America (Figure 1.22, Panel B).

Besides the tax mix, a salient feature of Argentina's tax system is a number of particularly distortionary and inefficient taxes in specific areas, often levied on narrow bases, at high rates and with strong implications for economic incentives. These have left their mark on investment and consumption decisions and the allocation of resources across the economy. Even if the scope for reducing Argentina's high tax burden is limited in the near term given the need for fiscal consolidation, rethinking some of the most distortionary taxes should be a priority.

One example for a highly distortionary tax is a financial transaction tax called the "*impuesto al cheque*", levied on transactions made using a checking or saving account. In fact, this tax created incentives to settle payments in cash, working as a barrier to financial development and formalisation (OECD, 2019^[12]). Letting it expire at the end of 2027, as planned, is a step in the right direction. The government could even consider eliminating it earlier, but with around 1.7% of GDP in tax revenues each year, it will not be easy to replace. Similarly, the stamp duty, levied on legal instruments including contracts, notarial deeds and promissory notes, also creates incentives for informality and should be phased out, especially given that its revenues are close to zero. The recent elimination of a real estate transaction tax is a step in the right direction.

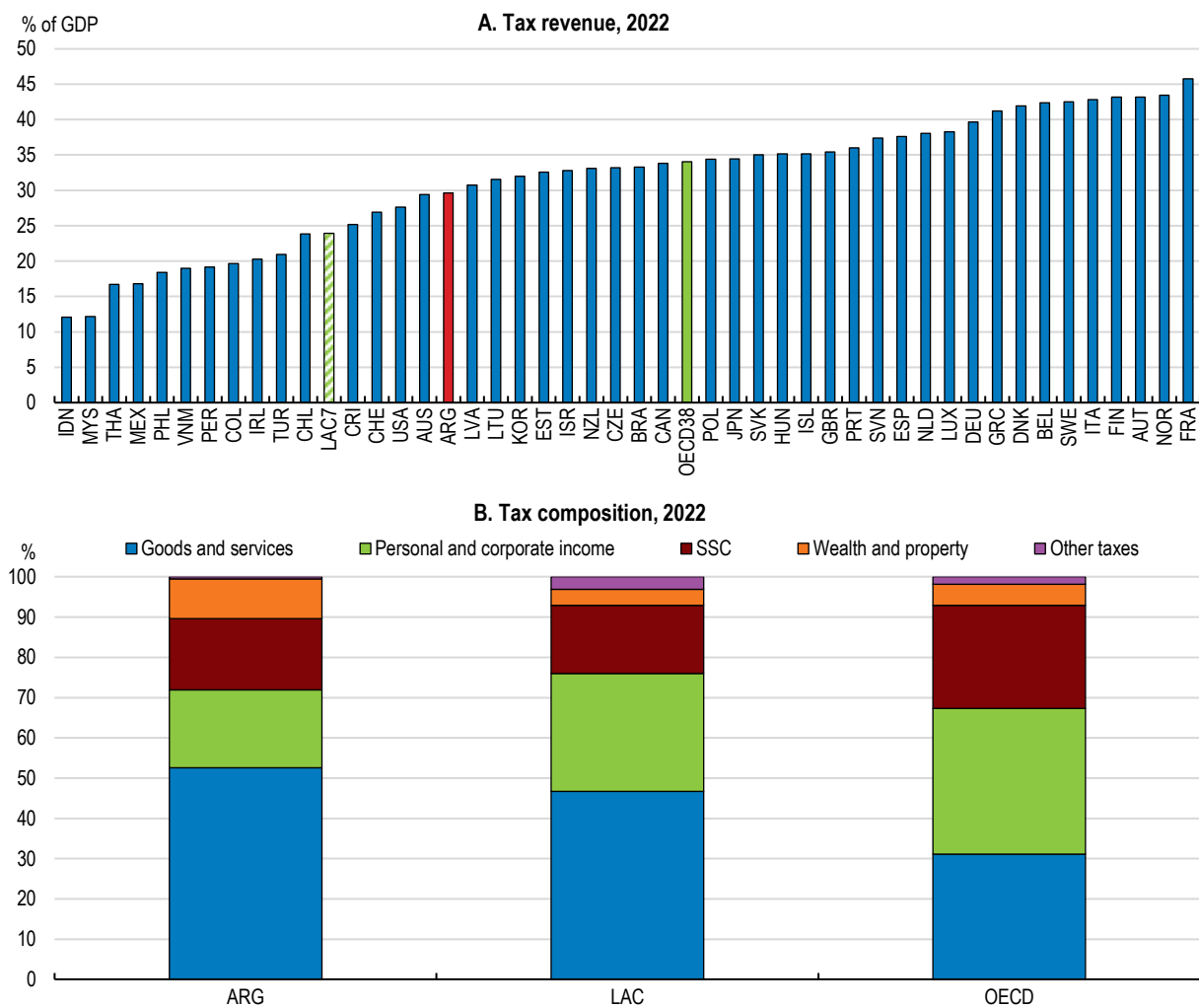
Export taxes are another example of highly distortionary taxes as they work against the needed outward re-orientation of the economy. Argentina has a highly competitive agricultural sector, for example, and a long history of using export taxes to extract resources from the agricultural sector. This has led to high effective tax rates on agricultural exports, currently close to 25% for soybeans and related products, for example. Export taxes limit incentives for investment in new machinery and technology, including solutions to adapt to climate risks, hampering the sector's productivity, competitiveness, and economic resilience (Chapter 4). Revenues obtained from export taxes currently amount to about 1% of GDP (MECON, 2023^[17]). In 2025, export taxes on some agricultural products have been eliminated. Export taxes should be phased out entirely, as recommended in the 2019 OECD *Economic Survey of Argentina* (OECD, 2019^[12]).

Taxes on imports, such as tariffs, on the other hand, increase domestic prices for producers and consumers of many traded goods, conferring domestic producers an artificial competitive advantage. This reduces competition and the incentives for productivity improvements. In addition, tariffs and other import barriers also limit the use of inputs and intermediary goods in domestic production, further hampering the efficiency and competitiveness of domestic producers (Chapter 4). Import duties have already been reduced across a number of items and currently amount to

0.5% of GDP. Remaining import tariffs could be progressively reduced in coordination with MERCOSUR partners, following a credible pre-announced schedule that would provide sufficient time for domestic firms to anticipate the increased foreign competition.

Another highly distortionary tax is a provincial business turnover tax known as “Ingresos Brutos”, which generated around 4% of GDP in revenues in 2022 and overlaps with the national Value-Added Tax (VAT), which in turn generated 7.1% of GDP in tax revenues. While the value-added tax allows the deduction of VAT paid on intermediate inputs, the turnover tax applies to gross revenues from the sale of goods and services at every stage of the supply chain, without any deduction of the tax paid at earlier steps. Such cascading taxes are highly distortionary since they distort value chains and create artificial incentives for vertical integration. Moreover, each province applies its own turnover tax rate, often differentiated by industry and firm size, tax exemptions, credits and benefits, potentially distorting location decisions. Turnover taxes are also applied to revenues in the financial sector, where they increase the cost of financial intermediation.

Figure 1.22. The tax structure is tilted towards indirect taxes



Note: LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.
 Source: OECD Global tax revenue database (Comparative tables of countries in the global database).

Phasing out the most distortive taxes requires identifying alternative revenue sources, at least in the immediate term, so as not to jeopardise on-going fiscal consolidation efforts. One solution for reducing the distortions created by the provincial turnover taxes, while recognising the need of provinces for their own tax revenues (Section 1.5.4), would be to consolidate these taxes and the VAT into a dual value-added tax, as recently done in Brazil (OECD, 2023^[18]). The two components could apply to the same tax basis nationwide and would be collected at the destination of goods and services. Revenues from a first component would revert to the federal government, with the same standard rate, while those from the second component would replace the current turnover taxes reverting to provinces. Rates for the second component could be freely set by provinces within bounds to be determined between the provinces and the national government (Box 1.2). Some estimates suggest that a revenue-neutral consolidation of these two taxes would require a standard rate from the dual value-added tax to be set somewhere between 25% and 27.5% (IDES, 2025^[19]). This is above the current rate of 21%, and close to the level of Hungary, the OECD country with the highest value-added tax rate (OECD, 2024^[20]), but could be lower if additional measures are implemented to strengthen the formalisation of the economy, such as e-invoicing for example. Given the sizeable distortions from the turnover taxes, such a consolidation would likely lead to lower prices for consumers and significant potential efficiency gains for producers.

Box 1.2. The 2023 Value-Added Tax (VAT) reform in Brazil

The 2023 tax reform in Brazil consolidated five consumption taxes at the federal, state and municipal levels into a dual value-added tax, one of which managed by the Federal government, and the other managed by states and municipalities. Two distinct features of the reform were its revenue-neutral character and the careful consideration of the distribution of revenues across levels of government.

Both the national and the subnational tax have the same basis and both components are collected together. The Federal government sets the rate for the national component, while states and municipalities set the rate for the subnational component. A Federative Council coordinates states and municipalities with respect to collecting the subnational component, managing and implementing the tax, offsetting credits and distributing resources across subnational entities. The new system is helping to reduce special regimes and harmonise the rules across products, services, sectors, and regions.

The tax reform affects the distribution of revenues between the federal and subnational governments. Some states and municipalities will experience revenue losses as the new tax rate will depend on the residence of the buyer rather than the producer (destination principle). To address these concerns, the reform guarantees a transition period of 50 years, during which the current distribution across states is to be preserved initially, and progressively adapted to the new rules. The reform also introduces a fund to compensate states that are most affected by these changes, to be financed by the Federal government.

Source: OECD (2023), "Redesigning Brazil's consumption taxes to strengthen growth and equity", [brazil-tax-policy-brief-2023-final.pdf](#).

Additional VAT reforms could include revising exemptions and reduced rates, which currently amount to almost 1% of GDP in lost revenues (Lódola, Moskovits and Zack, 2024^[21]; OECD, 2019^[12]). These have often been motivated by attempts to benefit low-income households. In many cases, however, such as exemptions applying to medicines, education, transportation, books and newspapers, lower taxes also benefit high-income households. Several studies show that exemptions and reduced VAT rates are a poorly targeted means of supporting low-income households (Thomas, 2024^[22]). Targeted benefits are often more effective to support the purchasing power of those with low incomes than lower VAT rates, and measures to broaden the Value-Added Tax base could be accompanied by such targeted benefits to compensate vulnerable households. Argentina has well-targeted cash transfer programmes that could be harnessed for this purpose (OECD, 2020^[23])(Chapter 2).

Low value-added tax compliance further reduces revenue collection by an estimated 3.5% of GDP, the highest share in Latin America (Figure 1.23, Panel A). Compliance could be improved by strengthening and modernising the tax administration, including through improvements in information systems and the use of advanced technologies.

Recent measures are expected to help progressively improve VAT compliance rates. In October 2024, several steps were taken to simplify VAT filing procedures. A Digital VAT Ledger, containing details of each company's incoming and outgoing invoices for each VAT period, was developed. Data from the Digital VAT Ledger will now be automatically integrated into the VAT return digital form to leverage on pre-registered data. Starting from January 2025, invoices now must itemise VAT and other indirect national taxes to increase transparency. Measures to facilitate payments in dollars by debit card and using QR codes are also expected to increase VAT compliance as transactions in foreign currency were often more difficult to report than those in domestic currency.

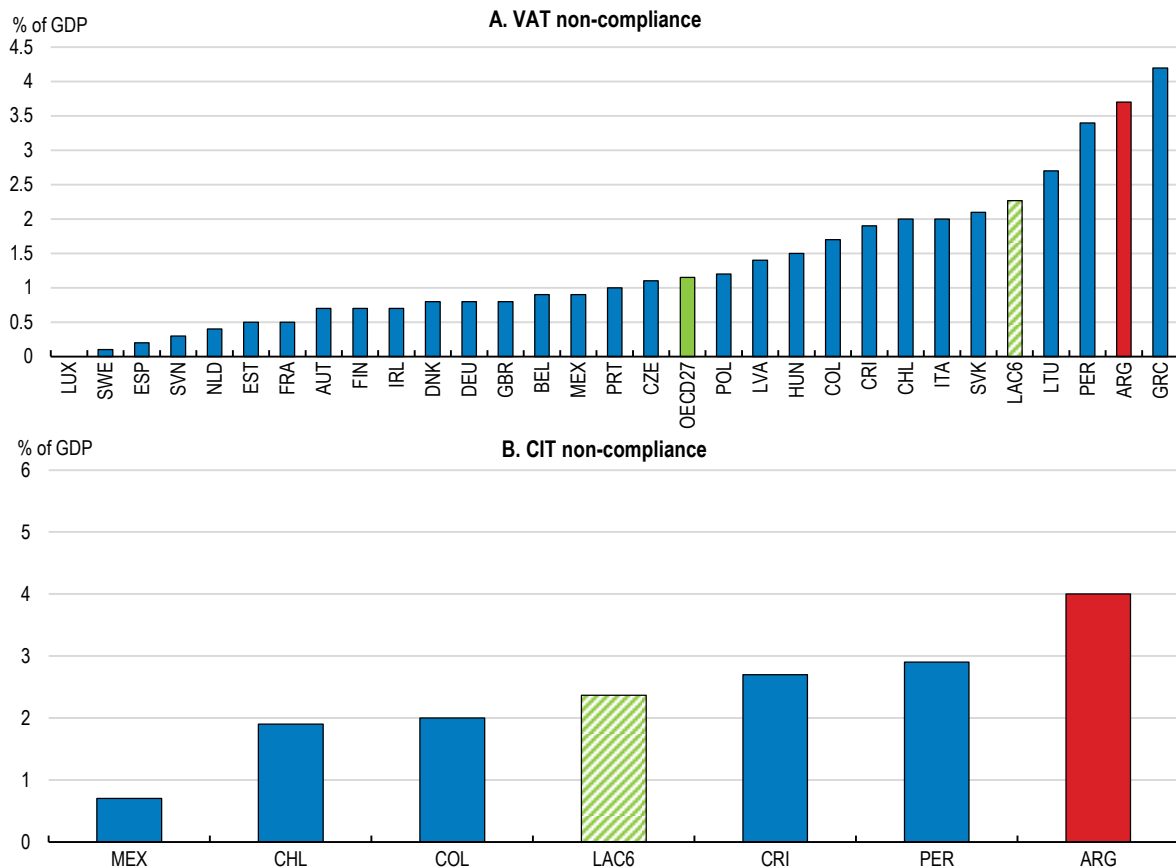
Narrow tax bases are also a feature of Argentina's income taxes, which explains why their revenues are lower than in OECD countries. Personal income tax revenues amounted to 2.5% of GDP in 2022, compared to 8.6% in OECD countries (Figure 1.24, Panel A). A main reason for this is the high basic allowance, which exceeds the average wage and results in only about 10% of formal sector workers paying personal income taxes in 2021, compared to 51% in OECD countries (Chapter 2) (Lódola, Moskovits and Zack, 2024^[21]). In addition, Argentina has a PIT exemption for judges and judiciary employees, which is highly unusual, and other generous PIT tax deductions. Estimates put foregone PIT revenues at around 5% of GDP (Lódola, Moskovits and Zack, 2024^[21]).

The political economy of the personal income tax has traditionally been difficult in Argentina as the PIT has often been understood as a tax on the wealthy. However, expanding the PIT base beyond the current 10% holds significant potential for raising revenues in a progressive way and would allow reducing other highly distortionary taxes whose distributional footprint is probably much less progressive. It would also bring Argentina closer to OECD practice, as recommended in the 2019 OECD *Economic Survey of Argentina*. Given how high the basic allowance currently is, it could be lowered substantially without even coming close to the income levels of low-income workers, for which PIT could present an additional barrier to formalisation (Chapter 2).

Revenues from corporate income taxes could be increased by improving tax compliance and limiting tax expenditures. Several studies point to high levels of corporate tax evasion in Argentina, compared to other Latin American countries (Gómez Sabaini and Morán, 2020^[24]; Centrángolo and Gómez Sabaini, 2009^[25]) (Figure 1.23, Panel B). This can be partly explained by high levels of business informality (Chapter 2). The RIGI investment programme, the tax amnesty, and on-going reforms to improve the business environment (Chapter 4) are likely to improve corporate tax compliance.

Reducing corporate tax expenditures such as targeted tax regimes for specific sectors and locations, would also help raise corporate tax revenue (Figure 1.24, Panel B). One of these targeted regimes reduces the tax burden on industrial companies located in the southernmost province of Tierra del Fuego, which has allowed the province to attract significant activity in the assembly of electronics goods, despite its remote location some 3000 km from the capital region, where close to half of Argentina's consumers reside. This special tax regime, for instance, has been estimated to cost 0.22% of GDP in lost tax revenues (Hallak et al., 2023^[26]).

Argentina has a wealth tax levied at the federal level whose current revenues amount to about 0.1% of GDP (Lódola, Moskovits and Zack, 2024^[21]). The complicated manner of calculating tax liabilities, including the valuation of shares and holdings in the capital of local companies, adds significantly to tax complexity. The tax also overlaps with provincial taxes on immovable property. Several measures have been taken to simplify this tax. Its basic deduction and tax rate were reduced in July 2024 and the distinction between domestic and foreign assets in terms of applicable rates has been eliminated. Finally, a special regime has been introduced allowing taxpayers to frontload future payments, in exchange for a reduced rate and less stringent form completion and filing requirements. These steps are most welcome.

Figure 1.23. Tax non-compliance rates are high in international comparison

Note: LAC 6 is an unweighted average of ARG, PER, CHL, COL, CRI and MEX. In Panel A, data is from 2017 except for Costa Rica and Mexico (2016). Panel B: ARG (2005); CHL (2009); CRI (2015); COL and MEX (2016), and Peru (2021).

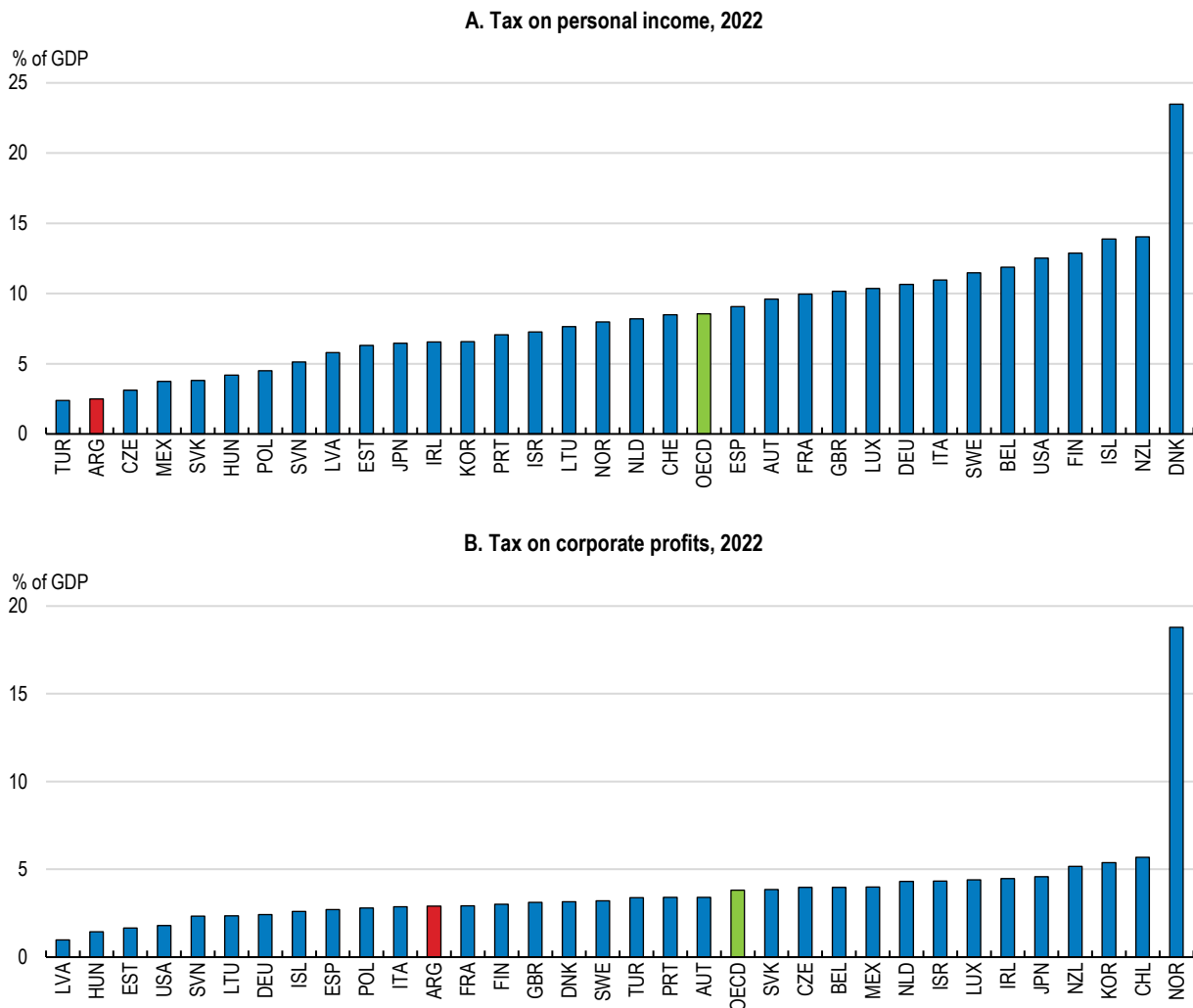
Source: CEPAL - Estrategías para abordar la evasión tributaria en América Latina y el Caribe; Peru's national authorities

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Going forward, Argentina could consider eliminating the wealth tax while strengthening provincial taxes on immovable property. Harmonising the valuation methodology and updating property registries in cooperation with subnational tax authorities would limit the scope for local politicians to reduce the immovable property tax of their constituents for electoral purposes. Most rural immovable properties are currently exonerated from property tax. As export duties on agriculture are phased-out, such exonerations could be eliminated. Higher property taxes on highly productive agricultural land in Argentina's main grain production area would be a way to extract some of the rents from concentrated land ownership without distorting production and investment decisions as export taxes do.

Another possible alternative to distortive taxes would be to increase excise taxes on tobacco and alcohol, as well as introducing an excise tax on sugar-sweetened beverages. Beyond generating revenues for the general budget, excise taxes on unhealthy products make their consumption less affordable, saving on future health care expenditure. In Argentina, excise taxes on harmful products only generate 1.4% of GDP, compared to 3.7% in Latin American countries and 3.1% in OECD countries. Higher excise taxes on fossil fuels could also help to steer the economy towards less carbon-intensive technologies, where Argentina has significant economic opportunities to reap (Chapter 3).

Figure 1.24. Revenues from taxes on personal income and corporate profits are low



Source: OECD Revenue Statistics; MECON, Secretaría de Hacienda, Subsecretaría de Ingresos Públicos.

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1.5.4. Fiscal relations across different levels of government can be improved

Argentina is a federal republic with significant constitutional powers transferred to the provincial level of government. According to the constitution, provinces hold all powers that they have not delegated to the federal government. Primary and secondary education, healthcare, social welfare, law enforcement, roads, ports, and water and sanitation infrastructure development are responsibilities that are largely assigned to provincial governments. To carry out their responsibilities, provinces have the power to raise their own tax revenues, except for taxes on foreign trade, which are exclusive to the federal government. Nonetheless, provinces have delegated the task of administering most taxes to the federal government, including personal and corporate income taxes and the value-added tax. Provinces directly manage the provincial turnover tax, the stamp tax, taxes on immovable property and a tax on car ownership. As a result, Argentina's fiscal federalism has always been characterised by a significant imbalance between provinces own resources and their expenditures. In 2022, provinces carried out 42.2% of all public expenditures, while own-revenues of provincial governments accounted only for about 16% of total public revenues (Moskovits, 2024^[27]).

A complex system of intergovernmental transfers has been developed to distribute federal tax revenues to the provinces. The main form of transfer is an automatic revenue-sharing mechanism, known as “*coparticipación federal*”, stipulating that 57% of certain federal taxes, including excise taxes, personal and corporate income taxes, and parts of the value-added tax, shall be distributed to provinces. The way these tax revenues are distributed across provinces has been the result of political negotiations held in 1988, with little changes since, and do not necessarily reflect the provinces population weight or spending needs. These automatic transfers are complemented by discretionary transfers that are not mandated or fixed by law. Discretionary transfers have frequently been used as a political bargaining chip and allowed the federal government to gain support from provincial governors in congress (Artana et al., 2021_[28]). A third form of intergovernmental transfer is based on earmarked revenues for specific purposes. On average, automatic transfers represented more than 60% of provinces total resources in 2022, and discretionary transfers accounted for about 10% (Moskovits, 2024_[27]). For some provinces, total federal transfers reach as much as 90% of their total resources.

This system of intergovernmental fiscal relations, with provinces being highly dependent on transfers from the federal government, has several drawbacks. As revenue-raising responsibilities remain largely concentrated at the federal level, provincial governments have little incentives to contribute to efforts to increase the efficiency of revenue collection, given the high political cost implied. Provincial spending has also been highly pro-cyclical, contributing to exacerbate economic cycles and with little fiscal buffers being built during expansions. When automatic transfers fell with economic downturns, provinces often reacted by cutting on capital expenditures, which resulted in the deterioration of infrastructure, or by raising their own revenues through higher turnover taxes, exacerbating economic distortions and aggravating the downturn (Moskovits, 2024_[27]). Finally, the fact that some federal taxes are shared with provinces and others are not has created incentives for the federal government to expand non-shared taxes such as export and import duties, even if they are highly distortive (Tommasi et al., 2001_[29]).

Since the distribution of transfers across provinces is based on fixed coefficients established by law without any justification, it has also not responded to changes in the level of demand for public services across provinces over time (Tommasi et al., 2001_[29]). Provinces are highly heterogeneous with respect to population density, natural resources endowment, productive capacity and structure, and institutional organisation. Some provinces have a much higher revenue raising capability than others. Production costs for public goods and services are also highly unequal. Transfers from the federal government to provinces have not always compensated for such differences, resulting in unequal public service access and quality across provinces (González, 2021_[30]; Schwartz and Liuksila, 1997_[31]).

As soon as public finances have been strengthened, improving the structure of the federal-provincial transfer mechanisms will be of key importance for improving Argentina’s public-sector efficiency. The ongoing fiscal adjustment and a tax reform with implications on provincial tax revenues, as discussed in the previous section, will make it even more of a priority. Argentina could include all national taxes and levies in the co-participation system, redesign the automatic revenue sharing mechanism so that redistribution across provinces is clearly linked to structural factors, and eliminate discretionary transfers to provinces. The revenue sharing mechanism could compensate provinces with higher per-capita costs to guarantee a minimum level of public services. The distribution rule could be based on demographic, geographical, and economic indicators. Australia, for example, has developed a comprehensive, yet complex, cost equalisation system, based on a variety of factors covering all aspects of state expenditure as well as the underlying drivers of cost disparities across the subnational jurisdictions (OECD, 2021_[32]). To create incentives for provinces to promote tax collection efficiency, provinces with higher tax compliance rates or stronger enforcement efforts could be rewarded with a higher proportion of central revenues.

A reform of intergovernmental fiscal transfers would need to be complemented with improvements in fiscal management co-operation, including through information sharing, increased transparency, additional data collection, and regular performance monitoring. Creating a federal fiscal agency that would be responsible for tax administration coordination, overseeing the distribution of resources across provinces, and to provide technical assistance in the reform and harmonisation of provincial tax systems could be one way to achieve this.

1.5.5. The fiscal framework can still be strengthened

A set of fiscal rules has been put in place to improve public finances and ensure greater coordination across levels of government. An expenditure rule of zero real growth applies to current primary expenditures at the federal level, excluding increases in pension spending. Recent draft legislation that included automatic adjustments of spending caps to ensure an overall fiscal balance was not approved in congress. As an alternative, fiscal authorities could consider including pension spending into the expenditure rule as it is expected to continue growing, requiring an increasing amount of complementary resources from general public revenues (Section 1.5.6).

At the provincial level, a 2018 expenditure rule limits the nominal growth of most current primary expenditures to annual consumer price inflation. Expenses financed by international financial institutions, transfers to municipal governments, and earmarked transfers from the federal government for specific projects are excluded from this limit. Provinces with fiscal surpluses are also allowed to exclude investments in education, health, and policing. Moreover, provincial public employment cannot grow faster than population, the sale of assets cannot be used to finance operational expenses, and no permanent increases in primary expenditure can be approved in the final six months of a governor's mandate. The expenditure rule is complemented by a debt rule stating that provincial debt service cannot exceed 15% of current revenues. To issue new debt, provinces need to obtain the approval of the federal government.

However, adherence to these rules is voluntary. Two provinces have not yet agreed to these rules. Provinces should be encouraged to participate in the on-going fiscal consolidation effort and to adhere with the fiscal rules. To encourage fiscal discipline at the provincial level, the government could consider the creation of an investment fund with financing provided by multilateral agencies that could only be used by provinces that adhered to the spending and debt rules. In addition, withholding transfers to provinces who fail to comply with the fiscal rules could also be considered (Artana et al., 2021^[28]).

Budgeting procedures have also scope for improvement. Beyond a primary balance objective, budget laws include macroeconomic projections for a three-year period. This includes projections for GDP and its components, inflation, the trade balance, and the nominal exchange rate. While macroeconomic projections underlying annual budget laws are provided by the Ministry of Economy, the Congressional Budget Office (OPC), created in 2018, provides detailed reports assessing the quality of these macroeconomic projections. Budget laws also provide estimates for the main public revenue and expenditure items for a three-year horizon. After the approval of the budget law, an expenditure framework is submitted to congress outlining expenditure ceilings for each ministry in line with fiscal targets.

In practice, however, given the volatile macroeconomic environment, longer-term budget forecasting has been limited. As a result, annual budgeting often fails to assess the full cost of policy decisions, nor does it provide resource predictability for line ministries. As the macroeconomic stabilisation process progresses, planning and budgeting have much scope to improve, including by lengthening the horizon of projections, considering future operational costs, including those related to the maintenance of existing infrastructure and the completion of pipeline projects. This would lead to a more efficient and strategic allocation of resources.

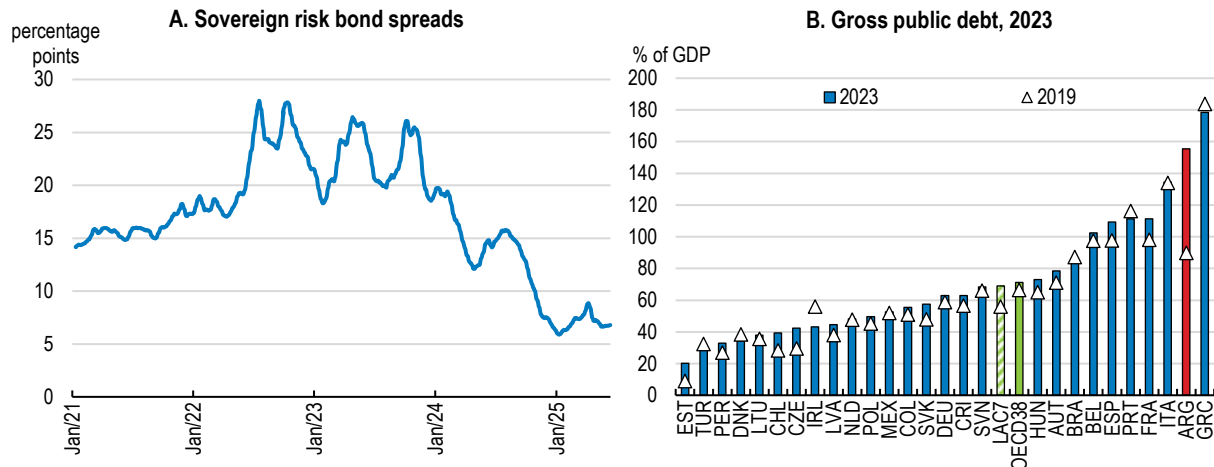
The establishment of the Congressional Budget Office helped improving budget oversight, but its mandate could be extended even further, following best practices in OECD countries (Caldera Sánchez et al., 2024^[33]). The OPC could, for example, provide its own macroeconomic and fiscal projections, contribute to monitoring compliance with fiscal rules and provide long-term fiscal sustainability analyses. The independence of the OPC could also be strengthened by removing the necessary political approval of its programme of work and recruitment decisions (OECD, 2020^[23]). Finally, maintaining the necessary funding for the OPC will be a condition for it to fully implement its mandate.

1.5.6. Continuous consolidation efforts will improve the public debt outlook

The successful fiscal adjustment in 2024 has already led to a significant drop in Argentina's country risk premium (Figure 1.25, Panel A). Together with large exchange rate valuation effects, this led to a significant drop in gross federal government debt, from over 150% of GDP in 2023 to 73% of GDP in April 2025 (IMF, 2025^[34]) (Figure 1.27). For the moment, gross federal government debt is still above other Latin American countries (Figure 1.25, Panel B).

More than 70% of outstanding debt will reach maturity within the next three years (Figure 1.26, Panel A), although rollover risks are lower for over 45% of public bonds held within the public sector, notably by the pension administration ANSES. About 23% of federal government debt is inflation-linked and more than 30% is denominated in foreign currency (Figure 1.26, Panels B and C). As fiscal discipline is maintained over the longer term, some of these risks are expected to decline as Argentina improves access to market financing in more favourable conditions and rely on an increasing share of fixed interest rate debt instruments.

Figure 1.25. The federal government debt remains high, but investors have become more optimistic



Note: Panel A: moving-average of 11 data points from the spread of 10-year USD-denominated bond yields vis-à-vis US Treasury bonds (JP Morgan Emerging Markets Bond Index spreads). In Panel B, data is from 2023, except for TUR, DNK, LTU, IRL, NLD, SVK, CRI, BRA, BEL, ESP, PRT, FRA and GRC (2022). LAC 7 is an unweighted average of ARG, PER, BRA, CHL, COL, CRI and MEX.

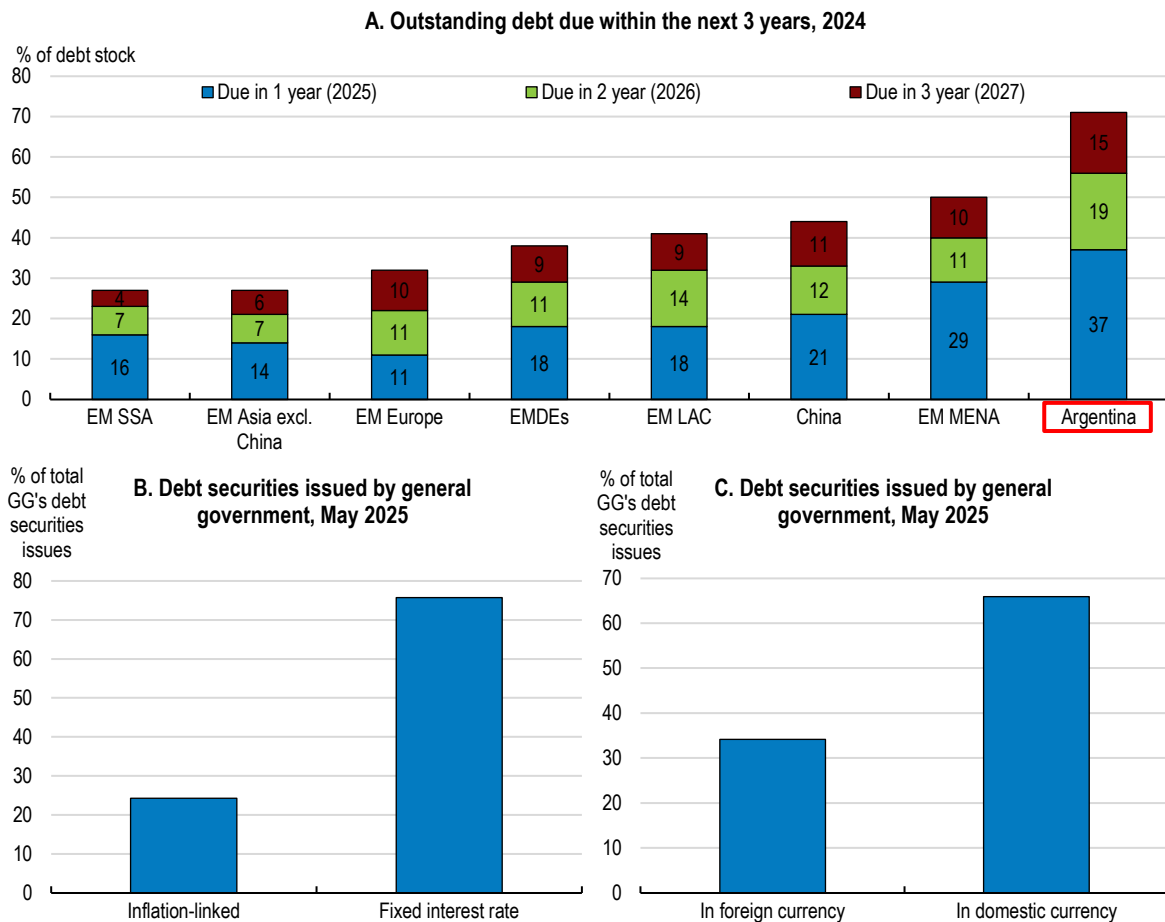
Source: IMF World Economic Outlook database: April 2025, ambito.com.

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The fiscal reforms suggested in the previous sections would help to maintain a positive primary balance beyond 2025 (Table 1.3). Based on the assumption that the government can maintain a positive primary surplus over time, public debt is expected to decline slowly relative to GDP and remain stable at around 40% of GDP until the mid-2030s (Figure 1.27).

After that, population ageing is expected to raise pension spending and would make it much more difficult to maintain a positive primary surplus without a reform of the pension system. Without such a reform, public debt would start rising again as fiscal outcomes would deteriorate amid an increasing old-age dependency ratio. A pension reform, phased in gradually, could reduce pension spending pressures and ensure debt stability beyond 2040.

The pension system remains, in fact, the main recipient of public resources, almost exceeding the combined expenditure on health and education (Figure 1.28, Panel A). Public spending on pensions is similar to that of OECD countries, while the share of the older population remains significantly lower (Figure 1.28, Panel B). The current pattern of social spending, disproportionately targeted toward the elderly, is likely to leave many other vulnerable households behind in the future, unless the overall social spending envelope can be increased.

Figure 1.26. Vulnerabilities arise from debt short-term maturity and volatile servicing costs

Source: OECD calculations; national authorities.

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The magnitude of pension spending relates to both high coverage and high replacement rates in international comparison. Consecutive pension moratoriums in 2005, 2014, 2016, 2019, and 2023 opened up the possibility for elderly citizens with insufficient years of contributions to be included in the pension scheme by compensating the missing past contributions at a fraction of their nominal value. Finally, in 2016, a universal non-contributory pension benefit (PUAM) was established to ensure that all adults over the age of 65 would receive a monthly income equivalent to 80% of the minimum contributory pension. Following these changes, old-age pensions have now reached an almost universal coverage (Figure 1.29, Panel A). An automatic pension indexation mechanism was introduced to periodically update the value of benefits, leading to higher replacement rates than in other countries in the region and the OECD average (Figure 1.29, Panel B).

Progress in terms of coverage and adequacy has come at the expense of increasing fiscal and economic costs, and this will only exacerbate as the population ages and more people retire (Figure 1.27). At the end of 2023, about 95% of the population aged 65 and above was covered by a pension, while only 56% of the active population contributed to the social security system (ANSES, 2024^[35]). Less than half of the National Social Security Administration (ANSES) spending, including pensions and other social benefits, is covered by current contributions, with the remaining funding coming mostly from earmarked general tax revenues and general budget resources (Figure 1.30).

Table 1.3. Illustrative short-term fiscal impact of the previous recommendations

Recommendation	Estimated impact on fiscal balance, % of GDP
Revenue side	
Eliminate the financial transaction tax	-1.7%
Phase out export taxes	-1.0%
Reduce import tariffs	-0.3%
Lower the basic deduction in personal income taxes and eliminate occupation-specific exemptions	+1.0%
Lower social security contributions for low-income earners	-0.5%
Eliminate targeted corporate income tax regimes for specific sectors and regions	+0.2%
Increase excise taxes on harmful goods	+0.5%
Consolidate the provincial turnover taxes and the VAT into a dual VAT	Revenue-neutral
Increase the VAT base by limiting exemptions and reduced rates while supporting low-income households through targeted benefits	+0.8%
Improve tax compliance	+0.5%
Total revenue side	-0.5%
Spending side	
Phase out subsidies on fossil fuels, electricity, and water, as well as some transport subsidies while supporting low-income households through targeted benefits	+1.0%
Seek efficiency gains from restructuring the public administration	+0.5%
Increase spending on active labour market policies and expand the offer of technical and vocational training	-0.5%
Increase public investment on infrastructure while also harnessing private-sector financing	-0.5%
Total spending side	+0.5%
Resulting change in primary balance	0.0%

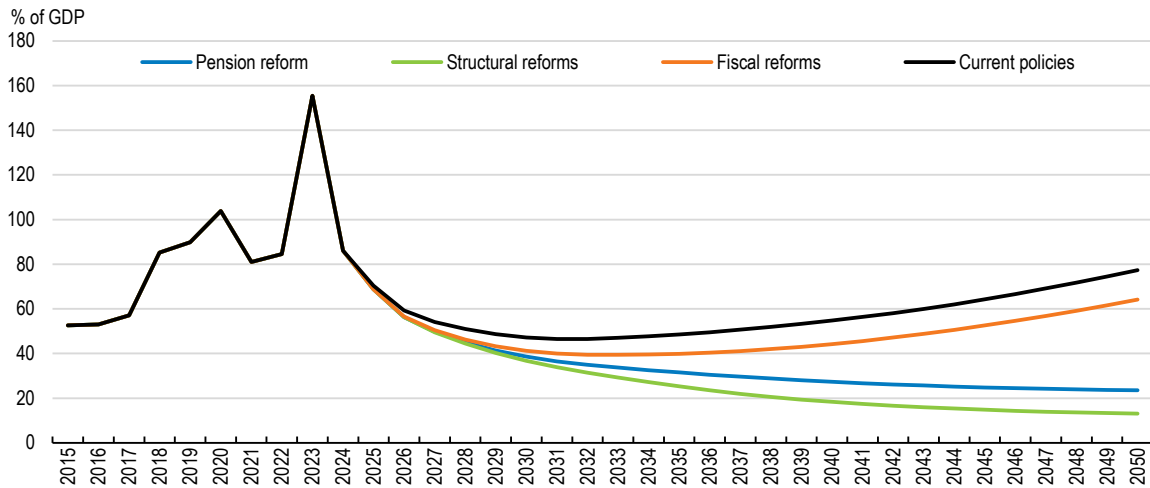
Note: Numbers in this table are estimates and subject to uncertainty. They do not take into account gains in tax efficiency over time that would increase total revenue collection.

Source: OECD calculations.

The pension system is also characterised by a multiplicity of rules, schemes, and special regimes. The “Sistema Integrado Previsional Argentino” or SIPA, managed by the National Social Security Administration (ANSES), is the main component of the contributory pension system. The SIPA contributory pension regime can be divided into a general regime and special pension regimes for the army, law-enforcement forces, university faculty, teachers, scientific researchers, magistrates, and foreign service staff, with different parameters. Multiple reforms over the years, including the pension moratoriums, led to the coexistence of beneficiaries within SIPA who retired under different rules. Today, 62% of SIPA pension beneficiaries acquired their pension rights through pension moratoriums. Adding to the fragmentation, other institutions operate in parallel to SIPA. Provinces and municipalities can manage their own pension schemes for provincial and municipal civil servants. Consolidated spending on pensions amounted to 8.4% of GDP in 2023, of which 2.1% of GDP correspond to the provincial regimes. Only 2.1% of GDP was spent on the general SIPA contributory regime (Figure 1.31).

A series of parametric reforms could help contain pension spending growth in the near to medium-term. Currently, women can retire at age 60, while men can only retire at 65. Progressively increasing the statutory pensionable age of women until it equals that of men could help reducing financial pressures on the pension system. Another option, adopted by several OECD countries such as Denmark, Estonia, Finland, Greece, Italy, the Netherlands, Portugal, and more recently Sweden and the Slovak Republic, could be to establish an automatic mechanism to link the retirement age for both men and women to changes in life expectancy (OECD, 2023^[36]). Reviewing the pension benefit calculation and base it on the average salary over a person’s work history instead of the last ten years, could also be considered. The current formula tends to be regressive as workers whose last salaries increase substantially over their working life, which tend to be high-wage earners, obtain a higher internal rate of return from the pension system.

Figure 1.27. Public debt is expected to remain stable, albeit with some risks

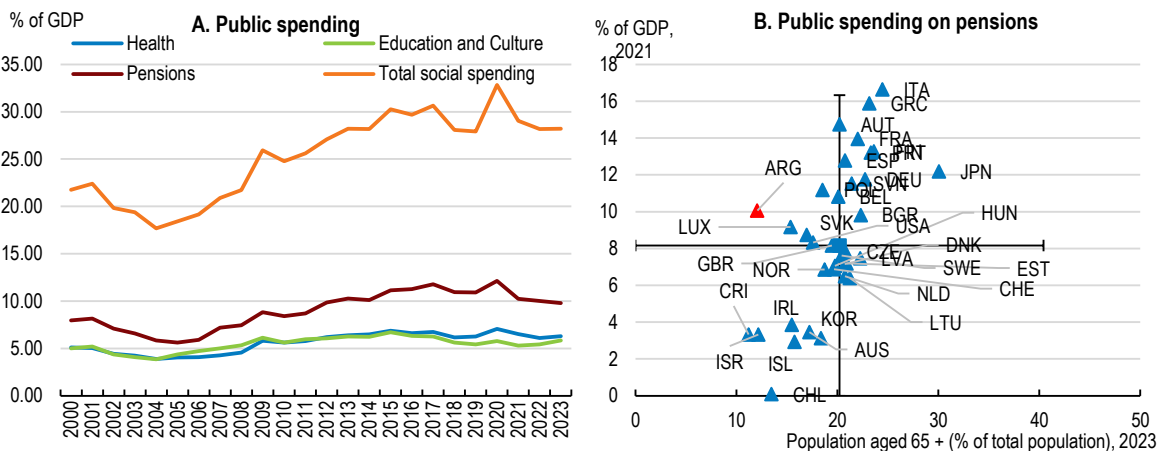


Note: For all scenarios, real GDP and inflation follow OECD projections over 2024-2026 and then gradually converge towards potential output growth and an annual inflation of 3%. The ARS/USD exchange rate and the debt composition is assumed constant over the simulation period. The “current policies” scenario assumes maintaining a balanced headline budget in 2025 thanks to recent policy changes discussed in section 1.5.1. However, beyond 2025, it assumes that the headline balance becomes negative again, pending further lasting fiscal reforms. The headline deficit then progressively increases up to 4 percentage points of GDP in 2050, reflecting increasing pension costs, in line with simulations in (Apella, 2022_[37]). The “fiscal reforms” scenario assumes primary surpluses consistent with a zero-headline balance in the absence of ageing costs, consistent with the implementation of the fiscal reforms suggested in Table 1.3. The “pension reform” scenario assumes compensatory measures for rising ageing costs, including an alignment of the retirement age of women with that of men, an increase in the retirement age by 1 year every ten years, the gradual elimination of survivors’ pension and the consideration of all contributory salaries for the calculation of pension benefits, with a revenue impact estimate based on (Apella, 2022_[37]). The “structural reform” scenario assumes higher GDP growth over 2027-2050 due to additional structural reforms as reported in Table 1.4 and recommended in Chapters 2, 3 and 4.

Source: OECD calculations.

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Figure 1.28. Public spending on pensions exceeds spending on education and health



Source: Ministerio de Economía Argentina; WorldBank WDI, OECD Public Finance dataset.

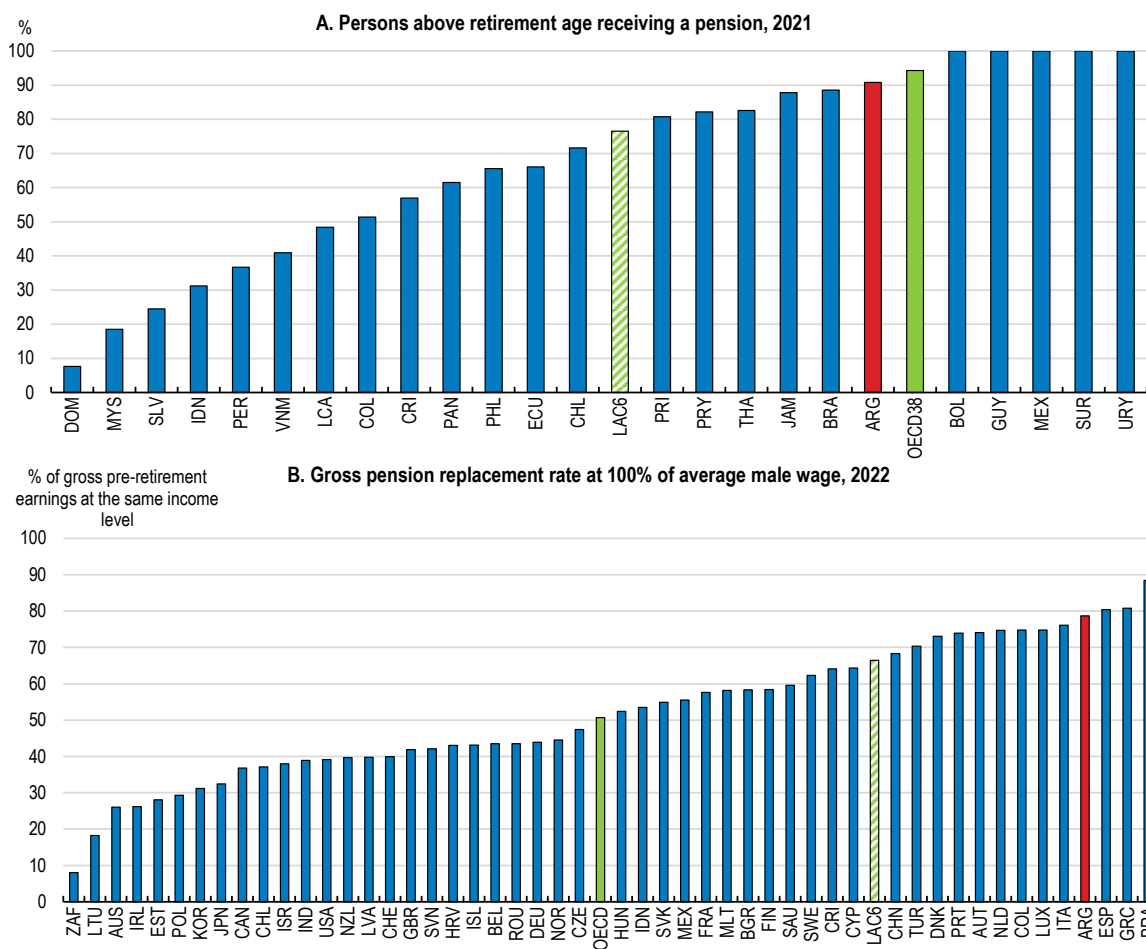
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Reducing the institutional fragmentation of the pension system would enhance the benefits of such parametric reforms, while also enhancing equity. Across the 13 provinces with independent pension regimes for their civil servants, replacement rates continue to be well above those of the SIPA general pension regime. A better alternative would be for provincial regimes to be gradually transferred to the SIPA regime. Regarding special regimes within SIPA, the rationale for certain groups of workers to receive higher pension benefits than the rest of the system’s beneficiaries should be reviewed considering the risk exposure of these occupations into account and gradually eliminating those that are deemed unjustified.

Beyond parametric reforms, there may be a case for moving the current fragmented pension system towards a unified and consistent multi-pillar model to improve the incentives for formal job creation and ensure cost-effective access to pension benefits for all (Chapter 2). In particular, further pension moratoriums should be avoided, and the basic universal pension PUAM could serve to maintain the current high level of pension coverage. Finally, as the labour market participation of women increases and given the universal access to pension benefits, survivor pensions, of which 83% revert to women, have lost some their original rationale and could be gradually phased out.

Other structural reforms recommended in this survey (Chapter 2, 3 and 4) could also have a positive effect on fiscal outcomes by boosting long-term economic growth (Table 1.4). Together, these reforms can significantly increase the speed of convergence towards high-income economies (Figure 1.32). In particular, improving framework conditions, including macroeconomic stability, global economic integration and the rule of law, would magnify the growth effect of other structural reforms, such as improvements in product market regulations (Guillemette, forthcoming^[38]). The implementation of these additional structural reforms, together with a pension reform, would sustainably bring public debt on a downward path in the longer term (Figure 1.27). The rest of the survey will discuss these policy recommendations in greater detail.

Figure 1.29. Pension coverage and adequacy are high compared to peers

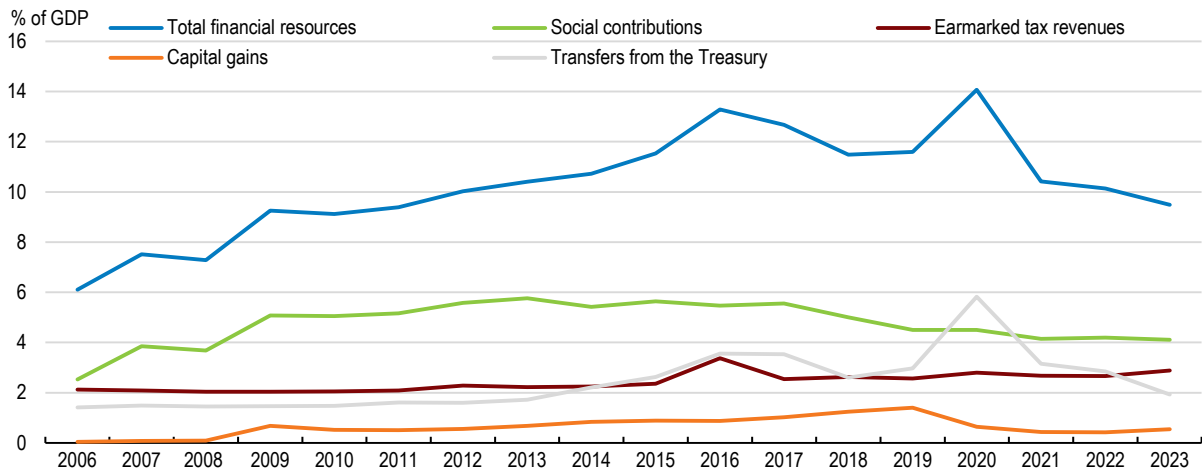


Note: LAC6 includes Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico. In Panel A, data for 2021 except for MYS (2023); COL, CRI, PAN, PRI, JAM, BRA and MEX (2022); LCA, THA, GUY, SUR (2020); and VNM (2019).

Source: ILOstat, OECD Pensions at a glance database.

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Figure 1.30. Social security contributions cover less than half of social spending



Source: Ministry of the Economy, ANSES.


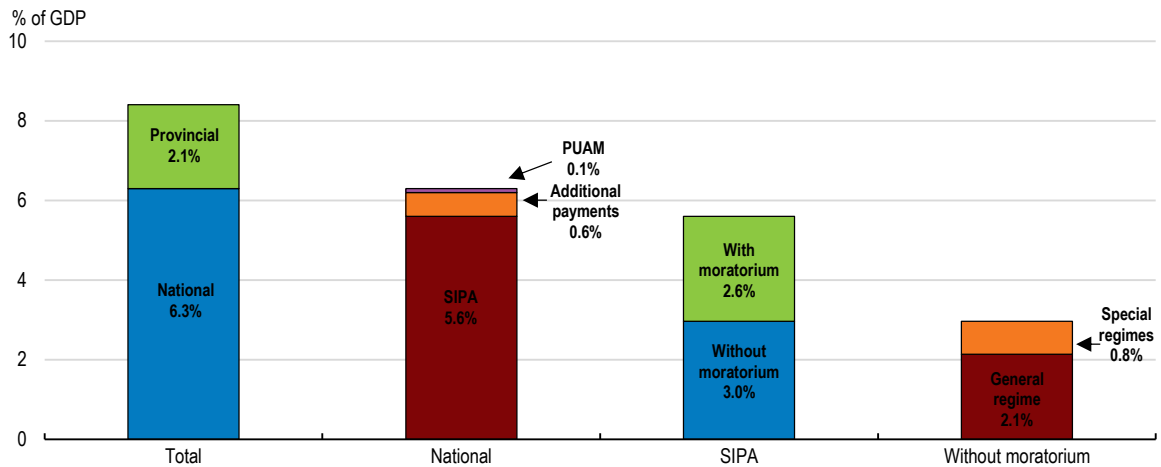
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Figure 1.31. A small share of pension spending goes to the general national regime

Spending by regime as % of GDP, 2023



Source: OECD calculations based on data provided by ANSES.


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Table 1.4. Ambitious structural reforms could generate substantial gains in long-term growth

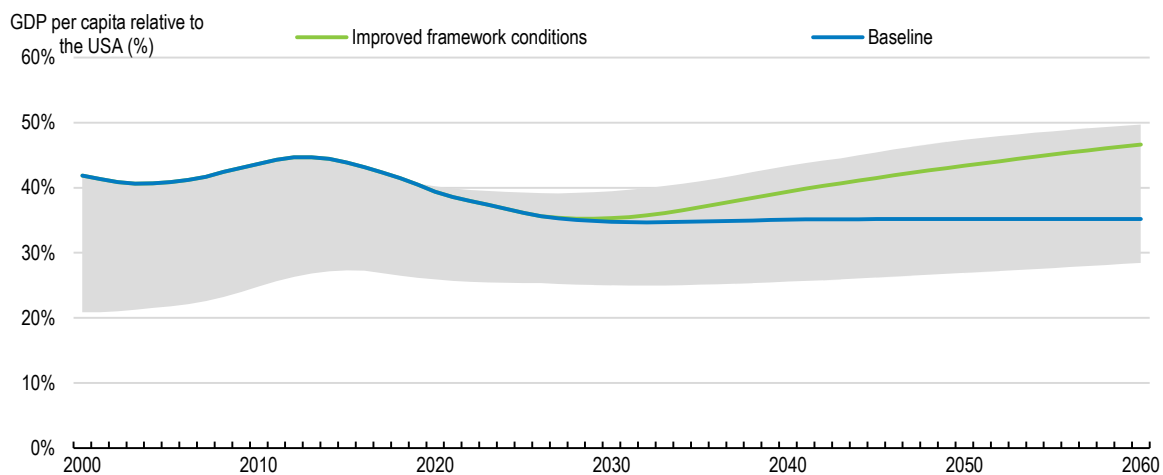
Estimated impact of reforms on potential GDP per capita up until 2050 respective to the baseline scenario

Reform	Average annual growth increase (in p.p.)
Scenario A: Further improvement in macroeconomic stability to the 1 st quartile of the OECD by 2035	0.46
Scenario B: Improvements in Product Market Regulations to the top quartile performers of the OECD by 2030	0.38
Scenario C: Increase in global economic integration to the 1 st quartile of the OECD by 2035	0.29
Scenario D: Improvements in the rule of law to the 1 st quartile of the OECD by 2035	0.44
Scenario E: Reduction in the labour tax wedge to that of Mexico by 2035	0.28
Ambitious reform scenario: All of the above	1.85

Note: Macroeconomic stability is measured as in (Guillemette et al., 2017^[39]) and is based on both the level and the variability of headline inflation. The baseline scenario already includes an improvement in macroeconomic stability to take recent events into account. Global economic integration is measured using a sub-index of the composite globalisation index produced by the Swiss KOF Institute (Gygli et al., 2019^[40]). Measures for the rule of law are based on the World Bank indicators Worldwide Governance Indicators (Kaufmann, Kraay and Mastruzzi, 2010^[41]).

Source: Simulations based on the OECD long-term growth model (Guillemette and Château, 2023^[42]).

Figure 1.32. Ambitious reforms would increase the speed of convergence



Note: The “improved framework conditions” is equivalent to scenarios A, C and D in Table 1.4. The grey area shows the range of GDP per capita relative to the United States, as a percentage, for other Latin American countries, including Brazil, Chile, Colombia, Costa Rica and Mexico.

Source: Guillemette, Y. (forthcoming), “A range of possible worlds: global scenarios to 2100”, OECD Economic Department Working papers.

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Table 1.5. Past OECD recommendations to improve macroeconomic policies

Past OECD recommendations	Actions taken since the 2019 Economic Survey
Reduce the fiscal deficit, prioritising expenditure reductions.	An upfront fiscal consolidation process took place in 2024 turning the headline balance into a 0.2% of GDP surplus.
Phase out energy subsidies.	Increases in regulated prices for electricity, gas, and other fuels outpaced inflation in 2024, and public energy subsidies declined.
Rationalise public employment, particularly in the provinces.	Public employment has been falling, mostly at the federal government level.
Raise spending on well-targeted social transfers.	Child allowances provided through conditional cash transfers almost doubled in real terms since the end of 2023. Spending on the early childhood programme “Plan 1000 días” increased 500%. The role of intermediaries has been reduced in benefit delivery, favouring more efficient direct transfers.
Broaden the VAT base by reducing exemptions and special rates.	No action taken.
Lower the income threshold where taxpayers start paying personal income taxes.	The basic deduction was raised rather than lowered in 2023 but is now close to its original level after the increase was reverted in 2024.
Consider implementing a debt target over time.	No action taken.
Simplify the Central Bank’s mandate, prioritising price stability.	No action taken.

Table 1.6. Policy recommendations to strengthen macroeconomic policies

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Inflation has fallen considerably from 211% year-on-year at the end of 2023 to 43.5% in May 2025.	Ensure a restrictive monetary policy stance consistent with a durable disinflation process.
An upfront fiscal consolidation process and the end of monetary financing helped to bring down inflation from a peak of 25.5% in December 2023 to 1.5% in May 2025.	Maintain the fiscal consolidation process with a focus on measures that can sustainably improve fiscal outcomes in the medium to long-term.
Despite recent efforts in the federal government, public payroll expenditure remains high in international comparison.	Introduce performance-related pay for public employees to complement the ongoing public administration restructuring.
Frequent and unexpected changes in tax policies had a detrimental impact on investment and resulted in a complex tax system that relies on highly distortionary taxes.	Implement a comprehensive tax reform with a focus on eliminating the most distortive taxes, reducing tax complexity and broadening tax bases.
Despite recent progress, low value-added tax compliance and high levels of corporate tax evasion significantly reduce tax efficiency and revenue collection.	Strengthen and modernize the tax administration, including through improvements in information systems and the use of advanced technologies.
The financial transaction tax creates incentives for informality and works as a barrier to financial development and inclusion.	Let the financial transaction tax expire in 2027 and eliminate other distortive transaction taxes such as stamp duties.
Only 10% of formal workers pay personal income tax due to a high basic deduction and tax exemptions for the judiciary.	Reduce the basic allowance of the personal income tax and phase-out occupation-specific exemptions.
Targeted corporate tax regimes such as the special regime for the Tierra del Fuego province erode revenues while attracting resources into low-productivity activities.	Review targeted corporate tax regimes for specific sectors and consider phasing them out if their costs outweigh their benefits.
Provincial taxes on business turnover do not allow deducting taxes paid on inputs and are highly distortive, unlike the federal Value-Added Tax, with which these turnover taxes partly overlap.	Consolidate the provincial business turnover taxes with the VAT into a dual value-added tax with harmonised tax rules.
	Limit VAT exemptions and reduced rates, while compensating vulnerable households with targeted cash transfer programmes.
The current complex system of intergovernmental transfers does not generate incentives for subnational fiscal responsibility.	Link automatic revenue sharing with provinces to population weight and spending needs and eliminate discretionary transfers.
The creation of the Congressional Budget Office improved budget oversight, but the scope of its mandate remains limited.	Mandate the Congressional Budget Office to produce macroeconomic and fiscal projections. Strengthen its independence to define its programme of work and take recruitment decisions.
Only two provinces strictly complied with expenditure and debt rules, and eleven provinces reduced their level of compliance.	Consider stronger enforcement of subnational fiscal rules by delaying or interrupting fiscal transfers to non-compliant provinces.

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2 Devising a comprehensive strategy to foster formalisation

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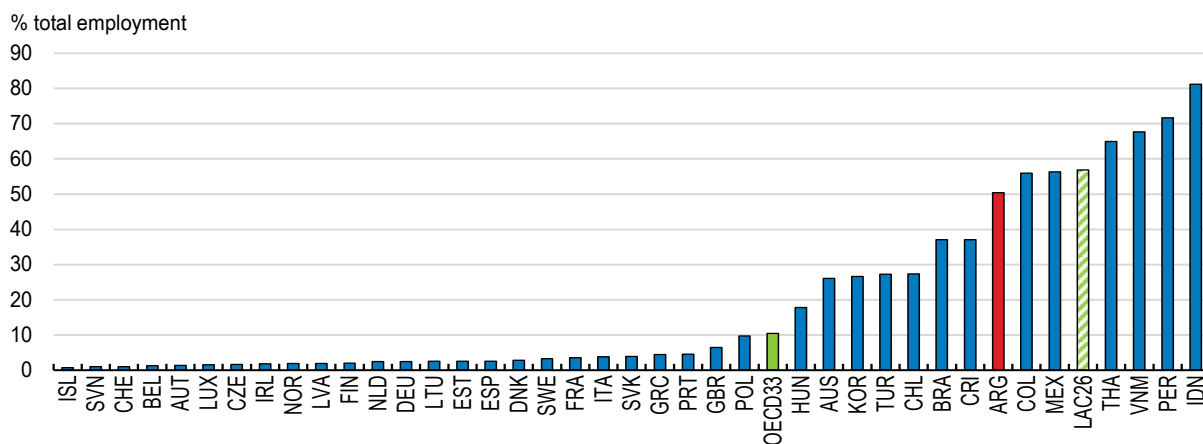
A sizeable share of Argentina's jobs and economic activity has traditionally been outside the formal economy. Informal workers have lower income stability, lower earnings, and limited access to social protection. For Argentinian firms, widespread informal activity can be unfair competition, limiting growth opportunities. Informality has also reduced tax bases undermining the Argentinian government's capacity to deliver high-quality public services. Overcoming the challenges of informality requires a combination of policies to tackle both employment and business informality. This chapter discusses policies to increase incentives for formal employment, including by enhancing the flexibility of labour market regulations, lowering the labour tax wedge, strengthening ties between contributions and benefits in the social protection system, and improving the responsiveness of the education and training system.

2.1. Widespread informality undermines productivity and income growth

Like other Latin American and emerging market economies, a sizeable share of Argentina’s jobs and economic activity has traditionally been outside the formal economy. While there is no universally agreed definition of informality, informal employment, in this report, is understood as work that is not formally registered, taxed, and compliant with employment regulations. This is in line with the definition used by the International Labour Organisation (ILO) and includes self-employment, when not taxed and registered. Based on this definition and internationally comparable data, in 2023, approximately 50% of employment in Argentina was in the informal sector. This is lower than in some regional and Asian peers, but significantly above the levels observed in most OECD economies (Figure 2.1). National data sources suggest that at the end of 2024, informal employment concerned about 42% of total employment. The household survey used to compute informality rates is not a fully nationally representative sample, as it is based on the population living in the 31 largest urban areas. The absence of comprehensive data makes it difficult to assess the true extent of informality, among other issues, and to formulate effective and efficient policy measures (World Bank, 2024^[1]).

Figure 2.1. Informal employment is high in international comparison

Rate of informal employment, latest year available



Note: 2023 for Argentina, Brazil, Chile, Costa Rica, Colombia, Mexico, Viet Nam, Peru, Indonesia and Türkiye; 2021 for Australia, Hungary and Switzerland; 2020 for Norway; 2019 for Denmark and Korea; 2018 for Iceland, Thailand and the United Kingdom; and 2022 for the rest of the countries.

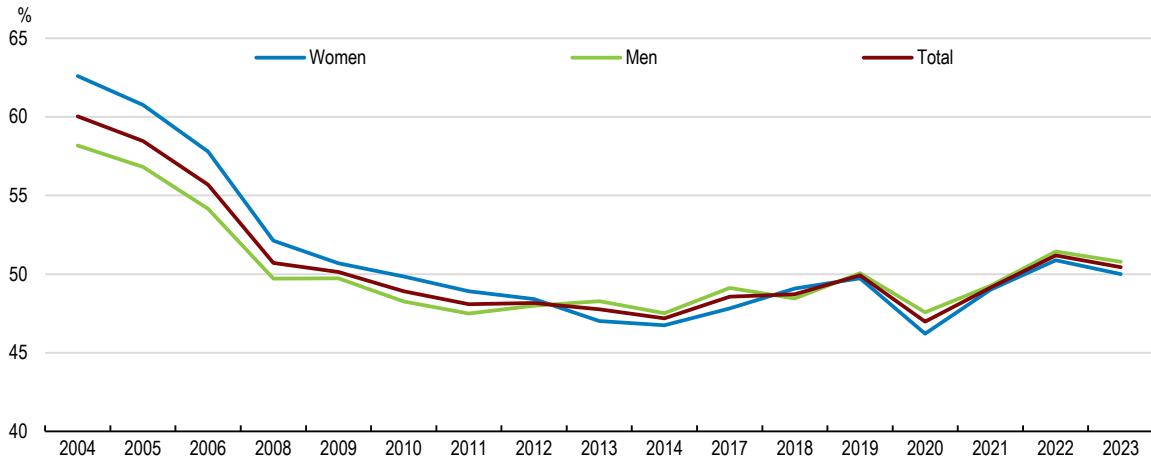
Source: International Labour Organisation, based on SDG Labour Market Indicators.

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Informal work in Argentina decreased sharply in the 2000s when it reached below 50%, but then bounced back again over the last decade (Figure 2.2). Women have traditionally been disproportionately affected by informality, but the gender gap in informality has been falling over time and by some data sources, informality is now higher among men than women. Women’s participation in the labour force has also steadily increased over time. Yet, the gender gap in informality is highly sensitive to the definition used for informality. Studies that include self-employed individuals not contributing to social security in the definition of informality find that women are still more likely to be employed informally than men (Susmel and Bour, 2022^[2]). The incidence of informal employment also varies greatly across socio-economic groups, sectors of activity, and firm size.

Figure 2.2. The incidence of informal work has increased recently and is now higher for men

Share of individuals in informal employment



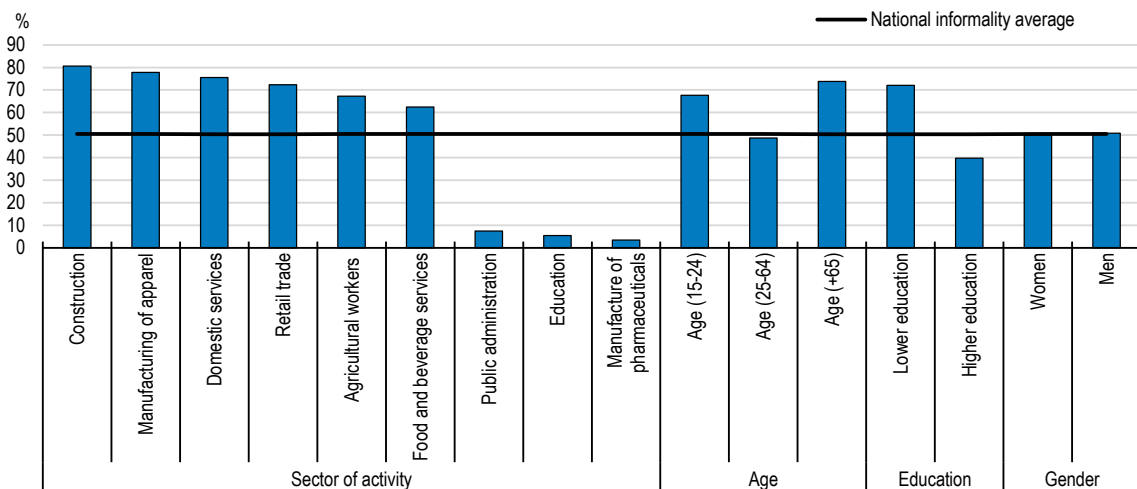
Source: ILO SDG indicator 8.3.1 - Proportion of informal employment in total employment by sex (%). Based on microdata from the INDEC household survey “Encuesta Permanente de Hogares”.

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Based on internationally comparable data from 2023, older workers and those with lower educational attainment are more likely to be employed informally. Informality is generally higher in the sectors of domestic services, manufacturing and construction, agriculture, crafts, hospitality services and retail trade (Figure 2.3). In contrast, informal employment is less common in the public sector and in the pharmaceutical industry. From a geographical perspective, informal employment is more widespread in the economically lagging northern regions where population density is lower (World Bank, 2024_[1]).


Figure 2.3. The incidence of informal employment varies across groups

Informal employment rate



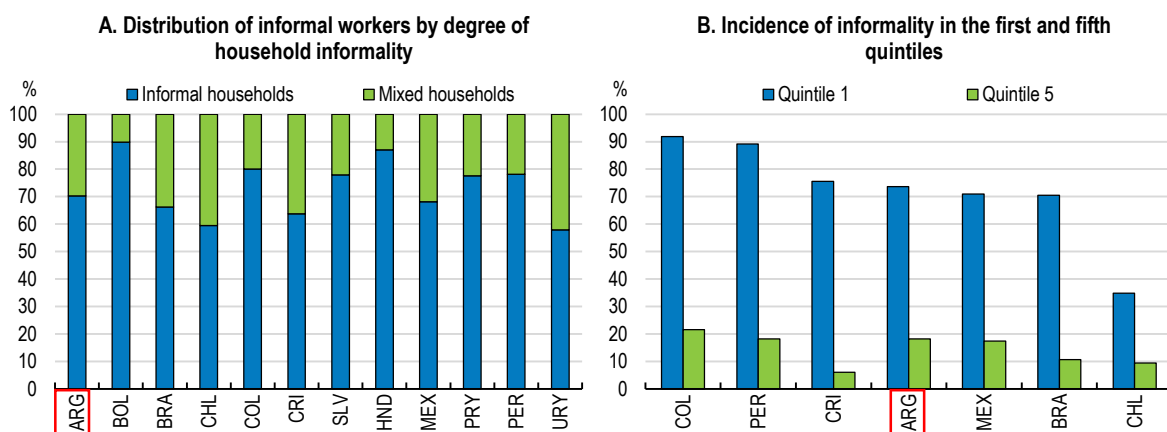
Note: Lower education value computed as simple average of the informality rates for workers with basic and less than basic education and Higher education value computed as simple average of the informality rates for workers with advanced and intermediate education.

Source: ILO SDG indicator 8.3.1 and ILO Labour Force Statistics.

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For workers, informal employment is generally associated with lower income stability and lower earnings (Kolev, La and Manfredi, 2023^[3]; Groisman and Beccara, 2015^[4]; Susmel and Bour, 2022^[2]). Based on the 2019 “Encuesta Permanente de Hogares”, informal workers earn, on average, nearly 60% less than formal workers. The informality wage penalty can be explained, on the one hand, by lower hourly wages, and on the other hand, by fewer hours worked (Susmel and Bour, 2022^[2]). Informal workers tend to live in households where all working members work informally, exacerbating their economic vulnerability (Figure 2.4, Panel A). As a result, informal employment is generally more common in the bottom end of the income distribution (Figure 2.4, Panel B). Workers employed informally have limited access to social protection and lack protection against work accidents (Ohnsorge and Yu, 2022^[5]).

Figure 2.4. Informal workers are vulnerable to negative economic shocks



Note: Economic classes are based on four per capita per day welfare thresholds, which differ by income level. LICs: poor: int'l dollar 2.15/day or less; near poor: int'l dollar 2.15-4/day; middle: int'l dollar 4-8/day; affluent: int'l dollar 8/day or more. LMICs: poor: int'l dollar 3.65/day or less; near poor: 3.65-7/day; middle: int'l dollar 7-20/day; affluent: int'l dollar 20/day or more. UMICs and HICs: poor: int'l dollar 6.85/day or less; near poor: int'l dollar 6.85-15/day; middle: int'l dollar 15-70/day; affluent: int'l dollar 70/day or more.

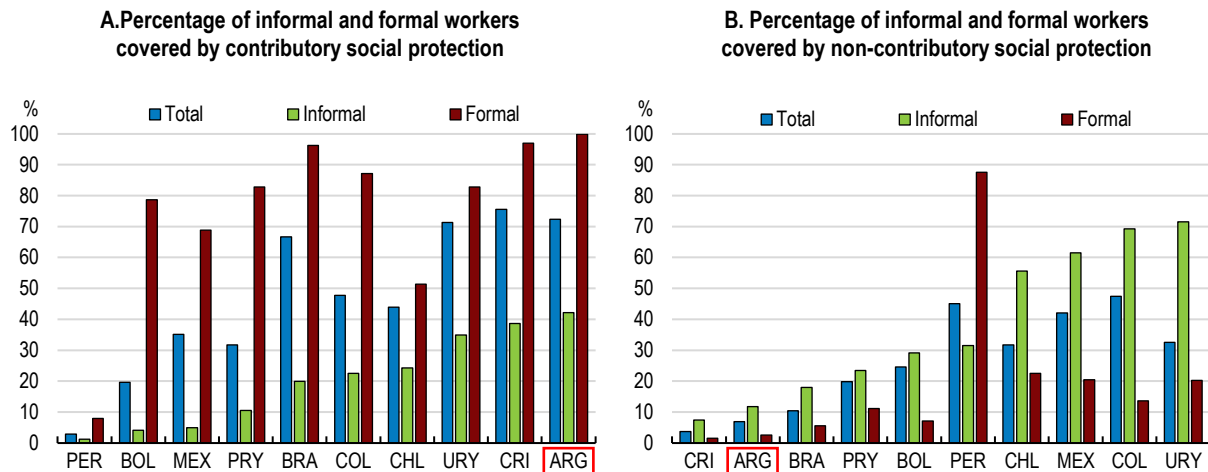
Source: (Kolev, La and Manfredi, 2023^[3]).

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Informal workers in Argentina are about half as likely as formal workers to benefit from access to social protection benefits (OECD, 2023; Figure 2.5). This social protection gap is largely explained by the lack of access of informal workers to benefits from contributory schemes, including contributory pensions, employment-based health insurance, unemployment insurance, and family subsidies for formal workers, known as “Asignaciones familiares”. Still, compared to other Latin American countries, a considerable share of informal workers has access to contributory pension benefits, either through family members, or owing to past pension moratoriums (Chapter 1).

Informality affects not only workers, but also enterprises, although there is no perfect overlap between the two and not all informal employment takes place in informal firms. Firm informality, defined as businesses that are not declared to tax and/or regulatory authorities, could be as high as 13%, according to some estimates (Amin, Ohnsorge and Okou, 2019^[6]). Unregistered firms are generally small-scale, less capital and technology intensive, and concentrated in less productive activities. Informal firms are less likely to use modern technologies or train their workforce. Scaling up is often more difficult for informal firms who typically lack access to formal credit markets.

Figure 2.5. Informal workers are half as likely as formal workers to benefit from social protection



Source: Estimates based on (OECD, 2021), Key Indicators of Informality based on Individuals and their Household (KIIBIH) (database).

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Informal firms can be unfair competition to formal enterprises, given the cost advantages associated with non-compliance with tax and labour laws. Widespread firm informality hence contributes to a misallocation of resources, limiting growth opportunities for formal productive firms, who bear the costs of complying with regulations, and potentially hindering productivity growth and the competitiveness of the economy. Informality also affects the public sector as it reduces tax bases and hence undermines the government's capacity to deliver high-quality public services, such as social protection, education, health, and infrastructure (Leal Ordóñez, 2014_[7]).

The drivers of informality are manifold. Weak legal enforcement is an obvious necessary condition for widespread informality (World Bank, 2019_[8]). One major reason why firms exploit the possibility given by weak enforcement to operate and employ informally is that informal employment is often less costly than creating formal jobs (Levy and Cruces, 2021_[9]; Arnold et al., 2024_[10]). Several studies found a strong relationship between high labour tax wedges and informality, or between the complexity of the tax system, high tax compliance costs, and informality (Vuletin, 2008_[11]; Leal Ordóñez, 2014_[7]; Susmel and Bour, 2022_[2]). The design of social protection benefits can also play an important role (Arnold et al., 2024). Regulatory burdens, both in product and labour markets, increase legal and administrative compliance costs, raising incentives for business and employment informality (Susmel and Bour, 2022_[2]). Finally, low educational attainments can be another driver of informality (Loayza, 2016_[12]). Low skills increase the likelihood that formal-sector wages exceed labour productivity, raising incentives for non-compliance with labour regulations.

2.2. Breaking the cycle of informality requires a wide range of policy measures

Overcoming the challenges of informal activity requires a combination of policies to tackle both employment informality and business informality. This chapter will focus on policies to increase incentives for registered firms to employ workers formally, and for workers to prefer formal over informal jobs. Policies discussed in Chapters 1 and 4, to stabilise the macroeconomy, simplify the tax system and continue to improve the business environment, can go a long way in reducing the costs and increasing the benefits of firm formalisation.

2.2.1. Enhancing the flexibility of labour market regulations

Restrictive labour market regulations increase the cost of formal employment and may limit opportunities for less productive workers in the formal labour market. First-time jobseekers without relevant experience, older workers

who struggle to keep up with new technologies, or less-educated workers, for example, may be particularly affected. Based on the OECD Employment Protection Legislation Indicator, which provides a comparable measure of the stringency of this kind of legislation across countries, and despite recent improvements, Argentina still has stricter employment protection legislation than other Latin American countries (Figure 2.6).

In fact, dismissals are strictly limited to the cases defined by law. The definition for collective dismissals is exceptionally restrictive and the administrative procedure particularly onerous. In addition, court cases can take a long time - on average, between two to four years - and can be filed up until two years after a dismissal, exposing firms to elevated uncertainty and contingent litigation risk. Severance payments are also high in international comparison, significantly exceeding those in regional peers. Severance payments for dismissals without just cause correspond to one month of salary for every year of service, without any cap. As an example, a worker with 24 years of tenure would be compensated with two years of salary. Circumventing these costs is one motivation for firms to hire workers informally.

A reform package dubbed “Bases Law”, approved in June 2024, ruled out the obligation for a worker to be reinstated after contesting the dismissal in court. Other changes concern the extension of probationary periods from three to six months, with the possibility of extending it to eight months for firms who employ between six and 100 employees, and to one year for firms with less than six employees. Ruling out reinstatement and extending probationary periods contributed to a slight decrease in the OECD Employment Protection Legislation indicator for permanent contracts in 2025, compared to 2019, but it remains more stringent than in other Latin American economies.

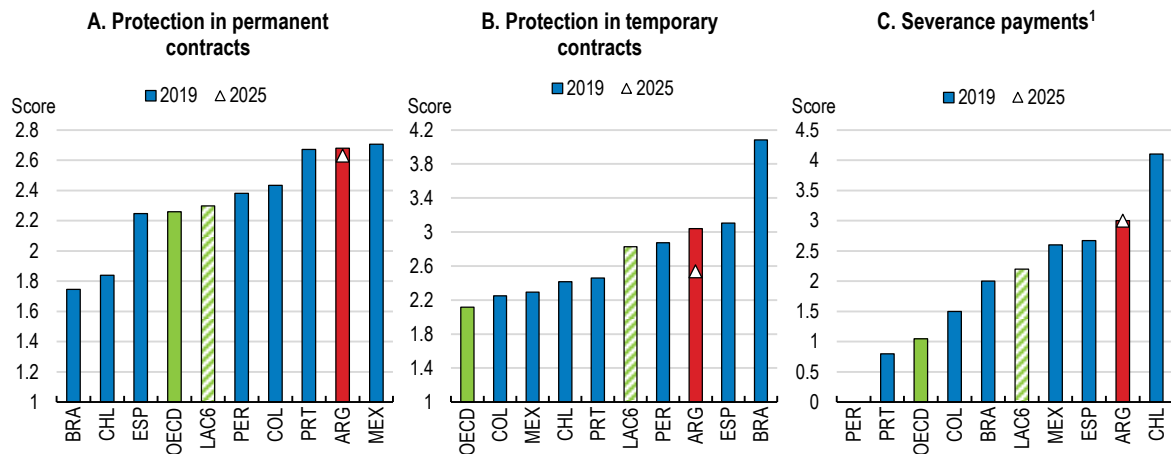
A set of newly created sectoral unemployment insurance schemes now provide a voluntary alternative to the standard severance payment rules for new labour contracts. One option for such schemes is to mimick an already existing scheme in the construction sector, in which funds accumulate monthly employer contributions on an individual worker account over time. Individual account balances can then be accessed for income support at the termination of employment, replacing severance payments, in line with a recommendation in the 2019 OECD *Economic Survey of Argentina* (OECD, 2019^[13]). The amount of contributions and corresponding compensation are not defined by law but based on the mutual agreement principle. Both employer and employee must agree on a system they consider mutually beneficial and more advantageous than the current severance payment scheme. So far, take-up has been very limited, however.

For this change to produce meaningful effects, an increasing number of sectors would need to develop their own insurance system. The scheme could be particularly helpful to reduce separation costs in sectors where worker turnover is high. Communication and dissemination actions, promoting the results obtained in sectors who adopted the new scheme could help creating incentives for others to follow. The government could also consider provisions to ensure that remaining account balances can be carried over to new jobs. Such a system would be an effective way to protect individual workers rather than work relationships, facilitating the reallocation of workers towards more productive jobs.

For sectors with low worker turnover, where the incentives to adhere to the new voluntary unemployment insurance fund are low, the amount of severance payments mandated by law could be reduced. In Chile, for example, severance payments are limited to 330 days of service. The timing of such a reform would have to be carefully considered as evidence suggests that lowering firing costs tend to have positive effects on employment during good times but could have significant short-term costs if implemented during bad times (Duval et al., 2016^[14]).


The “Bases Law” also introduced more flexible rules to hire temporary agency workers and independent contractors, reducing the risk that those are considered permanent employees in court. These changes significantly reduced the strictness of employment protection legislation for temporary contracts. Moreover, the new law extinguished the obligation for employers to pay compensation for damages to former informal workers upon declaring the work relationship and converting it into formal employment. Taken together, these are likely to reduce formal hiring costs and increase incentives for formal employment.

Figure 2.6. On-going reforms aim at addressing historically rigid labour market regulations



Note: The OECD indicators of employment protection are synthetic indicators of the strictness of regulation on dismissals and the use of temporary contracts, expressed on a scale from 0 (least restrictive) to 6 (most restrictive). For each year, indicators refer to regulation in force on the 1st of January. LAC6 includes Argentina, Brazil, Chile, Colombia, Mexico and Peru. 1. Reflects an average of severance pay requirements after 4 and 20 years of tenure. In panels A and B, data for 2019 except for Brazil (2012). In panel C, data for 2019 except for Brazil and Peru (2014). The indicators have been updated reflecting legislation in force on the 1st of January 2025 for Argentina only, for comparison purposes.

Source: OECD Employment Protection Legislation database, Version 3, <http://oe.cd/epl>

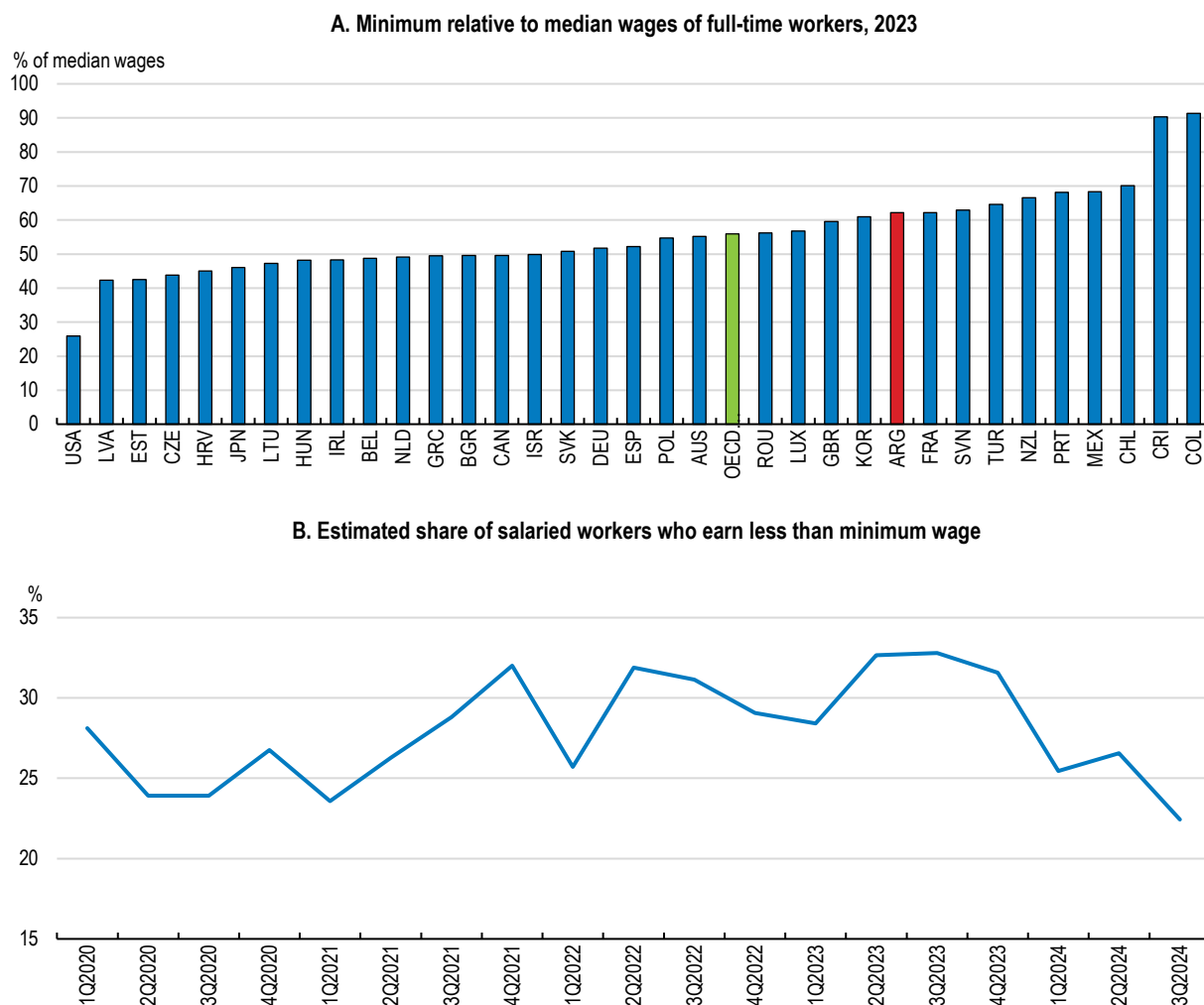
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High minimum wages can also be a factor behind informality when informal jobs provide a means of circumventing them. This often particularly affects the prospects of younger and low-skilled workers if the minimum wage exceeds their productivity (Pabon and Del Carpio, 2017^[15]; Nataraj et al., 2014^[16]). In Argentina, the legal minimum wage floor is set by the Federal government, in cooperation with unions and employers' organisations, and applies to all sectors of the economy and regions. Collective agreements concluded at the sector level can establish their own minimum wage, which can often reach twice the level of the Federal legal floor. Compared to OECD countries, Argentina's statutory minimum wage is high relative to the earnings of a median worker (Figure 2.7, Panel A). The share of workers - formal and informal - who earn less than the minimum wage ranges between 20-30%, suggesting that the minimum wage is binding in many cases (Figure 2.7, Panel B).

Increasing the minimum wage too rapidly could be particularly damaging for low-productivity workers. As macroeconomic imbalances are progressively addressed (Chapter 1), the government could consider developing objective and predictable criteria for minimum wage adjustments, based mostly on productivity developments. Some OECD countries, such as France, Germany, and the United Kingdom, have created independent technical commissions to monitor labour market and productivity developments, whose role is to advise on minimum wage increases, improving objectivity and transparency in the minimum wage setting process.

Collective bargaining is organised at the sectoral level, where the organisations with the highest number of members have the monopoly to bargain on behalf of all firms and employees in the sector. Rules and agreements between the signatory parties are automatically extended to the entire sector. As a result, about 90% of employed workers are covered by some sectoral-level agreement. Firm-level agreements are strictly regulated by higher-level agreements and cannot apply less favourable terms for employees. Agreements remain valid until a new negotiation takes place, which often leads to outdated agreements lasting over long periods of time (Susmel and Bour, 2022^[2]). This collective bargaining system adds to labour market rigidities, making it difficult to adapt labour relations to emerging technologies, processes, and organisational structures. It may also put smaller and younger firms at a disadvantage, limiting market competition and the reallocation of labour towards start-ups and innovative firms (Chapter 4).

Figure 2.7. The statutory minimum wage is relatively high and binding for many workers



Note: Panel A: Data from the 2nd quarter of 2024 for Argentina.

Source: OECD Minimum relative to average wages of full-time workers database, LSEG (Ministerio de Hacienda Argentina), INDEC.

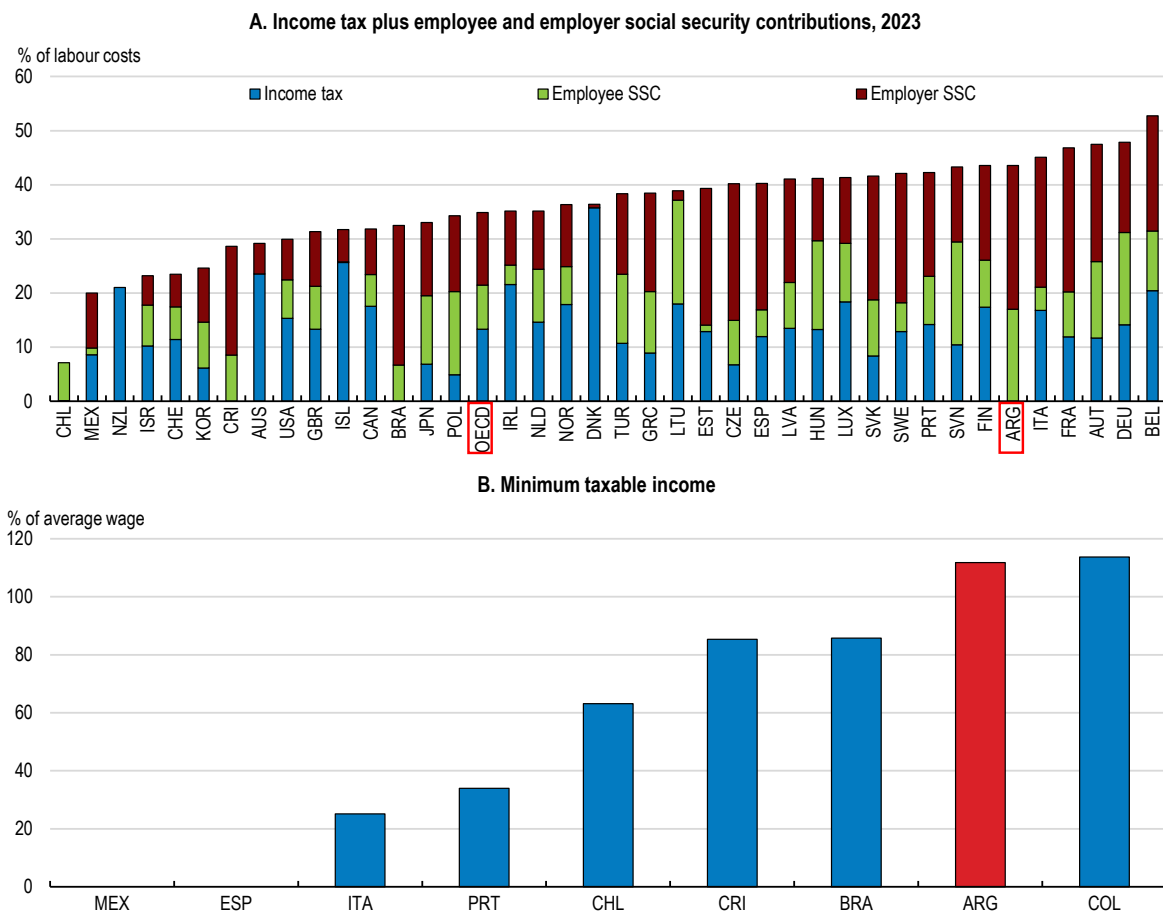
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Some OECD countries, like France, Spain, Portugal, and Greece, have introduced temporary opt-out clauses, also called hardship clauses or inability-to-pay clauses, allowing the suspension or firm-level renegotiation of the terms of agreements at the sectoral level in cases of economic difficulties. This includes the ability to agree on lower wage floors, longer working times, or changes in the work organisation at the firm-level. Such clauses can be useful mechanisms to avoid the “one-size-fits-all” sector-level agreements, to adapt to local or specific conditions, and respond swiftly to unexpected shocks, while keeping the high support of broad collective agreements. Such opt-out clauses need to be appropriately regulated, however, to prevent downward competition between firms, or even large firms using them as an anti-competitive tool, negotiating generous conditions at the sector-level and then opting-out to improve the terms in their favour, leaving smaller competitors to bear the brunt of the generous terms they negotiated (OECD, 2017^[17]).


2.2.2. Lowering the labour tax wedge and reforming social benefits

High tax wedges may act as a disincentive to formal employment, especially for low-skilled workers, whose productivity is lower and who are most affected by informal work. High social contributions can discourage demand for formal low-skilled labour, while unskilled workers may also find that the taxes and contributions they need to pay exceed the benefits of formalisation. At about 44%, Argentina has the highest average labour tax wedge in Latin America, above most OECD countries (Figure 2.8, Panel A). Almost all of this can be attributed to social security contributions. In contrast, personal income taxes have a generous basic deduction, as a result of which the minimum taxable income is high and personal income tax is paid only by the most affluent workers, even after considering recent steps to increase the personal income tax base (Figure 2.8, Panel B; Chapter 1).

Figure 2.8. The labour tax wedge is high, increasing the unit cost of labour



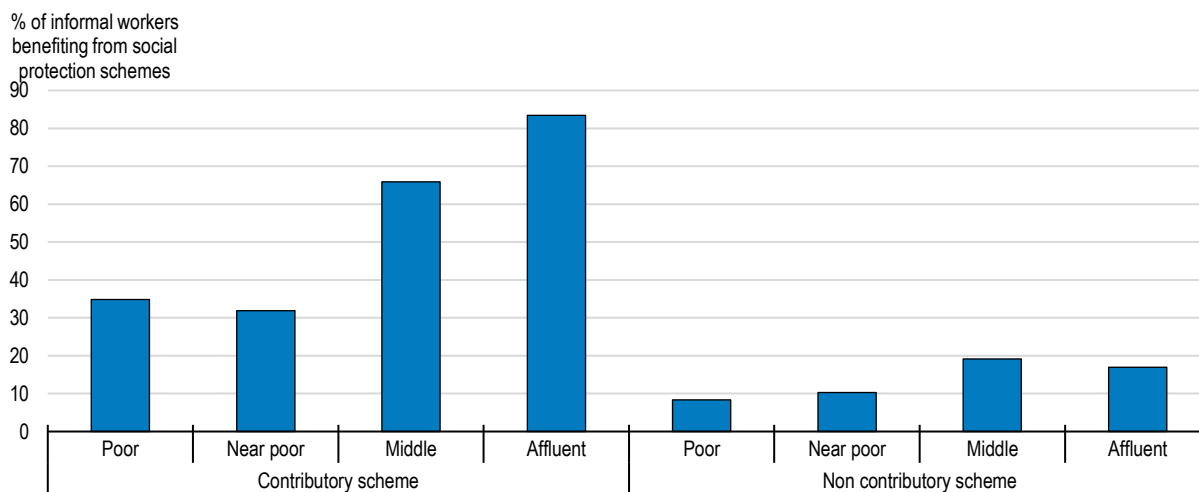
Note: Panel A: Information about single individual without children at the income level of the average worker. Data for Brazil is from 2019.
 Source: OECD Labour taxation – average and marginal tax wedge decompositions database, Taxing Wages in Latin America and the Caribbean 2016, OECD Average annual wages, OECD Taxing Wages 2024 - Country details, national authorities, IBGE, Nubank, OECD Taxing Wages in Selected Partner Economies: Brazil, China, India, Indonesia and South Africa in 2019.

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High social security contributions may be particularly discouraging for employees who are unlikely to contribute for long periods of time. To receive a contributory pension, above the universal minimum, workers need to contribute for at least 30 years. Workers in the informal sector may therefore perceive social security contributions as a “formalisation tax” that has no correlation with future pension benefits. Lowering social security contributions for workers, especially those with low incomes who are more likely to be employed informally, could help increase incentives for employment formalisation. From a very low entry rate, social security contributions could then rise gradually at the medium wage. The revenue losses from targeted reductions in social security contributions could be compensated by expanding the personal income tax base, whose basic deduction is so high that there is ample scope for lowering it without affecting vulnerable households. The personal income tax base could also be increased by limiting tax deductions such as mortgage interest payments and private healthcare expenses. Given the high basic deduction, these specific deductions benefit only those at the top of the income distribution and hence have regressive distribution effects (Chapter 1).

Reforming the pension system would help to strengthen incentives for formal job creation. A pension system with at least two complementary and well-integrated pillars would be able to achieve universal coverage while delivering adequate pension benefit levels and minimising disincentives for formal job creation. Preventing old-age poverty could become the role of the universal basic pension PUAM (Chapter 1), regardless of individual work histories in the formal and informal sectors. This basic benefit could be largely financed through general taxation, as is the case with PUAM, so that it would not raise the cost of formal job creation during working lives. As a result, contributions could be very low for low-income workers, given that the main focus in this income range is to avoid disincentives for formal work (Arnold et al., 2024). One way to lower fiscal costs of non-contributory pensions would be through better targeting. Current pension benefits granted without regular contributions benefit a larger share of middle-class and affluent informal workers rather than poor and near poor informal workers (Figure 2.9). This is largely the result of past pension moratoriums that allowed workers with incomplete contributory careers to become eligible for the contributory pension scheme (Chapter 1). Repeating these moratoriums should also be avoided to prevent blurring the distinction between contributory and non-contributory schemes.

Figure 2.9. Non-contributory social protection schemes are not always well-targeted



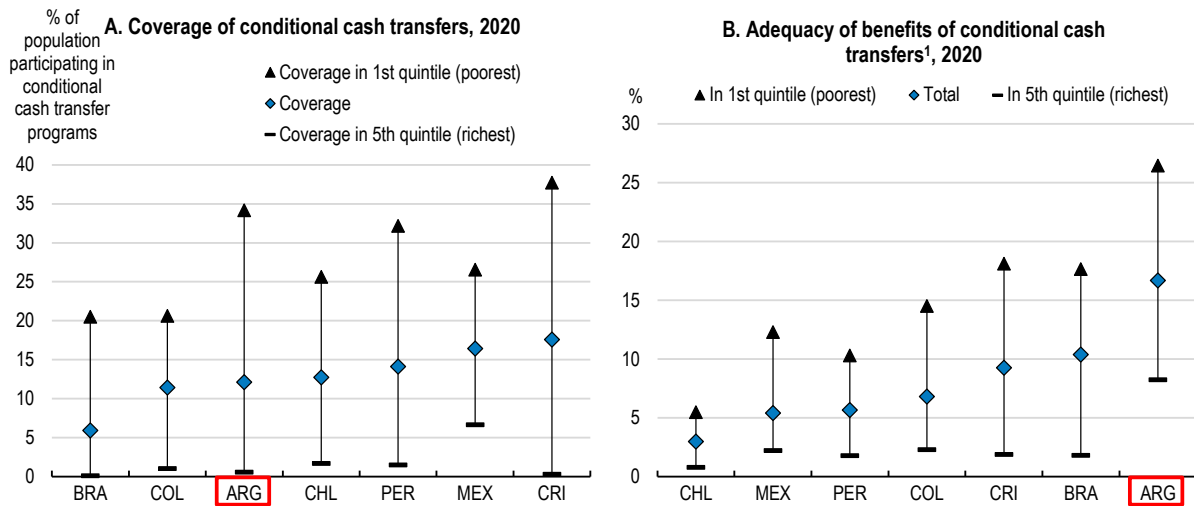
Source: Estimates based on (OECD, 2021), Key Indicators of Informality based on Individuals and their Household (KIIBIH) (database).

A contributory scheme with more comprehensive benefit packages available for those with greater contributory capacity could complement basic benefits to improve benefit replacement rates for those with higher incomes. The base for this could be the current general pension regime SIPA (Chapter 1). Contributions could rise gradually with wages, avoiding discontinuities that could create incentives for reporting a lower than actual income. The benefits provided under this second pillar should be tightly linked to contributions to create incentives for formalisation and avoid excluding individuals with short labour histories. The contributory and non-contributory pillars should be seamlessly integrated within the pension system to ensure strong formalisation incentives for all income ranges and achieve the desired replacement rates for everyone in an effective way. A third pillar of voluntary individual savings could complement the basic and contributory pillars. This could increase incentives for higher domestic private savings and help boosting long-term domestic capital markets (Chapter 1).

Such a unified and universal multi-pillar system would allow streamlining the current array of available benefits. For example, survivor pensions granting access to old-age protection to partners of formal workers, with a fiscal cost of 1.2% of GDP in 2023, could be gradually phased out, replaced by the universal basic benefit. This would reduce the current bias of social spending on the elderly, whose incidence of poverty is significantly lower than among children and adolescents (Chapter 1). Current spending on non-contributory pensions is about three times that of non-contributory social assistance programmes aimed at children, adolescents, and vulnerable adults (World Bank, 2024^[1]).

Other elements of the social protection system do not create disincentives for formalisation and could be maintained. Child allowances provided through the conditional cash transfer schemes “Asignación Universal por Hijo para Protección Social (AUH)”, “Prestación alimentaria”, and “Plan 1000 días”, are examples of well-targeted programmes, concentrated on the poorest 20% of the population (Figure 2.10). In a welcome move, such allowances have been significantly scaled up recently. AUH benefits almost doubled in real terms since the end of 2023, complemented with a 500% increase in the early childhood programme “Plan 1000 días”. Evidence shows that, by being conditional on health controls and school attendance, the AUH benefit has successfully improved primary school completion rates (Poy et al., 2021^[18]; Gasparini, Albina and Laguingue, 2024^[19]).

Figure 2.10. Conditional cash transfer programmes are well-targeted



Note: Data for 2020 except for Peru (2021) and Argentina (2014). 1. Adequacy of conditional cash-transfer benefits refers to the income support received as % of the household income.

Source: World Bank, Atlas of social protection: Indicators of resilience and equity (ASPIRE).

Efforts are also underway to make the delivery of social support programmes more effective. The role of intermediary social organisations, which add to costs and inefficiencies, is being scaled back. The government is also developing an integrated household-level income database, “Registro Social de Hogares”, and a comprehensive mapping of national and provincial social support programmes, known as “Sistema Integrado de Información Social”, to improve information-sharing across ministries and levels of government, identify potential overlaps and complementarities, facilitate programme evaluation, and allow more effective social protection at lower costs.

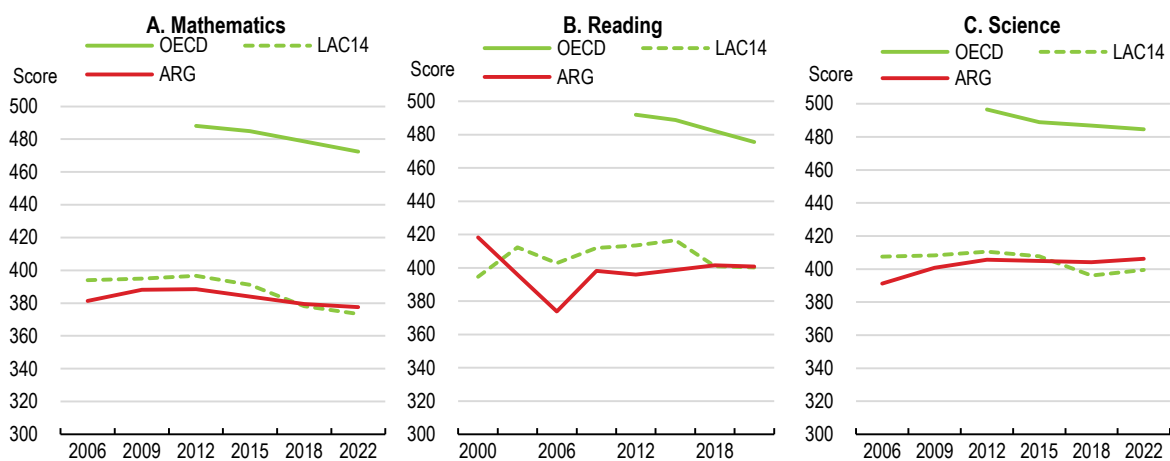
Recent changes to the tax regime for autonomous workers, known as “*monotributo*”, are likely to increase incentives for the formalisation of self-employed workers, and are a step in the right direction (Chapter 1) (Mas-Montserrat, Colin and Brys, 2024^[20]). This presumptive tax regime simplifies compliance, merging the payments of VAT, corporate taxes, and social security contributions, into a fixed monthly fee. The fixed monthly fees vary across brackets based on turnover. The scope of this targeted regime has been expanded by updating the brackets thresholds so that a higher number of small enterprises may qualify for the simplified regime. To minimise losses in fiscal revenues, the monthly lump-sum fees were also increased by on average 21%. Brackets and fees will be updated every semester according to the Consumer Price Index. Evaluating these changes after some time to quantify their distributional impact, effects on formalisation and tax revenues, would help inform future reforms to improve the efficiency and fairness of the tax system.

2.2.3. Improving the quality of the education and training system

Education and skill training are the most effective policies to strengthen households’ capacity to generate market income, to access formal and high-quality jobs, and to lower social assistance dependency. However, the quality of education in Argentina is low in international comparison. According to the latest OECD PISA results, average student performance remains below OECD countries (Figure 2.11). Proficiency in mathematics ranks particularly low, having barely improved since 2018. The national standardised tests APRENDER that assesses primary education outcomes, show similar results. The share of students reaching an advanced level in mathematics fell from 19.6% in 2016 to 11.1% in 2023, while the share of those below basic level increased from 18.1% to 24.1% during the same period (Ministerio de Capital Humano, 2024^[21]).

Figure 2.11. Student performance is low in international comparison

PISA scores, 2022



Source: OECD PISA, 2023.

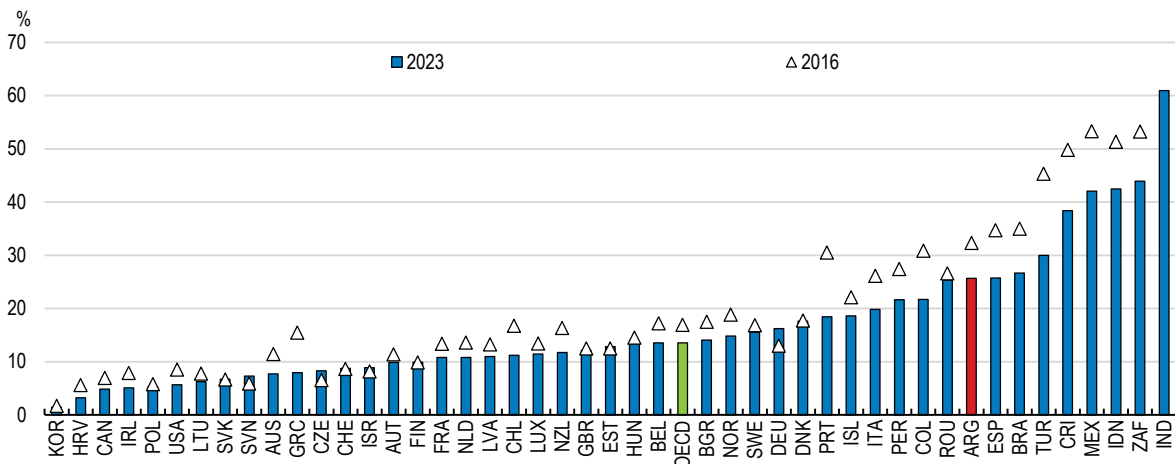
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Moreover, socio-economic backgrounds continue to play a critical role in determining educational attainments and future opportunities in the labour market. In 2023, in urban households, half of the children under the age of four in the wealthiest quintile were attending school, compared to only a quarter of those in the poorest quintile. School drop-out at the secondary level is higher among disadvantaged students (World Bank, 2024^[1]). School outcomes are also closely linked to parental educational levels. For example, 29% of students whose mothers only completed primary school were classified as over-aged in their respective grade. This proportion drops to 12% among students whose mothers attained higher education. A similar trend follows when considering fathers' education (World Bank, 2024^[1]). School attendance is also strongly influenced by parents' labour status, whether formal or informal (Figure 2.13).

Early school drop-out prevents many students from developing their potential. About 25% of 25-34 years old leave school without an upper-secondary qualification (Figure 2.12). Such high drop-out rates often reflect students' failure to acquire essential skills in early childhood, exacerbated by frequent grade repetition. The share of grade repeaters at the upper secondary level in Argentina is higher than most OECD countries, only surpassed by Mexico and Czechia (OECD, 2024). On a positive note, the share of 15-year-olds who repeated a grade fell by six percentage points between 2015 and 2022 (OECD, 2023^[22]; OECD, 2024^[23]). Enrolment in vocational education programmes declined considerably since 2018 (OECD, 2023^[24]). Only 5% or less of 15–24-year-olds participate in technical or vocational education (OECD, 2024^[23]).

Figure 2.12. Many students drop out before completing secondary education

Percentage of 25–34-year-olds with a level of education below upper secondary as the highest level attained



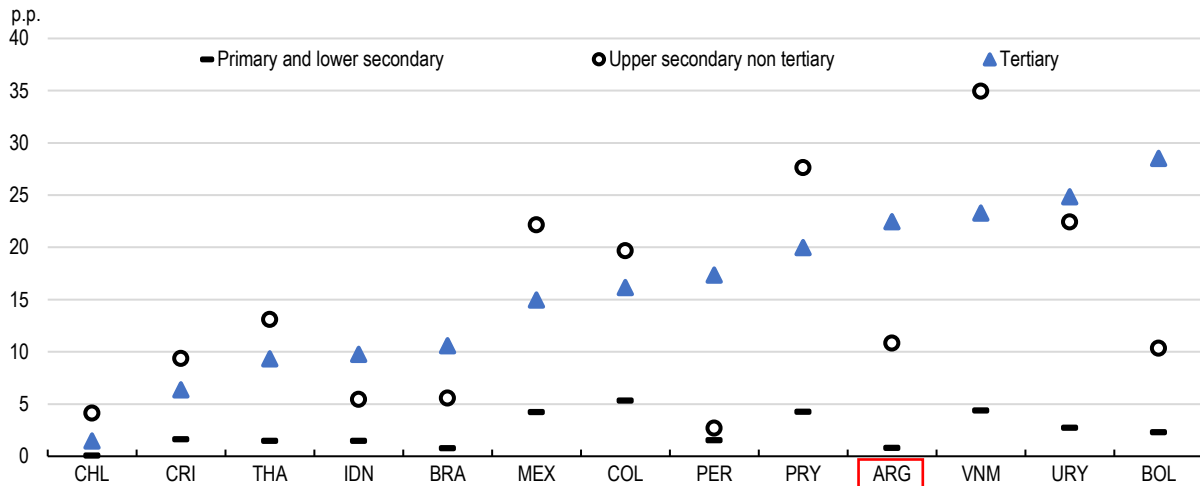
Source: OECD Education at a Glance 2024.

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To ensure that education and training programmes provide relevant skills, systematic skill assessment and anticipation tools could be developed. Close cooperation with the private sector to detect changing skill requirements as well as systematic feedback from employed graduates could inform regular updates of education and training content and quality control, potentially building on recently created coordination mechanisms. In addition, participating in the OECD's Programme for the International Assessment of Adult Competencies (PIAAC) could help to maintain up-to-date information about the skills available in the adult population and where there are important skill gaps.

Figure 2.13. Students living in informal households are more likely to drop-out of school early

Gap in the school attendance rate between children living in formal and informal households



Note: Data refer to youth aged 6-24. (In)formal households are those where all working members are employed in the (in)formal labour market.
Source: OECD, 2021, Key Indicators of Informality based on Individuals and their Household (KIbIH) (database).

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Expanding the offer of technical and vocational education and training at the secondary level could increase opportunities for less academically inclined students, helping to reduce drop-out rates at the secondary and tertiary levels. Vocational education and training contribute to personal development, confidence, and self-esteem, providing a range of skills relevant for every industry, therefore reducing the risk of unemployment and underemployment. This is especially true for vocational education programmes that provide hands-on experience through work placements. Vocational programmes also serve those who are no longer in initial education, providing young adults with a second chance for upskilling and reskilling (OECD, 2023^[24]). Technical and vocational education are meant to have closer links to labour market demand and could prove critical for the workforce to adapt to the changing world of work, as Argentina becomes a more open economy and develops new sectors of activity (Chapters 3 and 4).

Active labour market policies targeted at the working-age population that are harder-to-place may have a meaningful impact on their employability and capacity to obtain a formal job, although evidence on the success of such programmes is somewhat mixed and depends on effective targeting. On-going efforts to revamp the programme “Volver al trabajo”, formerly known as “Potenciar Trabajo”, are going in the right direction. “Potenciar Trabajo” was administered through social intermediaries that had discretionary powers to select programme beneficiaries and programme requirements. Often, programme beneficiaries were required to perform community services that would not necessarily help them strengthening ties with potential formal employers, nor acquire skills that are relevant for the labour market. According to the government, out of 1 400 000 participants in “Potenciar Trabajo”, only 1.3% found a formal job at the end of the programme (Ministerio de Capital Humano, 2024^[25]).

Instead, the revamped programme “Volver al trabajo” will be directly administered by the Ministry of Human Capital. The programme will be targeted at adults between 18 and 49 years-old who benefit from conditional cash transfers, registered self-employed, registered domestic workers, and rural workers. Beneficiaries will receive a cash allowance for two years, while attending demand-driven and soft skills training programmes and being placed in a working environment for at least six months. Employers who host beneficiaries from “Volver al trabajo” will also receive an employment subsidy. If a beneficiary of the programme is hired on a formal job during those two years, the cash allowance will be maintained for the remaining period to increase employment incentives. An impact evaluation of the revamped programme after some time would be useful.

Table 2.1. Past OECD recommendations on improving labour market outcomes

Recommendations in the previous Survey	Actions taken since previous Survey (March 2019)
Extend the unemployment insurance scheme with individual accounts currently used in the construction sector economy-wide while reducing severance costs.	The “Ley Bases” introduced the possibility of creating sectoral severance schemes, but take-up has been low and mandatory severance payments remain high.
Align the conditions of special pension regimes with general pension rules.	No action taken.
Scale up active labour market policies with a training content	The new programme “Volver al trabajo” provides cash incentives for unemployed workers to attend demand-driven and soft skills training programmes, while also placing them in a working environment for at least six months. An online platform has been developed, called CAPACITAR, offering free on-line modular training programmes.

Table 2.2. Recommendations to foster formal employment

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Reducing the stringency of labour market regulations	
Despite recent efforts to extend the trial period, Argentina still has stricter employment protection legislation than other Latin American countries.	Simplify administrative procedures for collective dismissals.
Severance payments are high in international comparison.	Reduce the amount of severance payments mandated by law. Increase communication and dissemination efforts about the new voluntary sectoral severance schemes.
The statutory minimum wage is high relative to the earnings of an median worker.	Develop objective and predictable criteria for minimum wage adjustments, based on productivity developments.
Collective bargaining is organised at the sectoral level with automatic extensions, putting smaller and younger firms at a disadvantage. Firm-level agreements remain limited, making it difficult to adapt labour relation to emerging processes and organisational structures.	Introduce temporary opt-out clauses allowing the suspension of sectoral level agreements in cases of economic difficulties.
Lowering the labour tax wedge and reforming social benefits	
Argentina has the highest average labour tax wedge in Latin America. Almost all can be attributed to social security contributions, which are well above the OECD average.	Lower social security contributions for employees with low incomes.
A considerable share of informal workers benefits from contributory schemes, either through family members, or owing to past pension moratoriums. Spending on survivors’ pensions reached 1.2% of GDP in 2023.	Abstain from future pension moratoriums. Reduce spending on survivor pensions.
The presumptive tax regime for self-employed workers “monotributo” was reformed in 2024 to strengthen incentives for formalisation.	Evaluate the 2024 changes to the targeted tax regime for self-employed workers for their distributional impact and effects on formalisation.
Improving the responsiveness of the education and training system	
School drop-out at the secondary level is high, particularly among disadvantaged students.	Expand the offer of technical and vocational education and training at the secondary level.
Enrolment in vocational education programmes is low and has been falling over time.	Increase cooperation with the private sector to detect changing skill requirements in the labour market and adapt training curricula.

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3 Reaping new opportunities from the global energy transition

Priscilla Fialho, OECD

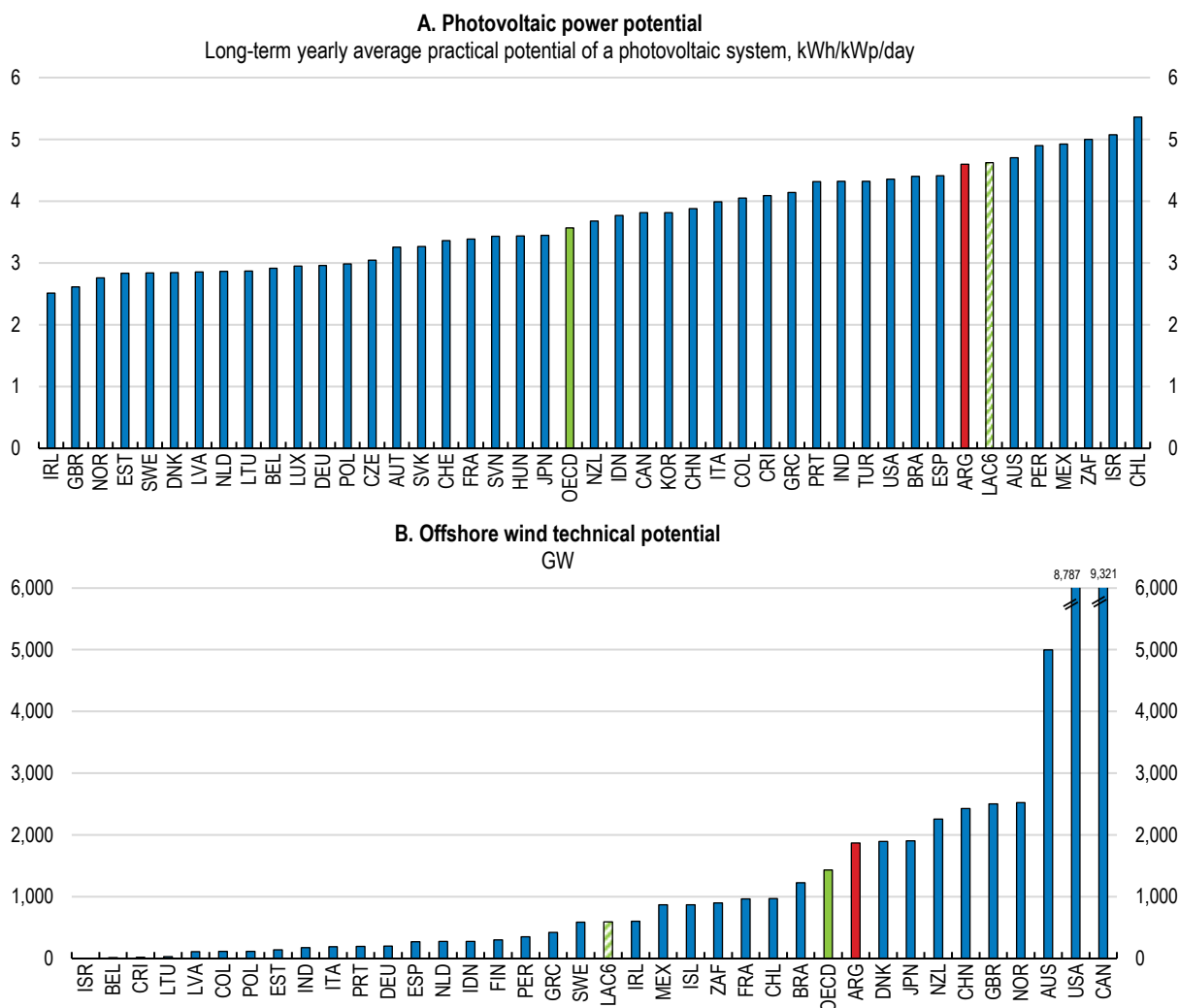
Gulen Devren Sahin, OECD

Given its natural endowments, Argentina will be able to reap significant economic opportunities from the global energy transition. Argentina is home to 20% of the world's identified lithium resources and has large untapped copper reserves. Argentina also has a strong potential for renewable energy production. Leveraging these resources would promote high value-added sectors, diversifying economic activity and strengthening economic resilience. To harness these opportunities, policy actions are needed to improve water management, modernise and decentralise electricity grids, and develop low-carbon transport infrastructure. Appropriate relative prices would create the right incentives to develop new opportunities and improve export competitiveness.

3.1. The energy transition provides significant opportunities for Argentina

Argentina stands to reap sizeable opportunities from the global energy transition, both with respect to the production of renewable energy itself and with respect to key inputs into the transition towards renewables. Argentina has huge potential for renewable energy production (Figure 3.1). The country has the fourth largest offshore wind potential in the world, and the largest potential for onshore wind energy in Latin America and the Caribbean. Indeed, Patagonia is one of the world's windiest places. Potential for solar energy generation is also significant in the Northwest region (IRENA, 2024^[1]). Leveraging these resources and developing the renewable energy industry could provide economic opportunities and at the same time help reducing regional inequalities, promoting a competitive national industry in high value-added sectors, and creating high-quality jobs. The expansion of renewable energies represents an opportunity to strengthen economic resilience, by diversifying economic activity, reducing import dependence and improve quality of life, particularly in marginalized communities facing high energy costs or limited access to reliable energy sources (IEA, 2020^[2]).

Figure 3.1. Argentina has high potential for renewable energy production



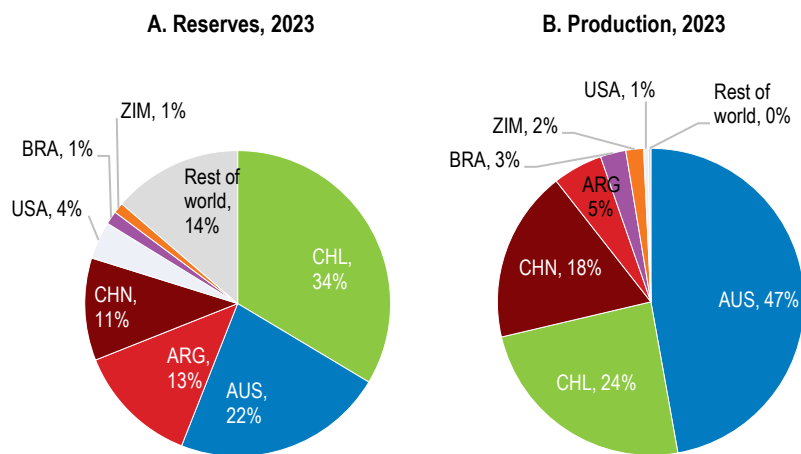
Note: LAC6 includes Colombia, Costa Rica, Mexico, Chile, Brazil, and Peru.

Source: World Bank (2020), Global Solar Atlas; World Bank (2020), Global Wind Atlas.

Argentina's comparative advantage in the generation of energy from renewable sources bodes well for both domestic use and exports. Hydrogen produced through electrolysis powered by renewable sources can be used to store energy for consumption at a different place and time, paving the way for energy trade through hydrogen, but also for decarbonising sectors where abatement costs are otherwise high, including transport and industry. To the extent that electricity production from renewables is more costly elsewhere, Argentina's comparative advantage in wind and solar energy opens up significant export opportunities in low-emission hydrogen.

Demand for lithium, a critical mineral needed for energy storage in the context of intermittent renewable energy sources, has tripled since 2017 and could grow tenfold by 2050 (IEA, 2021^[3]). Argentina is home to 13% of the world's identified lithium reserves and has significant scope to expand lithium production and developing activity in midstream segments of the lithium value chain (Figure 3.2). Argentina already has six active lithium mines, with five more expected to become operational in the coming years. Additional mines are in various stages of planning and construction. As it takes about five to ten years to build and optimise a Lithium mine, efforts to attract further investment and develop additional lithium production and processing capacity will be required in the coming years. The economic and social benefits, in terms of GDP and employment, could be significant in the medium to long term (Obaya, Ramos and Romero, 2022^[4]), provided labour market policies facilitate the reallocation of labour towards the most promising economic sectors. The oil and gas industries possess valuable expertise in resource extraction and management, which could be applied in the lithium industry.

Figure 3.2. Argentina has significant lithium reserves



Source: UN Comtrade; US Geological Survey, January 2024.

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Beyond its substantial lithium reserves, Argentina is rich in other critical minerals essential for battery production and renewable energy technologies, including large deposits of copper, a metal required for electrification including electric vehicle manufacturing and renewable energy infrastructure (IEA, 2021^[3]). In addition to lithium and copper, Argentina also has abundant quantities of cobalt, chromium, rare earth elements, graphite, manganese, nickel, platinum-group elements and zinc. These critical minerals and strategic resources position the country as a key player in the global supply chain for clean technologies such as batteries, wind turbines, and solar panels.

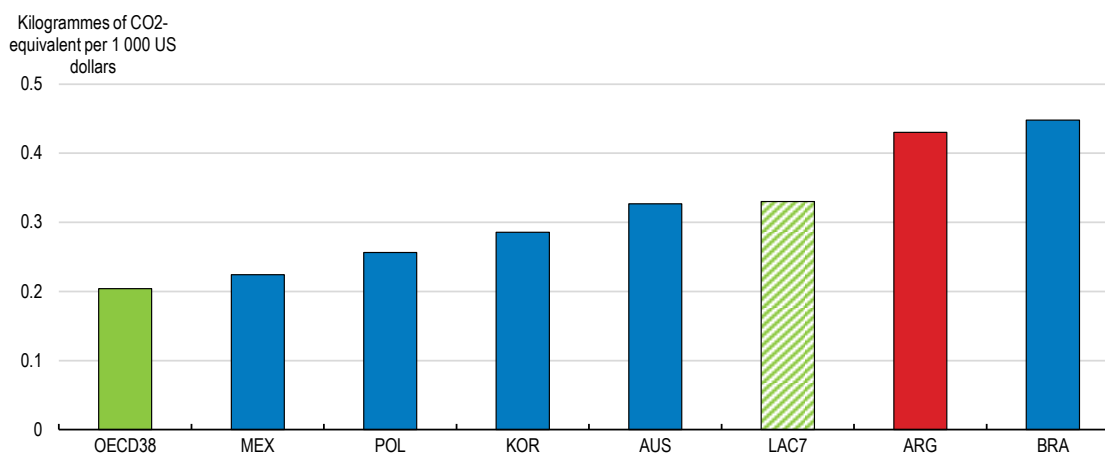
Argentina is also well-positioned as a supplier of natural gas, which is expected to play an important role as a transition fuel in the global energy transition. This transition is likely to take time, given the substantial global investments required to ensure the reliability of power grids that will increasingly rely on intermittent renewables (IEA, 2019^[5]). In Argentina, the large-scale exploitation of gas resources has already contributed to guarantee energy security at affordable prices, benefiting the industrial and residential sectors, and has helped to improve the current account balance. Further investments in new and upgraded pipelines, processing plants and export terminals would help to export liquified natural gas (LNG) and meet growing demand worldwide. While LNG exports hold significant

potential in the short and medium term, including as a baseload energy supply to complement the development of renewable sources, demand for gas is likely to decline in the longer term as more countries commit to net-zero emissions targets and low carbon technologies become cost competitive (IEA, 2023^[6]). This calls for a careful analysis of the economic opportunities and risks of such investments, including the risk of stranded assets.

Exposure to other countries' climate trade-related policies could potentially affect exports and competitiveness if Argentina's emission intensity remains substantially higher than that of trading partners and countries competing to export the same goods (Figure 3.3). New environmental standards and regulations on international trade aim to shape global value chains of products identified as drivers of greenhouse gas emissions. The European Union Carbon Border Adjustment Mechanism, for example, could impact Argentinian exports of iron and steel. Stepping up efforts to reduce Greenhouse Gas (GHG) emissions would bring additional benefits for export competitiveness and help build economic resilience. Against this background of global developments and given the need to harness new export opportunities, Argentina will have to evaluate carefully what is the best pace for its own decarbonisation strategy.


Figure 3.3. Emissions intensity remains higher than in peers

Total greenhouse gas emissions including land use, land-use change and forestry, 2022 or latest year available



Note: LAC7: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Latest year available is 2021 for Türkiye and Korea; 2020 for Chile; 2019 for Mexico and Peru, 2018 for Argentina and Colombia; 2017 for Costa Rica; and 2016 for Brazil.

Source: OECD Air emissions - Greenhouse gas emissions Inventories.

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3.2. Promoting renewable energy sources and developing the lithium industry

Wider global use of renewable energy sources will require batteries, for which lithium is a key ingredient. Expanding Argentina's lithium industry will contribute to sustain the worldwide effort towards cleaner energy, while boosting Argentina's growth, employment, and tax revenues. Five lithium production plants have already applied for inclusion into Argentina's Incentive Regime for Large Investments (RIGI) (Chapter 1). The "Rincón" lithium-brine plant in the Salta and Catamarca provinces is producing high-quality battery-grade lithium carbonate and will be expanded with an investment of USD 2.5 billion. Construction of the expanded plant is scheduled to begin in mid-2025 and could be operational by 2028. In the same region, the "Sal de Oro" production plant is expected to attract USD 1 billion in investments to expand its operations. Another USD 200 million investment is planned for the expansion of the "Hombre Muerto Oeste" lithium production plant in Catamarca. Other projects are expected to apply for RIGI benefits throughout 2025.

Northwestern Argentina's lithium brine deposits are known for their high quality, particularly due to the low levels of impurities like magnesium in the salt flats, which reduces processing costs (Sekerinska and Stokenberga, 2023^[7]). The country's arid regions, including Salta, Jujuy, and Catamarca provinces, offer ideal conditions for extracting

lithium from brine through solar evaporation. This method is more energy-efficient, carbon-friendly, and cost-effective compared to traditional hard rock mining (IEA, 2023^[8]). However, the process demands large quantities of freshwater, which raises concerns about water scarcity and potential resource depletion (Krishnan and Gopan, 2024^[9]). Direct Lithium Extraction (DLE) can reduce water consumption and Argentina is already home to some projects utilising DLE. This technology is, to date, the “greenest” way to mine lithium, which may be an additional selling point and further improve the competitiveness of lithium from Argentina (Farahbakhsh et al., 2024^[10]).

Providing the necessary infrastructure and public services for the sustainable development of the lithium production chain and monitoring the environmental impact of lithium extraction would help to foster the competitiveness of Argentina’s lithium industry. Investments in strategic infrastructure that would support the integration of efficient water management solutions, renewable energy use and low-carbon modes of transport could position Argentina as a leader in responsible resource management, and add a competitive edge to its lithium exports. This has attracted funds from multilateral lenders, for example to develop a high-voltage transmission line supplying renewable energy to mining projects in the Puna region (IFC, 2024^[11]). These initiatives contribute to Argentina’s economic development while establishing a model for sustainable mining that could turn into a strategic competitive edge on a global scale. Climate-smart mining practices promote innovation, public acceptance and support, contributing to attract investors and to improve the competitiveness of exports.

3.2.1. Improving water resources management

Ensuring sufficient supply of water is crucial for households and industry alike, but Argentina faces critical water security gaps. The annual economic cost of Argentina’s water security deficits is estimated at about 2.2% of GDP, which could raise even further in coming years as the frequency of floods and droughts increases with climate change (World Bank, 2021^[12]). To enhance water-related infrastructure investment, progressively close existing water security gaps, and prevent future water-related challenges, several regulatory and governance bottlenecks would need to be addressed in the water and sanitation sector.

Argentina needs to strengthen the implementation of the regulatory framework to promote integrated water resources management (World Bank, 2021^[12]). Water and sanitation services are highly decentralised with multiple stakeholders at different levels of government involved in their governance. Some provinces have well-developed legislations, while others do not regulate important aspects, such as irrigation systems, water rights, users’ organisations, nor enforce the user-pays principle (OECD, 2019^[13]). Some provinces lack institutional capacity to evaluate water resources, monitor and control water flows, identify users, and monitor water uses. As a result, excessive drinking water production is common, jeopardising water resilience. Infrastructure to reduce flow peaks and store flood water, is not always integrated into river basin planning processes. Moreover, imprecise definitions of responsibilities across jurisdictions make it difficult to monitor dam safety. The federal government issued National Guiding Principles of Water Policy, in agreement with provinces, opening the way for the integration of technical, social, economic, legal, institutional, and environmental aspects of water throughout the country. However, the implementation of these guidelines has been uneven across provinces.

Funding for the water and sanitation sector remains uncertain. Provinces are responsible for service provision, but the federal government is the main source of financing. User tariffs are not always based on volumetric water meters. Instead, users in several localities pay a fixed rate regardless of the water volume consumer, contributing to excessively high and irrational consumption. Revenues collected from user tariffs are not sufficient to cover operating and maintenance costs. Government subsidies complement user tariff revenues, which does not provide any incentive for improvements in operational efficiency. Some of these funds could have been destined to restoring and maintaining the network, expansion plans and service improvement. Adding to the issue, there are no clear rules for how the federal government should financially support the expansion of water and sanitation infrastructure across provinces. There are also no accountability mechanisms for the performance of provincial governments related to these nationally funded investments (World Bank, 2021^[12]). The resulting lack of investment has resulted in high levels of network leakage and increasing operational costs (OECD, 2019^[13]).

Several reforms could be considered to improve the efficiency of the water and sanitation sector and increase incentives for investment in the modernisation and expansion of infrastructure. Federal authorities should weave water resource management better into broader economic policy planning and provide clear guidance to provinces, with long-term visibility over sources of financing. A national overarching legal framework could be developed to set common water supply policy criteria across the country and support regulation consistency in different provinces, following the recent example of Brazil recently (Box 3.1). This framework could provide minimum requirements for the quality of the service. Conditional mechanisms for granting federal transfers could be considered based on compliance with performance and efficiency indicators. Inter-jurisdictional basin planning and increased cooperation between the provinces sharing rivers could be encouraged. Some countries, such as Australia, Brazil, or Canada, have created inter-governmental councils for better planning, governance, and regulation of water basins, as well as to seek opportunities to capture economies of scale when developing new water and sanitation infrastructure (OECD, 2019^[13]). Finally, the fixed tariff system should be gradually replaced by a progressive scheme based on consumption volumes as metering technologies, including smart meters, are progressively rolled out across the country. To ensure that vulnerable households have access to high-quality water services, targeted subsidies could be implemented in coordination with other social policies.

Collaboration between government agencies, local communities and mining companies is also essential to ensure a fair and responsible use of water given its scarce availability in the arid regions where lithium is extracted. Detailed hydrogeological studies, continuous environmental monitoring, and information about low-water-consumption technologies would facilitate the adoption of more efficient and sustainable water management strategies by all stakeholders involved.

Box 3.1. Recent regulatory reforms in the water and sanitation sector in Brazil

Brazil has made significant progress in the water and sanitation regulatory frameworks. Before 2020, regulation was under the responsibility of more than 100 local regulatory agencies, who barely met the necessary conditions for developing good regulatory governance. There was very little regulatory oversight, and it was often subject to local political interference. Since the reform, called “Novo Marco Legal do Saneamento”, the national water regulatory agency (“Agência Nacional de Águas”, ANA) has the responsibility to establish general guidelines that apply across all states and municipalities, harmonising the regulation and providing clarity and certainty. This will contribute to increase the sector’s attractiveness for private operators.

The new water and sanitation law also brought about several innovative developments. New concession contracts must now be attributed through a competitive public procurement process and include an objective of near-universal coverage. This aims to ensure that the most qualified operators, public or private, are selected, and that they have strong incentives to invest in expanding coverage. The new law also establishes that services should be auctioned grouping several cities or municipalities together. This will allow exploiting economies of scale, while ensuring that smaller and remote municipalities are covered.

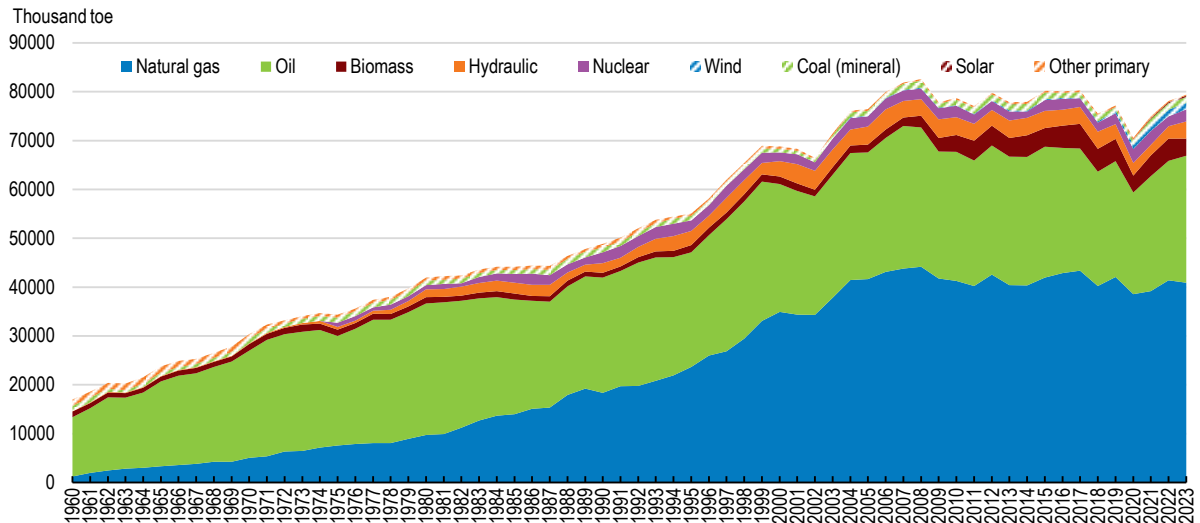
Source: (OECD, 2023^[14]), OECD Economic Survey Brazil 2023, OECD Publishing.

3.2.2. Reforming energy markets to accommodate higher shares of renewables

Harnessing the economic opportunities of the global energy transition could be complemented by fostering the deployment of renewable energy sources at home, and Argentina is well-placed to do this. Renewable energy sources are becoming increasingly competitive. Market prices alone, if properly calculated, will in some cases already be sufficient to steer resources into the right technologies. In 2023, after decades of falling costs and improving technology, 81% of the newly commissioned utility-scale renewable projects worldwide had lower costs than their fossil fuel-fired alternatives (IRENA, 2024^[15]). The costs associated with generating electricity from onshore wind, in

particular, have dropped to or below the weighted average fossil fuel-fired cost. Solar photovoltaic is also rapidly approaching this cost level. In 2014, Brazil became the first country where the levelised cost of electricity from new utility-scale solar photovoltaic fell below the cost of new fossil fuel capacity. Levelised cost measures the average net present cost of electricity generation for a generator over its lifetime. Australia followed in 2016, with its strong solar resources and high costs for new fossil fuel-fired power generation. Argentina reached that cross-over point in 2018. Even with lower fossil fuel prices in 2023, the competitiveness of utility-scale solar photovoltaic continued to improve (Nascimento et al., 2020^[16]; IRENA, 2024^[15]). Yet, the share of intermittent renewables in energy supply remains low (Figure 3.4).

Figure 3.4. The share of intermittent renewables in primary energy supply is low



Source: Ministerio de Economía República Argentina - Secretaría de Energía.

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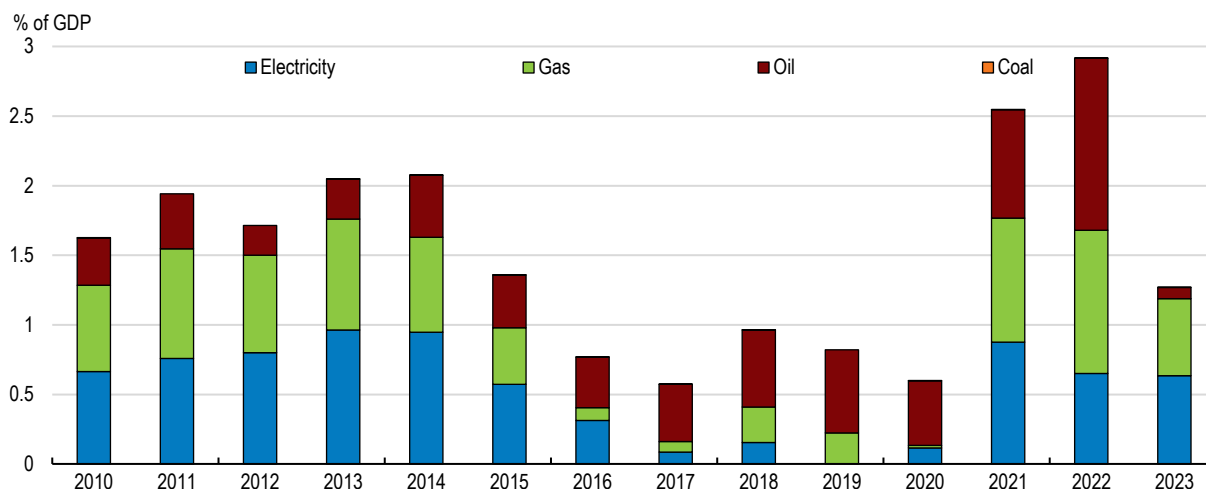
Argentina has long had some of the lowest retail electricity prices in Latin America due to subsidies and a freeze on tariffs that lasted for around a decade, implying large fiscal costs (Chapter 1). End-user electricity tariffs have been below cost recovery, partly compensated by electricity subsidies mostly directed at electricity generators, transmitters, and distributors. Low electricity tariffs encourage overconsumption, while providing little prospects to potential investors and no incentives for incumbents to renew, expand, and modernise generation or the network. Moreover, the tariff structure is complex and public subsidies end up benefiting higher income groups (Giuliano et al., 2020^[17]; Hooley et al, 2024^[18]). Ongoing revisions to the regulatory framework and electricity tariffs will need to continue to promote cost recovery and deliver efficient price signals in the electricity sector, helping to secure further investments.

Public subsidies to the gas sector, initially established in an effort to exploit the availability of domestic gas resources and improve the energy trade balance, also distort price signals, potentially impairing the cost competitiveness of renewable energy technologies (Figure 3.5). Moreover, investments into gas production and the transportation infrastructure needed to complement those expansion plans carry a significant risk of stranded assets (World Bank, 2022^[19]). Reducing public support for gas investment would help improve private-sector responsiveness to cost developments resulting from technological progress.

Argentina has taken some initial steps to reform the energy sector and improve price signals. The Decree of Necessity and Urgency (DNU) of December 2023 declared a state of emergency for the national energy sector until July 2025. Under this decree, the government launched a tariff review process for electric power and natural gas services subject to federal jurisdiction, with a plan to gradually raise regulated prices and phase out public subsidies. In nine months, the price of energy utilities compared to the general price level in the City of Buenos Aires increased from 42% to 92%, for example (Chapter 1).

Moreover, the “Bases Law”, approved in June 2024, empowered the executive branch to amend the regulatory framework for electric energy, with the objective of boosting competition in the vertically segmented generation, transmission, distribution, and retail sectors. Final users are now given the possibility to choose their electricity supplier freely. The law also introduces the possibility for electricity transportation infrastructure to be developed through open, transparent, and competitive mechanisms, and for electricity to be traded internationally. These regulatory reform efforts will continue to incentivise investments in the electricity sector and lay the grounds for the large-scale deployment of intermittent renewable energies, as observed in OECD countries who implemented similar measures (Box 3.2).

Figure 3.5. Fossil fuel subsidies are high, diverting resources that could be used more efficiently



Source : IEA, Fossil fuel subsidies database, OECD database.

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Further changes could be envisaged regarding rules for the priority dispatch of electricity. In the current system, dispatch at the wholesale market is based on declared availability one-day ahead, not capturing marginal costs. Final users end up facing tariffs that do not reflect variable costs, nor hourly, daily, and seasonal variations in demand (Urbiztondo, Navajas and Barril, 2020^[20]). Dispatch could prioritise highly efficient generation technologies. Electricity prices could then be set in real-time to fully reflect the marginal cost of the last needed electricity generation unit, including a component to compensate for the maintenance and amortisation of the existing transmission and distribution infrastructure (Navajas, Urbiztondo and Brichetti, 2023^[21]). Granularity in electricity tariffs would help recognise that the value or cost of electricity services can vary significantly at different times and locations. The widespread use of information and communication technologies, such as advanced meters, could enable monitoring electricity demand and decentralised injections into the network, allowing prices to reflect the marginal cost of withdrawing energy from the distribution grid at the customer’s location during each hour of the day. Peak-capacity and scarcity charges could be introduced for users to internalise the network costs incurred to meet peak-demand. Following up on a proposal by the National Electricity Regulatory Entity (ENRE) to develop a Smart Metering Programme would lay the grounds for more effective demand management, including to balance supply and demand in the short term.

3.2.3. Developing infrastructure to support the green transition

The expansion and deployment of renewable energies on a larger scale also depends on the existence of reliable grid networks and flexibility options, such as storage or power-to-gas technologies. In Argentina, the grid infrastructure has suffered years of lack of investment in maintenance and modernisation (Kurdziel, Nascimento and Hagemann, 2020^[22]). The limited grid capacity to accommodate additional renewable energy generation discourages potential

project developers. Large solar photovoltaic and onshore wind resources can be found in the North-West and far South of the country, but their development would require new electricity transmission corridors. Costs associated with grid expansion and modernisation are inevitable to accommodate increasing demand for electricity regardless of the energy source used for generation. These costs should not be attributed to the development of renewable energy power plants.

The transmission and distribution segments of Argentina's electricity market include various regional monopolies, subject to complex regulatory pricing schemes and varying provincial and municipal taxes (Navajas and Puig, 2024^[23]). Distortions from different taxes applied at the provincial and municipal level could be minimised by improving coordination across regions. A simplified pricing scheme based on a two-part tariff, one part variable and another fixed, could be envisaged to finance grid maintenance and expansion. Well-targeted lump-sum transfers to vulnerable households could mitigate the potential distributional impacts more effectively than complex regulated pricing schemes. The ongoing development of a comprehensive household-level registry will help improve the targeting of these social transfer (Chapter 2).

Box 3.2. Deregulation in Portugal's retail electricity market

From 1996 to 2006, Portugal progressively opened the retail electricity market to competition, starting from consumers supplied at high voltages, and slowly moving to consumers supplied at low voltages. Efforts have also been taken to reduce administrative burdens in the electricity market to promote the entrance of multiple companies into the retailing business and to actively engage end-users in the market. To encourage competition and consumer switching, an on-line electricity price simulation tool is provided by the regulator to help end-users in selecting their retail company. Smart metering devices have been largely deployed, enabling more frequent information on consumption and billing, and providing an opportunity for retailers to exploit demand response programs.

Customers now benefit from more diverse services, being able to select offers that best meet their needs. The services are differentiated by, for example, offering dual fuel contracts, flexible billing, demand response programs, or energy efficiency services. The number of end-users who decided to change supplier was particularly high in the initial years of the reform and among the highest in Europe. The market share of the former state-owned monopoly has been continuously declining.

Source: (Fotouhi Ghazvini et al., 2019^[24]), Liberalization and customer behavior in the Portuguese residential retail electricity market

A first step to promote renewable electricity generation could be to ensure sufficient transmission capacity from the areas of high renewable potential to the areas where most electricity is consumed. This also entails expanding energy storage capacity to further enhance the efficiency of renewable energy production and utilisation, addressing the natural fluctuations in solar and wind power generation. Battery parks and other forms of short-term energy storage are effective in handling intra-day fluctuations, proving particularly advantageous for solar energy, but longer periods of intermittence from wind generation require long-duration energy storage (LDES). Argentina should ensure that its regulations for capacity transfer between energy producers cover and promote battery parks and energy storage systems. Several strategic plans aiming at strengthening the transmission infrastructure have been approved recently and should be followed through. Argentina has also recently opened a call for proposals for Storage Generation Contracts which is expected to help expanding energy storage capacity.

Renewable energy sources could also be used more widely in the transport sector, where most freight transport uses roads and trucks. Deploying sufficient charging infrastructure is key to boost the adoption of electric vehicles and greening transport. Regulations that restricted private businesses from setting up charging stations have recently been eliminated, which should help increase geographical coverage and lower costs for the use of electric vehicles (Chapter 4). Improving the condition of roads could help to reduce travel time and fuel consumption, as only 32% of road infrastructure is in good condition (Chapter 4). Improving freight railway infrastructure can also help to foster the electrification of transport and facilitate a wider use of renewable energy in the sector.

3.3. Reducing the emission intensity of Argentina's exports

Getting carbon prices right will be an important instrument to reduce Argentina's emission intensity more broadly, thereby improving exports competitiveness and economic resilience. From a perspective of reducing carbon-emissions in the most efficient way, carbon pricing should equalise marginal abatement costs across emission sources and sectors, and a single carbon price would generate the right incentives for this. Carbon prices are currently far from equal across sectors of activity. As of 2023, only 17.4% of greenhouse gas emissions in Argentina are covered by a positive net effective carbon price. This is among the lowest coverage among OECD countries, OECD accession countries, and OECD key partners. Emissions from the road transport sector are priced at a much higher rate than those from other sectors. By contrast, net effective carbon rates in the electricity sector, industry and buildings are zero or even negative (Figure 3.6).

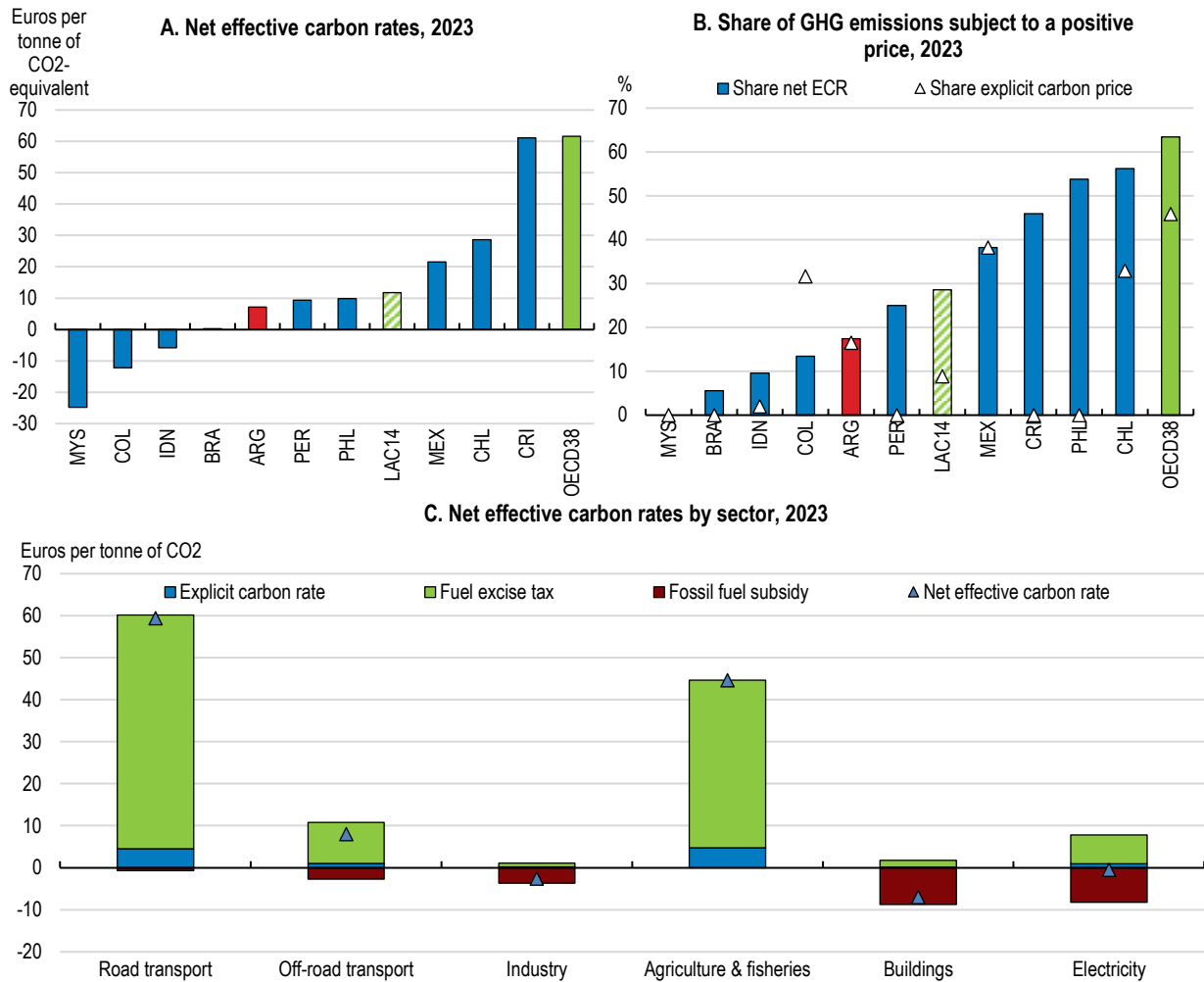
Argentina introduced an explicit carbon tax in 2018, but its level remains too low to drive significant technological or behavioural changes. Moreover, several fossil fuels are exempted, including natural gas and Liquefied Petroleum Gas (LPG) used for heating purposes. Excise taxes are currently the main policy instrument for pricing carbon emissions. Dispersion of effective carbon rates across sectors are mostly explained by differences in the fuels used and the different tax treatment applied to different sources of energy, which does not reflect the order of fuels in terms of carbon content, nor does it reflect the fuels' contributions to carbon emissions (Ahumada et al., 2023^[25]). Eliminating existing exemptions from excise taxes could help to reduce differences in carbon pricing across sectors and fuels that are not explained by externalities or other economic considerations. This should be accompanied by progressively phasing out fossil fuel and electricity subsidies. The reduction or elimination of subsidies would lead to considerable increases in net effective carbon rates in non-road sectors and would save crucial fiscal resources.

Raising the level of the existing carbon tax could unlock further substantial fiscal revenues. An effective carbon rate floor of 120 EUR/tCO_{2e}, for example, could raise an additional 2% of GDP in fiscal revenues (OECD, 2024^[26]). Such an increase could be achieved by defining a gradual and predictable path, announced well in advance, to allow economic agents sufficient time to make the necessary investments and adjustments.

An alternative to increasing the explicit carbon tax would be to develop a carbon market or cap-and-trade system. These markets would allow companies and governments to buy and sell emission rights, thus incentivising emissions reduction, climate adaptation efforts, and environmental compensation. In such a system, the cost of achieving carbon emissions is determined by market forces and may vary, offering greater flexibility for economic players to choose the most effective and economical way of reducing their emissions, while creating incentives for innovation and the development of clean technologies where there is greater potential. This differs from carbon taxes, which provide certainty about the costs of compliance and create stable prices but cannot ensure a specific level of GHG reductions.

Higher carbon prices will create a financial burden on households and firms, therefore requiring a careful balance with social and economic concerns. Deploying additional fiscal revenues from carbon pricing towards well-targeted social protection policies or infrastructure development could help strengthen trust in government and favour public acceptability. Using revenues from carbon taxes to invest in climate adaptation infrastructure, for example, could be particularly beneficial for low-income segments of the population, who tend to live in flood-prone or water-scarce areas (World Bank, 2022^[19]). Effective communication to explain the functioning of carbon taxes, potential distributional impacts and compensation mechanisms that will be put in place, could increase political support (Dechezleprêtre et al., 2022^[27]).

Figure 3.6. Emissions pricing is low in international comparison, particularly in some sectors



Note: Panel B: Based on the OECD's Effective Carbon Rates 2023. Fossil fuel subsidy estimates are based on the OECD's Inventory of Fossil Fuel Support, where available, and original research for the other countries (Garsous et al., 2023). Due to data limitations, fossil fuel subsidy estimates for 2023 are based on data for 2022. GHG emissions are the sum of fossil-fuel related CO₂ emissions, calculated based on energy use data for 2021 from the IEA (2023) and other GHGs from Climate Watch (2024).

Source: Pricing Greenhouse Gas Emissions 2024, OECD Net effective carbon rates database.


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Table 3.1. Past OECD recommendations on improving environmental outcomes

Recommendations in the previous Survey	Actions taken since previous Survey (March 2019)
Phase-out energy subsidies.	Subsidies for electricity and gas are now being faded out.
Continue developing an automatic early warning system to halt deforestation.	A monitoring system based on Google Earth satellite images to check changes in the forest cover every two weeks has been implemented.
Strengthen proper enforcement of the forest law, especially at the provincial level.	Provinces are required to build land use maps that identify areas with different conservation levels, but implementation is slow and unequal across provinces.
Undertake an in-depth evaluation of the negative externalities associated with different types of pesticides, with a view to implementing targeted measures to manage pesticide use.	The National Directorate for Agriculture and the Agrochemical and Fertilizer Chamber have organised joint training programmes to promote the responsible use of pesticides.
Implement measures to reduce air pollution, including taxing vehicles according to emissions.	The explicit carbon price, which could tax vehicles based on their emission intensity, is low.

Table 3.2. Recommendations to scale up climate-related investment

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Promoting renewable energy sources and developing the lithium industry	
Argentina is home to 20% of global lithium reserves, but lithium production requires a careful use of water and energy resources.	Ensure the provision of the necessary infrastructure and effective water management for the development of a sustainable lithium production chain.
Inefficient water management is common in some provinces, jeopardizing water resilience. Infrastructure to reduce flow peaks and store flood water is not well integrated in planning processes. Water network leakage is frequent.	Implement the regulatory framework to promote integrated water resources management. Provide technical assistance to provinces to implement the National Guiding Principles of Water Policy.
Prudent water management is becoming increasingly important, especially in the context of a federal system with delegated responsibilities.	Ensure that river basin planning systemically consider the development of infrastructure to reduce flow peaks and store flood water.
Water consumption tariffs are not always based on volumetric water meters. Often, users pay a fixed rate regardless of the water volume consumed, contributing to overconsumption and waste.	Progressively expand water metering technologies and replace the fixed user tariff scheme with consumption-based pricing.
End-user electricity tariffs have been below cost recovery, encouraging overconsumption and providing little incentives for prospective investors in generation, transmission and distribution.	Align electricity prices with full costs, including the costs of investments in transmission and distribution infrastructure.
Dispatch in the wholesale electricity market is based on declared availability one-day ahead, not capturing marginal costs.	Prioritise dispatch from highly efficient generation technologies.
Reducing the emission intensity of Argentina's exports	
Only 17.4% of GHG emissions are covered by a positive net effective carbon price. Net effective carbon prices in the industry, buildings, and the electricity sectors are null or even negative. Fossil fuel subsidies have helped bring down energy prices and contain inflation but failed to steer resources into investments with the largest economic potential in the medium to long-term.	Continue to phase out fossil fuel subsidies and remove the carbon tax exemption for natural gas and Liquefied Petroleum Gas used for heating purposes, in industry, and in the electricity sector, while supporting low-income households through targeted transfers.
Carbon markets offer greater flexibility for economic players to choose the most effective and economical way of reducing emissions, while creating incentives for the development of clean technologies where there is greater potential.	Consider developing a cap-and-trade system for carbon emissions.

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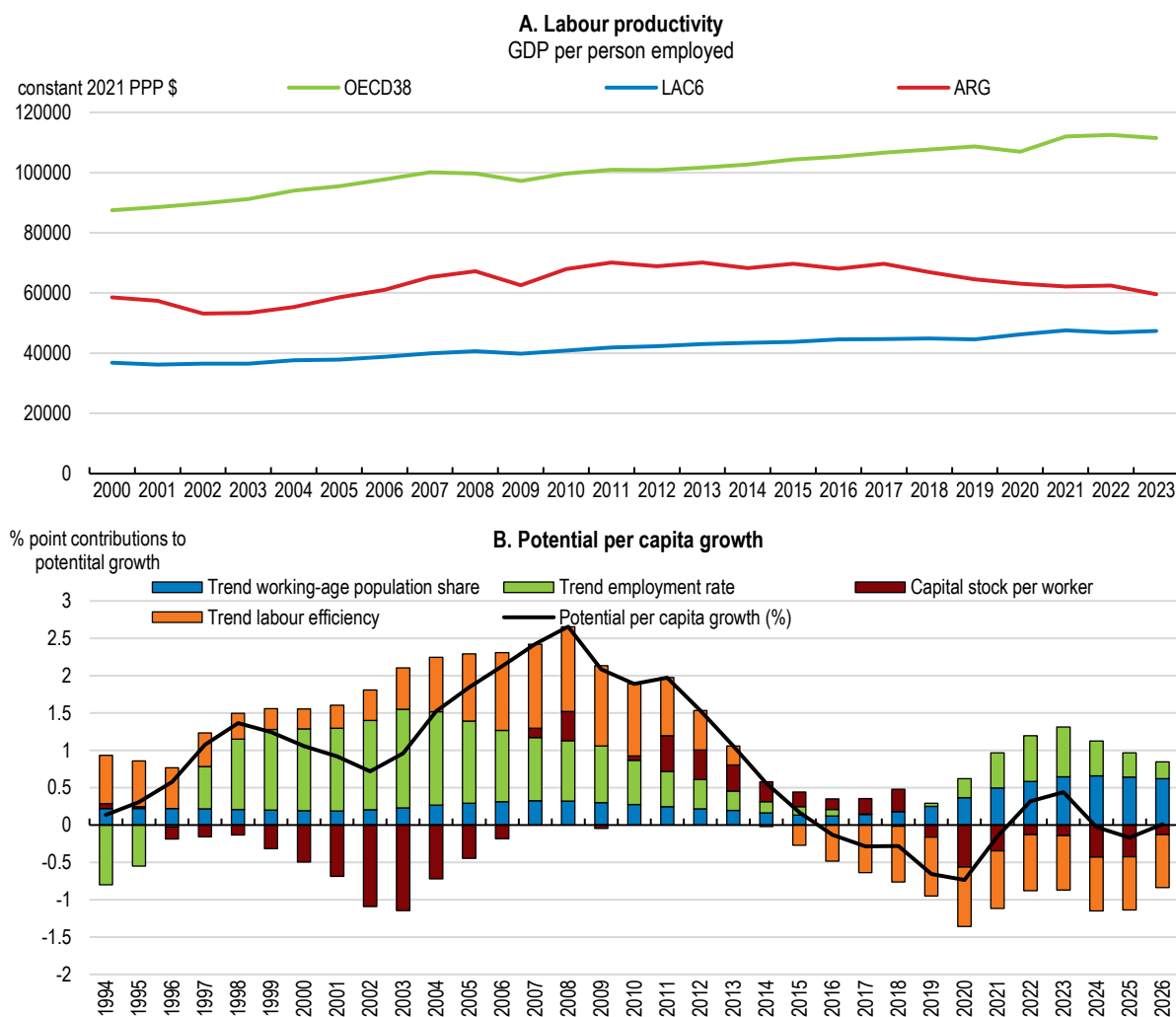
4 Towards a better business environment

Adolfo Rodríguez-Vargas, OECD

Improving Argentina's business environment is key for boosting stagnant economic growth and reverting the decline of labour productivity. Recent policy actions to streamline business regulations have led to considerable improvements and should continue, particularly by tackling remaining entry barriers to services sectors. Ensuring the independence of the competition authority will play a key role for strengthening competition. Continuing easing restrictions on imports and improving the country's attractiveness to international investors can help domestic firms to access better technologies and improve their productivity, while also fostering new export opportunities. Addressing low judiciary efficiency, improving infrastructure, fostering digitalisation, and strengthening public sector integrity could reduce costs and strengthen the competitiveness of Argentinian firms.

Over the past 15 years, economic growth has been stagnant in Argentina. The economy grew on average 0.9% each year compared to 1.7% for the OECD during the same period. In terms of per capita GDP (in PPPs), Argentina dropped from being the 52nd largest economy in 2009 to the 69th in 2023 (World Bank, 2023^[1]). Potential growth is estimated to have fallen from 3.5% in 2008 to around 0.5% in 2025. Macroeconomic instability and the subsequent boom and bust cycles described in Chapter 1 have undoubtedly played a role, and falling labour productivity has been a key factor behind weak growth (Figure 4.1). Between 2012 and 2023, labour productivity decreased by an average of 1.3% per year.

Figure 4.1. Low and falling potential growth is mostly explained by low labour productivity



Note: LAC6 includes Costa Rica, Colombia, Mexico, Chile, Peru, and Brazil.

Source: World Bank WDI, OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

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This chapter reviews priority areas for policy reform to boost productivity growth and potential output. The focus is on making domestic markets more competitive, addressing costs from institutional and infrastructure bottlenecks, increasing access to imports and foreign investment, and promoting stronger exports.

High entry barriers have reduced competition in key sectors. Close to 70% of firms are over 10 years old, and less than 1% have been created in the last three years. Argentina is making significant progress in moving towards a more competition-friendly regulatory framework and this progress should continue. Entrepreneurs still face onerous

procedures to start a business, many entry barriers remain in the services sector and retail, and governance of state-owned enterprises can be improved. OECD research suggests that additional product market reforms aligning the regulation with OECD best practices could raise potential output by up to 7% in the coming decades. Argentina should also ensure coherent regulation across levels of government and that the impact of new regulations is regularly assessed. Making the competition authority independent is also key to ensure a level playing field for firms.

Continuing to ease restrictions to imports and improving the country's attractiveness to international investors can boost access to better technology and know-how. Fostering conditions for stronger and more diversified exports can allow Argentina to reap new opportunities.

The competitiveness of Argentinian firms is curtailed by high costs in several areas. Infrastructure bottlenecks increase logistics costs, while slow judicial procedures make enforcing property rights more costly than elsewhere. Promoting digitalisation can improve the competitiveness of Argentinian firms, as adoption of digital tools lags OECD countries even among the largest firms. Progress in this front is hindered by administrative requirements, especially at the local level.

4.1. Fostering more competitive domestic markets

4.1.1. Reducing barriers to competition from business regulations

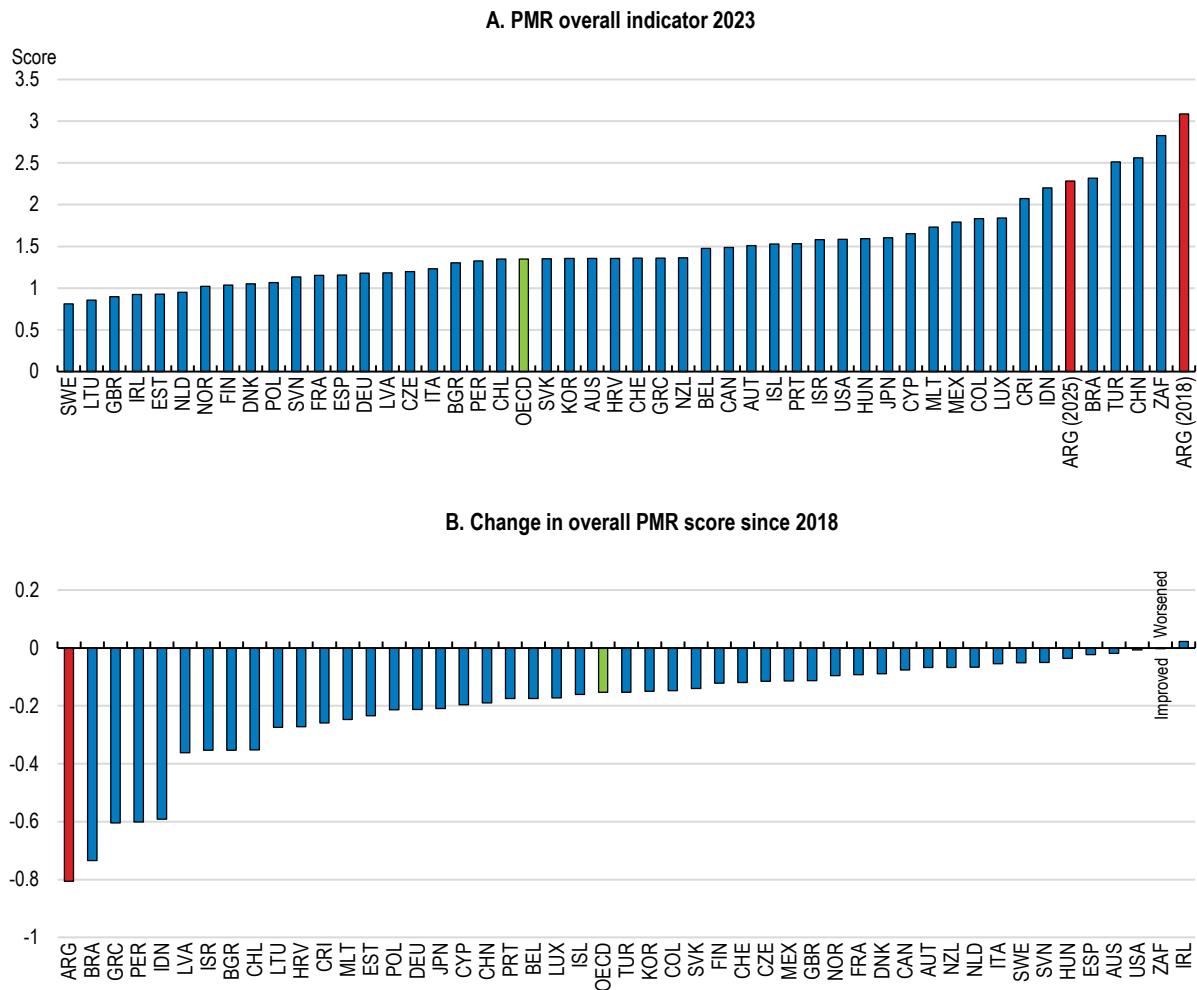
Business regulations often pursue legitimate objectives, but they can also act as a barrier to competition, entrepreneurship, investment, and employment, sometimes as unintended collateral damage and sometimes on purpose. Despite notable recent reforms, regulation of product markets in Argentina remains very restrictive according to the OECD Product Market Regulation indicators (PMR) (Figure 4.2, Panel A), which measure the extent to which a country's regulatory framework promotes or hinders competition in product markets. By contrast, in OECD countries like Mexico (Kaplan, Piedra and Seira, 2011^[2]; Brühn, 2011^[3]) and Germany (Rostam-Afschar, 2014^[4]), lowering entry barriers has contributed to increase firm creation and employment.

Argentina has embarked on a far-reaching process to reform business regulations and increase competition in domestic markets. In June 2024, the “Bases Law” was approved (Box 4.1), declaring a state of national emergency and delegating legislative power to the executive in administrative, economic, financial and energy matters for a year. The law lays the grounds for reviewing old and outdated regulations, promoting competition, and limiting state intervention. The government has started to implement an ambitious agenda to streamline and eliminate red-tape and lower entry barriers to domestic markets. These and other efforts are already reflected in the OECD PMR indicators. Comparing the change in the PMR score for each country, between 2018 and now, Argentina is the country that has improved the most (Figure 4.2, Panel B). Impressively, this progress has been achieved in only about six months since the introduction of the “Bases Law”. Some additional reforms since January 2025 have not yet been included in the most recent update of the indicators and would have resulted in an even better score. Scope for further improvement remains, for instance by streamlining regulation and bringing down entry barriers in service sectors at the subnational level, where Argentina is still the country that restricts competition the most among OECD member and accession countries.

Simplification of permit procedures as well as eliminating bureaucratic barriers to production, imports, and exports have been priorities. The Bases Law implemented silence-is-consent rules in administrative procedures, which should help to reduce time to start projects. Several types of procedures and requirements in sectors like agriculture, retail, and health services have been streamlined or eliminated, and technical requirements for industrial products have been dropped (Box 4.1). Additional policy measures taken include the creation of a Marketing, Transparency, and Deregulation Table for grains and meats, the deregulation of the warrant market to foster private sector credit, significant progress in unifying the Single Registry of the Agri-Food Chain (RUCA) and the Argentine Integrated Health Information System (SISA) along with the modernisation of export platforms. Progress is particularly remarkable on administrative and regulatory burden, where strong progress compared to 2018 has positioned Argentina better

than most Latin American peers and better than the OECD average (Figure 4.3, Panel A). Further plans include a draft law to abrogate more than 68 outdated, repeated, or impractical laws that impose regulatory burdens.

Figure 4.2. Regulations have become more competition-friendly



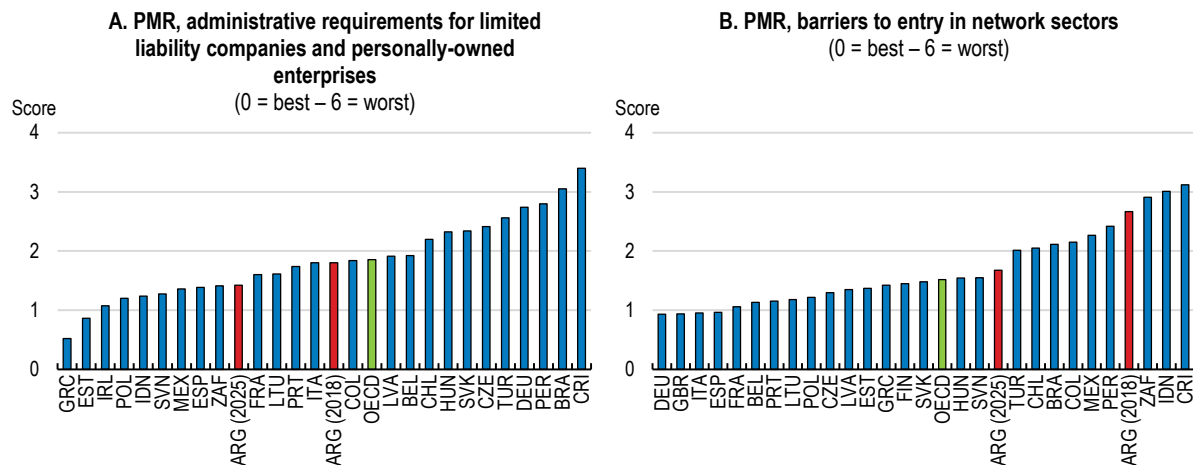
Note: Product Market Regulation overall indicator (0 = best – 6 = worst).

Source: Product Market Regulation database 2023/24.


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Pro-competition measures have also been prominent across many activities, including mail and courier services, insurance, and gas and electric charging stations (Box 4.1). In the transport sector the government has deregulated long-distance freight, opened railway routes to competition, concessioned a road crucial for trade, and relaxed restrictions on road transportation between provinces, so that providers in an area do not have to apply for a permit to operate in another. Restrictions on air transportation have also been lowered, and airport services opened to competition. These measures are reflected in a notable improvement in the PMR indicators with respect to barriers to entry in the network sectors (Figure 4.3, Panel B). Rent controls and other price control measures have also been abandoned. These reforms result in more new firms operating in these markets, which can increase service volume and lower prices.

Figure 4.3. The regulatory burden is now much lighter and access to network sectors is easier



Note: Data reflects laws and regulations that were in force by January 1st, 2025 for Argentina; by January 1st, 2024 for Hungary, the Netherlands, the US, Bulgaria, China, Cyprus, Indonesia, Malta and Peru; and by 1st, 2023 in all other countries. Network sectors include energy, transport and e-communications. Source: Product Market Regulation database 2023/24.

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Regulatory improvements like the ones recently implemented have strong potential to boost growth and employment (Box 4.2). Reforms already implemented are estimated to lift potential output by 2.7% and employment 0.8% in the coming decades. More ambitious reform in the coming years could take those gains to 6.8% for output and 2.2% for employment. There are several areas of business regulation where Argentina can improve.

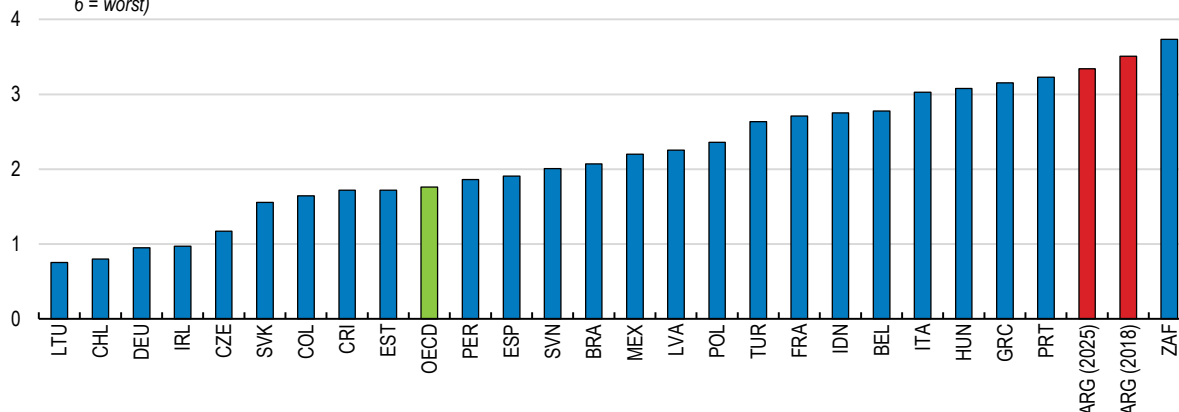
Entrepreneurs are still subject to some onerous and time-consuming procedures when starting their businesses. Procedures to notarise statutes for new business must be done in person, whereas in most OECD countries this is not a requirement or can be done online. Starting a business is also subject to taxes and administrative fees, unlike in most OECD countries. Entrepreneurs must also publish a notice of establishment in the online official journal, which is not required in most OECD countries or can be done jointly with other procedures. Recent regulatory changes at the federal level call for regular reviews of licences and permits that are still needed, and require that new licences and permits be proportionate to risks. Sub-national governments could also adopt provisions of this type to support the streamlining of administrative procedures at the federal level.

Barriers to entry persist in a range of professional services (Figure 4.4). There are restrictions imposed by provincial governments for lawyers, notaries, real estate agents, and accountants to practice across provincial borders. Citizenship is required to practice as a notary, non-notaries cannot have ownership-type interest in a notarial firm, and the number of notaries allowed to practice is limited by law, as is the case in other countries. Accountants have exclusive rights to provide audits, and civil engineers to provide topographical services and land surveying. Architecture degrees earned abroad are not recognised unless Argentina has a mutual recognition agreement. Otherwise, architects must undergo a recognition process for their degree. Binding minimum tariffs exist for legal services.

Retail activities still face many restrictions. In the province of Buenos Aires, unlike most OECD countries, only pharmacists can own pharmacies, and there are restrictions on the number of pharmacies that can be established in a given geographic area, depending on the number of inhabitants. Entrepreneurs who want to open establishments selling clothing, or food and beverages, face additional licenses or permits unrelated to health, safety or environmental protection regulations, which is not the norm across the OECD. Despite recent deregulation of prices, price controls remain for taxi rides.


Figure 4.4. Access to services sector can still improve significantly

PMR score, barriers to entry
in service sectors (0 = best –
6 = worst)

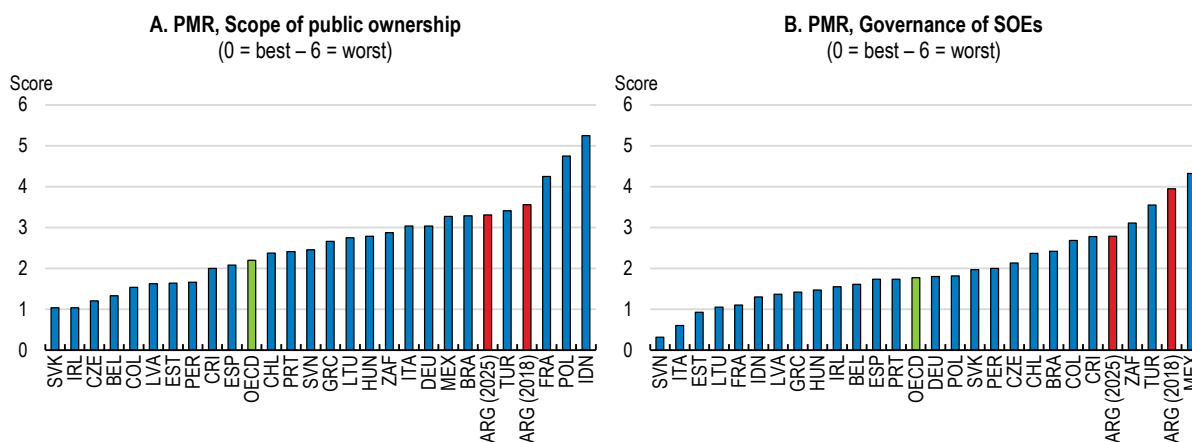


Note: Data reflects laws and regulations that were in force by January 1st, 2025 for Argentina; by January 1st, 2024 for Hungary, the Netherlands, the US, Bulgaria, China, Cyprus, Indonesia Malta and Peru; and by January 1st, 2023 in all other countries.

Source: Product Market Regulation database 2023/24.

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Governance of state-owned enterprises (SOEs) can be improved. State involvement in the economy is significant (Figure 4.5, panel A), with SOEs operating in many sectors. Since 2024, most commercial SOEs have been converted to public limited companies. This is a welcome step to improve governance (Figure 4.5, panel B). Despite the size of SOEs in Argentina, there is no high-level policy document that clearly states the rationale for state ownership in each of them. Instead, details of ownership rights are dispersed across multiple pieces of legislation. Management and auditing of SOEs can be strengthened. There is no requirement that the board of commercial SOEs includes independent members, which would improve oversight, and active politicians can be part of the board.

Figure 4.5. State-owned enterprises are preponderant, and their governance could be improved

Note: Data reflects laws and regulations that were in force by January 1st, 2025 for Argentina; by January 1st, 2024 for Hungary, the Netherlands, the US, Bulgaria, China, Cyprus, Indonesia Malta and Peru; and by January 1st, 2023 in all other countries.

Source: Product Market Regulation database 2023/24.

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Box 4.1. Recent efforts to streamline regulation and increase competition

The Bases Law

The law aims to simplify rules with a view towards promoting market-entry and competition, and limit state intervention.

- **Public sector reform.** The law gives powers to the Executive to close or restructure public entities, although there are many exceptions related to science, technology, culture, national parks and food safety. It also opens several public companies to full or partial privatisation, except for the national airline, mail services, and public TV; and broadens the range of works that can be granted as a concession to private operators.
- **Administrative procedures.** The law established principles and requirements for administrative procedures, including speed, simplicity, effectiveness and efficiency in procedures; the right to offer and produce evidence, to be heard, and to a decision within a reasonable time. The Law also established the silence-is-consent principle.
- **Labour reform.** New regulations include the creation of a new, simpler system of registering workers, among other changes (Chapter 2).
- **New investment regime (RIGI).** The regime aims to foster large-scale project development in the energy, mining, oil and gas, steel, infrastructure, forestry, tourism, and technology sectors (Chapter 1).
- **Energy.** The law gives greater freedom to companies in the sector. It enhances the scope for energy exports, eliminates price controls, and reduces caps on exports of liquified natural gas.

Examples of measures to simplify regulation and increase competition taken so far

Since December 2023, the government has implemented a series of measures to lower administrative burdens and increase competition in agriculture, transport and retail.

- Implementation of silence-is-consent in administrative procedures.
- Streamlining of the Single Registry of Agribusiness (RUCA), including lower requirements and fees and use of virtual inspections.
- Elimination of technical regulations in several activities. In industry, compliance with domestic product standards is waived if the product complies with international standards.
- Deregulation of long-distance freight and passenger services and opening of railway routes to competition. Concession of a road connecting Argentina with Paraguay, Uruguay and Brazil.
- Deregulation of the ramp services in airports, elimination of fixed prices for airport services and of the previous prohibition to park planes overnight at the domestic airport of Buenos Aires.
- Streamlining of process for operating air transport services with smaller aircraft, and permission to use foreign crews in local flights.
- Streamlining of authorisation for smaller ships, elimination of outdated requirements, and shorter times for transfer of ship property.
- Elimination of the Single Registry for Road Transportation (RUTA). Elimination of special document to drive another person's car.
- Elimination of tax on the purchase of vehicles, of tariffs on EVs, and of most fees and taxes when transferring property of a vehicle.
- Deregulation of gas stations, including size and storage restrictions, and mobile station limitations.
- Elimination of red tape to provide electric charging services.

- Streamlining of electricity consumption certification in household appliances.
- Autonomy of provinces to set their own rules for medicines import, use and sale. Introduction of online sale of medicines. Less requirements to sell painkillers and anti-acids.
- Mandatory use of electronic prescriptions and requirement to prescribe drugs rather than specific brands to enhance consumer choice.
- Reduction in the maximum delay for credit card operators to process payments to SMEs.
- Elimination of price controls measures, including on dairy products and beef.
- Elimination of rent controls.
- Deregulation of market entry in mail and courier services.
- Virtual procedure to request digital signature.
- Automatic renewal for credentials of health professionals.
- Elimination of requirement of hiring a lawyer to receive retirement pension.

Note: Cut-off date was June 2025.

Source: Government of Argentina.

4.1.2. Enhancing the use of regulatory impact assessments

Regulations often have legitimate goals, like protecting consumers or the environment, and weighing the costs and benefits of regulatory change should be an integral part of reform going forward. For this, it is necessary to evaluate the potential competition impact of new regulation systematically and make regulatory impact assessments (RIAs) a common practice to increase stakeholder engagement.

Regulatory impact assessments allow policy makers to evaluate the potential costs and benefits to society of regulatory proposals to help select the most effective solution that achieves the desired objectives while minimising unintended regulatory and administrative barriers to business entry and innovation (OECD, 2024^[5]). The 2012 Recommendation of the OECD Council on Regulatory Policy and Governance urges countries to carry out a Regulatory Impact Assessment (RIA) early into the formulation of new regulatory proposals. The use of RIAs can help to increase policy effectiveness, reduce regulatory uncertainty, and promote transparency and legitimacy, which can increase compliance. This is especially pertinent for small businesses, as for them the financial and administrative costs of complying with new regulations can be more difficult to manage.

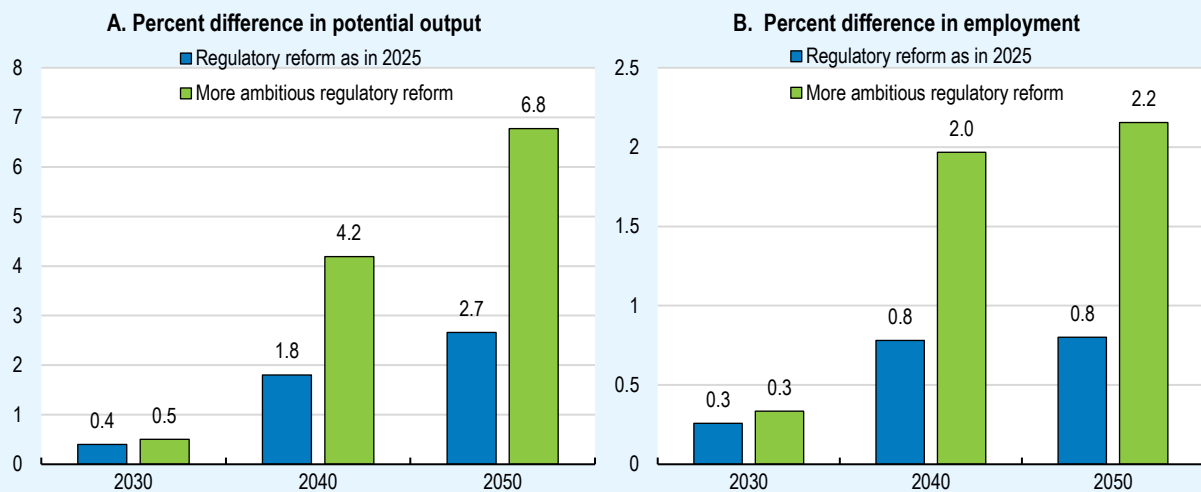
Argentina does not yet have a fully-fledged system for the systematic use of regulatory impact assessments. Several components of ex-ante assessments of proposed regulation have been established, but they have not been integrated in a standardised procedure. The National Securities Commission, the National Gas Regulator (ENERGAS), and the National Electricity Regulator (ENRE) regularly conduct a more elaborate technical analysis when developing new regulations, sometimes including a cost-benefit analysis, but the practice is not yet widespread in other sectors (OECD, 2019^[6]). The case of Argentina contrasts with that of many OECD countries. In the European Union, RIAs are mandatory for legislative and non-legislative initiatives with important economic, environmental and social effects. In Australia, RIAs are mandatory for all regulation sent to the Cabinet. In Canada, all departments and agencies must conduct RIAs on all regulatory proposals (OECD, 2019^[6]). Around 90% of OECD member states require RIAs when new legislation is developed, though some have a threshold below which the requirement does not apply. There is also progress made on this area in Latin America. As of 2022, at least 9 Latin American countries had binding laws, decrees or resolutions that mandate policy makers to conduct RIAs for the development of subordinate regulations, but only Mexico applies them systematically (OECD, 2024^[5]). All Latin American OECD members and other accession countries have improved on their practices to assess possible effects of legislation on competition, an area in which Argentina has scope for further progress (Figure 4.7).

Box 4.2. Boosting potential output and employment through better regulation

The OECD Long-Term Model was used to estimate the effects on potential output and employment of making the regulatory framework more competition-friendly, using as guide the OECD Product Market Regulation (PMR) indicator. This exercise assumes two regulation reform scenarios and compares the potential output and employment trajectories resulting from them with those of a situation where no regulation reform is carried out. The first scenario shows the effects of regulatory reforms already done, that have taken the PMR to its current value in 2025 but includes no further reform. The second scenario assumes further regulatory improvement over the next decade, so that by 2035 Argentina's PMR matches the first quartile of the distribution of the 2025 PMR scores for OECD countries.

The results already show considerable potential gains in output and employment with the reforms that have been achieved so far. With regulation staying as in 2025, by 2050 output is expected to be 2.7% higher compared with a situation where regulation would have remained as in 2018, while employment is projected be 0.8% higher. Under the more ambitious scenario, with further regulatory reforms, gains in output could increase to 6.8% and in employment to 2.2% compared to the 2018 status quo.

Figure 4.6. A more competition-friendly regulatory framework increases output and employment



Source: OECD Long-Term Model. (Guillemette and Château, 2023^[7]).

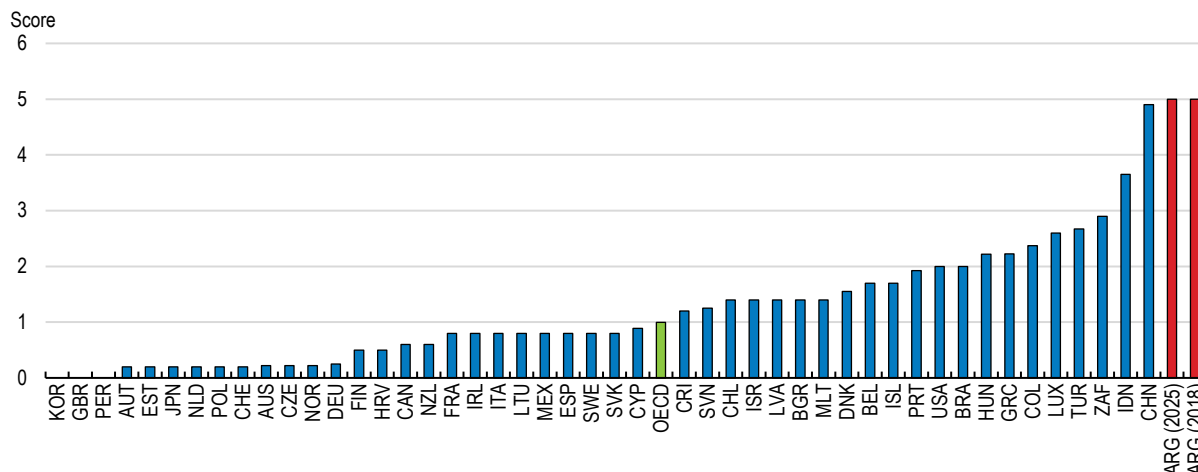
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Argentina could develop a formal system of regulatory impact assessment to establish the principle that evidence must inform policy decisions, and that it is important to evaluate ex-ante the potential effects of proposed regulations. This will help to ensure that these are efficient and effective, and to minimise unintended consequences. The RIA system could incorporate elements of ex-ante assessments already present in some Argentinian institutions, like legal scrutiny and technical analyses of draft legislation, but also incorporate cost-benefit analyses. To develop the system, Argentina could follow OECD's best practice principles for RIAs (OECD, 2020^[8]). The government could ensure commitment and buy-in for the system, by developing a transparent RIA mechanism as part of a comprehensive regulation improvement plan, securing political and stakeholder support, and entrust oversight to an independent unit. The design and implementation of the RIA system could be integrated with other regulatory management tools, be adapted to the legal and administrative system, assign clear responsibilities, and ensure adequate training for public officials. The RIA methodology needs to be simple, flexible and data-based; and it should identify all relevant direct and indirect costs and benefits, including the impact on competition, on the incentives for

businesses to innovate, on employment, on SMEs, on the environment, as well the administrative and compliance costs imposed on businesses and government agencies. Further RIAs should consider multiple policy options, including non-regulatory solutions, to ensure that the chosen one is the most effective, efficient, and proportionate solution to the underlying problem being addressed.

Figure 4.7. Effects of regulations are not assessed, including on competition

Assessment of regulations impact on competition (0 = best – 6 = worst)



Note: Data reflects laws and regulations that were in force by January 1st, 2025, for Argentina; by January 1st, 2024 for Hungary, the Netherlands, the US, Bulgaria, China, Cyprus, Indonesia, Malta and Peru; and by January 1st, 2023 in all other countries.

Source: OECD Product Market Regulation database

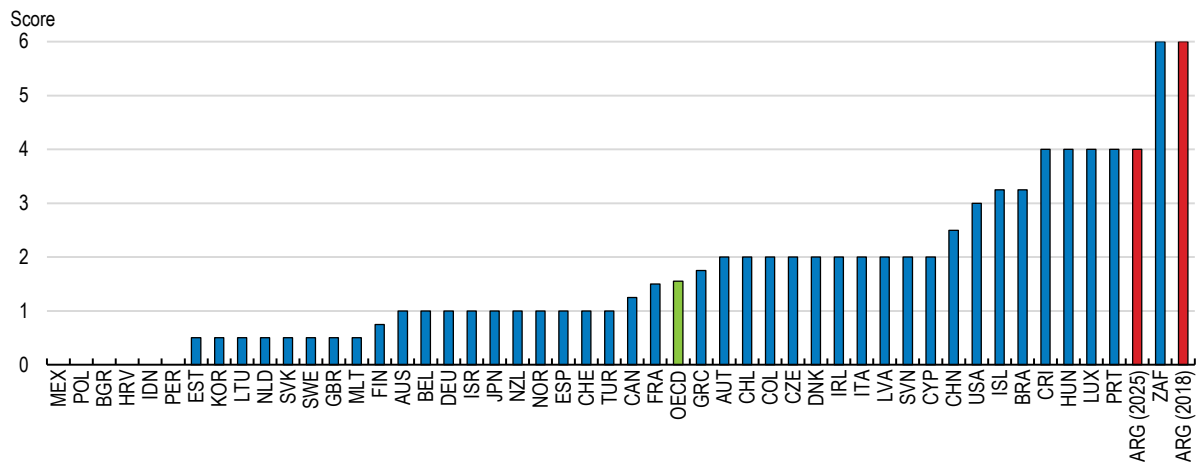
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Formal consultation mechanisms with stakeholders to inform the development of new regulations are also lacking. Argentina is still far from OECD best practices in this regard (Figure 4.8), as there are no requirements for engaging stakeholders when drafting primary laws or subordinate regulations, unless that law increases the price of public services. Several bylaws provide a legal basis for stakeholder engagement, dealing with access to public information from the Executive Power, participative drafting of standards, and open meetings for regulators of public services. A 2017 decree also instructs government agencies to increase citizen participation mechanisms in the rulemaking process and more sophisticated examples of public consultation took place when the subject was expected to be controversial. An online platform for consultation has also been operational. However, the most common way to carry out public consultation has been through *ad hoc* meetings and public audiences (OECD, 2019^[6]).

In 2024, the newly created “Ministry of Deregulation and Transformation of the State” opened the online platform “*Reportá tu burocracia*” (“Report your red tape”) for citizens and businesses to aid in the identification of burdensome, unnecessary or outdated regulations, which is a step in the right direction. To continue those efforts and following good practice principles, like those in the United Kingdom, the government could adjust the scale of consultation to the potential impact of the proposal, performing consultations when it is still possible to influence regulation, avoiding burdening stakeholders, and providing clear feedback (UK Government, 2018^[9]). Regulators and agencies should have the obligation to inform stakeholders which comments will be used to amend the draft regulation, and which ones will be discarded, together with a justification.


Figure 4.8. There is scope to improve stakeholders' engagement in regulation design

Involvement of all stakeholders (0 = best – 6 = worst)



Note: Data reflects laws and regulations that were in force by January 1st, 2025, for Argentina; by January 1st, 2024 for Hungary, the Netherlands, the US, Bulgaria, China, Cyprus, Indonesia, Malta and Peru; and by January 1st, 2023 in all other countries.

Source: OECD Product Market Regulation database

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4.1.3. Improving regulatory coherence across levels of government

Coordinating the design and implementation of regulation across levels of government is crucial to avoid increasing compliance burdens and to ensure the effectiveness of the regulatory system. The 2012 Recommendation of the Council on Regulatory Policy and Governance asks countries to promote regulatory coherence through co-ordination mechanisms across levels of government. Furthermore, it advises countries to identify cross-cutting regulatory issues to promote coherence between regulatory approaches and avoid duplication or conflict of regulations. The Recommendation also urges countries to develop regulatory management capacity at sub-national levels of government.

Argentina is a federal state comprised of 23 provinces and the city of Buenos Aires. Each state is self-governing and holds the powers that are not delegated to the federal government. States are divided into administrative units, called communities in Buenos Aires, and departments and municipalities in the provinces. Each level of government enacts regulations within the scope of its authority, and implementation of federal regulations occurs at the local level. Regulatory improvement must thus consider the competences, resources and capacity of actors at each level of government.

Argentina lacks a consistent strategy to support subnational governments to enhance regulatory quality. Procedures and regulations depend on the sector and location of the firm, with little coordination across levels of government. This can cause gaps in policy design and regulatory overlaps, which are a barrier to investment and entrepreneurship, and can foster corruption. There are no permanent coordination mechanisms to promote regulatory coherence with subnational governments (OECD, 2024^[5]). The government's support to subnational governments rests on *ad-hoc* and punctual vertical co-ordination mechanisms, like the federal councils where local and national authorities propose regulatory changes on topics dealing with modernisation, energy, environment or health (OECD, 2019^[6]). Adhesion to the councils, however, is voluntary for the provinces.

Recent months have seen some progress in this area. Subnational governments are streamlining the delivery of public services, especially through digitalisation. Furthermore, the national government is aiming to reduce regulatory overlaps. For example, in 2024 the National Body for Water and Sanitation Works was closed, as it duplicated supervision also performed at the municipal and provincial level, and a recent decree has allowed provinces to set their own rules for medicines import, use and sale, without the need for authorisation from the

national government. Establishing a formal mechanism to coordinate harmonisation and simplification efforts across levels of government can improve regulatory quality (Box 4.3). In 2018, Argentina established the regulatory policy group, bringing together agencies responsible for promoting regulatory quality, which could become the main contact point between federal agencies and subnational governments to seek regulatory coherence. Argentina could also involve subnational administrations through notification mechanisms when proposed regulations are likely to impact subnational governments and foster the exchange of experiences and good practices between agents at all levels of government (OECD, 2022^[10]).

Box 4.3. Coordinating regulation across levels of government

Mexico

The National System for Better Regulation aims to harmonise the regulation at the federal, state and municipal levels. The System is formed by:

- The National Council on Better Regulation
- The National Strategy on Better Regulation
- The National Commission on Better Regulation (CONAMER)
- The Better Regulation Systems at sub-national levels
- The National Observatory on Better Regulation.

The National Council on Better Regulation is responsible for co-ordinating the national policy. It includes the co-ordination with the Better Regulation Unit of every state of the country. Each state has issued a law on better regulation to implement the better regulation policy that the National Strategy mandates.

The National Observatory on Better Regulation is an instance of citizen participation in charge of monitoring and evaluating the performance of the better regulation policy at sub-national level, by assessing policy, institutions and tools.

United Kingdom

The Primary Authority scheme in the United Kingdom is a mechanism to boost regulatory delivery at sub-national level. It is a statutory scheme in which a local authority takes on responsibility for providing advice and guidance to businesses on how they are regulated by local authorities. Primary Authority covers regulation on environmental health, trading standards and fire safety, and is conducted through a partnership between businesses and a chosen local authority.

At the national level, the Office for Product Safety & Standards (OPSS) from the Department for Business, Energy and Industrial Strategy (BEIS) is responsible for Primary Authority and manages the Primary Authority Register.

The scheme provides an effective means to meet business regulations and assess the suitability of business control systems. For regulators, it ensures clarity over where responsibility lies, improves coherence of local regulation, and develops staff expertise via partnerships.

Source: (OECD, 2021^[11]). OECD Regulatory Policy Outlook 2021

4.1.4. Improving the insolvency framework

Low entry barriers are key for ensuring vibrant competition in markets, but low exit barriers are equally important to ensure the flow of resources from low-productivity to high-productivity firms. Effective insolvency regimes allow the smooth exit of ailing businesses, freeing capital for more productive and innovative firms, ultimately raising productivity (Adalet McGowan, Andrews and Millot, 2017^[12]).

Argentina's insolvency procedures are in line with the Latin America average, but certain challenges continue to hinder the efficiency of the regime. One issue is that only debtors can file for reorganisation proceedings and out-of-court restructuring agreements, which leaves creditors less protected. Proceeding can take a long time, around 2.4 years versus 1.8 years on average for the OECD (World Bank, 2020^[13]), carrying additional costs for parties involved, and prolonging uncertainty for debtors and creditors. This results in often low recovery rates of only 19% compared with 67% on average for the OECD, while the total cost in terms of percent of the estate is 16%, nearly double the OECD average (World Bank, 2020^[13]).

Streamlining resolution procedures, for example by setting up specialised bankruptcy courts, can help reduce duration and cost of resolution procedures (OECD, 2017^[14]). Evidence suggests that at least some degree of specialisation in expertise of judges and bankruptcy practitioners leads to faster and cheaper procedures (Adalet McGowan and Andrews, 2016^[15]).

4.2. Strengthening the role of the competition authority

Argentina has significant scope to improve the institutional design of its competition authority. The 2018 Law for the Defence of Competition (LDC) is the legal framework governing practices that may hamper, limit, restrict or distort fair competition, and block access to free markets. The LDC mandates the creation of the National Competition Authority (NCA), a decentralised and financially independent agency with wide-ranging national competency. The law also mandates the creation of three bodies under the umbrella of the competition authority: the National Tribunal for the Defence of Competition, the Secretariat of Instruction of Anticompetitive Behaviours, and the Secretariat of Economic Concentrations. The Tribunal has the mandate to issue non-binding opinions on the impact that laws, regulations and other instruments may have on competition in product markets. The two secretariats are charged with investigating anticompetitive conducts and carrying out preliminary analysis on economic concentrations, respectively. However, as of 2025, the NCA and its subsidiary bodies have not yet been created. The national government has only recently regulated the open competitive selection process to select the members of the National Competition Authority and expects to have a fully functioning NCA in the following months. In the meantime, the instances that issue rulings and resolve all competition cases under the LDC are the National Commission for Competition Defence (CNDC), and the Secretariat of Industry and Commerce (SIC), an arrangement deemed as temporary by the 2018 law. The CNDC is not independent, but a decentralised body under the SIC, and thus not sufficiently insulated from political influence.

Several Latin American countries have already created independent and autonomous competition authorities. The competition authorities of Chile, Brazil and Peru, for example, have stronger legal and operational independence, and do not depend on any other government agency or service. Creating the National Competition Authority should also entail providing it with enough resources to properly carry out its tasks, including staff with skills to deal with cases involving digital markets. The CNDC currently operates with only 2 employees per million inhabitants, compared with 4 per million in the region and 10 per million in the OECD. Moreover, its budget per employee, of around EUR 15 000, is significantly below the OECD average (CNDC, 2024^[16]; OECD, 2024^[17]).

The rules governing antitrust and cartel activities have seen some progress recently. In 2024, the authorities created a Leniency Programme, to eliminate or reduce fines for natural or legal persons who come clean and admit anticompetitive behaviour before the CNDC. Increasing incentives to self-report could help increase the number of investigations. In Latin America, by 2020 around 47% of cartel investigations began thanks to leniency programmes (World Bank Group, 2021^[18]). Incorporating a whistleblowing programme could also help improve cartel detection. Several practices that are common in antitrust jurisprudence such as collective boycotts and sham litigation could also be explicitly described in the law, even if the current lack of an explicit description in the law does not restrain the CNDC to punish these conducts. A collective boycott happens when a group engaged in collective bargaining decides not to provide or purchase goods or professional services from a specific business unless the business agrees to the group's terms and conditions. Sham litigation refers to the use of legal actions to disrupt the operations of a competitor rather than seeking legitimate legal resolution to conflicts.

Market studies can help competition authorities to gauge whether there are competition problems in a sector, that are not related to merger reviews or antitrust investigations. They are conducted by the competition authorities of

nearly all OECD countries. The CNDC also carries out market studies, notable recent examples including the beef and liquid fuels markets in 2023. However, professional services sectors should be more prominent among these studies.

Some mergers can harm competition but fall below the threshold for review, especially in digital markets. Several OECD countries, including Belgium, Italy and Ireland, have implemented reforms to allow below-threshold merger investigations. Establishing these powers in Argentina could improve the implementation of the merger control system in transactions that would otherwise go undetected by the authority. Furthermore, a provision in the law stipulating ex-ante evaluation of mergers has been suspended for a year pending the establishment of the National Competition Authority. This delay in implementing the law can hinder the effective application of remedies.

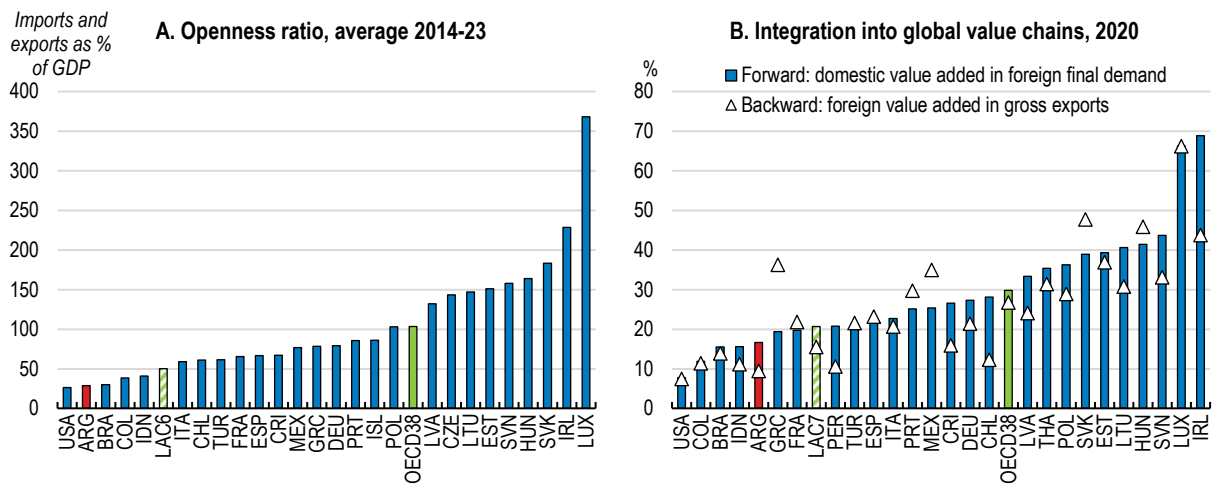
Competition advocacy can go beyond the realm of the competition authority. The competition authority should act in coordination with sectoral regulatory entities, and other institutions may also be useful. For example, Australia's Productivity Commission has played a crucial role in raising awareness about the merits of pro-competition reform (Productivity Commission, 2023^[19]).

Argentina could also take guidance from the [OECD's Competition Assessment Toolkit](#). The toolkit aids governments in removing competition barriers by offering detailed technical guidance for performing competition assessments, including key issues to consider and a step-by-step guide. In the region, the toolkit has been applied to conduct assessments in the ports and civil aviation sectors in Brazil and the medicines and meat sectors in Mexico. Argentina could consider applying the toolkit in sectors where competition is lagging, like professional services.

There are also provincial regulatory distortions that favour public banks. Some provincial public banks have the exclusive right to receive salary deposits for national and provincial government employees, and to handle deposits from the judicial system and the national public administration. Higher geographical reach of public banks might have justified these privileges in the past, but currently this discriminatory treatment of private banks undermines competition in the financial system, hurting consumers. The competition authority recognised this in a recent recommendation urging the revision of two laws that give the Bank of the Province of Buenos Aires (BAPRO) exclusive rights to handle municipal employees' salaries. In 2024, Argentina also eliminated regulatory privileges at the national level favouring the national public airline (Aerolíneas Argentinas), bank (Banco Nación) and energy company (YPF). To enhance competition, and following the national government's initiative, provincial privileges favouring public enterprises should also be eliminated.

4.3. Increasing productivity through trade and foreign direct investment

Argentina has remained a fairly closed economy for most of its recent history, which limits its growth potential. Policies to promote industrialisation through import substitution contributed to making the economy significantly less integrated into world markets than emerging economies of similar size, and the sum of its exports and imports represents less than 30% of its GDP (Figure 4.9, Panel A). Imports and exports are more than 40% percent below the estimate from a model that accounts for geographic remoteness and other factors (World Bank Group, 2024^[20]). Argentina's participation in global value chains (GVC) is one of the lowest among the OECD and accession economies (Figure 4.9, Panel B). The share of domestic value added embodied in foreign final demand (forward participation) stems mainly from foodstuffs like soybeans, and chemical products like petroleum and alcohols (World Bank Group, 2024^[20]), and remains well below its level at the beginning of the millennium, although it has recovered in recent years. Backward integration is even lower and is stagnant, showing that local exporters make little use of foreign inputs.

Figure 4.9. Argentina is little integrated into the world economy

Source: Panel A: OECD National Accounts Statistics. Panel B: 2023 OECD Trade in Value Added database.

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4.3.1. Reducing import restrictions

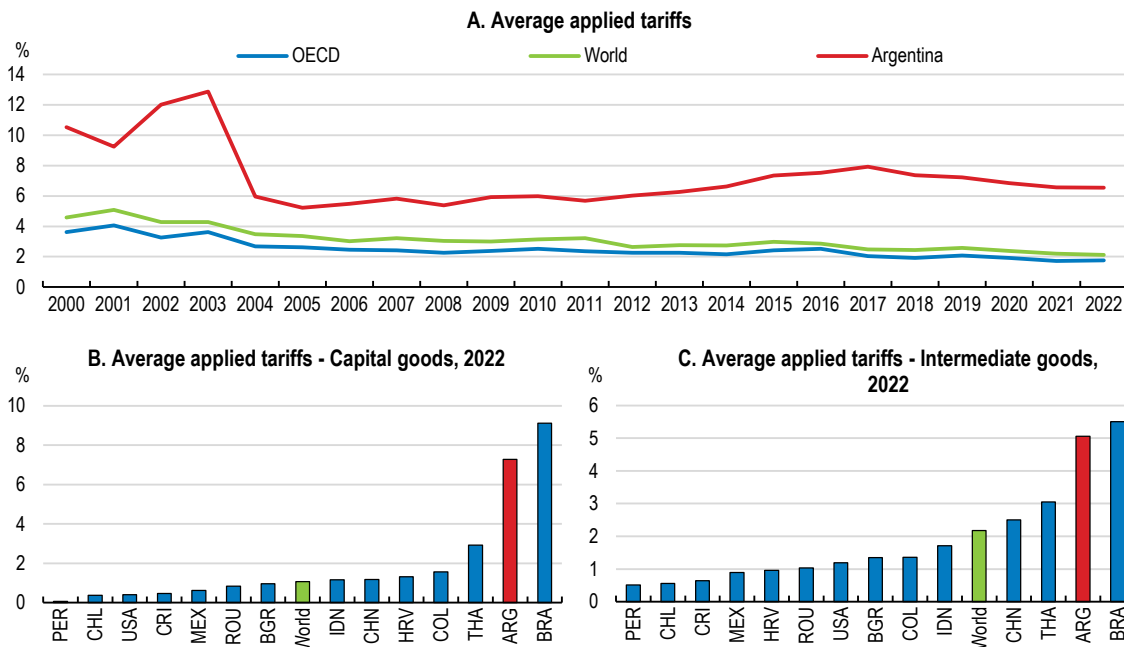
Argentina has much to gain from easing access to imports. Domestic firms would be able to obtain higher-quality intermediate goods and more advanced equipment that can foster innovation and productivity gains. Empirical evidence for Argentina points to a robust relationship between the use of imported inputs, productivity, and export propensity (Brambilla, Depetris Chauvin and Porto, 2017^[21]). Estimates suggest that a 50% reduction of input tariffs is associated with average increases of 7% in sectoral employment, 5% in production and 7% in value added, besides a 19% increase in exports value added (OECD, 2019^[22]). Research also suggests that consumer purchasing power could increase by up to 25% on average under the extreme case of complete removal of all trade barriers, with the poorest segments of the population benefiting the most (OECD, 2019^[22]).

There is room for further tariffs reductions


Recent progress in tariff reduction should continue. While tariffs have been reduced consistently in many countries over the last two decades, they have increased in Argentina. In 2022, average tariffs were significantly higher in Argentina than in all Latin American OECD members and all accession countries (Figure 4.10). This was the case not only for consumer goods but also for intermediate and capital goods, thus raising consumer prices but also hurting the competitiveness and productivity of firms and their ability to create jobs. In 2022 Mercosur members approved reducing the common external tariff for the first time since the common tariff scheme's inception in 1995, but this reduction excluded products in highly protected sectors, like textiles and apparel, footwear, automotive, and dairy products. Mercosur member countries have the right to undertake unilateral changes to common tariffs in about 30% of tariff lines, an avenue which Argentina should continue to use to its full potential.

In 2024, Argentina cut tariffs on more than 90 products, including both consumer and capital goods, as well as inputs like textiles, plastics, machinery, and agrochemicals (Box 4.4). Authorities estimate that these cuts have reduced the average applied tariff by one third. Mercosur is considering expanding the list of exceptions to the common external tariff. Reducing tariffs on intermediate inputs and capital goods should continue to be a priority, especially for those not produced domestically, as the adjustment costs in those cases would be small. The temporary admission regime allows firms to import inputs without paying tariffs provided that the final product is exported. This regime could be expanded to include firms that also produce for the domestic market.

Figure 4.10. Trade tariffs are high in international comparison



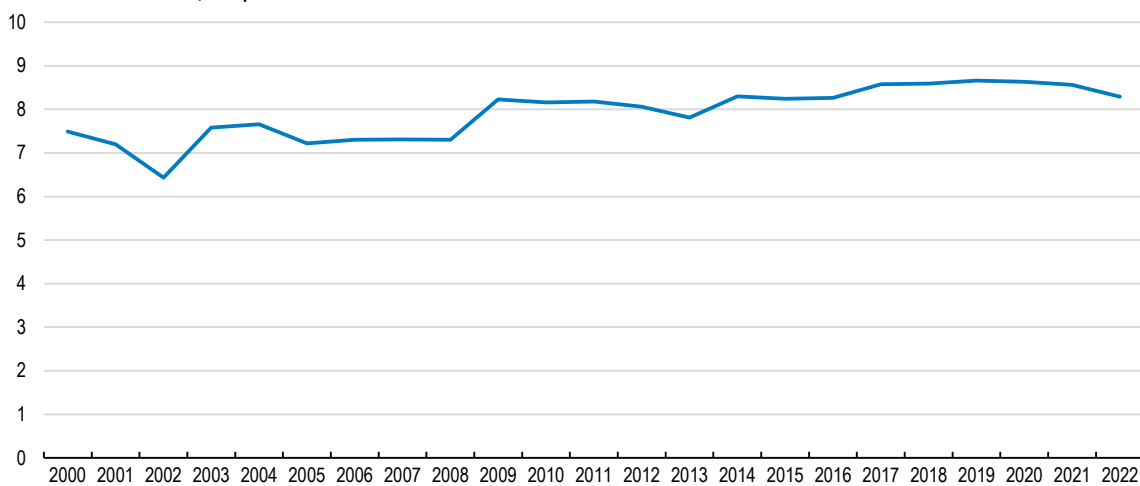
Note: Data are weighted averages of effectively applied tariffs (AHS) across single products in each product class, using import values of each product as weights. Source: World Integrated Trade Solution database (WITS).

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Tariff administration can be further improved. The government recently enhanced the transparency and predictability of tariff administration by formalising the classification procedure for imported goods, which will allow importers to know beforehand what tariffs will be applied. The variation in tariff rates across products, known as tariff dispersion, has increased in Argentina (Figure 4.11). There is evidence that high levels of tariff dispersion are associated with a higher chance of a product being classified in the “red lane” of stricter import checks (Dominguez Prost and Scattolo, 2024^[23]), which can cause delays and hamper competitiveness for importers. Cutting remaining high tariffs for products that have lower tariffs under trade agreements like Mercosur can decrease tariff dispersion.

Figure 4.11. Tariff dispersion has increased

Tariffs standard deviation, all products



Source: World Integrated Trade Solution database (WITS).

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Reducing non-tariff trade barriers

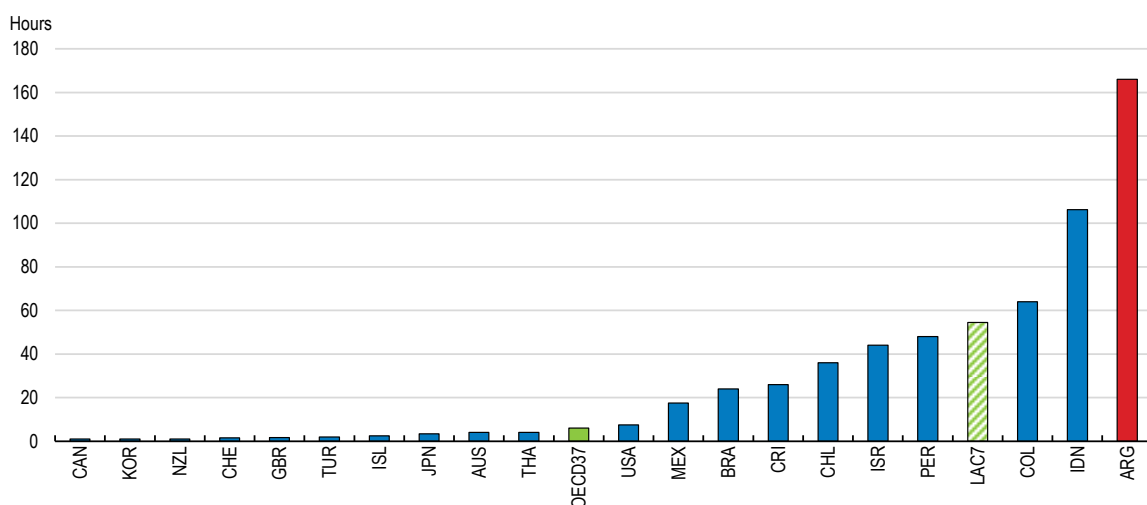
Argentina has made considerable progress to reduce the extensive use of non-tariff measures (NTMs) (Box 4.4). In early 2024, the government removed the automatic and non-automatic import licensing regime, and the SIRA import system. Some requirements in the "red lane" of additional checks have been eased, many types of merchandise no longer must go through it, and some technical requirements have been eased for many products, including food, industrial supplies, and manufactured products. Authorities also relaxed some foreign exchange controls and import restrictions and reduced delays in foreign exchange access, including by passing a one-off tax amnesty that allowed the declaration of previously undeclared FX assets, which increased foreign exchange deposits and rapidly narrowed the foreign exchange gap to single digits by December 2024 (Chapter 1). An assessment of the existing stock of NTM has been initiated to ensure that they are based on the best available technical information, proportionate to their intended goals, and consistent with internationally agreed standards (OECD, 2019^[24]), with a view towards eliminating those that do not meet these criteria.

The recent removal of currency restrictions entailed a significantly easier access to the foreign exchange market for importers. Argentina has reduced the time frame for SMEs to access foreign currency to pay for imports. Previously, SMEs could access foreign currency 30 days after the goods arrived at the destination port. Now, they can access it as soon as the purchased product is dispatched at the port of origin.

Non-tariff measures are estimated to add a tariff equivalent of 22 percent to import costs, with higher increases in manufacture, and in agriculture and food (Martínez Licetti et al., 2018^[25]). NTMs are a drag on Argentinian importers' productivity, as in 2019 they dedicated an estimated 166 hours to prepare import documentation requirements, far more than in any OECD member and accession country (Figure 4.12). Even with the considerable recent progress, the time to import remains higher than average OECD countries. Recent research suggests that a firm for which 10% of their inputs are affected by non-automatic import licences reduces their total imports by 18%, which leads to a 5% reduction in that firm's exports (Bernini, García-Lembergman and Juárez, 2024^[26]). NTMs can also lower employment. A 10-percentage-point increase in a firm's exposure to non-automatic import licenses is estimated to lead to a 2% fall in employment, to a reduction in hours worked, and to a fall in the probability of a firm remaining active (Bernini, García-Lembergman and Juárez, 2024^[26]). Estimates suggest that cutting NTM costs in Argentina can increase household income per worker more than twice as much as tariff reduction (OECD, 2019^[24]).

Figure 4.12. Regulations impose significant costs to importers

Time to import, documentary compliance, hours, 2019



Source: World Bank, World Development Indicators.

StatLink  <https://stat.link/jsqroi>

Box 4.4. Recent policy measures to reduce trade barriers

Exports

- Elimination of export taxes on beef, pork and dairy products, and a reduction of 25% on other meat products.
- Temporary elimination of export taxes on soybeans, corn, sunflower, and wheat until the end of June 2025, and permanent elimination of export taxes on peanuts, sugar, and non-crop agricultural products.
- Elimination of quantitative export restrictions on wheat and corn, and of the ban on exports of live cattle.
- Elimination of all export requirements for food products, except for those required by the destination country.
- Elimination of requirement to provide "reference values" when reporting exports.
- Reduction in the amount of guarantees for exports and enabling of new ports and establishments to be used as bonded warehouses for exports.

Imports

- Elimination of the 7.5% "País tax" on all imports.
- Tariff reductions on more than 90 import lines including appliances, tires, motorcycles and bicycles, herbicides, plastics, polyester, Lycra and several lines of machinery.
- Tariff elimination for fertilizers.
- Capping antidumping measures to 5 years (3 years initial, possibility of single 2-year extension).
- Reform of the Antidumping System to establish mandatory consideration of the public interest by the National Commission for the Defence of Competition and the Under-secretariat for Consumer Protection.
- Removal of the automatic and non-automatic import licensing regime, and of the SIRA import system.
- Formalisation of the classification process of imported goods.
- Removal from the "red lane" of additional checks and controls of 36% of merchandises subject to it by law.
- Elimination of restrictions on importing used capital goods.
- Elimination of requirement of having local industry representatives issue opinions to allow entry of "red lane" imports.
- Elimination of the foreign exchange information registry for exporters and importers.
- Automatic import approval for food products certified in countries with high sanitary standards.
- Elimination of authorisation and registry requirements for samples, products, establishments, utensils, and packaging related to a wide range of products.
- Streamlining of technical regulations for imports by aligning with international best practices.
- Permission to use fiscal depots for merchandise entry checks.
- Streamlining of procedures to import veterinary products.
- Increase of the number and total allowance of personal duty-free online purchases per year.
- Introduction of an advance ruling procedure for queries by importers.
- Elimination of pre-declared value for imports.

Source: Government of Argentina.

4.3.2. Improving conditions for increasing exports and GVC participation

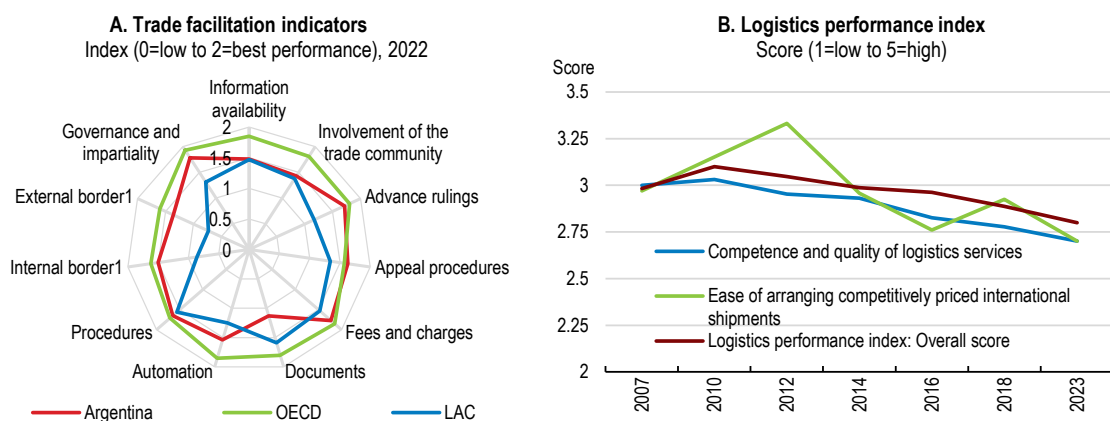
Stronger export performance will be key for Argentina to reap new opportunities and put behind recurrent current account imbalances. Currently, the agricultural sector accounts for a large share of exports, but there are also successful exporters and significant potential in other sectors.

One way to strengthen current exports would be to continue the elimination of the explicit export tax, whose revenues come mostly from the highly productive agriculture sector. Export taxes work against the needed outward re-orientation of the economy and can only be justified by the emergency character of the situation. In fact, export taxes have regularly been a significant source of fiscal revenue in times of crises (Chapter 1). These export taxes curb the returns on investment into agricultural production. While this leaves agriculture sufficiently profitable in the core of Argentina's highly productive agricultural areas, more marginal lands or those that require more investment will export less under the current export tax. Frequent changes in the rates and scope of export taxes have further reduced investment incentives by creating high uncertainty for exporters. For example, since 2020, export tax rates on soy products and other crops have been raised several times with no prior announcement (World Bank Group, 2024^[20]).

Research suggests that removing export taxes would increase production and employment (Piñeiro et al., 2019^[27]). Plans to reduce and eventually eliminate export taxes have been announced, although so far without a clear timeline. In the context of a broader tax reform that would open less distortive revenue sources, export taxes should be phased out according to a clear timeline (Chapter 1). In 2022, export taxes were already eliminated for services exports, and in 2024, the government temporarily cut or eliminated export taxes on several agricultural products affected by adverse climate events (Chapter 1).

Reducing logistics costs for exporters through better trade facilitation would be another way to strengthen exports. Argentina's performance was below the OECD average in several areas of trade facilitation in 2022, especially regarding the harmonisation and simplification of trade-related documents, and availability of trade-related regulations and information (Figure 4.13, Panel A). Logistics challenges have become more acute recently, reducing the competitiveness of some of Argentina's exports (Figure 4.13, Panel B). Recent measures try to address these challenges. The new *ExportaSimple 2.0* platform facilitates exports through logistics operators (OLES), which are companies certified by customs authorities to assist SMEs with services like pickup and delivery, and customs procedures. Argentina has also taken steps to reduce bureaucratic barriers affecting production and exports, including measures to simplify procedures and align with international standards (Box 4.4). Recent initiatives include the creation of the Agro-industrial Differentiation Schemes Directory to support compliance with international norms, expansion of the "Argentine Food Seal" to 83 companies complying with quality protocols, and promotion of value-added exports through product traceability and quality certification.

Figure 4.13. Trade facilitation and logistics need improvement



1. Internal border agency co-operation and External border agency co-operation

Source: Panel A: OECD Trade facilitation database. Panel B: World Bank, Logistics Performance Index database.

StatLink  <https://stat.link/phcjbj>

Argentina also has a Single Window for Foreign Trade (VUCEA) in place, with nodes in 11 provinces catered to regional needs. However, VUCEA works mainly as a portal to centralise information and give access to procedures. Interconnection with customs began only in 2023 and for a few product categories. Other limitations include the fact that institutions exchange documents rather than harmonised data, often relying on scanned paper documents rather than genuine data exchange. Moreover, VUCEA does not allow payments of fees and duties, and several important procedures like customs declarations or phytosanitary certificates are still not integrated (ALADI, 2023^[28]). Recent efforts aim at turning VUCEA into a digital trade facilitation tool that centralises all necessary information for import, export, and customs transit procedures. It now offers features such as tariff preference calculators and quota tracking, providing traders with streamlined and transparent access to legal, fiscal, and statistical data for agro-industrial products. Going forward, Argentina should ensure full interoperability between VUCEA, customs and other agencies to cover all relevant export procedures; include payment services for fees and duties; and going fully digital in data exchanges.

Although distortions persist in the agricultural export sector, Argentina has taken significant steps to reduce them. Quantitative export and import restrictions have been eliminated, including a legal commitment not to reapply them. Import licenses for inputs have been removed, tariffs on imports have been lowered, and export duties on dairy and pork products have been eliminated. Export duties on some agricultural products including processed foods, beverages, sugar and rice have also been eliminated (Box 4.4). Temporary reductions have been introduced for key export commodities including soybeans and selected cereals. Complementary efforts include regulatory simplification and trade facilitation across agricultural agencies.

Beyond its current exports with their high concentration in agriculture, Argentina has potential for export diversification. While the traditional exports in which it has long had a comparative advantage are a key asset, it is worth exploring sectors with untapped potential. This would also mitigate the effects of adverse weather shocks or price fluctuations on commodity markets.

Data suggest that Argentina's comparative advantage is not limited to low-value-added activities. An analysis of revealed comparative advantage (RCA), which measures how much a country exports of a good compared to an average country, points to strong potential in several industries, far beyond those that are intensive in natural resources (OECD, 2019^[22]). These industries include chemicals, pharmaceuticals, basic metals, rubber and plastic products and machinery, but also biotechnology, and automobiles. Harnessing some of these opportunities would require bridging skill mismatches and reducing trade barriers, in addition to ensuring future macroeconomic stability (World Bank Group, 2024^[20]).

New export opportunities will also arise in the context of the global energy transition. Global lithium demand is projected to rise given the role of lithium in the production of batteries, and Argentina has the third largest reserves of lithium in the world. This confers Argentina strong potential to further develop its lithium industry, including towards higher-value-added products (Chapter 3).

Success in export diversification is usually underpinned by a comprehensive policy mix. Research suggests that policies targeting human capital accumulation, trade openness, and investment can help to diversify the export structure (Swathi and Sridharan, 2022^[29]), with reduction in trade barriers being the main driver among commodity exporters (Giri, Quayyum and Yin, 2019^[30]). A strategic shift towards trade openness and export orientation, investment in human capital, and dedicated institutions to attract foreign investment are often behind success stories of diversifying exports beyond commodities (Delechat et al., 2024^[31]) (Box 4.5).

New bilateral trade agreements could help Argentina and its Mercosur partners open new markets. Trade partner diversification has been found to be associated with higher growth (Önder and Yilmazkuday, 2016^[32]), and lower aggregate volatility for high-volatility countries (Ardelean, León-Ledesma and Puzello, 2024^[33]). According to Mercosur rules, bilateral negotiations on free trade agreements are conducted by the bloc and not its individual members. Several free trade agreements negotiated by Mercosur are pending ratification. The free trade agreement with the European Union reached a political agreement in December 2024. Research suggests that the EU-MERCOSUR agreement would increase Argentina's income, total trade, and output, with the largest expansion occurring in food and agriculture, would raise wages of both skilled and unskilled workers, and would reduce poverty

(World Bank Group, 2024^[20]). Mercosur has also reached a free trade agreement with Singapore and is in the final stage of negotiations with the European Free Trade Agreement (Iceland, Liechtenstein, Norway, and Switzerland). Rapid progress on the ratification of these treaties would help Argentina seek new export opportunities, and Argentina has undertaken strong efforts to fulfil all formal requirements for this to happen.

Box 4.5. Diversifying exports in commodity exporters – the cases of Costa Rica and Malaysia

Costa Rica

Costa Rica attracted FDI inflows that underpinned its shift from an economy based on agricultural commodity exports to an exporter of higher-value added products like microchips, medical instruments, and knowledge-intensive consulting services. This transformation can be credited to:

- Macroeconomic stability, a long-standing commitment to openness to trade and capital flows, a geographic location close to major markets, and strong property rights protections.
- Enabling conditions like adequate infrastructure, political stability, universal access to health and education, and a strong commitment with sustainability.
- Creating free-trade zones to provide transparent and targeted support to strategic high value-added sectors, to create economic clusters, and enhance value chain linkages and spillovers.
- Strong and effective public institutions, like investment and export promotion agencies, help foreign firms to establish and promote linkages with domestic firms.
- Periodical evaluation of support policies to adapt them to changing circumstances.

Malaysia

The collapse of global rubber and tin prices in the early 1980s prompted a shift in commodity output, with crude oil, natural gas and palm oil becoming Malaysia's dominant commodities. Malaysia has pursued a diversification strategy to reduce its vulnerability to future shocks and promote integration into higher value-added activities. The electronics and electrical industry have been the main contributor to Malaysia's integration into global value chains, producing components such as semiconductors for mobile devices and automotive components, as well as computer parts. This shift was supported by:

- Increased participation of the private sector in the economy.
- Trade liberalisation and diversification in production, as well as diversification of export markets.
- Taxation and incentive policies along with R&D investments to develop manufacturing industries and attract foreign investment.
- Creation of free-trade zones to attract foreign manufacturing firms with lower costs.
- Investment in its human capital in management, engineering, and other technical fields.

Source: (OECD, 2023^[34]), OECD Economic Surveys: Costa Rica; (Koen et al., 2017^[35]) Malaysia's economic success story and challenges; (Blankenship et al., 2024^[36]) When do petrostates diversify their exports? Urgency, interests, and policy design in Egypt, Kazakhstan, and Malaysia.

Besides fully-fledged bilateral agreements, Argentina could bilaterally negotiate lower non-tariff barriers with its export destinations, as it has done in the past, and assist firms in getting internationally recognised quality certifications for their products to access more markets (OECD, 2019^[22]). Argentina started exporting to around 70 new markets in 2024 and 20 more in early 2025, covering 19 products across 12 destinations. Argentina has also expressed interest in joining the Americas Partnership for Economic Prosperity, an initiative organised by the United States Department of State to establish an enduring forum for regional competitiveness and investment mobilisation.

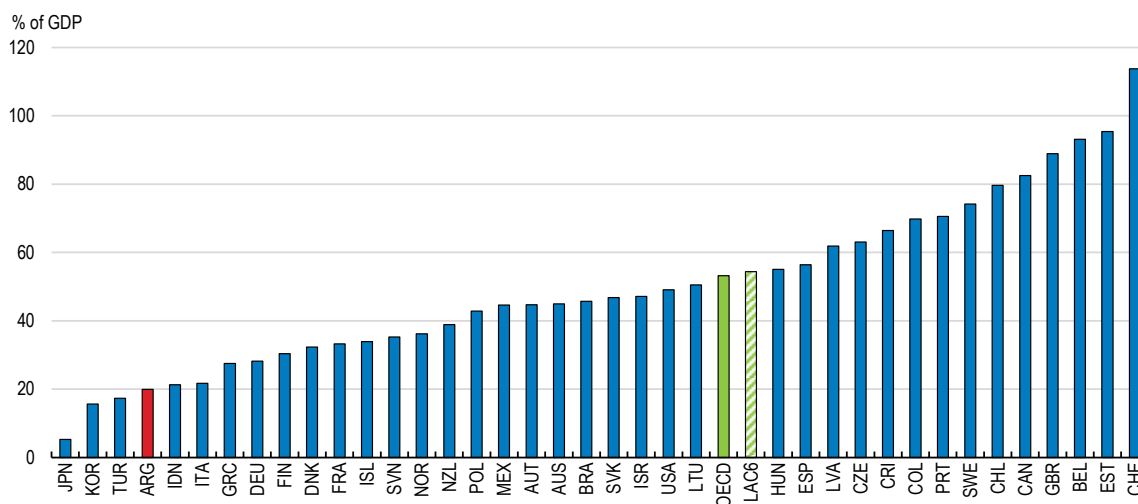
4.3.3. Attracting foreign direct investment to boost exports

Foreign direct investment has helped many countries become more export-oriented, given the global focus of many multinational enterprises. Argentina receives far less foreign direct investment (FDI) than Latin American OECD countries (Figure 4.14), which stems from several connected factors. Economic and political instability have created planning uncertainty, which has been compounded by a regulatory framework that has often lacked consistency and transparency, with frequent changes in tax policies, tariffs, foreign exchange controls, and export restrictions.

Moreover, FDI inflows are concentrated in highly protected manufacturing activities, like vehicles, food products and chemicals. These FDI flows are mainly oriented to the domestic market, possibly to reap rents derived from high import protection. Technology and knowledge spillovers are usually lower from this type of foreign direct investment compared to efficiency-seeking investments (Barrientos, Gereffi and Rossi, 2012^[37]), which limits the positive effects of FDI on domestic productivity and employment.

Figure 4.14. Argentina attracts relatively little FDI compared to other emerging countries

FDI inward positions, 2023



Notes: Data exclude Special Purpose Entities (SPE).LAC6 is an unweighted average, and the OECD is a weighted average.

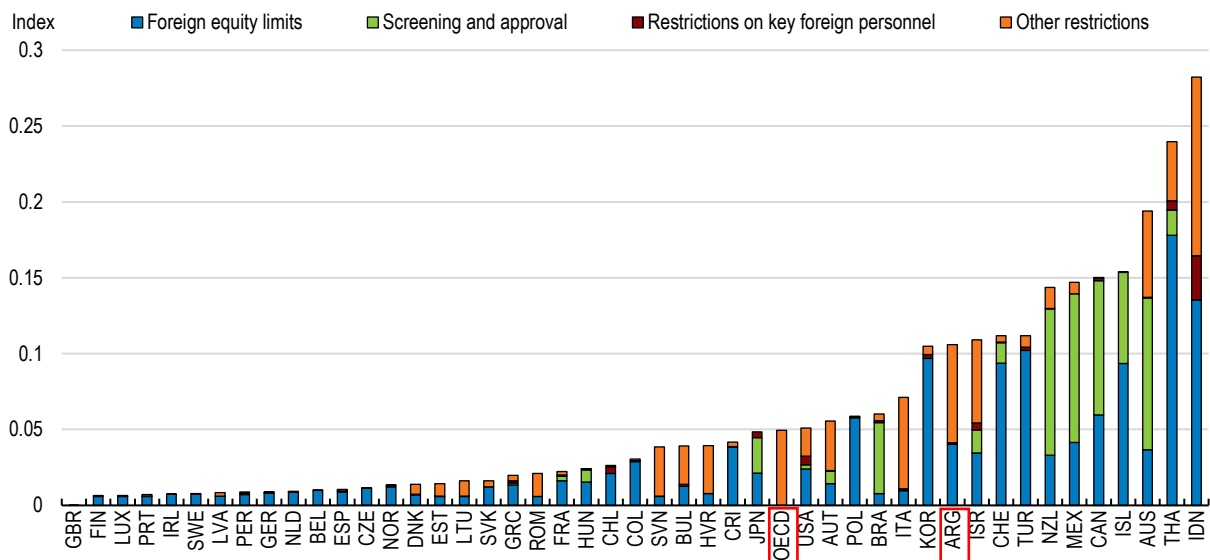
Source: OECD database - FDI main aggregates, BMD4.

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A natural first step to attract more FDI would be to relax restrictions on it. According to the OECD FDI Restrictiveness Index, Argentina's regulations towards potential foreign direct investors have been more restrictive than the OECD average (Figure 4.15). Argentina's restrictions of FDI include foreign equity ceilings, for example in the media sector, and stringent conditions for companies to transfer profits and dividends abroad. In recent months, some FDI restrictions have been eased. Argentina repealed a law that restricted foreign ownership of bodies of water, rural productive lands, and areas along borders, which limited investment in real estate and agriculture. Statutory foreign equity restrictions were also lifted on air transport services, allowing foreign individuals and entities to own and operate domestic air services. OECD research suggests that easing FDI restrictions by about 10% as measured by the OECD FDI Restrictiveness Index could increase bilateral FDI in stocks by 2.1% on average, with stronger effects for the services sector (Mistura and Roulet, 2019^[38]). There is also evidence that the complexity of the tax system can significantly inhibit the establishment of FDI between countries, with a 10% reduction in tax complexity being comparable to a one percentage point reduction in effective corporate tax rates (Lawless, 2013^[39]). Reducing administrative costs derived from burdensome business regulation has also been shown to increase FDI stocks (Torriti and Ikpe, 2015^[40]).

Figure 4.15. Regulation hampers Argentina's attractiveness for FDI

OECD FDI Regulatory Restrictiveness Index, 2023



Source: OECD FDI Regulatory Restrictiveness Index database.

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Tax incentives to attract FDI can play a role, but should not be the only policy lever, especially given Argentina's challenging fiscal situation. Tax incentives should be designed to address externalities and frictions that can hinder investment without imposing significant costs, like diminished tax revenue and inefficient resource allocation (OECD, 2025^[41]), and their cost-effectiveness should be regularly assessed. Recent research suggests that tax incentives usually are not the main determinant of location choice because firms first pick locations that satisfy their basic production requirements and then seek incentives (Katitas and Pandya, 2024^[42]; Johnson and Toledano, 2022^[43]). Multinational enterprises often favour governance reforms, development of local suppliers, investments in domestic hard and soft infrastructure, human capital, and upholding the rule of law, characterised by predictability, transparency, credibility, accountability, and fairness of rules (OECD, 2024^[44]). Investment promotion agencies (IPAs) from OECD countries report that the provision and promotion of tax and non-tax investment incentives are the least important elements of their strategies, while measures related to image-building, investment facilitation and investment generation play a more central role (OECD, 2024^[44]).

Argentina has made progress on several of the dimensions mentioned above. Besides regulatory improvements (section 4.1), recent efforts to attract foreign investment include the Incentive Regime for Large Investments (RIGI), introduced in 2024, which assures a 30-year period without changes to a series of tax and customs benefits, which is expected to improve regulatory stability and legal certainty.

Intellectual property rights should be strengthened to enhance the country's attractiveness to FDI. Argentina ranks 102 out of 125 countries in the intellectual property component of the International Property Rights Index (Property Rights Alliance, 2024^[45]), and has not yet ratified several crucial intellectual property agreements, like the Patent Cooperation Treaty (PCT). Discussions on the PCT are ongoing in Congress and are expected to be concluded with a view towards ratification.

Additional measures aimed at helping foreign companies navigate the regulatory framework could increase investment flows further. The Argentine Agency for Investment and Trade assists foreign investors by providing market insights, streamlining processes, and identifying investment opportunities across the country. Specialised administrative assistance and services, used in many OECD countries, can also facilitate investment for companies

that need to engage with several public entities (OECD, 2024^[44]). Such assistance can be especially helpful for smaller foreign companies that will not meet conditions to enter RIGI. For example, the *Invest Japan Hotline* offers consultations on the administrative procedures needed for FDI into Japan, arranges meetings with officials of regulatory agencies, provides in-person logistic assistance during visits, and relays suggestions for reforms to the Japanese government.

4.4. Improving cost competitiveness, technology adoption and public integrity

In addition to creating rules and incentives, the public sector also creates public goods and services that can improve the productivity of enterprises such as infrastructure, education or the enforcement of law and order including property rights. At the same time, the public sector can hinder productivity if these public services are not of adequate quality or if institutions absorb too much private resources for taxes and regulations compliance or owing to weak economic governance and corruption.

4.4.1. Improving infrastructure to reduce logistics costs

Good infrastructure can reduce the costs of sourcing, producing and selling goods and services and has hence a direct bearing on productivity. Addressing Argentina's significant transport infrastructure gaps would have significant potential to bolster productivity. The quality of infrastructure is low in many respects and the disparity between the current state of infrastructure and the level required to support optimal economic growth is one of the largest in the region (Figure 4.16). In the transportation sector, only 32% of road infrastructure is in good condition (Ministry of Public Works, 2021^[46]), and in the Central region only 44% of freight railway infrastructure is in good shape (Federal Investment Council, 2023^[47]). The poor state of freight railway infrastructure has been flagged as the main cause of train derailments (Government of Argentina, 2024^[48]). Furthermore, the port of Buenos Aires, which handles around 85% of the nation's containers, has an average ship-turnaround time close to two days, while for other ports in the region it is below one day. Ships often face waiting times before entering the port (Merk, 2018^[49]).

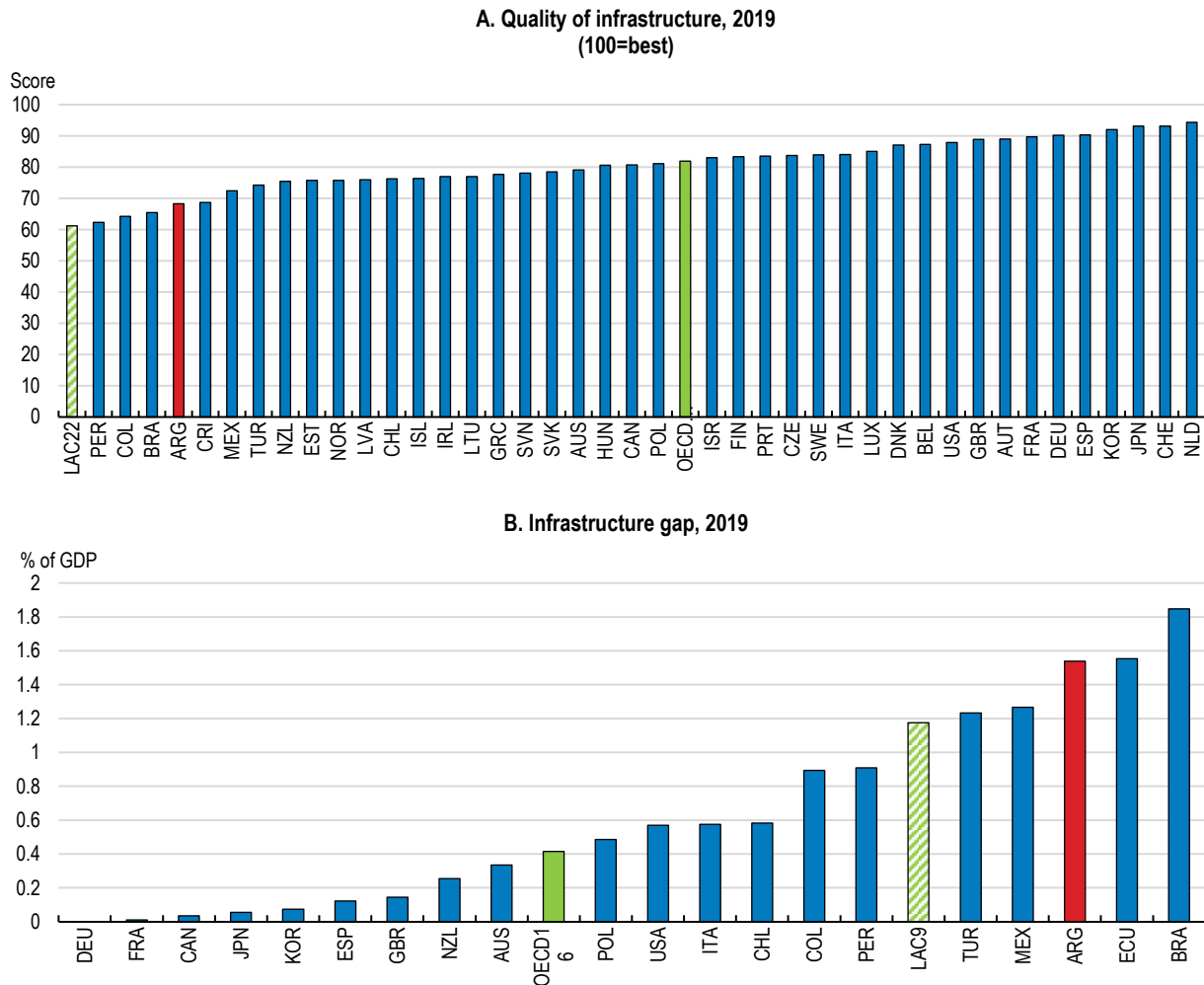
The government is aiming to significantly increase private participation in construction and operation of infrastructure. The Bases Law has broadened the scope for concessions to include public works (e.g. buildings and roads), assets that support an activity or service (e.g. electricity lines or oil pipelines) and public services, allowing its construction, conservation or operation. The government has already begun the tendering process for a strategic route that connects the country with Brazil and Uruguay (Corredor Vial 18).

Going forward, Argentina could follow the guidelines for efficient and effective procurement of infrastructure projects outlined in the Recommendation of the OECD Council on the Governance of Infrastructure. This entails, among other practices, using transparent and competitive processes that limit the use of exceptions and single sourcing, selecting contractors based on qualitative and financial criteria, evaluating available delivery modes against clear criteria, and designing a robust and transparent process for contract re-negotiations and dispute resolution to account for evolving conditions. The latter might include setting up an independent board like Chile's Technical Panel for Concessions. The OECD also developed the Support Tool for Effective Procurement Strategies (STEPS) to inform procurement decisions on major projects. STEPS can advance the efficiency and effectiveness of public procurement of infrastructure, for example, by improving the Value for Money propositions of both traditional and privately financed infrastructure projects. It is also an effective tool against bid rigging, the effects of abnormally low bids, and corruption in public procurement.


Public-private partnerships (PPPs) can also help deliver infrastructure investment. Getting value for money out of PPPs and managing them effectively requires significant institutional capacities, including to weigh their benefits against traditional procurement and to assess potential long-term fiscal implications (Chapter 1). The OECD has developed twelve guiding principles to ensure that PPPs can maximise the benefits of private sector participation. These include building a sound regulatory framework supported by competent and well-resourced institutions, ensuring sufficient competition through auctions, and strengthening the integrity of the procurement process to

minimise fiscal risks. Brazil has successfully overhauled its regulatory framework for concessions and PPPs, and this experience could provide valuable insights. A special secretariat tasked with centralising, selecting, and prioritising infrastructure projects, as well as monitoring their development, has been created. This has helped for prioritisation, making sure that selected projects respond to long-term strategic goals and are adequately prepared before reaching the bidding stage (OECD, 2023_[50]).

Figure 4.16. Argentina needs to ramp up infrastructure investment



Source: Panel A: World Economic Forum, Global Competitiveness Index 4.0. Panel B: Global Infrastructure Hub (GI Hub)

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4.4.2. Fostering digitalisation through better digital infrastructure and skills

Digitalisation is key for raising firm productivity, as it facilitates the incorporation of new technologies into business processes, resulting in more flexibility and efficiency, that can lead to improvement of existing products and services or the creation of new ones. Although Argentina has many tech start-ups and digital talent, especially in cities like Buenos Aires, Córdoba and Mendoza, half of Argentinian manufacturing companies have a low degree of digitalisation, and adoption of emerging technologies is lagging in some areas. While the use of the Internet of Things (IoT) by Argentine manufacturing is on par with OECD member countries, cloud computing use is well below regional peers and the OECD average, while barely any manufacturing firms use Artificial Intelligence. Only 40% of

manufacturing firms used e-commerce as part of their business strategy in 2021, and for most of those firms, online orders account for less than 10% of sales or purchases (Secretaría de Innovación, Ciencia y Tecnología, 2024^[51]).

Broadband connectivity is a particularly relevant aspect of infrastructure that enables the digital transformation. Argentina ranks among the last countries in the OECD in the technology access dimension of the Network Readiness Index, which considers device and service prices, broadband coverage, and international bandwidth (Portulans Institute, 2024^[52]). Fixed broadband subscriptions, at 25 per 100 people, are low compared to the OECD average of 36 per 100 people. The number of secure Internet servers per million people are also well below the OECD mean. Increasing access to communications infrastructures and services, like fibre optic networks, towers or spectrum, is essential. To spur private sector investment in networks, policy makers should address barriers to investment and enhance competition.

Administrative barriers to digital infrastructure deployment are frequent, often due to a lack of homogeneity in requirements between municipalities. The average time to secure a permit for a site is one year, and more than 90% of the country's municipalities do not have ordinances that regulate the installation of telecommunications infrastructure (Cabello, Ros Rooney and Fernández, 2023^[53]), or in many instances directly prohibit it depending on location and size, or out of safety concerns. Several municipalities, including the city of Ushuaia, have banned deployment of 5G equipment out of health concerns.

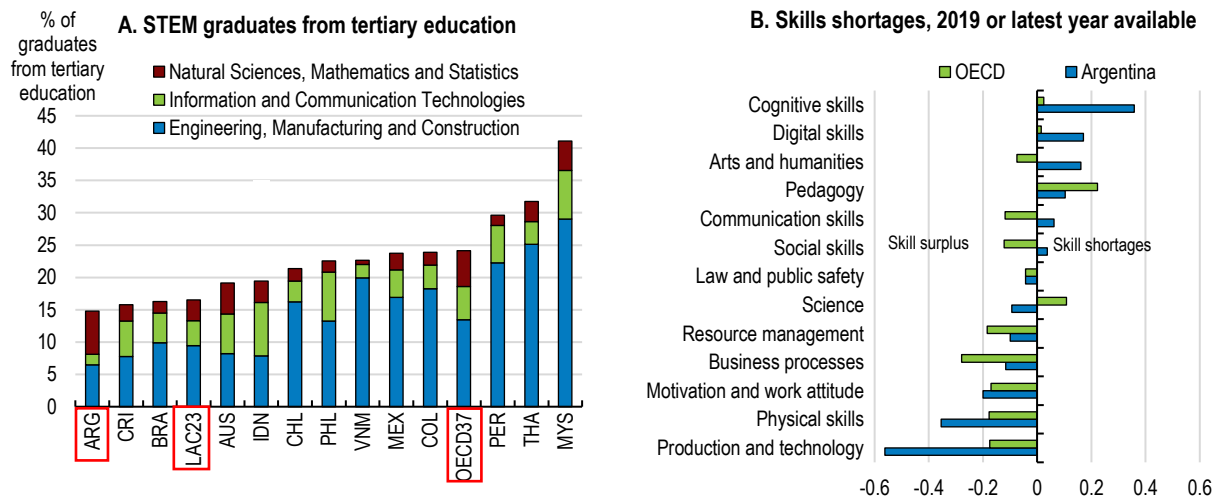
The process of granting of permits, authorisations and rights of way could become more transparent and agile, including by improving the coordination between competent bodies while ensuring adequate coordination at the national level. Setting up one-stop shops could help in this regard. The number of administrative procedures could be subjected to a review and simplified, eliminating those that are unnecessary. “Zero-based” approaches, i.e. rethinking regulation from scratch as opposed to accumulating fixes to preexisting regulation, can help separate unnecessary restrictions from adequate requirements for operation.

Increasing the amount of radioelectric spectrum available is also vital to enable expansion of digital networks. Flexible, efficient, transparent and competitive spectrum allocation mechanisms should be defined in which any interested party can participate on equal terms. Harmonisation of the spectrum at the international level will help to guarantee coexistence and compatibility between services.

Progress has been made to foster competition and attract investment in the ICT sector. In 2024 the government eliminated price caps set during the pandemic in telephone and internet services, and cable television, now allowing firms to set prices freely. Restriction on imports have also been lowered (section 4.3), making it easier to bring inputs needed for the deployment of infrastructure.


Digitalisation can also be hampered by a lack of appropriate skills in the workforce. Argentina needs to improve the foundational skills of its students and ensure that the education they receive is in tune with technological advances and business sector needs. Shortages in cognitive and digital skills are much higher than in the OECD, while the share of ICT graduates in tertiary education is very low and has been falling over the last two decades (Figure 4.17). Three out of four employers face difficulty finding the workers they need, with especially acute shortages in IT and technology (Manpower Group, 2022^[54]). Increasing collaboration with the private sector to keep VET and university curricula aligned with labour market needs, assessing the relevance of the VET and university curriculum, and strengthening lifelong learning can reduce skill shortages (Chapter 2).

Figure 4.17. A small share of graduates has key technical skills



Note: In Panel A, data is from 2022 except for Costa Rica, Philippines, Thailand and Malaysia (2023); Colombia (2021); Indonesia (2018); Peru (2017); and Vietnam (2016).

Source: UNESCO UIS database, OECD Skills for Jobs database.

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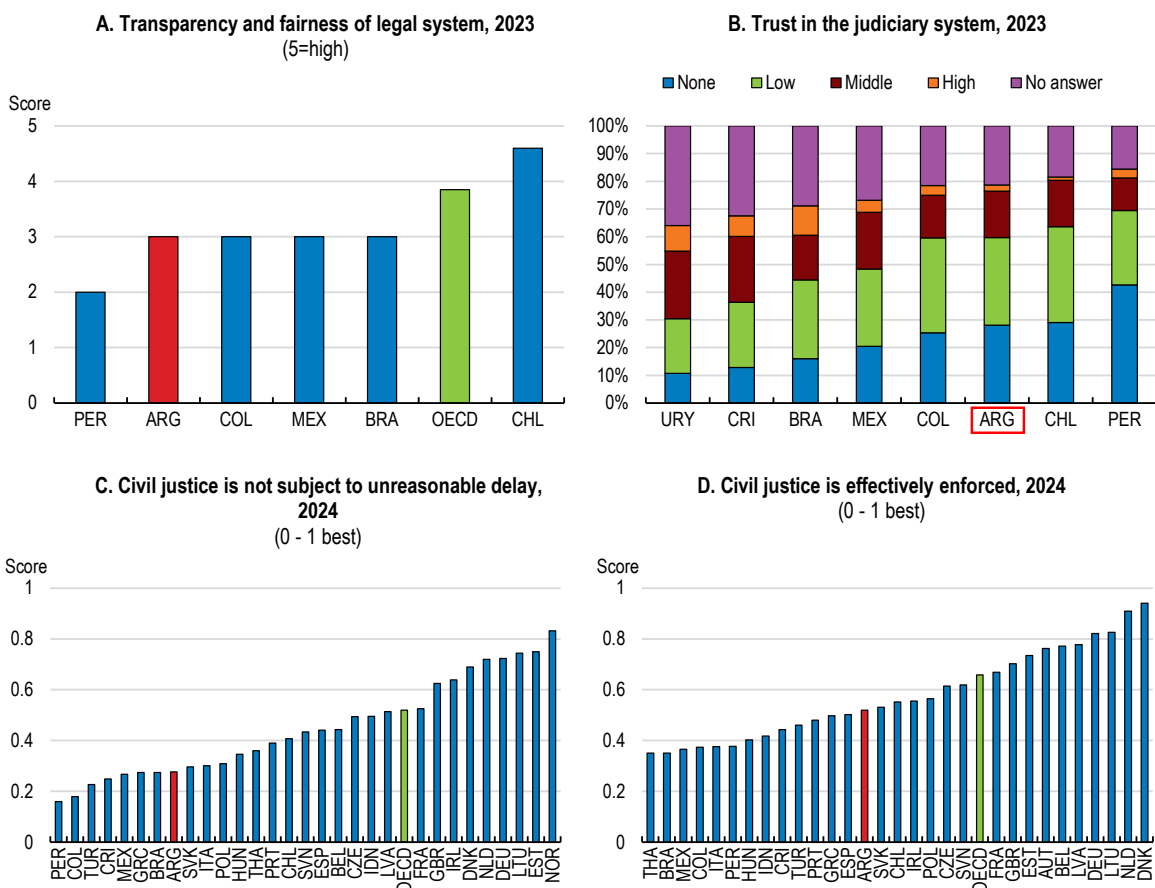
Argentina has made progress in advancing regulation to establish ethical safeguards for the use of Artificial Intelligence (AI). Adoption of AI technology can raise productivity, especially for labour (Filippucci, Gal and Schief, 2024^[55]), which can enhance the ability of firms to innovate. Responsible AI should promote innovation while remaining trustworthy and respectful of human rights and democratic values. The National Artificial Intelligence Plan aims at fostering AI development in line with ethical and legal principles. It addresses several OECD AI core principles, among them inclusive growth, human-centred values and fairness, investment in AI, and building human capacity and preparing for labour market transition (OECD AI Policy Observatory, 2024^[56]). The plan aims to issue guidelines for the development of AI, along with the creation of a National Observatory in AI to audit public policies and tools using AI, and an AI Ethics Committee as an advisory body.

4.4.3. Improving the efficiency of the judiciary services

Perceptions about the performance of the Argentinian justice system lag those in OECD countries and several Latin American peers. Trust in the judiciary system is low, both among firms and citizens (Figure 4.18, Panels A and B). In fact, almost two thirds of citizens manifest having low or no confidence in the judicial system. Lack of trust in the legal system could also be related to high perceptions of corruption (see section 4.4.4). Other metrics related more directly to the efficiency of court proceedings, such as perceptions on processing speed and enforcement, are also lagging in international comparison (Figure 4.18, Panels C and D).


Low judiciary efficiency has costs in terms of employment, productivity and growth. Judicial efficiency affects contract enforcement and the respect of property rights, which encourages investment and innovation. Inefficiencies in the operation of judicial systems, measured as long court proceedings, many accumulated unresolved cases, a high burden of pending cases or inflow of new cases, have been found to hamper economic growth (Kapopoulos and Rizos, 2024^[57]). Jurisdictions with longer trials have been found to have less job creation and lower labour productivity, especially in sectors where flexibility is needed (Gianfreda and Vallanti, 2017^[58]) (Chemin, 2020^[59]). Time and cost inefficiencies in the enforcement of contracts through the judiciary system have also been found to have a negative effect on financial markets' development (Zhang, 2024^[60]).

Figure 4.18. Confidence in the judiciary system is low in international comparison



Note: Panel A reflects the perceptions of business leaders, whereas Panel B is based on interviews with citizens by Latinobarómetro.

Source: Panel A: Economist Intelligence Unit, Business Environment Indicators; Panel B: Latinobarómetro; Panel C&D: World Justice Project, Rule of Law Index

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Digitalisation offers opportunities for increasing efficiency in court proceedings, like in other areas of the public administration. The use of digital case files, documents, signatures, and communications has been allowed in judiciary proceedings since 2011, and digital case management systems are now in place in the judiciaries of all provinces and the Supreme Court. These systems generate data which could be used to further increase efficiency, for example by reviewing processes to eliminate tasks that do not add value and by developing management indicators from cases data to measure progress and identify bottlenecks (AmCham Argentina et al., 2021_[61]). Incorporating artificial intelligence (AI) techniques could also accelerate proceedings, for example by assisting on drafting of sentences and search of legal sources, providing basic legal information to the public in an automated way, or analysing judiciary performance (AmCham Argentina et al., 2021_[61]). The government has recently announced a National Comprehensive Program for Artificial Intelligence in the Judiciary, which has already carried out pilots to test the use of AI in common tasks. Developing a strategic vision for the responsible and trustworthy use of AI justice system, following the OECD AI Principles, could be considered. Continuous investments in digital infrastructure and capacity building to enhance digital skills of judicial staff would also help.

Digitalisation can also support the efficiency of internal administrative processes in the Judiciary. For example, the Judicial Council (*Consejo de la Magistratura*) of the city of Buenos Aires is using an e-procurement platform. The experience is being analysed by the OECD in an E-procurement Review that will benchmark this progress against OECD best practices and provide recommendations to get closer to them.

Alternative dispute resolution schemes can lower workloads in courts and avoid lengthy proceedings in labour and commercial disputes, reducing costs for workers and firms. Compulsory labour dispute settlement systems, like those that operate in the city of Buenos Aires and the province of Mendoza, are good examples. The Office for Labour Conciliation in Mendoza reached agreements in 56% of cases brought to it in 2024. The Office offers free advice to workers lodging claims and sets a deadline for resolution of 60 days. Following this positive experience, the Mendoza government is planning to introduce a civil dispute settlement office for commercial and property disputes in 2025. Other provinces could consider introducing similar schemes to lighten court caseloads.

Online dispute resolution (ODR) is another potential avenue to make justice systems more accessible, affordable, flexible and people-centred, by using digitalisation and data to support dispute settlement in and out of the courtroom. Argentina has advanced in establishing online mediation services, like the MEL system in the province of Buenos Aires, which deals with conflicts on e-commerce, consumption or property issues. As a first step towards implementing or improving online dispute resolution facilities, a thorough review of the current legal and institutional setup could help to spot any limitations or opportunities in procedural rules (OECD, 2024^[62]).

4.4.4. Ensuring integrity in business and government

Corruption distorts competition by creating an unfair advantage for firms that engage in illicit practices and increases the cost of doing business by imposing additional burdens to secure contracts or permits. Moreover, it reduces the quality and availability of public services, misdirects public funds, and disrupts the allocation of resources. Corruption also weakens the government's capacity and lowers trust in public institutions (Olken and Pande, 2012^[63]). Evidence for developing countries also suggest that corruption can hamper access to finance for SMEs (Amin and Motta, 2021^[64]).

Perceptions of corruption in Argentina remain high in international comparison and have not improved significantly over the last three decades (Figure 4.19, Panels A, B and C). Only 28% of Argentinians consider that the country has made at least some progress in reducing corruption, compared with 37% for Latin America, and 30% report having known about acts of corruptions in the last 12 months (Latinobarómetro, 2024^[65]). In Argentina, the cost of corruption due to bribes has been estimated at 0.8% of GDP per year (Grandes and Coremberg, 2020^[66]).

Argentina's Anticorruption Office ("*Oficina Anticorrupción*", OA) was established in 1999, and has been instrumental in strengthening procedures to prevent and manage conflicts of interests in the government. The regulatory framework on integrity comprises several laws and secondary legislation, including the Corporate Liability Law and its guidelines, to address corruption in the corporate sector; the National Public Employment Framework, the Public Ethic Law, and the Code of Ethics, regulating integrity in the public sector. Regulatory safeguards to prevent corruption are on par with OECD countries in several areas (Figure 4.19, Panel D).

The strategic framework for fighting corruption was enhanced in 2023, with the publication of the National Integrity Strategy. The Strategy aims at coordinating integrity and transparency policies across government institutions. The Strategy is a comprehensive strategic approach to prevent and combat corruption based on international best practices. This strategy was developed following OECD recommendations through a collaborative effort involving government bodies, international organisations, and the civil society (Boletín Oficial, 2023^[67]). Argentina is also an adherent of the OECD Anti-Bribery Convention since 2001.

Legislation concerning integrity in the public sector remains fragmented. A draft bill has been put forward by the Anticorruption Office to reform the Public Ethics Law, which included many of the recommendations made in the OECD Integrity Review of Argentina (OECD, 2019^[68]) and would partly address the fragmentation of the legislation on integrity, but it has not yet been approved. The Public Ethics Law should be updated as proposed.

The Anticorruption Office has made efforts to raise awareness of conflicts of interest among public servants and is making progress in providing more practical guidance. In 2024, the Office redesigned eight core courses to meet the needs of different audiences, launched targeted in-person sessions for senior officials in several public institutions, and developed a comprehensive training programme on public ethics to enhance practical application of integrity standards. Qualification and performance criteria have been developed for all positions in the public sector, and in

2024, compulsory competence tests were introduced for jobs in the public administration and state-owned enterprises, eliminating hereditary privileges in public jobs. The Office issues binding instructions through its notes, reports, and resolutions, which may result in disciplinary proceedings or the annulment of actions involving conflicts of interest.

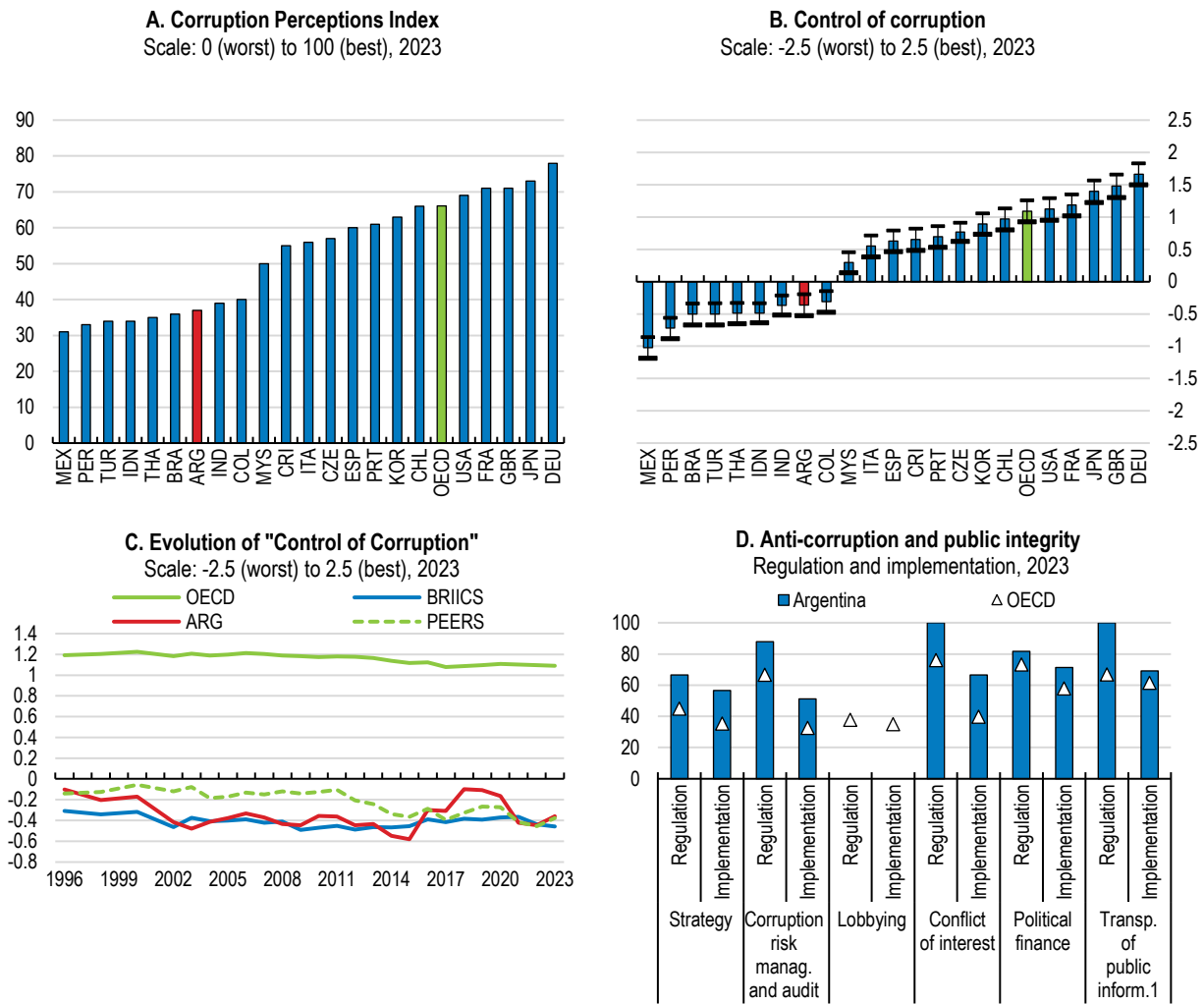
Whistleblowers can help uncover information that could lead to the prevention or investigation of corruption. There are already legal protections for whistleblowers in the public sector. The Corporate Criminal Liability Law addresses corruption in the private sector, encouraging companies to establish mechanisms for reporting misconduct, especially for those involved in public procurement or contracts with the government. However, the law should be amended to explicitly establish protections for whistleblowers in the private sector, which are not currently in place.

The Auditor General ("*Auditoría General de la Nación*", AGN), which oversees the external control of the national public administration, is an autonomous body that assists the National Congress. However, the AGN is the only supreme audit institution in Latin America that does not have its own specific law (OECD, 2021^[69]). To strengthen the autonomy of AGN, Argentina should issue a law that establishes its mandate, powers and independence.

SMEs face similar corruption risks as large companies, but perceptions about the need to establish anti-corruption measures are often less developed, therefore failing to develop basic compliance structures (OECD, 2022^[70]). Those that do recognise the risks struggle with insufficient resources to implement effective programmes. Raising awareness among SMEs of corruption risks and anti-corruption practices is thus essential, but it is often difficult. The OECD has issued a toolkit with recommendations to guide countries in reaching out to SMEs (OECD, 2022^[70]). The Anticorruption Office has implemented the Integrity and Transparency Registry for Companies and Entities (RITE), a free and voluntary online platform to complement integrity programs. The platform includes a toolbox with reference materials and a self-assessment simulator to help entities evaluate the maturity level of their integrity programs. New exporters could be given anti-corruption guidance, both at home and abroad, like Brazil does with its Micro and Small Business Support Service's Integrity guide.

Lobbying helps to identify potential impacts of policies on specific groups, but it should be transparent and regulated to avoid undue influence on government decisions or public opinion. Although there is a registry of meetings between interest representatives and public officials, Argentina could establish a public registry for lobbyists to make regulation design more transparent and fairer, like many OECD countries do. Governments should oversee compliance with lobby regulation and impose sanctions when there are breaches. Argentina lacks an explicit overarching definition of lobbying activities within its regulatory framework, making it challenging to prevent groups from exerting undue influence. The 2003 Decree on Lobbying does not carry legal value and applies only to the executive branch. Furthermore, there is no centralised body tasked with overseeing the transparency of lobbying activities, nor have any investigations into lobbying being carried out in 2023 (OECD, 2024^[71]). Incorporating an explicit definition of lobbying activities into the regulatory framework is a crucial first step to improve compliance and reduce risks of undue influence.

Figure 4.19. Corruption has had a detrimental impact on competition



1. Transparency of public information.

Note: Panel B shows the point estimate and the margin of error. Control of corruption captures perceptions of the extent to which public power is exercised for private gains. Panel C: PEERS is an average of Colombia, Costa Rica, Mexico, Argentina, Brazil, and Peru. Panel D: Measured against OECD standards, each value shows the percentage of criteria that are fulfilled. A higher score is therefore interpreted as being closer to best practices and standards.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: OECD Public Integrity Indicators Database

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Table 4.1. Policy recommendations from this chapter (Key recommendations in bold)

MAIN FINDINGS	CHAPTER 4 RECOMMENDATIONS
Fostering more competitive domestic markets	
Significant regulatory streamlining has been achieved in a short time, and entry barriers are lower across many sectors, including network sectors.	Continue streamlining business regulations to reduce entry barriers in services sectors and lower administrative burdens for new firms.
There are no systematic assessments of the effects of proposed regulatory changes on competition and stakeholders are not systematically involved in developing new regulations.	Establish the systematic use of regulatory impact assessments (RIA). Establish formal consultation mechanisms with stakeholders to inform the development of new regulations
State involvement in the economy remains significant in several sectors, but most commercial state-owned enterprises (SOEs) have been converted to public limited companies.	Continue improving SOEs governance through better management and auditing, and enhanced independence of its board members.
Although regulatory overlap has diminished, Argentina lacks a strategy to support subnational levels of government to enhance regulatory quality.	Establish a formal mechanism to harmonise and simplify regulations across levels of government, by leveraging the existing regulatory policy group.
The National Competition Authority and its subordinated bodies mandated by the competition law still have not been created. Resources for the current competition authority are limited.	Create an independent, well-funded National Competition Authority, in line with provisions set forth in the competition law.
Market studies on services sectors are infrequent.	Undertake market studies and competition assessments for key sectors, especially services.
Insolvency cases take long and result in low recovery rates. Only debtors can file for bankruptcy proceedings.	Allow creditors to file for bankruptcy proceedings, and promote specialisation of judges in bankruptcy cases aiming at setting up bankruptcy courts.
Efficiency of the justice system, and trust in it, are low. Alternative dispute resolution schemes have room to grow.	Foster digitalisation of the judiciary by investing in digital infrastructure and skills. Promote alternative dispute resolution schemes at the subnational level.
Increasing productivity through trade and foreign direct investment	
Argentina's economy is less integrated into world markets than comparable emerging economies, both in terms of imports, exports, and participation in global value chains. Exports' growth has not matched the expansion of export markets, and there are fewer private firms exporting and fewer products exported. Import barriers are high but have fallen over the last year. Taxes on exports are high but have been reduced recently. The foreign trade single window has advanced in digitalisation but lacks interoperability and more functionalities. Argentina has pursued several free trade agreements together with Mercosur partners.	Continue reducing tariffs, especially on intermediate inputs and capital goods, and continue adjusting non-tariff trade barriers, like unwarranted technical regulations. Phase out export taxes. Improve the one-stop shop for foreign trade by ensuring seamless interoperability and data exchange between customs and other agencies to cover all export-related procedures. Continue to work towards full implementation of free trade agreements.
Argentina receives comparatively little foreign direct investment, which is concentrated in highly protected manufacturing activities.	Reduce remaining foreign equity ceilings.
Improving cost competitiveness, technology adoption and public integrity	
Significant infrastructure bottlenecks in roads, railways and ports raise logistics costs and curb productivity.	Develop a sound regulatory and policy framework for concessions and public-private partnerships in line with OECD principles.
Administrative barriers to digital infrastructure deployment are frequent, especially at the local level.	Streamline administrative procedures for digital infrastructure deployment at the local level, prioritising "zero-based" approaches and one-stop-shops.
Legislation concerning integrity in the public sector remains fragmented.	Update the Public Ethics Law to address fragmentation of legislation.
The Anticorruption Office has made progress in raising awareness of conflicts of interest among public servants, but further efforts are needed.	Ensure systematic consultation of government agencies with the Anticorruption Office and improve the enforceability of its guidance.
The regulatory framework lacks an explicit overarching definition of lobbying activities, and no centralised body is overseeing the transparency of lobbying activities.	Establish a public registry for lobbyists. Incorporate a comprehensive definition of lobbying activities into the law.
Whistleblowers in the private sector lack explicit protections.	Establish explicit legal protections for whistleblowers.

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OECD Economic Surveys: Argentina 2025

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Against the background of a difficult legacy of macroeconomic imbalances, Argentina has embarked on an ambitious and unprecedented reform process to stabilise the economy. Reforms have started to bear fruits, and the economy is set for a strong recovery. Inflation has fallen to levels not seen in years. The upfront fiscal consolidation process started in late 2023 has been instrumental to taming high inflation. Still, fiscal policy will require further fine-tuning to maintain fiscal prudence in the medium to long-term while boosting potential growth. A comprehensive tax reform, phasing out a few particularly distortionary taxes and broadening income and consumption tax bases, would enhance efficiency and equity. Tax compliance could be improved by further strengthening and modernising the tax administration. Enhancing the flexibility of labour markets and lowering social security contributions for low-income workers would reduce the costs of formalisation and increase opportunities. More training and education opportunities, well-aligned with labour market needs, would encourage more people to participate in training. Maintaining the reform momentum towards a better business climate and continuing to reduce barriers to domestic and international competition, while also improving the quality of public services and strengthening public sector integrity, can boost investment and lift productivity growth.

THEMATIC CHAPTERS: FOSTERING FORMALISATION; ENERGY TRANSITION; BUSINESS ENVIRONMENT



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