

Trip Notes

Argentina, Paraguay, and Uruguay

Aktia

Photo: Puerto Madero, Buenos Aires, at sunset

Summary

- We visited three South American countries in one week, covering the capitals of Argentina, Paraguay, and Uruguay during the last week of February. We held discussions with policymakers, opposition politicians, independent economists, political analysts, and energy and export sector experts to assess the current economic and policy landscape.
- Despite successful macro stabilisation under President Javier Milei, Argentina remains financially and politically fragile. To secure a second term in 2027 and sustain the transformation, growth and real income improvements must follow, as uncertainty remains high despite strengthening fundamentals.
- Paraguay is macroeconomically stable but constrained by a low tax base and requires further export diversification, productivity gains, higher infrastructure and electricity investment, and deeper local capital markets. The authorities have ambitious plans, but execution will be critical, particularly regarding the Paracel pulp project later this year, which could materially lift exports and growth if it reaches a final investment decision, while climate exposure remains a key vulnerability.
- Uruguay remains a solid credit within the emerging market universe. President Yamandú Orsi's administration has completed its first year in office. The fiscal outlook is the key question as consolidation relies mainly on higher revenues amid subdued economic growth. The revised fiscal rule anchors net debt at 65% of GDP, but its effectiveness in strengthening fiscal credibility remains uncertain, leaving some risk of fiscal slippage.
- We are invested in all three countries across our EMD strategies. Uruguay offers stability supported by strong institutions. Paraguay continues to present value given its early stage in the development cycle and the prospect of investment grade status and index inclusion. Argentina represents a higher risk reform story under Milei, where electoral uncertainty remains elevated.

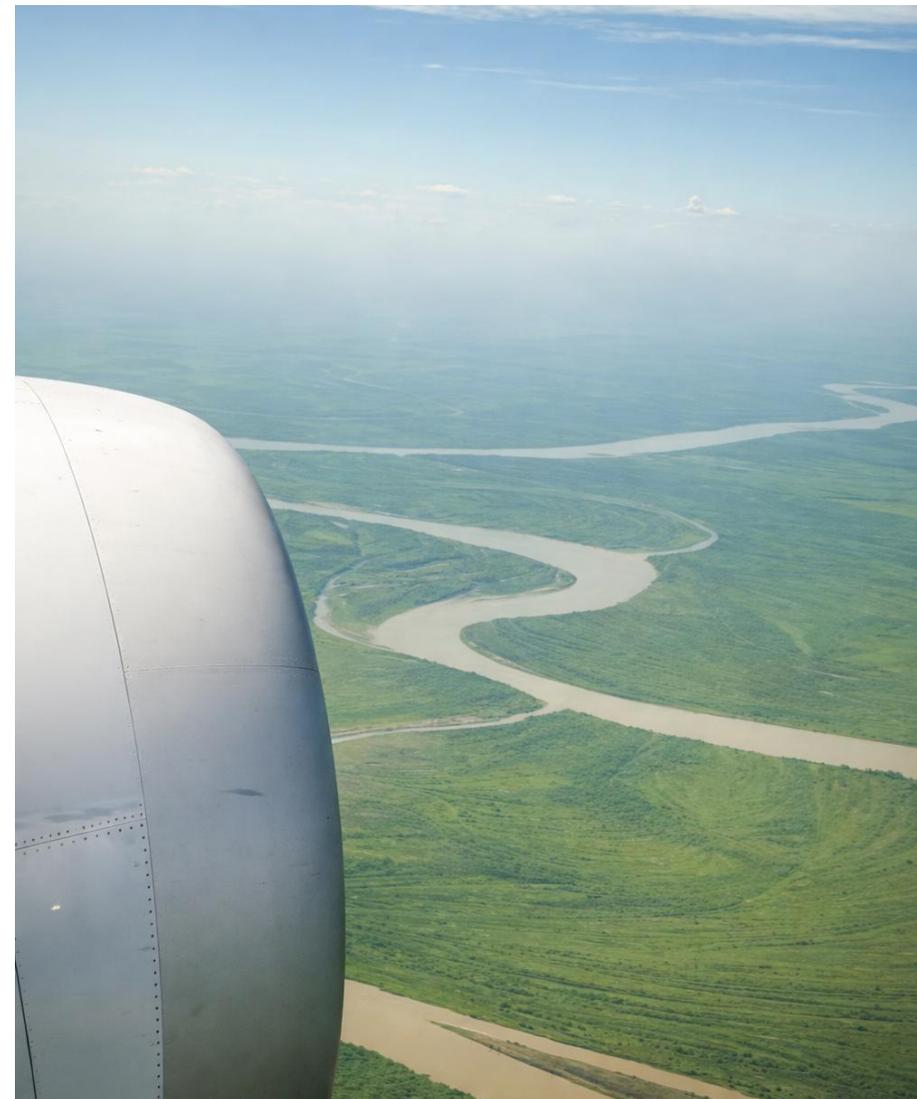


Photo: The Paraguay River, the lifeline of the landlocked country, seen shortly after takeoff from Asunción Airport, on 28 February 2026

Overview

In all three capitals, discussions were shaped by the current global macroeconomic backdrop. A weaker US dollar and the corresponding appreciation of emerging and frontier market currencies have weighed on export competitiveness, although this year's stronger agricultural harvest compared with previous seasons is expected to support export performance. The US and Israel launched attacks against Iran while we were returning from our South American trip, so beyond general references to heightened global tensions, this specific event was not discussed.

The Monroe Doctrine was briefly referenced in discussions, and US influence in the region remains recognised. All three economies exhibit varying degrees of dollarization, with trade largely priced in US dollars and financial dollarization more pronounced in Argentina and Uruguay. Owing to Mercosur and Brazil's size and proximity, Brazil is a key trading partner for all three countries, while China is also important for Argentina and Uruguay. Paraguay does not maintain diplomatic relations with China and instead recognises Taiwan. The implications of the recently reached EU-Mercosur agreement remain uncertain, as compliance with EU regulatory standards is likely to require additional investment and may raise costs for agricultural exporters. Argentina and Uruguay became the first Mercosur members to ratify a free trade agreement with the European Union. Within Mercosur, members retain exemption lists to the common external tariff.

The agricultural sector is central to the external sector in all three countries. In Argentina, agriculture remains the largest export sector, accounting for approximately 60-65% of total goods exports. The main export items are soybeans, corn, wheat and beef. Paraguay is even

more dependent on agriculture, which represents roughly 65-70% of total goods exports. In addition to soybeans, grains and beef, forestry products are becoming increasingly important, a sector the authorities are keen to develop further. Paraguay appears to be following Uruguay's example in building its forestry export industry, seeking to attract large-scale foreign direct investment (FDI). In Uruguay, agriculture accounts for a similar share of goods exports, although the economy is more diversified due to a stronger services sector. Climate risks add volatility to growth and external balances, while swings in global commodity prices can also have a material impact.

Political stability in Paraguay and Uruguay is something that investors appreciate, whereas in Argentina the political scene can be unpredictable and elections are held at relatively short intervals. Political risk is clearly the most significant risk factor in Argentina. In Paraguay, political stability is underpinned by a dominant party system, while in Uruguay ideological differences between the main parties are limited and not deeply polarised. However, fiscal targets may become harder to reach if export industries face revenue pressures from a weaker US dollar.



Performance of the agricultural sector is a key driver of growth, fiscal revenues and external stability in all three countries.

Argentina

Given Argentina's (Moody's: Caa1 stable outlook; S&P: CCC+ stable; Fitch: CCC) economic history and its reputation as a serial defaulter, it is important to recognise that the country is not engaged in a conventional reform cycle but rather is attempting a structural transformation of its economic model. The shift is away from a long-entrenched protectionist, state-led framework towards a more open, market-oriented economy centred on private investment and greater external integration.

This shift was made possible by a decisive break with the past. Deep public frustration with previous Peronist and Kirchnerist administrations led voters to back President Javier Milei on a mandate for change. He has delivered on his core promise of macro stabilisation, with monthly inflation falling from levels of around 30% at the height of the crisis to close to 2% per month. The policy focus this year has moved towards rebuilding international reserves, while markets continue to debate the timing and conditions under which Argentina might return to international capital markets. For Milei to secure victory and continuity for his reforms in the October 2027 general election, stabilisation alone will not suffice. Economic activity must recover and growth must strengthen sufficiently for households to experience tangible income gains.

Fiscal discipline remains the Milei administration's main anchor, with the shift to a primary surplus of approximately 1.4% of GDP at end 2025 serving as the clearest signal of policy credibility. The adjustment underpinned the initial phase of disinflation, yet reducing inflation durably below the 2% per month threshold is proving materially slower and more complex than the early stage in which monetary financing was abruptly halted. Structural rigidities persist in the form of regulated tariffs, indexation mechanisms and wage negotiations, all of which generate inertia and limit the speed of convergence. At the same time, the monetary framework has shifted away from an interest rate-based inflation targeting regime towards control of monetary aggregates. In practice, this has resulted in periods of rate volatility and elevated rates as the Central Bank of Argentina (BCRA) absorbs excess liquidity. The exchange rate operates within bands that adjust with a lag to

past inflation, adding further complexity to policy transmission. The central bank has already purchased roughly USD 2.7 billion in foreign exchange reserves this year, but this accumulation has required sterilisation operations at higher interest rates, reinforcing tight domestic financial conditions.

Despite macro stabilisation, economic activity remains subdued in Argentina's roughly USD 650 billion economy, and employment has softened, highlighting the gap between financial stabilization and recovery in the real economy. Argentina's traditional export backbone is agriculture, generating roughly USD 40 billion annually and anchoring the trade balance. This year's harvest, beginning in late April, is expected to be modestly stronger than last year, with export receipts approximately USD 1.5 billion higher than a year earlier. However, net external dynamics remain constrained by sizeable goods imports. Risks to the agricultural outlook stem from global trade tensions, geopolitical uncertainty and weather conditions. China remains the largest global soybean buyer, and a renewed escalation in US-China trade tensions could redirect US supply into third markets, increasing competitive pressure on Argentine exports. The more structural story lies in energy. Oil and gas exports reached approximately USD 11 billion in 2025, driven by the development of the Vaca Muerta shale formation. While still smaller than agricultural exports, the sector represents Argentina's key medium-term growth driver. Production remains sensitive to global oil prices and financing conditions. Nonetheless, energy has the potential to reshape the export mix and structurally the current account structurally over time.

	2026F	2025F	2024	2023	2022	2011 - 2021
Real GDP (% annual percent change)	4.0%	4.5%	-1.3%	-1.9%	6.0%	0.4%
Inflation (% annual percent change)	16.4%	41.3%	219.9%	133.5%	72.4%	24.2%
Overall Fiscal Balance (% of GDP)	0.3%	0.4%	0.5%	-5.3%	-3.8%	-5.0%
Government Debt (% of GDP)	73.6%	78.8%	84.7%	154.6%	84.3%	62.7%
Current Account (% of GDP)	-0.4%	-1.2%	0.9%	-3.2%	-0.6%	-1.8%
Import Cover		6.1*	5.3	4.4	8.0	8.7

*Latest value that exists for Import Cover
Sources: Aktia, IMF and Macrobond

Argentina

However, Argentina's current account remains fragile, and the sovereign faces sizeable debt repayments. In July, the government is due to pay USD 4.3 billion, which is already funded. Beyond this payment, Argentina faces a rising external debt repayment schedule, with debt service estimated at around USD 10 billion in 2026, rising to USD 14.6 billion in 2027 and USD 18.1 billion in 2028. Economy Minister Luis Caputo has stated repeatedly that Argentina will not return to international capital markets while sovereign spreads are around 500 basis points, arguing that a sustainable level would be closer to 250-350 bps. In the meantime, financing capacity relies heavily on domestic liquidity and seasonal foreign exchange inflows. The official exchange rate appreciated earlier in the year, reflecting a weaker US dollar globally as well as temporary dollar supply from corporate issuance ahead of the October mid-term elections, with firms required to convert proceeds into pesos within 180 days. The agricultural export season will provide additional dollar inflows through June, supporting reserve accumulation and exchange rate stability. The authorities have indicated that rebuilding reserves is a key policy objective, with the central bank aiming to accumulate roughly USD 10 billion in international reserves during 2026. At the same time, Argentine households are estimated to hold as much as USD 200 billion in dollar savings outside the formal banking system. Mobilising even a fraction of these funds would materially deepen domestic capital markets. The authorities' objective remains to anchor the exchange rate while continuing disinflation, potentially allowing gradual reduction in interest rates as seasonal inflows improve liquidity, without jeopardising macroeconomic stability.

Our View: Argentina is undergoing a complex structural transformation that President Milei must deliver within a relatively short political window, as provincial primaries begin in the first half of next year unless electoral reforms alter the timetable. Sustained policy continuity and public support will be required until economic activity strengthens. Our hard currency strategy is invested in Argentinian sovereign bonds, while local currency strategy is invested through FX forwards and DFI bonds.



Photo: Argentina's National Congress building in Buenos Aires on 23 February 2026

Paraguay

Paraguay (Moody's: Baa3 stable outlook; S&P: BBB- stable; Fitch: BB+ positive) is an exceptional case within the frontier universe, combining macroeconomic stability with structural constraints. The government has set an ambitious goal of doubling the country's roughly USD 45 billion economy by 2035. Growth remains solid, with the IMF projecting GDP expansion of 4.4% in 2025. However, the economy is heavily concentrated on agriculture, river-based logistics, and hydroelectric power, making output vulnerable to climate shocks, particularly drought, as seen in 2022. Infrastructure gaps further limit potential growth. Beyond agriculture, construction and the maquila (assembly-for-export) sector along the Brazilian border play an important role in activity. Nonetheless, productivity remains low and informality high. Domestic consumption is currently growing faster than external demand, contributing to a current account deficit of around 4% of GDP.

Paraguay's landlocked geography adds structural challenges. Exports rely on the river system as a critical trade corridor, and capacity constraints in waterways, roads, and bridges are already operating at full capacity. Although the country generates hydroelectric power well in excess of domestic needs, with the majority of surplus exported to Brazil, rising domestic demand is expected to absorb a larger share of output in the early 2030s. Electricity export revenues are therefore expected to decline, and pricing arrangements will evolve following the upcoming Itaipú treaty negotiations from 2027 onwards. While the authorities have outlined plans to expand energy capacity, including renewable energy projects, investment decisions will need to accelerate. Transmission infrastructure also requires upgrading to support future demand and industrial development. Overall, the restrictive fiscal rule constrains the pace of much-needed infrastructure investment, highlighting the tension between macro stability and development needs.

Paraguay has traditionally followed prudent macroeconomic management anchored in a simple fiscal rule that caps the overall deficit at 1.5% of GDP. This framework has helped stabilise public

debt at a moderate level of slightly above 40% of GDP. The rule has been easy to communicate and politically visible, strengthening policy credibility. However, over the medium-term, discussions may emerge about adjusting the framework as investment needs continue to grow. Tax revenue remains low at around 10-12% of GDP, reflecting a very light tax system and various incentive regimes designed to attract investment. Public dissatisfaction with weak public services and rising living costs has been increasing. In addition, the administration faces liquidity management challenges, including legacy arrears related to unpaid public works of approximately USD 400 million and delayed payments to health contractors. These issues are being addressed through reforms. Revenue administration improvements and customs integration have improved collection, but public financial management weaknesses, pension liabilities (Caja Fiscal), and shortcomings in the judiciary and rule of law remain key structural downside risks. A new law concerning the public pension system is expected to be passed during the first half of this year.

Fiscal consolidation began in 2023 following the election victory of Santiago Peña from the Colorado Party. While the party has governed for decades, internal power tensions persist within the large political movement, which counts roughly 3.5 million registered members in a country of around 7 million people. The party's influential leader, Horacio Cartes, is currently hospitalised, which has prompted discussions about future leadership dynamics. Municipal elections will be held later this year, while the next general elections are scheduled for 2028. Presidents are limited to a single five-year term.

	2026F	2025F	2024	2023	2022	2011 - 2021
Real GDP (% annual percent change)	3.7%	4.4%	4.3%	5.0%	0.2%	3.2%
Inflation (% annual percent change)	3.7%	3.9%	3.8%	4.6%	9.8%	4.0%
Overall Fiscal Balance (% of GDP)	-1.3%	-1.7%	-2.1%	-3.8%	-2.6%	-1.3%
Government Debt (% of GDP)	40.6%	41.7%	44.8%	41.1%	40.5%	21.2%
Current Account (% of GDP)	-3.7%	-3.5%	-3.9%	-0.4%	-7.0%	0.5%
Import Cover		4.4*	5.9	6.4	6.7	7.3

*Latest value that exists for Import Cover
Sources: Aktia, IMF and Macrobond

Paraguay

Paraguay has been gradually reducing the share of foreign-currency debt by building its guaraní (PYG) global bond curve, with three consecutive issuances since its inaugural transaction in 2024. The aim is to achieve a more balanced currency composition between USD- and PYG-denominated debt, thereby reducing foreign exchange risk as Itaipú revenues gradually decline. There is still room to increase the share of PYG as it currently accounts for less than 30%. The Ministry of Finance conducts monthly domestic debt auctions, although the annual issuance volume of roughly USD 200 million remains limited relative to demand from local banks. Local pension funds, with sizable assets, are currently restricted from investing in government securities, which constrains the development of the domestic bond market and secondary liquidity. The authorities are receiving technical assistance to support capital market development, and sequencing reforms will be important. Foreign investors are permitted to participate in the local market, but liquidity remains thin, the local curve trades below the global PYG curve, and foreign participation remains modest at around 4% of outstanding local bonds.

On the external side, current account deficits reflect capital goods imports and financed by a combination of FDI inflows and sovereign issuance. FDI in 2025 is estimated at 2-3% of GDP. Large-scale projects, notably the Paracel pulp investment, could reshape export capacity and medium-term growth dynamics. Paraguay's main export items include electricity, soybeans, beef, corn, and rice. The impact of the EU-Mercosur trade agreement remains uncertain; compliance with EU environmental and regulatory standards may require additional investment, while Brazil remains the dominant export market. The authorities aim to increase FDI from around USD 1.5 billion last year to USD 2.0 billion and eventually USD 3 billion by 2030. Priority sectors include forestry, renewable energy, digital infrastructure and data centres linked to competitive electricity pricing, mining exploration, hydrocarbon exploration, and tourism-related industries. These ambitions will require substantial infrastructure investment and potentially greater mobilisation of private capital, including reforms enabling pension fund participation. Heavy reliance on Argentina and Brazil as trading partners and limited market diversification remain structural risks.

Paraguay's central bank's (BCP) has operated an inflation-targeting regime since 2011, with inflation currently anchored around the target of 4%, with inflation expected to converge to 3.5% toward year-end. The monetary transmission mechanism appears imperfect, as recent policy rate cuts have not fully translated into lower deposit rates. Foreign exchange movements are largely driven by real-sector dollar inflows, and guaraní strength last year and early this year reflects broader US dollar weakness across the region. Like many other emerging and frontier market currencies PYG has appreciated against the US dollar. The central bank has not intervened in the foreign exchange market this year, in contrast to early last year when PYG faced depreciation pressures that the authorities judged to be inconsistent with macroeconomic fundamentals. Under its legal mandate, the BCP intervenes only to smooth excessive volatility consistent with underlying fundamentals. The central bank maintains international reserves equivalent to roughly 20% of GDP.

Our View: We are invested in Paraguay across both hard and local currency strategies. The guaraní has been strong and local-currency bond yields have declined. We participated in the recent global issuance in PYG tranche, but not the dollar tranche due to tight pricing. We continue to see value, supported by the country's early-stage development profile, the prospect of achieving full investment-grade status across major agencies, and expected inclusion in JP Morgan's GBI-EM index, which should drive additional demand. In hard currency space, spread compression potential is limited given that, rating upgrades are more or less priced. Hence, in our hard currency strategy Paraguay is more as a low-beta issuer offering stable carry.

Uruguay

Uruguay's (Moody's: Baa1 stable outlook; S&P: BBB+ stable; Fitch: BBB- stable) President Yamandú Orsi has now completed his first year in office. The economy is relatively small with nominal GDP of around USD 85 billion, but income levels are among the highest in Latin America. The policy framework is broadly similar to that of the previous administration led by Luis Lacalle Pou, with low inflation and a relatively stable exchange rate. However, growth and employment have disappointed, which has pushed the government to place greater emphasis on stronger growth and job creation. Delivering on this objective may prove difficult. The IMF expects moderate real GDP growth of 2.4% in 2026 supported by domestic demand and exports, while investments remains weak. A large green hydrogen project could provide a meaningful boost to investment, although negotiations over the energy supply contract are still unresolved.

Inflation has fallen below the target of the Central Bank of Uruguay (CBU). Annual inflation slowed further to 3.11% in February from 3.46% in January, with consumer prices continuing to undershoot the 4.5% target for several consecutive months. This prompted the CBU to cut the policy rate again in early March, bringing cumulative easing since July 2025 to 350 bps, with the policy rate currently at 5.75%. The central bank has stated that it will use all available tools to ensure inflation returns toward target and is also willing to act quickly to reverse its actions if needed.

Competitiveness is the key structural challenge. Inflation has been reduced mainly through lower tradable prices while non-tradable inflation remains elevated due to wage dynamics. The wage negotiation cycle for 2025 to 2027 now relies on forward-looking inflation, which should help to anchor expectations around the 4.5% target. Nominal wage growth has recently been around 5-6%, which could continue to support non-tradable inflation. Persistent real exchange rate appreciation continues to weigh on export sectors and employment. Improving competitiveness through a weaker real exchange rate would likely be the most direct way to support job creation.

Uruguay has historically relied on targeted tax incentives to attract investment in export-oriented sectors such as pulp and software. While this strategy has generated investment, it has had limited spillovers to traditional sectors where most employment is located and where much of Frente Amplio's electorate is based. Politically, President Orsi has not yet fully consolidated leadership within Frente Amplio, although Uruguay continues to benefit from a broadly stable political environment.

Fiscal risks appear manageable in the near term, although medium-term concerns are increasing. The government introduced a revised fiscal framework with a medium-term debt ceiling of 65% of GDP, but consolidation relies heavily on stronger revenue collection. The consolidated public sector deficit stood at 4.0% of GDP at the start of 2026, while the structural deficit is closer to 4.5% once extraordinary inflows are excluded, signalling underlying deterioration. Debt management is pragmatic with authorities prioritising local currency issuance, which accounted for about 55% of debt in 2025 with a target of 57% by 2029. Uruguay is still a highly dollarised economy with close to 70% of deposits held in US dollars, although regulation limit currency mismatches in lending.

	2026F	2025F	2024	2023	2022	2011 - 2021
Real GDP (% annual percent change)	2.4%	2.5%	3.1%	0.7%	4.5%	1.8%
Inflation (% annual percent change)	4.5%	4.7%	4.9%	5.9%	9.1%	8.3%
Overall Fiscal Balance (% of GDP)	-3.8%	-3.3%	-3.2%	-3.1%	-2.5%	-2.3%
Government Debt (% of GDP)	68.3%	66.6%	68.7%	64.0%	59.9%	55.6%
Current Account (% of GDP)	-1.5%	-1.4%	-1.0%	-3.4%	-3.8%	-1.1%
Import Cover		16.0*	15.3	15.6	17.8	19.5

*Latest value that exists for Import Cover
Sources: Aktia, IMF and Macrobond

Uruguay

Our View: We are invested in Uruguay across all three of our strategies. In the emerging market universe, Uruguay offers stability as the economy is well-managed with sound macroeconomic policies and strong institutions, although the domestic capital market is relatively small and somewhat illiquid. Fiscal risks are gradually building, and the administration appears to favour a weaker exchange rate. In our local currency strategies, we are invested in inflation-linked bonds, which provide some protection. In our hard currency strategy, our exposure to Uruguay is limited (~1%) given relatively tight spread levels.

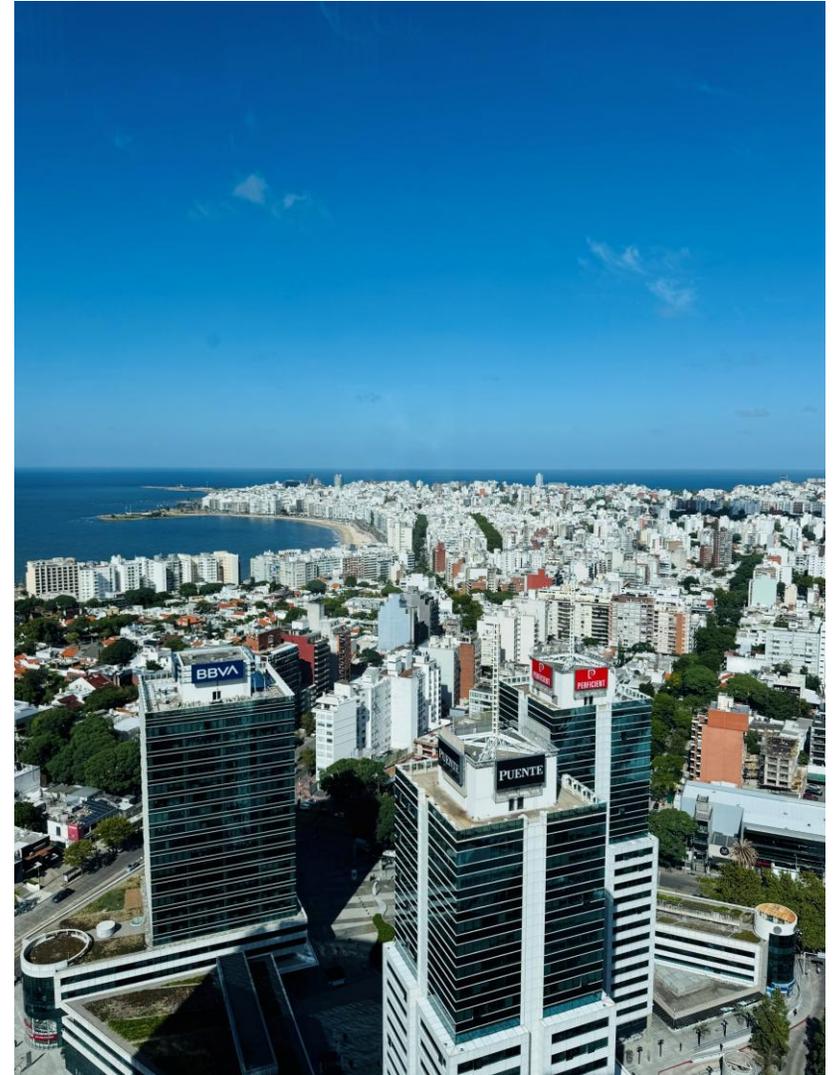


Photo: Montevideo skyline on 26 February 2026

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