Milei's First Six Months in Government

Introduction

After a somehow unexpected victory, President Javier Milei assumed office on December 10, 2023. Argentine people seem to have grown accustomed to an endless cycle of fluctuations, oscillating between promises of fundamental change and long-term prosperity, and calls for equitable wealth redistribution. However, we believe this time could be genuinely different. With the highest number of votes in Argentina's history, the electorate chose an outsider known for candid communication but also eager to demonstrate economic expertise, a rarity among Argentine presidential candidates in recent decades.

International observers monitoring Argentina are intrigued by the new leader's approach. He has effectively utilized social media, embodied a charismatic persona, engaged with significant global figures while firmly opposing the international 2030 agenda, and consistently criticized previous policies implemented by Argentina's political establishment. Besides that, the first six months of President Milei's administration have produced diverse outcomes.

Successful Economic Transition so far

Milei swiftly defused the economic challenges inherited from the previous administration. These included a dramatic increase of the FX of over 200%, the removal of most price controls leading to significant increases in fuel and public utilities costs, and substantial cuts in government spending. Concurrently, stringent financial regulations were maintained to stabilize hard currency outflows.

Together with this one-shot devaluation measure, the Central Bank established a crawling peg of 2% per month, narrowing the gap between official and market rates since the foreign market exchange rate has remained stable without significant fluctuations in the last months. Despite some FX restrictions have been gradually eliminated, exchange controls are expected to be fully removed during the second semester of 2024.

Additionally, inflation plummeted from 25% per month in December 2023 to 4% by May 2024, and the country achieved a fiscal surplus for five consecutive months, primarily driven by a reduction in expenses, a decrease in subsidies, and an increase in income related to foreign trade, among other factors. The restructuring of private debt incurred for imports and dividends under the prior government was largely managed through the conversion to dollar-denominated sovereign bonds called *Bono para la Reconstrucción de una Argentina Libre* ("BOPREAL").

Also, the annual prime lending rate in pesos has decreased from 111% to 40% and Argentina's sovereign risk rating has improved which represents investors' expectations about the economic roadmap that the new administration is proposing and the fiscal results that it is showing so far. The Central Bank has steadily rebuilt international reserves from zero levels at the start of the administration, thanks, in part, to currency controls.

However, the sharp adjustment in pricing relative to the dollar has triggered a recession, with the government reporting a 10% decline in economic activity compared to the previous year and the loss of approximately 100,000 payroll jobs.

Structural Reforms Expected

Upon taking office, President Milei promptly issued an executive order to revoke or modify more than 300 laws, regulations, and rules. This directive is intended to drastically cut down on bureaucracy and curb government involvement in the private sector economy. While some of these actions have faced legal challenges, many remain effective, including the repeal of:

- Restrictions on foreign ownership of rural land.
- Constraints on the freedom to define terms in residential and commercial leases.
- Regulations impacting critical industries such as communications (including satellite communications), healthcare, tourism, and airline travel.
- Restrictions on contracts in foreign currency.
- Laws and regulations affecting domestic commerce, such as restrictions on product displays in retail outlets, mandates for domestic supply and price controls on essential consumer items like meat, dairy, and fuel, and requirements for businesses and government to prioritize domestic products.

Moreover, since the beginning of the year, the president has been engaged in a political struggle to implement structural reforms aimed at reducing the size of the State, deregulating the economy, providing monetary and stability reforms, and boosting investment with the so-called 'Ley de Bases.' It narrowly passed the Senate and, along with a tax reform package, returned to the House of Representatives, where both have recently been approved. Now that both initiatives have passed, the administration will have successfully implemented significant structural reforms such as:

- Eliminating or downsizing government agencies to reduce costs and enhance efficiency, including the privatization of certain state-owned enterprises.
- Establishing a Large Investment Incentive Regime (“RIGI”) for projects involving investments exceeding US$200 million in the sector of Forest Industry, Tourism, Infrastructure, Mining, Technology, Metallurgy, Energy, and Oil & Gas, offering extensive fiscal, customs, and exchange benefits.
- Updating employment laws to create more jobs and reduce employer risks.
- Deregulating the energy sector which would positively impact investment around “Vaca Muerta” shell basing.
- Declaring a public emergency in administrative, economic, financial, and energy matters for one year, thereby granting the president legislative authority usually reserved for the legislature until mid-2025.

These reforms aim to set the foundation for long-term prosperity. The comprehensive nature of these changes demonstrates the government's commitment to addressing deep-rooted economic challenges and building a more resilient economic framework for the future.

Foreseeable Next Steps

With the "Bases" law approved, the relationship between the State and its citizens will be significantly transformed by guaranteeing individual and collective freedoms and enhancing fundamental rights. This legislative shift is also expected to foster a more market-friendly environment, positioning Argentina as a key player in the global market attracting international investors.

Milei’s government has no new recipes for economic growth but insisting on a return to international credit, stimulus by lowering taxes, and modernizing the economy to attract foreign direct investment.

The current challenge lies in the sustainability of the measures, which hinges on the speed of the economic recovery. However, despite the recession, the president's public support remains strong, with no significant civil unrest. Most people understand the current sacrifices are necessary for Argentina's future stability.

The opposition is divided, and if the economy improves, Milei could be well-positioned to win next year’s mid-term elections and secure greater congressional support for deeper structural reforms.

Argentina is in a totally different situation compared to that of December 2023. Milei needs to continue with his stabilization plan, carefully managing the timing, in the expectation that also main street will begin to see some economic recovery.