

Is Argentina Turning the Corner? Evaluating Javier Milei's first year as president.

In the mid 1900s, Nobel prize winning economist Simon Kuznets made a famous remark: 'there are only four types of economies: developed, underdeveloped, Japan and Argentina'.

The country's golden age at the dawn of the 20th century, which forged it into one of the world's wealthiest economies before the First World War has long since been consigned to memory. After its unification, more than six million immigrants arrived in the country, which coupled with strong international investment enabled Argentina to exploit its vast fertile land and increase exports to satisfy strong international demand for grain, meat and wool. By 1914, Harrods first overseas branch was established in Buenos Aires and the phrase 'as rich as an Argentine' became a popular expression in Europe, reflecting the country's remarkable prosperity. Indeed, at this time, Argentina stood in the top 10 richest countries by GDP per capita and was comparable to the likes of Canada and the US.

However, as international demand for agricultural products waned in the 1930s, Argentina's overreliance on these exports became apparent. In response to the worsening economic situation, Juan Perón was elected president in 1946, introducing welfare reforms promising to maintain the working classes high standards of living. Instead, unsustainable spending increased debt levels which rose throughout the rest of the 21st century. Inefficient domestic policies and subsidies coupled with a developmentalist ideology favouring protectionism over competition have caused Argentina to become infamously unstable, since defaulting 9 times on its debts, the most of any country in the world.

'My policies will hurt, but they will hurt for a short time'.

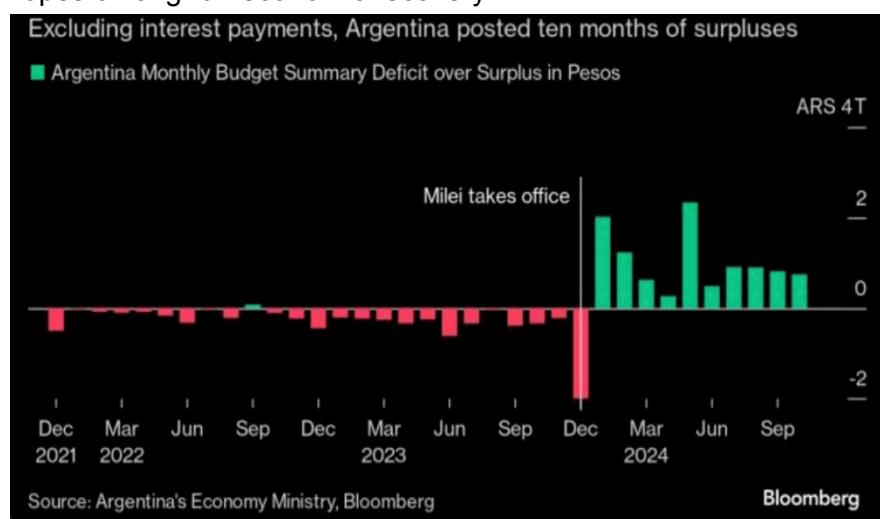
By December 10th, 2023, when Javier Milei became Argentina's president, the economy was in dire need of reform. With an annual inflation rate of 211% in 2023, edged by a plummeting peso, the country was besieged by hyperinflation. Despite having the smallest congressional force in Argentinian history, Milei has pushed his executive power to the limit in order to enact bold policies. He has been transparent in addressing the country's perilous economic situation, and the hardships required to turn the corner. His economic plan centres around: Fiscal reform enacting huge government spending cuts to subsidies as well as privatisation and an institutional overhaul, Monetary policy to bring currency stability and reduce inflation, and further Trade and Market liberalisation to undo damage done by protectionism.

So, after a year in charge, have his radical solutions overcome Argentina's radical problems?

Fiscal Policy: Addressing The Budget Deficit and Bureaucracy.

Firstly, as a self-declared libertarian, Milei wanted to reduce state intervention and implement austerity measures. Within a few weeks, he had abolished 10 government agencies from operation, halted public infrastructure projects and cut fiscal transfers to provincial governments by 98%. Subsequently, the ministry of deregulation was created, which over the past year has removed hundreds of pieces of regulation, like repealing rent controls,

causing a 195% surge in the supply of rental housing. Public spending slashes of about 30% also meant that in his first month in office and for the first time in 10 months, the country recorded a fiscal surplus, something that was replicated every month for the rest of the year (excluding interest payments). Privatisation of state-owned companies has also been on the agenda, with 59 firms having been identified for partial or total handing over to the market. While no deals have gone through yet, companies like Argentine Airlines are actively cost-cutting to become more attractive to private buyers. These moves have been met with public resistance, especially from labour unions who fear job losses and worsened public service availability. Major protests broke out over the year, as some citizens saw themselves falling into poverty at a time where international investors were being offered tax breaks and incentives, creating a perception of inequality and prioritisation of foreign interests over domestic welfare. Another major reform, most directly affecting quality of life by causing cost of living surges, has been the removal of large government subsidies. Energy subsidies for example, accounted for a huge 3% of GDP in 2014, heavily straining public finance, despite their role in reducing household bills. Whilst GDP slumped and poverty levels rose significantly to 53% due to these reforms, Milei, as well as the general Argentine population - who under no false pretences voted him in - view these measures as necessary for any hopes of long run economic recovery.



Monetary Policy: Stabilising The Plummeting Peso and Addressing Inflation

Despite falling back on his original campaign promise to dollarise the Argentinian economy, facing blocks like low foreign reserves, Milei has adopted a more pragmatic approach to the situation. Access to US dollar loans is set to be expanded to non-exporting businesses and a dual-currency debit card has been planned to roll out in early 2025, to allow consumers to pay in dollars. While loss of monetary autonomy from such measures is normally considered a significant negative, after years of irresponsible printing of central bank money, Milei is content with being under the mise of the more trustworthy FED. While this provides short term stability for companies and consumers, it is important for structural reforms within Argentina's own treasury and central banking systems to restore domestic trustworthiness in the long term. He also devalued the official peso rate by 54% and implemented a crawling peg. This is where the currency's value is set to fall by a further 2% each month. Previous strict foreign exchange controls had created a black market for more stable currency such as dollars, distorting the 'real'

Inflation rate by month (Jan - Oct, 2024)



value of the peso as determined by supply and demand. Milei's policy brought the official and market rates closer together, increasing transparency in the currency market which has encouraged FDI.

Along with the stabilising of the peso, tight monetary policy with high interest rates and restricted money supply, have now brought inflation down to under 3% month on month. While high by international standards, for Argentinians this is crucially lower than the average growth in wages and poverty levels have begun to drop from their 53% peak.

Trade: Expanding Into International Markets

With the vital issue of inflation seemingly under more control, Milei aimed to diversify the economy away from reliance on domestic consumption and government spending, through export-led growth and attracting investment. This year, the country's long distressed sovereign bonds have roughly tripled in price and its credit rating has been upgraded from D to CCC, hinting at early signs of growing investor confidence. By expanding operations in commodity exports and underdeveloped shale oil and gas fields, Argentina ran an energy surplus in 2024 and over \$150million was invested in domestic stocks at the rear end of the year. The halving of the peso's value helped flip the trade deficit by reducing import demand and making agricultural exports more price competitive. Ultimately, the country recorded a \$1.2bn trade surplus in November last year and this is only projected to rise, particularly after the inauguration of Donald Trump, who has a strong relationship with Milei, strengthening trade ties with the US

Conclusion: Evaluating The Year

Indeed, after decades of mismanagement there is no silver bullet for Argentinian recovery. Every reform creates consequences, and with some regions having over half of their workforces involved in the public sector, rising unemployment has been a key issue, peaking at 7.7%. Whilst statistics in key metrics have looked positive, policies have increased the cost of living, and many businesses and households struggled to scrape by last year. However, over 2024, Milei's approval ratings rose, and many key economic issues were addressed. His decision to prioritise inflation, currency stabilisation, and trade surplus creation over immediate domestic problems like unemployment and cost of living was understandable. Without addressing those issues first, it's hard to imagine any feasible policies which could have brought any long term, stable prosperity back to the country

While it may have only taken its first few steps, I think it is safe to say that Argentina is certainly turning the corner.