

The Milei Phenomenon in Argentina

The recently approved Incentive Regime for Large Investments (RIGI)

Introduction

In 2023, Argentina experienced cumulative inflation exceeding 211% (INDEC, 2023), with over 40% of the population living in poverty (INDEC, 2024), and economic activity contracting by 4.5% year-on-year (INDEC, 2024). Amid this backdrop, Javier Milei, with just two years of political experience as a national deputy, burst onto the Argentine political scene when he was elected president in November 2023.

Milei effectively leveraged widespread discontent with the political establishment by delivering a strong and assertive critique of traditional coalitions, including Peronism and *Juntos por el Cambio* (Clarín, 2023; La Nación, 2023; Perfil, 2023). His eccentric style—characterized by his unconventional attire, tousled hair, and histrionic mannerisms—further distinguished him from the typical political profile.

Despite receiving substantial support, Milei assumed office without a robust party structure to facilitate key appointments, prompting him to seek figures from other parties and the private sector. Moreover, the government holds a minority in both chambers of Congress (Directorio Legislativo, 2023). In this context, the new administration has had to moderate many of its proposals and build alliances to secure the agreements necessary for implementing parts of its reform agenda. Consequently, while maintaining his controversial rhetoric, Milei has adopted a more pragmatic stance on certain issues over the months (Cefeidas Group, 2024).

The Milei Administration's Agenda

The administration's primary focus is on economic issues (Milei, 2024), with the central objective of Milei's economic program being to address inflation, which ranks among the highest globally. To achieve this, the government has implemented aggressive shock therapy, involving significant cuts to public spending to eliminate the budget deficit and reduce monetary issuance.

While this strategy has led to a decrease in economic activity and consumption (Fernández Erlauer, 2024), it also resulted in a substantial decline in consumer prices during the initial months (dropping from 25.5% in December 2023 to 4.2% in May 2024; see Figure 1). Despite

the significant decline in this index, price variation remains high, with a month-on-month increase of 3.5% in September. The government now faces the challenge of breaking this inflationary inertia, alongside other critical economic issues such as lifting foreign exchange controls, which have been in place since 2019 (*Perfil*, 2019).

Consumer Prices

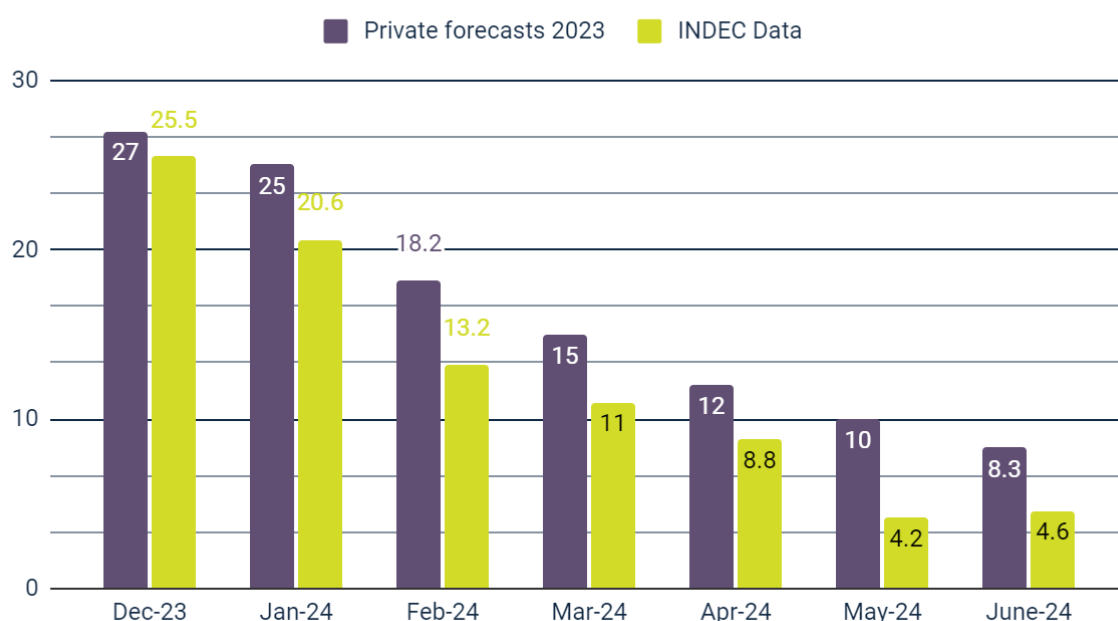


Figure 1. Inflation private forecasts vs. INDEC monthly data (Monthly percentage variation)

Source: Cefeidas Group based on Market Expectations Survey (BCRA) and Consumer Prices Index (INDEC)

The government has adopted a multi-faceted strategy aimed at improving the economic situation. As a result, the first eight months of the Milei Administration concluded with a primary surplus, and in seven of them a financial surplus was also achieved; July was the only month in which a financial deficit was recorded due to debt interest payments (see Figure 2). These results have been highlighted by the government, which attributes the stabilization of the main macroeconomic variables to the fiscal anchor (Ministry of Economy, 2024). However, this accomplishment was accompanied by significant cuts to public spending, which impacted pensions¹, public universities, public works, transfers to

¹Argentine pension system is managed by the state. While pension amounts are based on each worker's contributions throughout their active life, the law determines the coefficient used to update them.

provinces², social programs, and public sector jobs. These measures contributed to a fiscal surplus of 0.4% of GDP in the first half of 2024.

Public Sector Fiscal Result

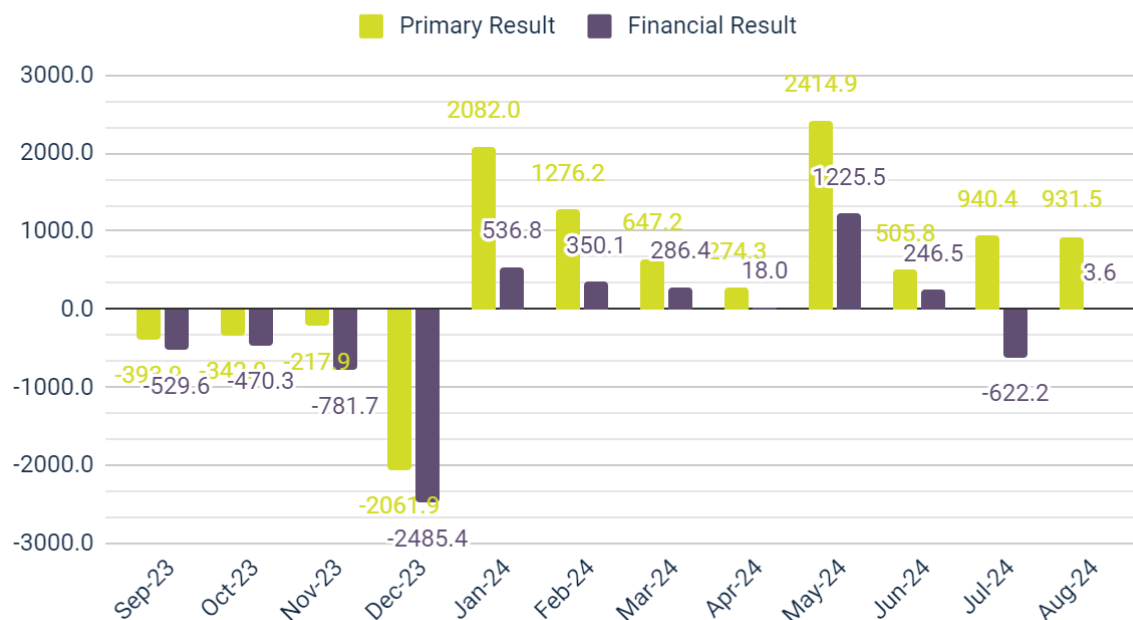


Figure 2. Fiscal result evolution (Million USD)

Source: Cefeidas Group based on Treasury Secretariat Data

Milei's Policy Strategy

Shortly after taking office, Milei implemented an assertive strategy, issuing a presidential decree (Infoleg, 2024) to reduce government intervention in the economy, cut public spending, and initiate labor reforms. A key priority of his administration is to transform and modernize the government (Infoleg, 2024), which includes restructuring or eliminating various agencies, privatizing state-owned enterprises, and deregulating several sectors, such as aviation and transportation.

In terms of foreign policy, the government has shifted Argentina's recent international strategy towards greater alignment with the West, particularly with the United States. This shift includes resuming the membership process for the OECD, applying for Global

²Argentina's federal system comprises 23 autonomous provinces and the autonomous city of Buenos Aires. Each of them has its own constitution and taxation authority.

Membership in the North Atlantic Treaty Organization (NATO), and expressing political support for Ukraine and Israel (González Levaggi, 2024). Additionally, the administration has negotiated new fiscal targets with the International Monetary Fund.

The Milei administration has expressed its intention (Sánchez Flecha, 2024) to advance the signing of the free trade agreement between the European Union and the Southern Common Market (Mercosur), which includes Argentina, Bolivia, Brazil, Paraguay, and Uruguay. He plans to work on easing Mercosur's rules regarding the signing of trade deals with other countries or blocs.

Since Milei took office, Argentina's relationship with China has weakened due to a shift towards the West (Actis, 2024). During his election campaign, Milei expressed hesitancy in forging bilateral ties with China, citing ideological differences. Under the previous administration of Alberto Fernández, Argentina had been accepted into the non-aligned bloc BRICS (Brazil, Russia, India, China, and South Africa), with plans to become a formal member in January 2024. However, Milei's government decided to withdraw its membership, leading to diplomatic tensions

This change in stance raised uncertainty about whether China would renew the USD 6.5 billion currency swap negotiated by Fernández's administration, which was set to expire. The swap allowed Argentina to make payments for imports or debts in yuan amid a foreign currency shortage (The Economist, 2024). Ultimately, China agreed to renew the swap. Despite Milei's initial approach to the bilateral relationship, he has gradually softened his geopolitical stance and has advocated for enhancing trade and investment ties with China, especially in trade and investment (Cefeidas Group, 2024). Additionally, he recently announced plans to travel to China in January for the CELAC summit (Marina, 2024).

The Omnibus Bill and the RIGI

In December 2023, the national government introduced the Omnibus bill in Congress, an initiative encompassing political, administrative, economic, and tax reforms. After extensive legislative debate and numerous modifications, the bill was approved in June (Infoleg, 2024).

Key measures included declaring a State of Emergency, restructuring the government, promoting formal employment, liberalizing labor laws, addressing energy issues, and establishing the Incentive Regime for Large Investments (RIGI).

The RIGI aims to enhance Argentina's competitiveness by facilitating the initiation of new projects or the expansion of existing ones. It provides greater legal certainty and protection for initiatives requiring investments between USD 200 million and USD 900 million. The regime is applicable to projects submitted within two years across various sectors, including forestry, tourism, infrastructure, mining, technology, steel, energy, and oil & gas.

Economically, the RIGI offers 30 years of fiscal and legal stability, along with a fixed income tax rate of 25% for investors. Companies can also utilize tax credit certificates to offset VAT invoices. Furthermore, the regime provides customs benefits by exempting companies from import duties and export withholding taxes. It ensures exchange benefits, allowing companies free access to the foreign currency earned from project exports³. These measures are designed to enhance fiscal and exchange rate stability.

Each province can now choose to adhere to the RIGI at the provincial level, thereby extending fiscal stability to local taxes. As of October 2024, nine provinces have adhered to the RIGI (Errepar, 2024), including those that participate in the lithium and copper mining roundtables: Salta, San Juan, Catamarca, Jujuy, and Mendoza. Additionally, prominent oil and gas provinces such as Río Negro and Chubut have joined. In contrast, provinces like Buenos Aires, Santa Fe, Córdoba, and Neuquén have not yet adhered to the scheme and have proposed their own regimes, distinct from the national framework.

To date, several companies have expressed interest in exploring or pursuing investments totaling approximately USD 46 billion (Espina, 2024). Notable projects include *Yacimientos Petrolíferos Fiscales* (YPF)'s construction of a gas liquefaction terminal and LNG export facility (USD 30 billion), the development of the *Josemaría* and *Filo del Sol* copper projects by Broken Hill Proprietary - Billiton (BHP) and Lundin Mining (USD 8 billion), Arcadium's *Fenix* and *Sal de Vida* projects (USD 2.4 billion), the *Vaca Muerta Sur* pipeline under YPF (USD 2 billion), and the expansion of *Transportadora de Gas del Sur* (TGS)'s Néstor Kirchner gas pipeline (USD 700 million).

Outlook

Despite these developments, the situation remains complex. We identify at least three critical areas for governments and investors eyeing Argentina:

³In Argentina, companies are required to settle the dollars obtained from their export activities at the exchange rate officially set by the central bank. The transfer of foreign currency abroad is subject to strict restrictions.

Foreign Exchange Policy

Despite his repeated criticism of foreign exchange restrictions, which he described as an attack on private property (Milei, 2024), once in office, Milei reiterated several times that the conditions for lifting these restrictions have not yet been met (Milei, 2024). He stated that the removal of exchange controls would occur once the National Central Bank's balance sheet has been cleaned up. The aforementioned investment promotion measures are aimed in this direction. Additionally, the IMF may extend its financing program to Argentina. The pragmatic shift toward China mentioned earlier could also be linked to securing alternative sources of financing.

These initiatives, along with others, such as the regularization of undeclared assets (Miguens, 2024) and various measures undertaken to ensure an energy surplus, aim to help the central bank secure a much-needed inflow of foreign currency to bolster its depleted reserves.

Macroeconomic and Social Figures

Although some critics argue that the economy is not yet out of recession, the government maintains that the worst is over and the road to recovery is beginning. The salaries index grew by 7.5% month-on-month in July 2024, accumulating a 98% increase in the first half of 2024. However, some indicators suggest a decline in social conditions. The most notable is the poverty rate, which was recorded at 52.9% in the first half of 2024—an increase of 11.2 percentage points compared to the second half of 2023 (INDEC, 2024). This marks the highest recorded poverty rate since 2003 (Jueguen, 2024).

Furthermore, some polls indicate a decline in the government's approval ratings (Universidad de San Andrés, 2024) as the recession deepens. Figure 3 shows the evolution of the approval of Javier Milei's government according to the bimonthly Political Satisfaction and Public Opinion Survey of the Universidad de San Andrés. In September 2024, approval reached its lowest point since the beginning of the administration; while disapproval reached its maximum. This may be due, in part, to recent government decisions, such as vetoing a reform intended to raise pensions and a law aimed at increasing funding for public universities. These actions have sparked unrest not only among lower-income groups but also within the middle class, which could be adversely affected by these measures.

Evolution of the Milei Administration's Approval

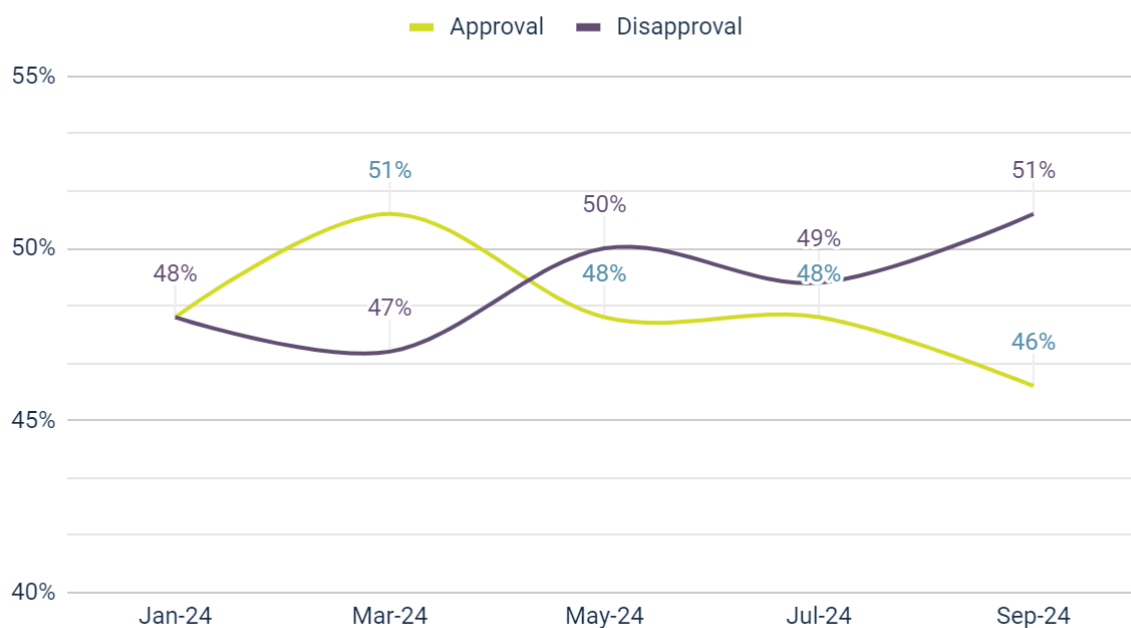


Figure 3. Evolution of Milei Administration's Approval

Source: Cefeidas Group based on Universidad de San Andrés data

The Legitimacy of Milei's Political Project

The general public and the business community remain cautiously optimistic. However, for many ordinary people, it is difficult to perceive any signs of economic recovery. Moreover, short-term forecasts from major global financial institutions predict that the economic downturn will persist at least until the end of the year. At some point, the president must deliver results to prevent this optimism from turning against him.

While it remains uncertain how successful Milei's tenure will be—whether he can achieve short-term outcomes that would secure a win in the mid-term elections or even re-election—what does seem clear is that his rise represents a paradigm shift in Argentina's economic policy. Despite differences in social policies and spending priorities, there appears to be a growing political and social consensus on the importance of maintaining fiscal discipline and promoting investment as a key driver of economic growth.

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