

## **Javier Milei is the new president of Argentina. What to expect?**

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### **Introduction**

In a 180° turn, Argentina embraces the extreme right. The economist Javier Milei triumphed in the second round of the elections in Argentina by achieving 56% of the votes against Sergio Massa, who obtained 44%. The transition has already begun. Alberto Fernández (the outgoing president) and Javier Milei have met at the presidential residence to finalize details for December 10 when the latter must take office.

Milei is clearly in favor of greater participation of the private sector, and many have compared him with other presidents on the American continent such as Jair Bolsonaro (in Brazil) and Donald Trump (in the United States), since the three They have appeared on the scene as "outsiders" and have gained popularity based on an anti-system and anti-elite discourse, with a popular support strategy through the use of social networks (Corrêa & Carmo, 2023). However, will Milei be able to carry out his government proposals easily? What will await you next year?

### **What to expect in 2024?**

The first signs have been positive and come from the markets. On Tuesday, November 21, the first day of activity after the elections and the Monday holiday, the Buenos Aires stock market indices registered an advance of more than 22%. This is the highest daily increase in three decades (Galarraga Gortázar, 2023). It is a sign that, above all, for followers of liberal ideas, should be a normal fact. Now, many more liberal followers of Milei echo the ideas followed by the president-elect. For example, following the economic ideas of the Austrian School, which has influenced Milei so much and which can be summarized in that economic decisions should be made by individuals and not by the State or any other central authority (Barría, 2023).

Recalling his promises if elected as president, Milei has promised to cut public spending and taxes, close the Central Bank of Argentina and replace the national currency (the peso) with the US dollar. Also, he has proposed banning abortion, making gun laws laxer and only considering nations that want to combat socialism as allied countries of Argentina, often using the United States and Israel as examples. On the contrary, China, like Brazil, is the constant target of Javier Milei's criticism. He stated, on several occasions, that businessmen "are free" to negotiate with "the countries they want," but that his government will have no relationship with any of them despite being Argentina's main trading partners.

The challenge of solving the economic problems is colossal: annual inflation has risen above 140 per cent—the third highest rate in the world—more than two out of every five Argentines now live in poverty, and the value of the currency Argentina has collapsed. In April 2020, at the beginning of the pandemic, 1 dollar could buy 80 pesos, according to an unofficial exchange rate based on the market's valuation of the currency. This week, with 1 dollar, almost 1000 pesos were bought.

Milei highlighted his commitment to respecting property rights and, in that context, assured that the debt would be paid. One of the main problems to be resolved in the short term is the Leliqs, an instrument created by the Central Bank in January 2018, to keep the monetary issue stable so as not to generate inflation. In other words, they are debt securities issued by the Central Bank to “dry up the peso market” and prevent them from going to the dollar. Currently, the participation of the Leliq is at very high levels, especially concerning the current volume of reserves, which are around US\$21 million (“Dólar: Javier Milei explicó cómo piensa salir del cepo”, 2023). Milei plans to dismantle Leliq via a market solution, without violating property rights. It should be noted that there is still no defined solution from the new Government, despite the urgency of the problem and the emphasis that the elected president Javier Milei had placed in recent months. In any case, what the government wants to avoid is an inflationary spiral. Some of the options include issuing debt in dollars in the case of dollarization or converting it into Treasury debt. Regulatory measures can be carried out by the Central Bank to manage this stock of Leliq, up to changing the Leliq asset for another asset (an operation that banks can do). If Argentina wanted to borrow in dollars, it is not known at what rate, nor is it known for what term, or who would lend it. But, if it were a high rate and short term, it would not be a viable financial business for the country.

Argentina has public spending among its main problems because it is greater than what it can finance. Because foreign markets restrict the possibility of taking on debt abroad, it has to do so internally through the Central Bank, generating a notable injection of money into the market, causing the phenomenon of inflation or a general increase in prices. Therefore, Milei has to prioritize stopping this situation.

Regarding the dollar, Javier Milei assured that before lifting the exchange rate, the “Leliqs problem” must be solved, since if not done so, the country could fall into hyperinflation. In other words, stock imbalances must be corrected. In any case, he has already indicated that the price of the dollar will be determined by the market. It is one more example where State participation will not be seen (“Las dos primeras medidas...”, 2023).

In terms of foreign trade, it is expected that the flow of exchange, especially imports, can be released relatively quickly. Following his liberal ideas, Milei will seek to open the international market for the entry and exit of goods. However, this must be carried out very carefully, due to the limited access to available dollars. Traditionally, an increase in imports, in terms of the amount of supply in the local market of goods that make up the family basket, should lead to a decrease in prices.

One of the issues that the Milei government will have to face the most debates and disputes will be privatization. With his idea of leaving it in private hands, among his plans is to privatize the public media and the YPF oil company. Issues that will have to be hotly discussed in Congress. YPF is the largest Argentine company, of which the State controls 51%. What is intended, in principle, is to restructure it and make it more profitable for greater private investment. For now, investors would be attracted, and this was reflected in the fact that YPF shares have risen 40% on Wall Street (“Privatizar sectores clave...”, 2023). In addition to YPF, other companies candidates for privatization include the energy company ENARSA and Aerolíneas Argentinas. Also, they want to paralyze public works to reduce public spending and thus control inflation.

The other priority aspect, as demanded by society, will be security. In that sense, we will have to see how Milei can put into practice his proposals for judicial reforms, such as modifications to the national defense, internal security and intelligence laws and reform in the prison system. However, it seems that Milei lacks the political support and economic conditions necessary to carry out such a radical change. His nascent party, La Libertad Avanza, only has seven of the 72 seats in the Senate and 38 of the 257 in the Chamber of Deputies (Nicas, 2023). Therefore, he will be forced to negotiate with allied and opposition legislators if he intends to advance controversial reforms such as the privatization of public companies or the dollarization of the economy, since he does not have a majority in Congress. This is because the formation of the new Parliament had been decided in the first round of elections in October when the libertarian leader obtained only 30% of the votes.

Milei's government is going to rely on its political allies first and foremost and will surely have a dialogue with the entire leadership to be able to govern because you cannot govern without legislative autonomy (“¿Cómo gobernará Milei...”, 2023). Furthermore, Milei does not have governors from his party either. For this reason, he is going to have to make many agreements with Peronist (opposition) governors, from the right, with mayors. It has only three mayors (mayors) from towns with less than 2,000 inhabitants. It's quite a challenge.

For this reason, the alliance, until now informal, that Milei closed before the runoff with former president Mauricio Macri and former candidate Patricia Bullrich, both from the conservative coalition Together for Change, appears key to guaranteeing governability. It will be necessary, perhaps, for there to be members of the Together for Change bloc who are part of the new Government Cabinet. This bloc, for its part, will have 94 deputies, insufficient to achieve a majority in the lower house of Congress, where the defeated Peronist coalition will have 108 legislators, which demonstrates that the new president will need broader agreements. In the Senate, the situation will be repeated: Together for Change has 21 legislators compared to the 33 of Peronism until now in power. Furthermore, we must pay attention to the fact that Together for Change shows signs of disintegration after the elections and many of its legislators are unlikely to openly support Milei.

## **Conclusion**

The electoral victory of Javier Milei and his consecration as the new president of Argentina has meant a historic milestone in national politics. In such a short time (two years), he burst onto the political scene, being a national deputy, and now the new president. However, his political party does not have a majority in Congress, in addition to facing resistance from institutions, unions and the opposition. Therefore, it remains to be seen what Milei will do with his government plans, such as eliminating the Central Bank and reducing the State, among other actions.

Society will have to be patient to see the vast majority of its problems solved, such as inflation, insecurity, improvement in health, education, infrastructure, in short, an improvement in the quality of life. What seems certain is that the majority did not vote for Milei because of his far-right liberal ideology, but rather it gives the impression that they voted for a change because the current government has not been able to satisfy their needs, neither during nor after the pandemic (even the government itself committing irregularities during the pandemic).

For now, in the short term, the first months will have to give priority to the economic aspects to be resolved, although the fact is already known that inflation will remain high for many months (it is estimated that it will take up to 18 months) because there is a potential, lagging inflation, which has been retained through fixed or regulated price programs by the Government of Alberto Fernández, which are not related to reality. One of the problems to be solved, as already mentioned, is the Leliqs. A new impetus must be given to economic activity, savings and

investment stimulated. In short, measures that lead Argentina to recover its economic position at the international level, are on the path of growth and development.

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