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Argentina: Javier Milei's Reform Agenda from a Theoretical and Empirical Perspective

Abstract

Argentina has been characterised for a long time by inflation, recession, poverty and failed reforms. We analyse the reforms of Javier Milei with the help of the Austrian School of Economics, German ordoliberalism and the theory of financial repression. It is shown that Milei's reforms have achieved with expenditure cuts and decisive deregulation an impressing consolidation of the public budget, a decline of inflation as well as – with a lag – growth and a falling poverty rate. His reforms may become a blueprint for other countries such as Germany.

JEL-Codes: B530, E580, P110.

Keywords: Argentina, Milei, inflation, reforms, deregulation, growth.

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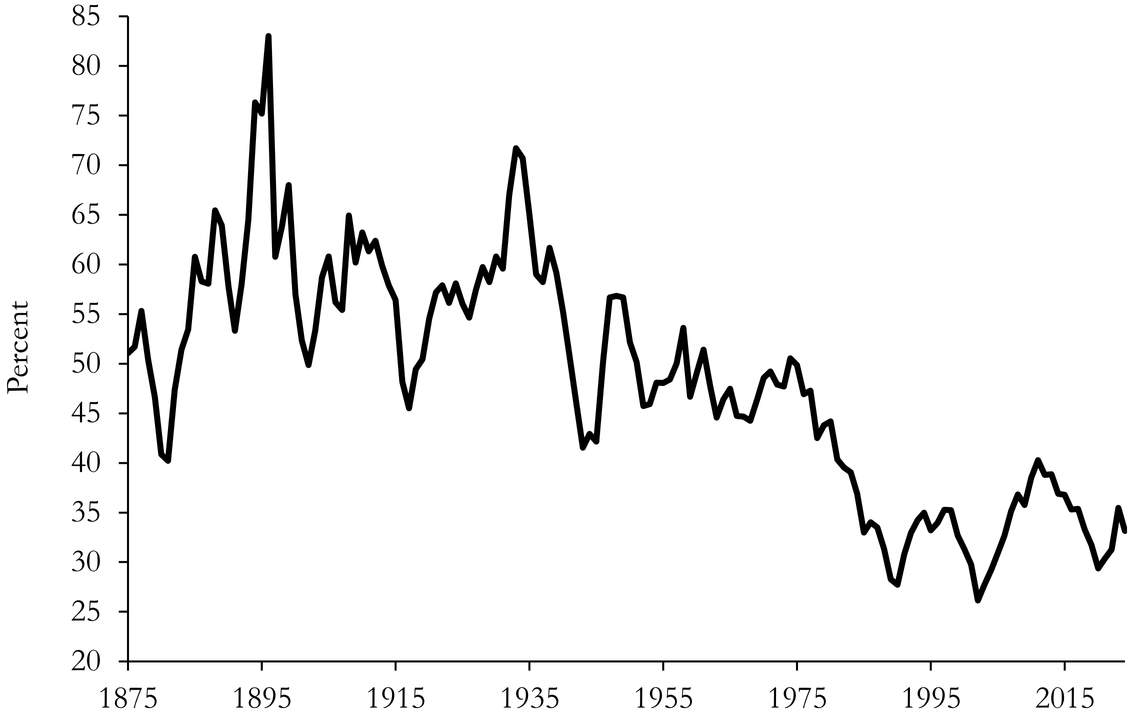
1. Argentina Before and Under Javier Milei

Before World War One, Argentina was one of the richest countries in the world, with average per capita income being close to that of the USA (see Figure 1). The country has fertile agricultural land, plenty natural resources and a well-educated population. With the economy being traditionally characterised by farming, Argentina mainly exported agricultural goods until the 1950s. In 1946, Juan Domingo Perón was elected president, who came to power "as a hero of the working class" by making far-reaching concessions to the trade unions. From then on, the Peronists pushed ahead Argentina's development as an industrialised country, with the trade unions becoming an important pillar of their power.

Figure 1: Gross Domestic Product Per Capita: Argentina Relative to the USA



Source: The Maddison Project and IMF.

Perón's most important policy instrument for industrialisation was (as in other emerging economies at the time) import substitution (*Singer* 1950, *Prebisch* 1950, *Cherif and Hasanov* 2024). To increase national income, imports of industrial goods were to be replaced by domestic production. Due to the competitive disadvantages of the domestic industry, this was only possible with subsidies and high effective tariffs. To finance the necessary investments and government spending, private savings were channelled to the state and the industry through the public control of the banking system. The combination of artificially low interest rates and inflation – i.e. financial repression – contributed to the real devaluation of government debt.

However, import substitution and financial repression turned out to be obstacles to growth (*McKinnon* 1973). The high tariff barriers isolated industrial corporations from the global market, for which Western industrial corporations were achieving ever greater production volumes and economies of scale in the course of the progressive trade liberalisation under the General Agreement on Tariffs and Trade (GATT).

This basic pattern of economic policy has remained largely unchanged up to the present apart from phases of gradual and partial liberalisation under the presidents Carlos Menem (1989-1999) (*Marti* 2021) and Mauricio Macri (2015-2019). Since the 1960s, high levels of public and foreign debt, financial repression, inflation, devaluation of the peso, tariff barriers and capital controls have dominated, with a strong negative impact on the country's growth and prosperity (*Schnabl and Sonnenberg* 2022). The burden for a growing part of the population seems to have become so heavy that they voted in favour of the libertarian candidate Javier Milei in 2023, who had advocated radical reforms during his election campaign.

As Milei has launched extensive reforms, a controversial discussion concerning the pros and cons has emerged. Whereas proponents have argued that fundamental reforms are inevitable to reanimate the Argentine economy (*Bagus* 2024, *Pandiella* 2018).[2] The lifting of price controls and the increase of the poverty rate were strongly criticized (*TAZ* 2025). To evaluate the policy approach, we build upon the Austrian School of Economics theory as represented by Mises (1912, 1949) and Hayek (1944, 1945, 1976), German ordoliberalism as represented by Eucken (1952) as well as McKinnon’s (1993) order of financial liberalization. We shed light on Milei’s concept of the market, scrutinize the efforts of macroeconomic stabilization and provide an overview over the still ongoing deregulation process. This to derive implications for both Argentina and the industrialized countries.

[2] The absence or delay of necessary reforms over a long period of time was referred to as "Argentinization" (*Fontevecchia* 2022), i.e. persistently low growth accompanied by growing dissatisfaction among the population.

2. The Role of the Market Order

Javier Milei has studied economics and has published several books and articles (see e.g. *Milei* 2018, *Milei* 2020), with his views being rooted in the Austrian School of Economics. This school of thought focuses on individual freedom, limitation of the state in the economy and the society as well as on monetary stability. [3] Mises (1949) has argued that human action consisted of goals and means evolving over time, criticising state intervention in the economy. He regarded socialist planning economies as not viable in the long term, as these disturbed the price mechanism, leading to detrimental inefficiencies.[4]

Javier Milei has expressed sympathy for Murray Rothbard as a prominent representative of "*anarcho-capitalism*" (e.g. *Milei* 2021). Rothbard (1962) argues that state intervention in the economy is not only unnecessary, but also harmful, as it disrupts the natural self-regulating mechanisms of the market. Rothbard (1982) favoured a society without state, in which all services, including the legal system and security, are provided by the market. Given the very extensive interventions of the previous governments in the economy of Argentina, Javier Milei proposed a far-reaching liberalisation, as symbolized by a chainsaw. This can be seen as a shift from a widely planned to a market-oriented economic order as for instance described by the constitutive principles of a market order by Eucken (1952).

2.1 Constitutive Principles of a Market Order by Eucken (1952)

Eucken (1952) formulated seven constitutive principles of a market economy (as the academic basis for the West German currency and economic reform of 1948). The **primacy of monetary policy** (1) says that only with a stable currency corporations can safely plan for the future as the basis for investment and growth. **Free prices** (2) signal scarcity and thus ensure the

[3] Friedrich August von Hayek argued that free markets are based on decentralised information signalled by prices. In his essay "The Use of Knowledge in Society" Hayek (1945) argues that centralised economic planning is inefficient because no individual and no government can possess enough information to manage the economy efficiently. Free prices, on the other hand, reflect the knowledge and preferences of millions of individuals and thus facilitate the exchange and allocation of resources. In his book "The Road to Serfdom" *Hayek (*1944) warned against the gradual loss of freedom and prosperity through central economic planning. Competition between corporations forces them to continuously increase efficiency through new production processes and to launch new products on the market. This competition as a discovery procedure drives technological progress and productivity (*Hayek* 1968).

[4] Mises (1912) thus recognised theoretically long before the historical failure of socialism that it would fail in the long term. He defended the free market economy as a suitable system for coordinating individual actions to promote prosperity and social harmony.

efficient use of resources. **Open markets** (3) allow for market entry of all corporations so that competition can lead to greater efficiency, low prices and innovation. **Private ownership** (4) ensures that corporations strive for profit and therefore utilise resources efficiently.

Freedom of contract (5), within a given legal framework, allows corporations to adapt contracts to their individual situations. The **liability principle** (6) means that entrepreneurs can privatise profits but must also bear losses themselves. Economic policy interventions should be restrained (7) so that the state does not crowd out private economic activity. Economic conditions should not continuously be changed by new interventions of the state (**constancy in economic policy making**). "*The economy is not a patient that can be operated without interruption*", said Ludwig Erhard, historically the most important political advocate of the market economy in West Germany (see *Erhard* 1957).

According to Eucken (1952) all seven principles had to be fulfilled together to generate a positive impact on growth. As the Western German market-oriented reforms together with the implementation of the freedom-oriented Basic Law implemented these principles in many realms of the Western German economy, an economic miracle emerged, which transformed Germany into the growth engine of Western Europe (*Schnabl* 2023).

2.2 Milei's View on Economic Order

The political alliance "La Libertad Avanza" founded in 2021, which is led by Javier Milei, advocates free markets without state intervention, free competition, division of labour and social cooperation. It emphasises efficiency, meritocracy and the transparent management of public resources (*La Libertad Avanza* 2023). It is based on liberal principles such as respect for individual life plans, the non-aggression principle and the defence of the fundamental rights to life, liberty and private property.[5]

(1) The primacy of monetary policy by *Eucken* (1952) is represented by the demand for the

[5] An influential economist for Milei in Argentina is Alberto Benegas Lynch (junior), who is a well-known economist of the Austrian School in Argentina. His son is a member of parliament for Javier Milei's party La Libertad Avanza. Benegas Lynch (2023) argues that prosperity and social peace can best be achieved through the free market, where voluntary exchange relationships between individuals lead to efficiency and fairness. He offers a critical perspective on the role of the state in Argentina and has influenced the debate on economic policy and freedom in Latin America.

elimination of the central bank and for the competition of currencies[6] to allow citizens to choose the monetary systems freely, possibly opting for dollarization. (2) The elimination of price and rent controls as well as foreign exchange controls is in line with the principle of free prices. (3) Open markets are to be promoted by the privatisation of loss-making public enterprises and the promotion of private investment. The planned abolition of export and import duties as well the elimination of foreign exchange controls will strongly enhance competition in Argentina.

With tax cuts being offset by spending cuts, the government provides more incentives for private economic activity. The planed radical downsizing of the government and deregulation promote private ownership (4), freedom of contract (5) and the liability principle (6) in Argentina. The deregulation of the banking system and the lifting of foreign exchange restrictions are important building blocks for the liberalisation of the financial market, which represents an important step towards more freedom of contract according to McKinnon (1993). The intended elimination of unproductive government expenditure and the downsizing of the government is in line with Euckens' (1952) constancy in economic policy making (7).

The "Pacto de Mayo" of May 2024 prompted each of the governors of the Argentine provinces to sign a 10-point plan to rebuild the Argentinian economy, which can be seen as a relaunch of the so-called Washington Consensus (*Williamson* 2000) for Argentina. The 10 points (*Buenos Aires Times* 2024) include (1) the inviolability of private property, (2) a debt brake, (3) the reduction of government spending to 25 percent of gross domestic product, (4) the reduction of the tax burden, (5) the renegotiation of the financial equalisation with the provinces of Argentina, (6) the obligation of the provinces to extract raw materials, (7) a labour market reform, (8) a pension reform, (9) an administrative reform and (10) the liberalisation of Argentina's foreign trade.

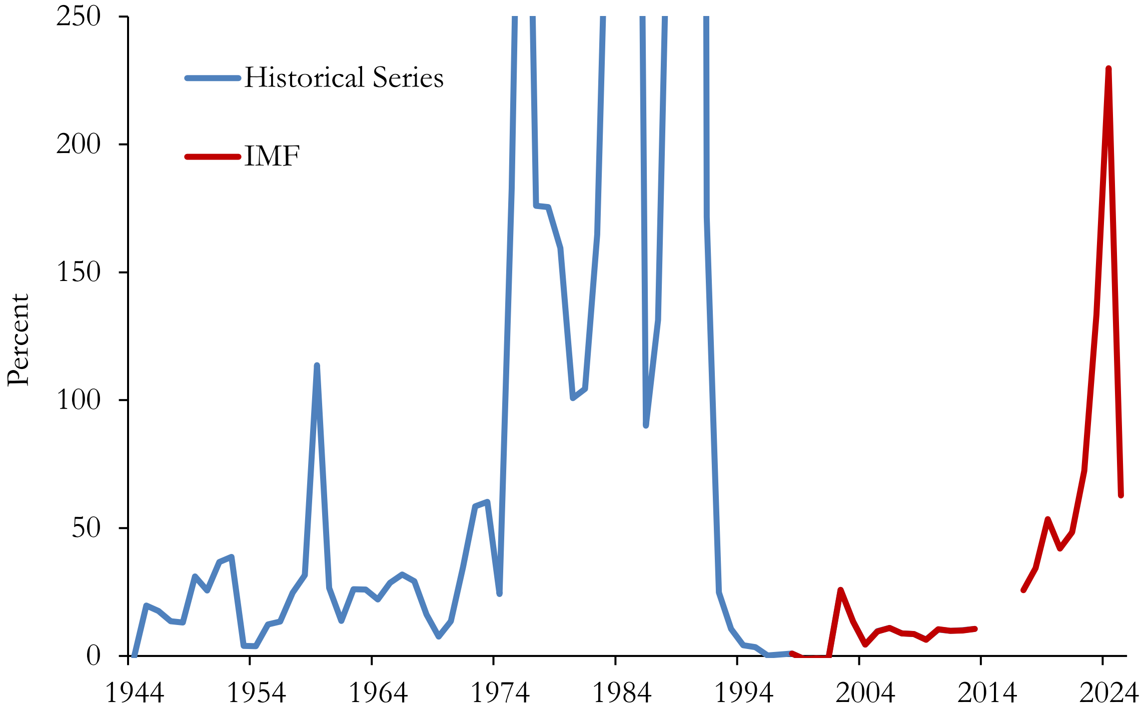
3. Fiscal and Monetary Stabilization

Figure 2 shows mostly high and strongly fluctuating inflation rates, which in the past not only low growth, but also had unjust distributional effects. One part of the population – especially

[6] On currency competition see Hayek (1976).

supporters of the Peronists – has been benefiting from a large public sector and subsidies for the state-owned enterprises, as they provided a reliable source of income. In contrast, the other part of the population has been suffering from high inflation and low real incomes. High inflation helped to keep government debt in real terms under control at the cost of consumers and savers. Foreign exchange controls constituted a tax on farmers and created an impediment for protecting savings by converting pesos into US dollars.

Figure 2: Historical Inflation in Argentina



Source: Banco Central de la República Argentina, IMF. Historical series = Gran Buenos Aires. 2025: IMF Projection.

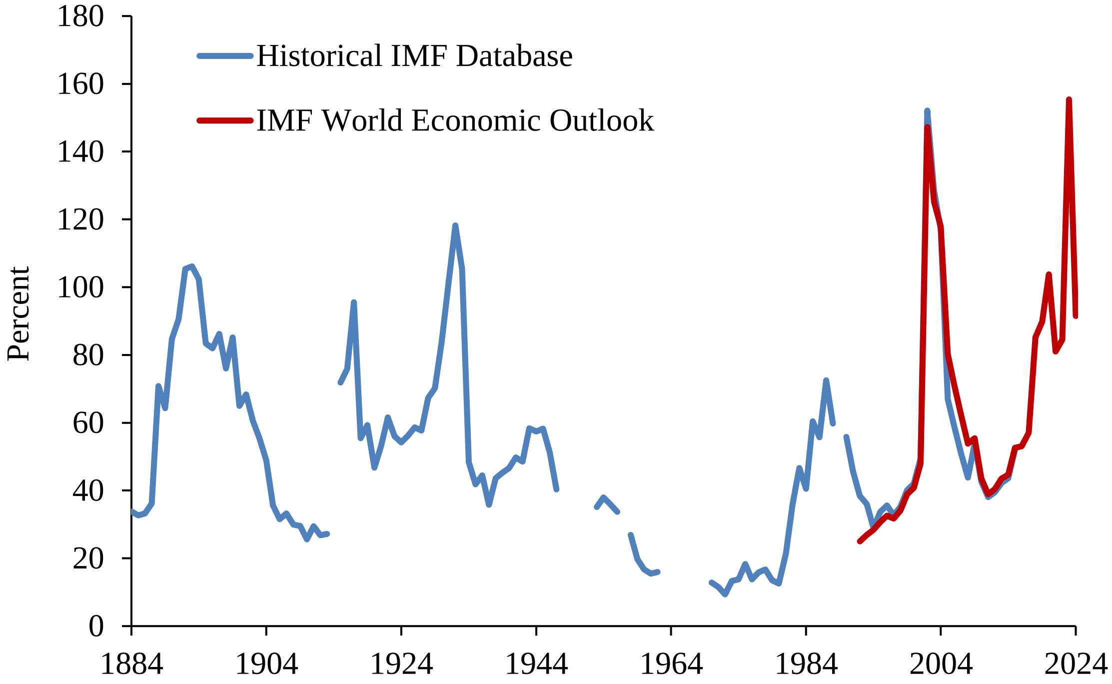
Hayek (1976) has stressed that the dependence of the central bank on the government (and/or the financial sector) causes inflation[7], which is a crucial impediment for growth. Therefore, Hayek (1976) proposed the abolition of central banks and competition among private issuers of currencies. Rothbard (1962, 1982) rigorously rejected central banks, favouring gold as monetary base to forestall inflation. Huerta de Soto (2009) has argued that a banking system, which is influenced by central banks, is inherently instable and thereby systematically causes

[7] As soon as government spending and government debt are high, the government's pressure on the central bank to buy government bonds increases (*Sargent* and *Wallace* 1981).

economic crises.[8] He proposed to back currencies with gold (gold standard) to establish a stable and crisis-proof market economy.

As financial liberalisation combined with a persistently loose monetary policy leads to financial exuberance as a pre-step to crisis[9], McKinnon (1993) saw fiscal and monetary control as a prerequisite for the dismantling of regulations in financial (and goods) markets. To take the pressure from the central bank to purchase government bonds, McKinnon (1993) defined the consolidation of government finances, including the abolition of extra-budgetary government spending that escapes parliamentary control, as the pre-requisite for the ability of the central bank to keep prices stable.

Figure 3: Public Debt as a Share of Gross Domestic Product



Source: IMF.

3.2 Fiscal Stabilization under Milei

After taking office in December 2023, Milei announced a shock therapy, i.e. rapid and comprehensive reforms instead of a gradual approach (see *Hall* 2023).[10] According to Milei fiscal

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[8] Huerta de Soto (2009) calls for a banking system in which demand deposits must be kept by banks and may not be lent out. This 100 percent reserve requirement shall restrict the uncontrolled creation of money by private banks to forestall crises caused by excessive credit creation.

[9] Banks tend to take too much credit risk when interest rates are too low (*Huerta de Soto* 2009, *McKinnon* 1993, 84-91).

[10] A gradual reform approach was pursued by Carlos Menem in the 1990s.

adjustment by raising taxes is not the same than by lowering expenditures. The focus on his tax reform was to lower rather than to increase taxes (*The Economist* 2024), which implies the necessity to strongly cut expenditure to consolidate the budget. To cut government expenditure particularly transfers to the provinces, expenditures for public works[11] and employment in the public sector were reduced (*Sturzenegger* 2025). Social transfers remained mainly in place, but the intermediation in the management of social programmes was eliminated (*The Economist* 2024).

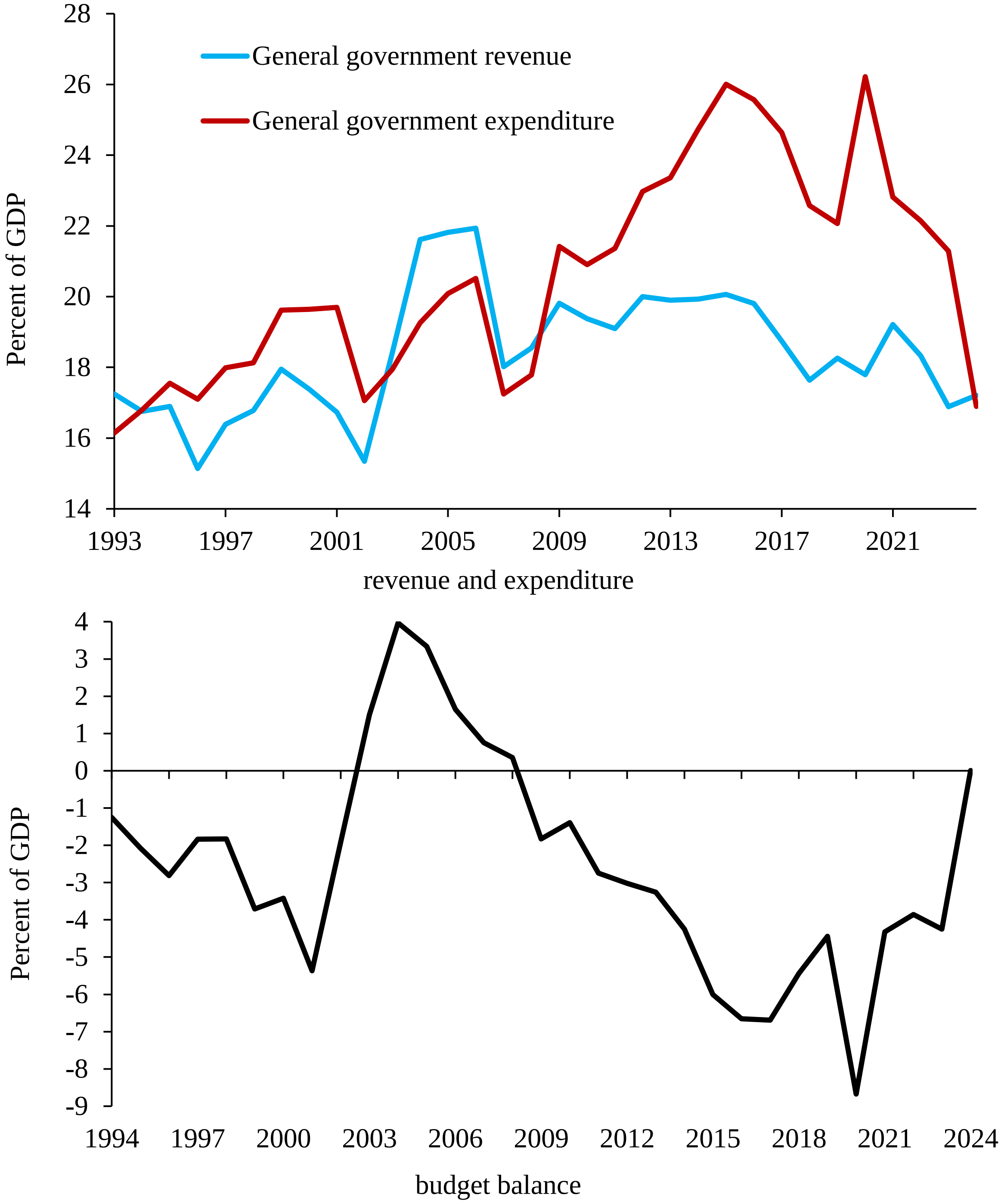
The number of ministries was halved and over 40,000 jobs in the civil service were cut (Bagus 2025). State subsidies inter alia for electricity, gas and local public transport were reduced. Public institutions in the areas of education, science and health had to accept massive reductions in their budgets. The payments from the federal state to the provinces were frozen. In addition to nominal expenditure cuts, payments to civil servants, pensioners and social welfare recipients were not fully adjusted to inflation (*World Bank Group* 2024). Milei claims that during 2024 public spending was cut by one third (*The Economist* 2024, see Figure 4).

The budget has been in deep deficit since the year 2009, peaking at close to 9 percent of GDP in the year 2020 (see Figure 4).[12] Given sharply declining expenditure, the Argentinian government was able to announce a budget surplus for the year 2024 for the first time in 15 years (see Figure 4). The surplus totaled 1,6 billion dollars (*Reuters* 2025a). In December 2024 Milei announced a tax reform, which intends to facilitate the tax system by eliminating 90 percent of all taxes. The provinces of Argentina shall be allowed to manage their own taxes which implies tax competition among the provinces (*Buenos Aires Herald* 2024b). The government temporarily raised the country tax – a tax on buying foreign currency for imports – but then reduced and finally eliminated it at the end of 2024.

[11] Expenditure for public works is associated by Sturzenegger (2025) with corruption.

[12] Argentina's budget surplus in the early 2000s was the result of a combination of economic policy measures, favorable global conditions and a drastic devaluation of the currency following the economic crisis of 2001. Following the 2001 default, Argentina restructured its debt with creditors accepting a haircut, which drastically reduced interest payments. After the end of the 1:1 exchange rate peg to the US dollar in 2002, the Argentinian peso depreciated sharply. As a result, Argentine exports became significantly cheaper on the global market, which boosted exports. From 2003, Argentina experienced an economic upswing due to rising world market prices for commodities, particularly soy and other agricultural products. Both factros generated increasing revenues for the state through export taxes (*retenciones*).

Figure 4: General Government Revenue, Expenditure and Budget Balance



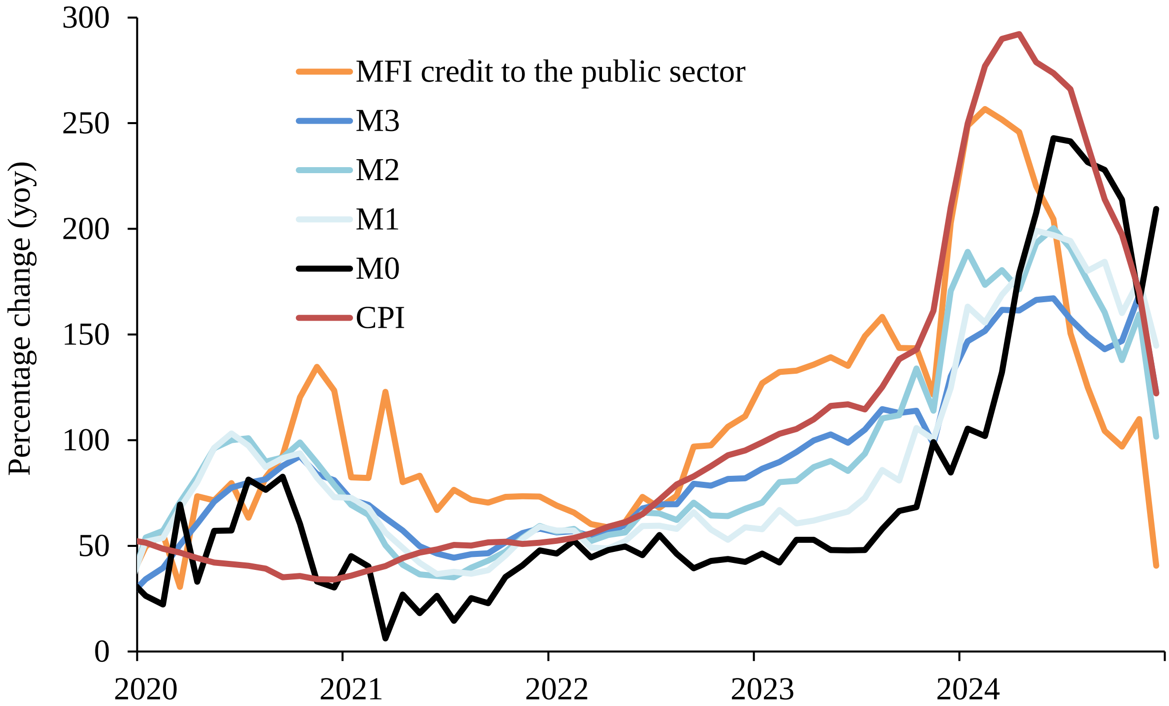
Source: IMF.

Government expenditure was the main determinant of inflation in Argentina. If in a financially repressed banking system (state-owned) banks extend credit to the government to finance government expenditure, monetary aggregates such as M1 and M2 expand.[13] Uncontrolled

[13] The growing government expenditure leads to growing bank deposits of the recipients of the public expenditure, for instance construction companies or employees of the public sector. Fast growing prices will lead to a growing demand for cash and thereby an increase of M0 (which consists of commercial bank deposits at the central bank and currency in circulation). Wider monetary aggregates such as M1 and M2 consist of currency in circulation plus deposits at commercial banks (at different maturities).

government expenditure drives both money creation and inflation. This seems to have been the case for Argentina, where a strong correlation between the growth of credit of commercial banks to the public sector, the growth of money supply, and inflation can be observed (see Sturzenegger (2025) and Figure 5). This implied that curtailing government expenditure and thereby credit provision of commercial banks to the public sector was a core measure to contain inflation. As the budget deficit was consolidated, inflation started to decline. After having reached a peak of 290 percent in April 2024, inflation continued to go down, reaching 84,5% by January 2025 (see Figure 5).

Figure 5: Credit of Commercial Banks to the Public Sector, Money Growth and Inflation



Source: BCRA and BIS. MFI = monetary financial institutions.

3.2 Monetary Stabilization under Milei

The credibility of a currency strongly depends on the solidity of the balance sheet of the central bank, which in Argentina in the past has significantly contributed to financing government expenditure directly by purchasing government bonds or by taking over (future) public financing obligations. When Milei took office in December 2023, the Banco Central de la República Argentina (BCRA) had four major burdens, which would have continued to undermine the credibility of the peso, if they would have remained in place.

First, the central bank held large amounts of Argentinian government bonds (in pesos and dollars), the value of which was uncertain due to the unsound fiscal position of the government. Second, the BCRA had large liabilities in the form of outstanding central bank bonds (LELIQs), which were used to absorb surplus liquidity from the markets. These implied high interest obligations, which were an important reason for the losses realized by the central bank in the year 2023.[14] The resulting large deficit of the BCRA constituted an additional deficit to the government deficit.

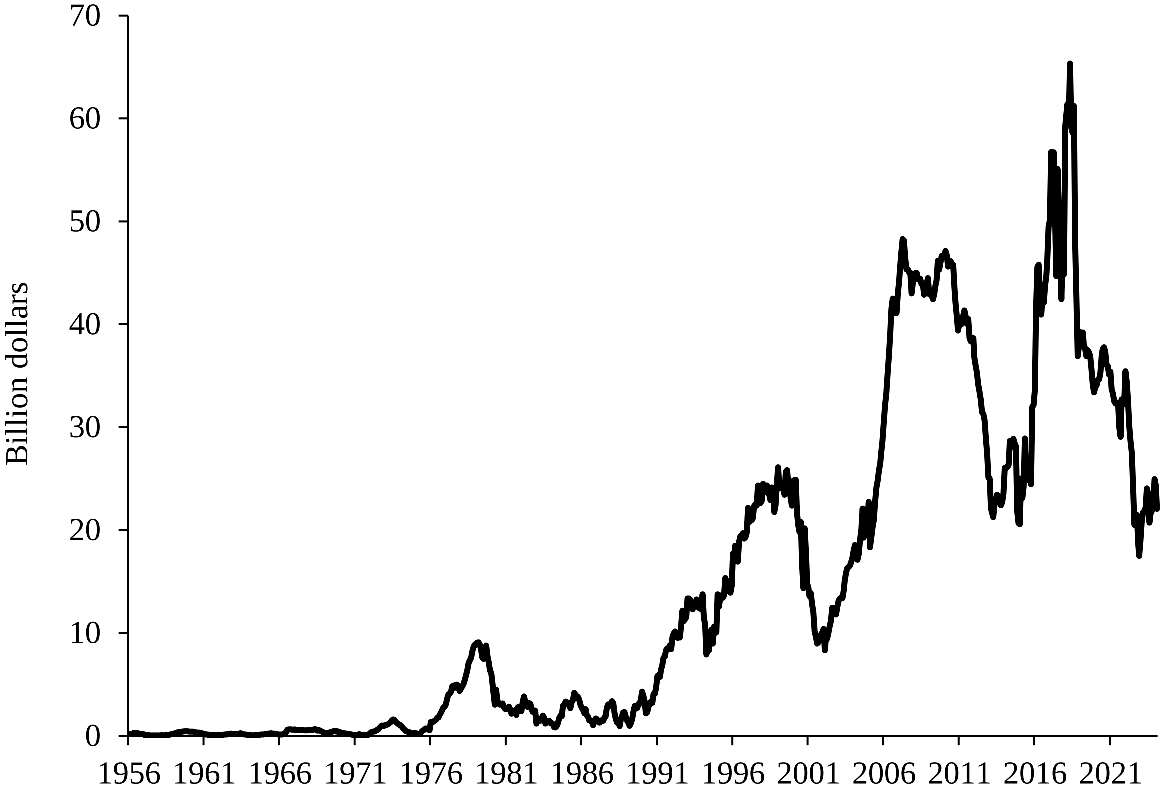
Third, foreign exchange reserves of Argentina had fallen sharply before Milei took office as shown in Figure 6. Given implicit off-balance sheet debt in the form of financing commitments to importers totalling up to 50 billion dollars (*Rallo* 2024), net foreign currency liabilities of the BCRA were estimated to be around 11 billion dollars. Forth, peso-bonds issued by the government with the right to be cashed in at any time at the central bank (equivalent to approximately 20 billion dollars) constituted an additional hidden liability for the central bank (*Ring* 2024).

To stabilize the central bank and thereby the currency four important steps were taken. First, the pressure was taken from the central bank to purchase government bonds by cutting government expenditure and turning the budget balance positive (as shown above). As a result, the central bank holdings of government bonds which had continued to increase during 2023, could be reduced in the course of 2024. By the end of 2024 the stock stood at 68 billion dollars compared to 111 billion dollars in April 2024 (see Figure 7). Second, the government reduced the outstanding central bank bonds of the BCRA, which created a high and uncontrolled interest burden for the BCRA. The volume of outstanding central banks bonds was reduced with the help of government surpluses from 46 billion dollars in May 2024 to less than 10 billion dollars by the end of 2024 (see Figure 7).

Third, the hidden liabilities of BCRA were removed. The peso government bonds with the right to delivery at the central bank (puts) were delinked from the right to delivery to the central bank with a respective compensation for banks (*Ring* 2024). Forth, the central bank issued new bonds (Bond for the Reconstruction of a Free Argentina) to fulfil its dollar obligations to importers which placed the hidden debt in the regular financial framework. Then, they were partially reduced with the help of the generated government surpluses.

[14] Annual interest rates of LELIQs had reached 133% at the end of 2023 (Bagus 2025).

Figure 6: Argentina's Foreign Exchange Reserves



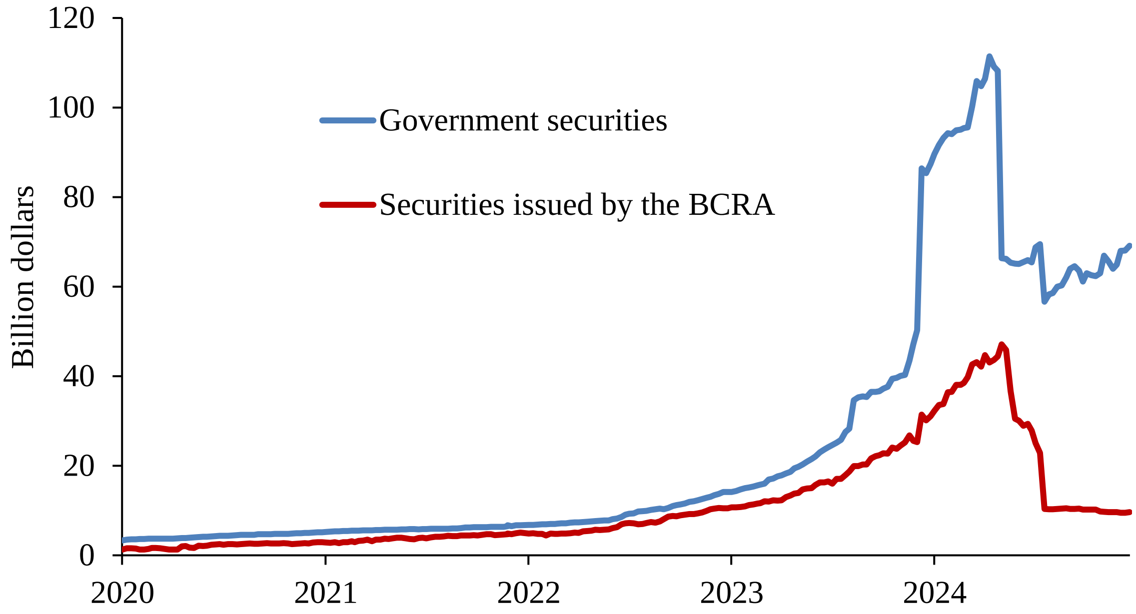
Source: IMF.

Although inflation strongly declined, the key question remains as to how the Banco Central de la República Argentina can be shielded from the influence of politics in the long term. An independent central bank would be a long-term commitment to fiscal discipline, as the state would be deprived of the opportunity to finance itself via the central bank. However, the independence of the central bank can be politically undermined at any time. This event is likely for the future, particularly in Argentina, where inflation has become embedded into politics and the society for decades.

A tight exchange rate peg to the dollar would constrain the decision-making powers of the central monetary authority, as it was the case under the currency board arragement in the 1990s. In contrast to a simple fixed exchange rate system, with a currency board only the parliament can loosen the tight peg to the dollar. However, in January 2002 the currency board of Argentina collapsed. One of the reasons was that, unlike a currency board in the narrower sense, the monetary base was not by 100 % covered by foreign exchange reserves (*Hanke*

2008). Even more, persistent government deficits and inflation had eroded the international competitiveness of Argentina's export sector.

Figure 7: BCRA: Government Bond Holdings and Outstanding Debt Securities



Source: BCRA.

Dollarisation, which Milei repeatedly called for during the election campaign, would therefore be the safest way to achieve lasting currency stability (*Cachanosky* 2024). If the central bank is abolished, it can no longer be abused by future governments, which corresponds to Hayek's (1976) idea of the "denationalisation of money". The population in Argentina already holds substantial amounts of dollars due to the permanently high inflation, which would facilitate dollarisation. In Ecuador the population, which has a predominantly positive view on Ecuador's dollarisation, is vigilant about maintaining dollarisation (*Cachanosky* et al. 2023). At the beginning of the year 2025 the dollarization was, however, not (yet) on the political agenda.

4. Deregulation

According to McKinnon (1993) the third step of an economic liberalization process is the deregulation of domestic and international goods, labour and capital markets. Liberalising the goods market creates competition between corporations. Less regulated labour markets reduce labour costs for corporations and the state. The banking system should be freed from high minimum reserve requirements and interest rate regulations, as only in free capital markets, depositors receive positive inflation-adjusted interest rates as a prerequisite for an efficient capital allocation. Market-determined interest rates that take risks into account force corporations to adapt to market conditions. After the liberalization of domestic markets McKinnon (1993) recommended the liberalisation of international goods and capital flows including foreign exchange transactions. In this process the liberalisation of trade was to take place earlier than that of capital flows.[15]

4.1. Deregulation of Domestic Markets

At the beginning of 2024, Milei aimed to amend or abolish a total of more than 350 laws relating to tenancy and labour law, the pension system and the financial system (Hall 2023).[16] In June 2024, the Senate approved the reform package. The "*Law of Bases and Starting Points for the Freedom of Argentines*" (*Ley Bases*) of July 2024 provided the legal foundation for a comprehensive deregulation program. The Establishment of the *Ministry of Deregulation and State Transformation* led by Frederico Sturzenegger, which has the power to eliminate, modify and implement decrees without the need to pass them through the parliament, build the institutional framework (Bagus 2025). The goal is the implementation of deregulation, reform and modernization of the state to re-size and reduce public expenses, and to improve efficiency and efficacy (*Boletin Oficial Republica Argentina* 2024). Milei (2025) has argued that 3.5 regulations have been eliminated per day.

The first and most important step was to lift price controls, for instance on staples such as milk, sugar and cooking gas (*Dubé* 2024a). The elimination of rent controls has become a large success. Immediately after the prices were released, rents for apartments in Buenos Aires rose dramatically. Then, many previously empty apartments were offered on the market. It is estimated that more than 200,000 residential units were withheld from the market due to the rent controls. With the new supply, rents quickly fell again below the level of 2022 (*Dubé* 2024b).

State-owned enterprises started to be privatized, for instance the airline Aerolineas Argentinas or the energy company Enarsa. Argentina implemented an open skies policy that has increased

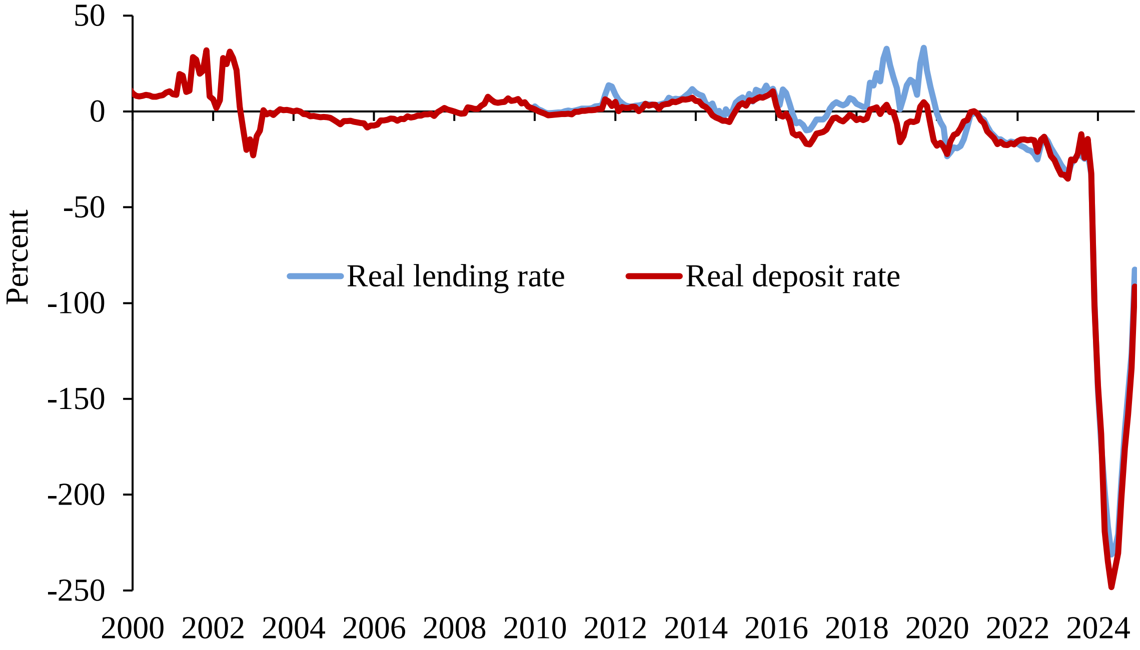
[15] The complete liberalisation of international capital movements is a prerequisite for free trade.

[16] This strategy initially failed. A court upheld the trade unions' complaint and declared parts of the state of emergency unconstitutional. At the same time, the Senate, the second of the two chambers of Congress, vetoed the bill. The second attempt to push through a comprehensive reform package with a total of 664 legislative initiatives by passing the so-called omnibus bill failed in Congress in February 2024 (Buenos Aires Herald 2024a).

the number of airlines operating. The requirement that public employees book their flights on the public airline or that other airlines cannot park their airplanes overnight at one of the main airports in Buenos Aires was abolished (*Vásquez* 2024). In the energy sector, a new regulatory framework was established, which promotes private investment and competition.

The law aims to introduce more flexibility into the labor market to encourage employment. The severance scheme under a collective agreement can be replaced by a severance fund financed by the employers to reduce the costs incurred by companies. Large companies will in future be able to hire employees for a six-month probationary period. Self-employed persons will be able to employ three people without a formal labor relationship (*GTAI* 2024). Active participation in certain protests is now considered a "serious labor law violation" (*grave injuria laboral*), which weakens the bargaining position of the influential trade unions.

Figure 8: Real Lending and Deposit Rates



Source: BCRA, BIS.

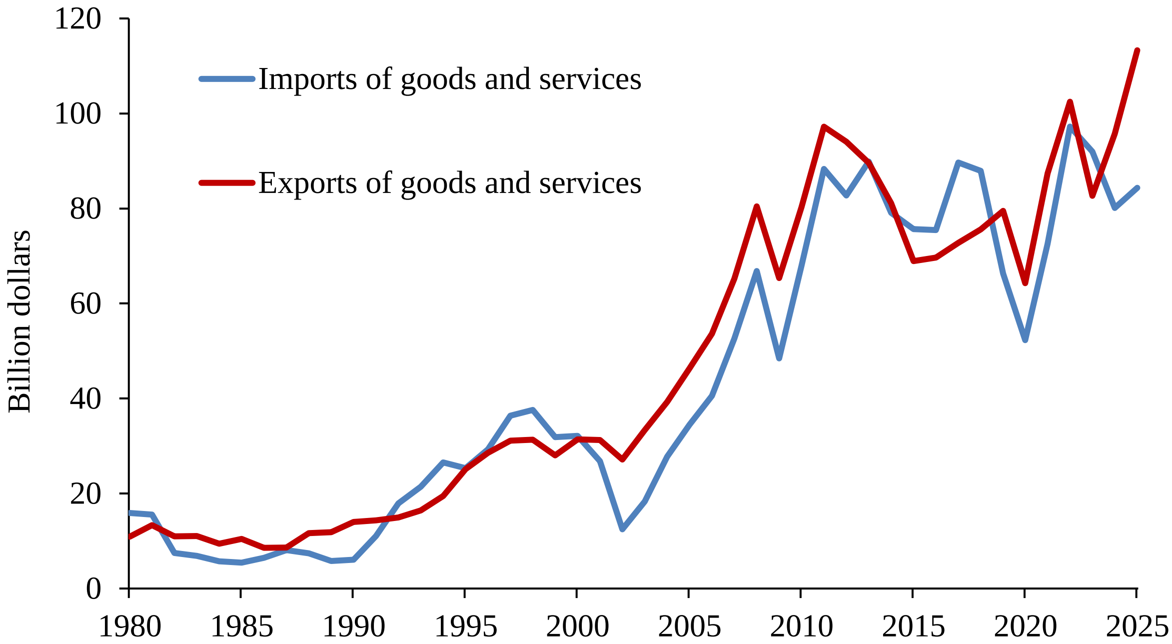
In February 2025, the government transformed the largest state-owned bank, Banco de la Nación Argentina, into a public limited company by presidential decree (*Reuters* 2025b). Although the state still holds 99% of the shares, this step signals future privatization. This can be seen as important prerequisite for a free interest rate setting and credit provision of commercial banks in Argentina. The successful elimination of inflation is an important pre-step for an efficient allocation of credit, as this allows real interest rates to become positive. This process is advancing, without positive real interest rates being achieved yet (see Figure 8). In February

2025, commercial banks were allowed to provide dollar loans to all corporations (Bagus 2025).[17] This is an important step to create a functioning dollar credit market, which reflects the high degree of dollarization of the economy. Whereas the removal of price caps leads to price increases, deregulation also contributes to declining prices as costs for corporations are reduced and competition increases. Sturzenegger (2025), Argentinian Minister of Deregulation and State Transformation, has argued that as a rule of thumb the deregulation of specific sectors led to a fall of prices of about 30 percent.

4.2. Dismantling Tariffs, Foreign Exchange Controls, and Capital Controls

During 2024, international trade started to be liberalized (*Nugent* 2025). The government slashed (but not fully eliminated) tariffs on many products and reduced red tape at Argentina's customs agency. The requirement that local manufacturers had to give approval for certain imports was abolished. The president lifted export controls on beef and eliminated the need for permission to import steel (hoping to reduce construction costs) (Dubé 2024a). The dismantling of trade restrictions came along with an increase of exports (see Figure 9), thereby contributing to an improved trade balance.

Figure 9: Exports and Imports of Argentina

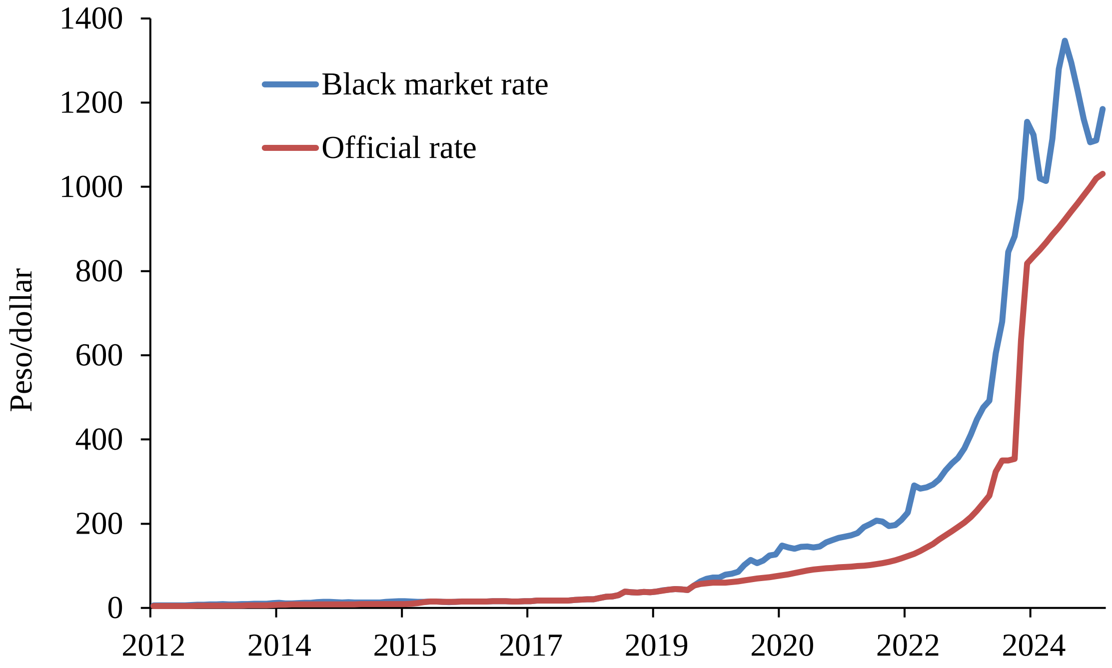


Source: IMF.

[17] Before only dollar credit to exporters was allowed and credit provision of commercial banks has been dominated by borrowing to the public sector.

Before Milei there were multiple exchange rates. The dollar earnings of exporters (mainly of farmers) had to be handed over to the government, which levied an export tax (*retenciones*) on them. The remaining revenues were converted into pesos at an exchange rate set by the government, which was lower than the black-market rate. This implied an additional (indirect) tax on farming products, which are a main source of international revenues for Argentina. If the farmers wanted to invest the remaining proceeds in dollars to protect them against inflation, they had to buy dollars at a much less favourable exchange rate. By strongly taxing exports, the government reduced the incentive to produce and export agricultural products, which are competitive on the international market.

Figure 10: Exchange Rate of the Peso to the Dollar

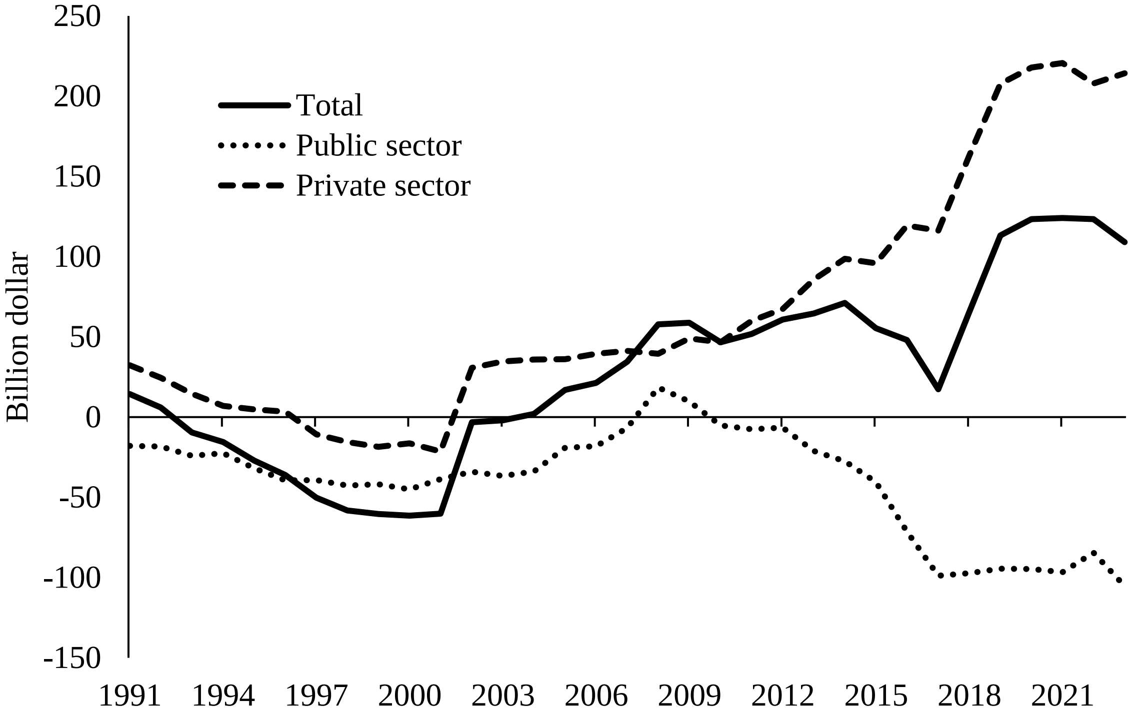


Source: IMF.

To promote exports foreign exchange and exchange rate controls were gradually lifted during 2024. In December 2023, the peso was officially devalued to (partially) eliminate the difference between the official exchange rate determined by the government and the black-market rate of the dollar (*blue dollar*) (see Figure 10). As a result, the official and black-market exchange rates have converged, and the peso has stabilised against the dollar. This reduced the incentive for black-market foreign exchange transactions and facilitated international transactions. Since January 2024 the peso has been allowed to depreciate by 2 percent per month, which implied given a substantially higher inflation rate a real appreciation of the peso against the dollar. With the inflation slowing down during 2024, the central bank announced to reduce the monthly depreciation to 1 percent starting from February 2025 (Reuters 2025c). In December 2024 the PAIS-tax (*Impuesto Para una Argentina Inlcusiva y Solidaria*) on foreign currency purchases was terminated.

The government started to dismantle the extensive capital controls (*ceto*). It lifted long waiting times for international payments in early 2024. It tripled the amount that Argentines are allowed to order from abroad for personal use to 3.000 dollars, exempting the first 400 dollars from tariffs. The blanket tax of 7.5 percent on all imported goods and the 30 percent tax on overseas card purchases were terminated in December 2024. The rising international competition put pressure on the domestic industry to cut costs and prices. It also increased the pressure on the government to reduce regulatory obstacles for domestic enterprises. The steps can be seen as the termination of decades of import substitution policies. The intended full liberalization of international capital flows removes the distortion between banks having access and banks having not access to dollar assets.

Figure 11: Net Foreign Assets of Argentina



Source: IMF.

The creation of the “Incentive Regime for Large Investments” (RIGI) was established to attract domestic and foreign investments by offering tax breaks and other incentives. It applies to investments in forestry-industrial, tourism, infrastructure, mining, technology, steel, energy, oil, and gas sectors. It promises tax, customs, foreign exchange and regulatory stability for 30 years. To qualify under RIGI, an investment project must amount to at least 200 million dollars. At least 40 percent of the investment must be made within 2 years of the date on which the investment project was approved. Each project must allocate at least 20 percent of total investment to local suppliers, provided that they are available and that they meet market conditions in terms of price and quality (*Etchebarne et al.* 2024).

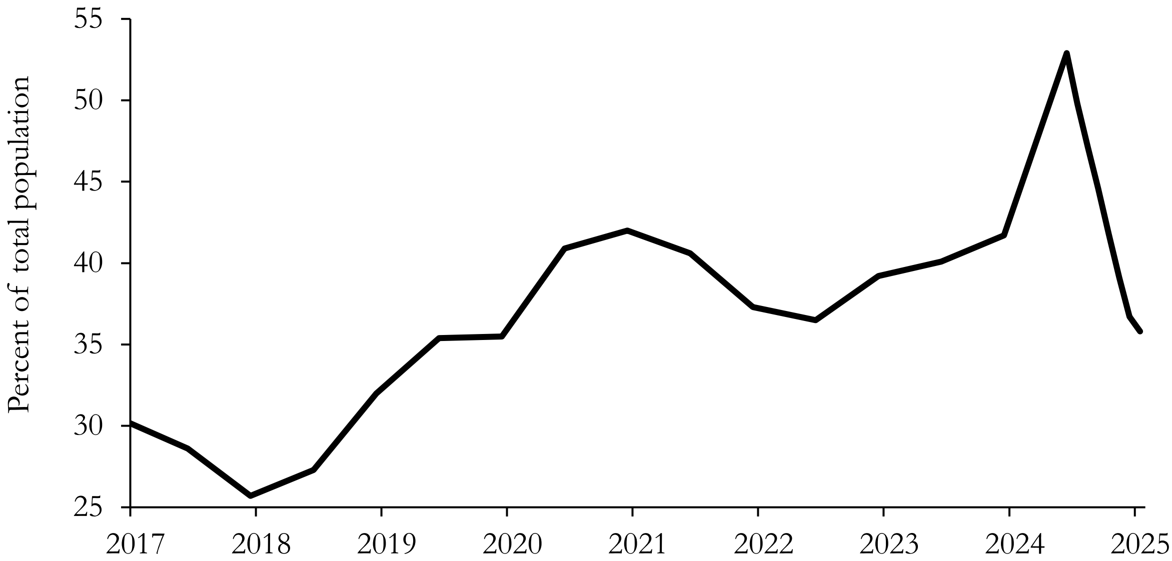
A key question is, if the liberalization of international capital flows will be able to regain the international trust in Argentina as a debtor. Up to the present, Argentina remains shut off from the international capital markets due to several defaults on international debt in the past. This has made Argentina dependent on IMF credit. Whereas the government of Argentina is an international debtor, the private sector holds substantial assets abroad (*Raisbeck* 2025), which signals the distrust of Argentina’s population in the government. In total the international asset position of Argentina is positive (Figure 11). If the macroeconomic stabilization process is able to regain the trust of the Argentinian people, the repatriation of internation assets would substantially strengthen the peso and the domestic economy.

5. Implications for Argentina and Other Countries

Whereas in the early days the radical reform ideas of Javier Milei faced strong domestic opposition and international criticism, signs of success – namely a balanced budget, declining inflation and meanwhile a declining poverty rate – have contributed to growing respect for the unconventional reform agenda. Despite the painful measures Milei has maintained the support among a majority of the population. Milei claims to have done within one year eight times more reforms than president Menem within ten years (*The Economist* 2024). In contrast to president Macri he was successful in balancing the budget and inflation (see also *Sturzenegger* 2019). The reforms can be seen as an attempt to restructure the economy of Argentina towards agricultural products and mineral extraction, i.e. towards to comparative advantage of country.

In the early phase, the reforms were criticized to have come along with a sharply rising poverty rate. However, the positive results emerged with a lag (j-curve effect). Whereas real growth in Argentina was -2.5 percent in 2023, the IMF expects +3.5 percent in 2024 and +5.0 percent in 2025. With the economy growing again – and particularly with inflation declining – the poverty rate declined below the pre-reform level (see Figure 12). The IMF (2025) projects for the year 2025 a strong decline of inflation and writes: "*A major course correction subsequently undertaken by the Milei government—notably a sharp fiscal consolidation, an upfront devaluation, and an end to monetary financing of the budget helped Argentina avert a full-blown crisis and make important strides toward macroeconomic stabilization.*"

Figure 12: Poverty Rate in Argentina



Source: Martin Gonzalez-Rozada.

It has been argued that Milei would necessitate foreign support for his reforms. Yet in contrast, now Milei seems to become a role model for reforms in other countries. At the World Economic Forum in Davos, Milei gave a passionate speech in favour of the market economy and warned against the dangers of collectivism (*World Economic Forum* 2024). He emphasised that the prosperity of the Western world was based on freedom and individualism, whereas collectivist and socialist ideas have increasingly taken over in the political discourse of Western democracies. Public debt in industrialised countries has risen sharply and financial repression serves as an instrument to keep the public debt burden sustainable. The significant expansion of regulation and employment in the public sector helped to stabilise the power of the established political parties, while the negative growth and distribution effects associated with monetary and fiscal expansion have come along with a growing political polarisation.

In the past, reforms inter alia in Western Germany (1948/1949) and the United Kingdom (under Margret Thatcher) have reanimated growth, showing that reforms can be successful (*Mayer and Schnabl* 2022). Meanwhile in the United States the new president Donald Trump has initiated substantial expenditure cuts and far-reaching deregulations, which may also increase the reform pressure on Europe. From this perspective, Argentina under Javier Milei can be seen as a frontrunner, although the liberalization of the international capital mobility is not yet terminated, and the crucial domestic financial market liberalization seems lagging behind.

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