



**Can the Javier Milei 'method'
save Argentina?**

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Argentina's economy has fluctuated between prosperity and crisis, with recent austerity under President Milei reducing inflation but worsening poverty and increasing reliance on foreign investment, leaving the country vulnerable.

Charles-Henry Monchau

Chief Investment Officer

Alexia Pasold

Intern

The Argentine paradox

Argentina's economic history is one of the most spectacular examples of financial distortion. Over the last two centuries, the country has gone from extreme prosperity to corruption, deep recession, volatile debt and triple-digit inflation. The polarisation of the political situation has been exacerbated by the deepening division between left-wing and right-wing supporters, creating a country of insecurity, turbulence, and instability.

Past Economic Results

After two centuries of economic stagnation, Argentina gained independence from Spain in 1816. It developed its export industry and agricultural sector, attracting foreign investors who later financed railways and other industries. This triggered strong financial growth, making Argentina one of the wealthiest countries in Latin America. A liberal immigration policy with a tight labour market and high real wages strongly encouraged the influx of new arrivals from Europe.

After this prosperous period, Argentina faced the Baring Crisis in 1890. Baring Brothers & Co, once the world's largest investment bank, had made loans to the country, which needed capital for its development plans in the railway industry. However, Argentina weakened with declining exports, rising inflation, and unsustainable debt levels.

As Argentina struggled to meet its debt obligations, Baring Brother & Co underwrote a portion of them, believing the instability to be temporary. The country then defaulted on its debt, leaving the bank with a considerable number of worthless bonds. On the verge of insolvency, it triggered a recession, forcing the government to cut spending, raise taxes and devalue the peso. Potential investors became reluctant to lend to the bank, with repercussions for the country's economic recovery and development.

After World War I, Argentina entered a recession caused by the interruption of international trade and the reduction of capital and labour. This was mainly due to the United Kingdom, its main investor, being heavily indebted to the United States and unable to export as much as before.

The 1940s were defined by the rise of Peronism, led by Juan Perón. His ideology aimed to strengthen the economic role of the state, improve social justice, and workers' rights. These measures redistributed wealth and stimulated growth but also generated early inflation. With the post-war export boom, Argentina faced growing deficits, increasing its money supply, accelerating inflation, and further devaluing the peso.

After the overthrow of Perón, political instability reigned with frequent government changes. Amid economic insecurity, the peso was repeatedly devalued as Argentina tried to correct its imbalances and improve its competitiveness. This triggered even higher inflation, and the country entered a period of peso depreciation and rising prices.

In 1976, the military dictatorship "Proceso de Reorganización Nacional" (National Reorganization Process) took power, encouraging human rights violations. The next seven years were marked by the disappearance of thousands of people, including both members of the political opposition and anyone disagreeing with their methods. They established a neoliberal economy and liberalised trade, but Argentina, in hyperinflation, reached 600% annually due to accumulated debt and uncontrolled money printing.

The following century is characterised by a return to democracy and the introduction of a new currency, the austral. This monetary attempt to stabilise the economy failed, and hyperinflation reached 3000% annually.

The convertibility plan established in the 1990s focused on pegging the Argentine peso to the US dollar at an exchange rate of 1:1. This policy initially reduced inflation and increased trade; however, as the dollar appreciated, the peso became overvalued. To maintain parity, Argentina relied on foreign loans, accumulating significant debt.

The economic crisis of 2000 was triggered by Argentina's inability to maintain the fixed exchange rate. Again, it defaulted on its debt of \$132 billion and transitioned to a floating exchange rate system. Consequently, the peso was heavily devalued, boosting inflation.

President Macri, elected in 2015, attempted to reduce this budget deficit. However, the peso continued to depreciate, and Argentina turned to the IMF for a loan of 57 billion US dollars. Inflation, however, soared to 50%, and the currency lost half of its value.

Over the past ten years, Argentina has experienced frequent price increases of over 10%, with inflation rates rising from 23,90% in 2014 to 94,80% in 2022. According to the IMF and the World Bank, the average Argentine inflation rate between 1980 and 2022 was 206,2% annually. In 2023, this statistic rose to 211,4%.

Historical inflation rates in comparison

Year	Argentina	Ø EU	Ø USA	Ø World
2022	94.80 %	8.83 %	8.00 %	7.99 %
2021	48.41 %	2.55 %	4.70 %	3.45 %
2020	42.02 %	0.48 %	1.23 %	1.94 %
2019	53.55 %	1.63 %	1.81 %	2.21 %
2018	34.28 %	1.74 %	2.44 %	2.45 %
2017	25.68 %	1.43 %	2.13 %	2.25 %
2016	26.50 %	0.18 %	1.26 %	1.61 %
2014	23.90 %	0.20 %	1.62 %	2.35 %

Milei's mandate and its impact on the economy

Javier Milei first made a name for himself as a flamboyant television host, addressing economic and political issues with bias. His theatrical frankness toward the Argentine ruling class drew attention, and he was quickly invited to popular TV shows to share his opinion and scepticism about the government. His entry into politics with the "Libertad Avanza" (Liberty Advances) movement and his presidential candidacy were strongly encouraged by his supporters.



Just before the start of the elections, the Argentine economy deteriorated sharply. Inflation reached a year-on-year ceiling of 140%, the value of the national currency fell from 300 pesos to one US dollar in July 2022 to 950 pesos, and poverty levels affected more than 40% of the population. During his campaign, Milei pledged to fight inflation by replacing the peso with the US dollar and distancing himself from the central bank. He also promised to eradicate numerous ministries such as education, health, and public works to reduce government spending and size. He openly shared some controversial positions, declaring that he denies the idea of human responsibility in climate change and wants to abolish abortion. Another campaign promise from Milei was his guarantee to reduce costs for employers and never raise taxes. To stabilise the economy, he wants to develop Argentine agricultural exports of grains, soy beans, wine, and meat.

Milei's mandate had a positive impact on inflation, which fell from 25,47% m/m at the beginning of his presidency, to 13% m/m in February 2024 and 4,58% m/m in June. These results can be attributed to his austerity measures and tightening monetary policy. Reductions in public spending and the money supply have begun to stabilise prices and contributed to reducing the budget deficit. However, prices have still increased by 280% over the past 12 months, and since Milei took office, the percentage of the Argentine population living below the poverty line has reached 60%. This is a social repercussion of his financial measures which, while managing to control inflation, result in cuts to essential services such as healthcare and education, in turn directly impacting the lower socio-economic scale.

The reinstatement of the Ley de Bases (Basic Law), which was passed by Congress on June 28, 2024, was a crucial element of Milei's plan to rebuild the Argentine economic system. This modified flagship reform project aims to shift the country's position towards a pro-business perspective and improve its receptiveness and openness to investors. It grants broad powers to the executive for one year and involves a legislative willingness to support initiatives such as the privatisation of public services, tax proposals, and an investment promotion regime targeting projects worth between 200 and 900 million US dollars, particularly in the energy sector. The latter aims to boost investment flows from domestic and foreign investors while reducing state intervention.



The bill's measures aim to balance the national budget. After years of high budget deficits, Milei managed to generate a primary budget and financial surplus for the sixth consecutive month since January 2024. In June, a primary budget surplus of 535,71 million dollars was achieved, as well as a financial surplus of 261,1 million dollars.

Milei recently announced a policy change in the second phase of his economic plan for the country. He wants to ease restrictions on US dollar purchases, reduce the money supply by asking the central bank to cut back on peso issuance, and thus pay interest on debts and stabilise the national currency to stimulate growth. As he stated in an interview, "...This will mean a recovery of activity, an improvement in employment, an improvement in wages, pensions, lower interest rates, and the return of credit." The easing of limitations on dollar purchases would allow Argentina to finally attract foreign investment and credit, which would be extremely beneficial for a country that cannot access international credit markets due to the high risk it poses and especially because its debt repayment is imminent.

Although Argentina's economic situation has significantly improved, some significant risks still remain. The greatest threat to the country remains hyperinflation. Argentine Economy Minister Luis Caputo devalued the Argentine peso by 50%, which was initially overvalued, and pegged it to the US dollar, devaluing it by 2% per month. This increased the likelihood of inflation since a devalued currency raises import prices. Furthermore, extreme dependence on potential foreign funds could trigger a liquidity crisis, which would eliminate any hope of improving Argentina's fiscal, monetary, and social future.

For further information

Banque Syz SA

Quai des Bergues 1
CH-1201 Geneva
Tel +41 58 799 10 00
syzgroup.com

Charles-Henry Monchau, Chief Investment Officer
charles-henry.monchau@syzgroup.com

Alexia Pasold, Intern
alexia.pasold@syzgroup.com

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