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Argentina after one year of Milei: que pasa?

Argentina's Global X MSCI ETF (ARGT) is so far the best-performing country ETF of 2024, with record inflows last week. President Javier Milei's pro-capitalist reforms may have played a role in this surge.

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Javier Milei, 53, a former economist, defied all odds to become Argentina's president, winning the election without an established party, prior government experience, or significant funding. A self-proclaimed "anarcho-capitalist," Milei has captured global attention with his unorthodox style and radical economic vision. Nearly a year into his presidency, the question remains: Can Milei's drastic economic recipe transform a country long plagued by economic crises into a model of success? This article examines the sweeping reforms he has introduced, and his impact on South America's third-largest economy.

Economic "shock therapy"

Following eight decades of socialist policies, Argentina is undergoing its most intense economic experiment since the 2001 currency crisis. When President Javier Milei took office, he inherited a staggering macroeconomic challenge. Inflation was soaring at 230%, the highest in the world, and public debt surpassed 60% of GDP. Additionally, the exchange rate gap between the official and unofficial exchange rates exceeded 200%, while over 40% of the population lived in poverty, and the unemployment rate stood at 7.7%.

Rooted in his libertarian "anarcho-capitalist" ideology, Milei is boldly and unapologetically committed to free-market principles. He views the state as inherently harmful and acknowledges only the maintenance of public order and the legal system as legitimate functions of government. His goal is to reform Argentina from the ground up. Early in his presidency, he introduced the "Ley Bases" bill with over 600 reforms, along with an emergency decree named the Decretos de Necesidad y Urgencia (DNU), which included 300 additional measures. However, his party, La Libertad Avanza (Freedom Advances), lacks a parliamentary majority and must rely on moderate Peronist lawmakers for support. While initial attempts to pass his proposals failed, by July, Milei successfully pushed through approximately 200 reforms with the backing of these Peronist moderates.



Source: Tomas Cuest, Getty Images

1. Reducing state spending

During his political rallies, Javier Milei was frequently seen wielding a chainsaw, a dramatic gesture symbolising his commitment to cutting government spending and dismantling bureaucratic excess. True to this symbolism, Milei implemented bold austerity measures immediately after assuming office. He began by abolishing or merging several ministries, such as combining education, research, culture, and social affairs into a single Human Capital Ministry. Ministries seen as unnecessary or ideologically driven, such as the Ministry of Women, Gender, and Diversity, were scrapped entirely. In less than a year, he

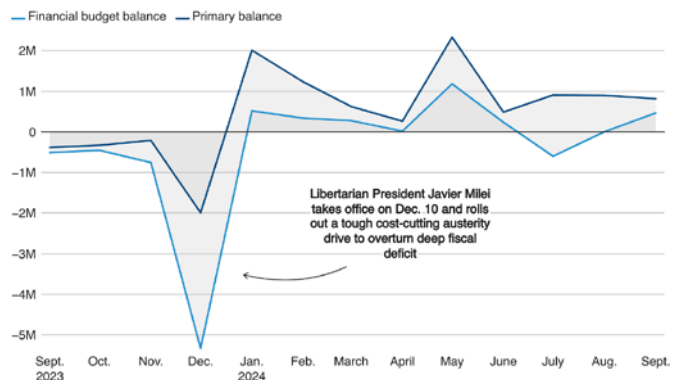
closed 13 of 22 government ministries, cut the federal budget by 32%, and laid off approximately 10% of federal employees, amounting to nearly 30,000 positions.

Additionally, public sector wages and pensions have been kept below inflation, social benefits like subsidies for food, energy, and transport have been sharply reduced and infrastructure projects, state-led in the past, now require private financing. To achieve further budget reductions, Milei adopted a constitutionally controversial approach by deferring payments from the central government to the provinces. He also issued warnings to governors, particularly those opposing his policies, threatening financial consequences for lack of support. Recently, Milei shifted his attention to the nation's largest tax agency. By removing tax officials, he perceived as barriers to entrepreneurship and economic growth, he sent a clear message: his reforms are about liberating the economy, not just reducing costs.

The unexpected rise of Javier Milei underscores the growing influence of right-wing populist movements worldwide such as leaders in Italy, the United States, and India. President Trump described Milei as his "favourite president," highlighting their shared political vision. This connection positions Milei as a potential influencer in the upcoming U.S. administration, particularly in relation to the Elon Musk and Vivek Ramaswamy-led Department of Government Efficiency (DOGE). Musk reportedly consulted Argentina's Minister of Deregulation for insights into the country's aggressive spending cuts. Reports indicate that Musk, along with Vivek Ramaswamy is spearheading an aggressive effort to reduce federal spending by \$2 trillion. DOGE appointees will be embedded in federal agencies to determine "the minimum number of employees" needed for essential functions. The plans involve large-scale layoffs, voluntary resignations prompted by a strict return-to-office mandate, and agency relocations outside Washington.

Argentina: Zero Deficit

Argentina's new libertarian President Javier Milei has rolled out tough austerity measures and spending cuts that have helped his government post nine straight months of primary fiscal surpluses after years of mostly deficits. He is aggressively targeting a budget balance this year and a primary surplus.



Note: Numbers are in billions of Argentine pesos
 * Source: LSEG

Source: Reuters

2. Dollarisation

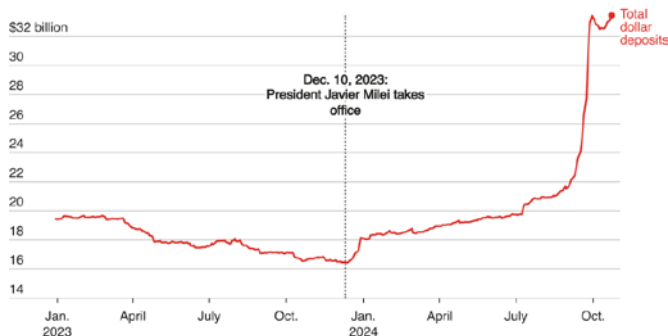
Central to Milei's economic reform agenda is dollarisation, which he presents as a long-term solution to Argentina's chronic inflation and monetary instability. While he campaigned on promises to eliminate the Argentine central bank and fully replace the peso with the U.S. dollar, his approach in office has been more measured. One of his first actions was to devalue the peso by 50%. His administration also proposed a dual-currency model, allowing both the peso and the dollar to circulate as legal tender, giving Argentines the option to choose the currency they trust more.

Milei suggested also removing capital and exchange controls, which he sees as artificially supporting the peso while harming economic competitiveness. There are early signs of progress, the gap between the official exchange rate and the black-market dollar has narrowed from 60% in January to 20% in October.

Critics highlight that while Milei has kept most of his promises, but full dollarisation remains a distant goal. The U.S. dollar operates as a parallel currency and it is widely exchanged alongside Argentine pesos and used in private transactions and savings, but it is not yet recognised as legal tender for paying taxes or settling debts.

Argentina dollar deposits rise sharply under Milei

U.S. dollar deposits in Argentina have risen sharply since libertarian President Javier Milei took office in December, ushering in tough austerity measures and pro-market reforms.



Source: BCRA | REUTERS

Source: Reuters

3. Liberalisation of housing market

Under the previous Peronist administration, Argentina's real estate market faced stringent rent control policies. These regulations mandated a minimum lease term of three years, with rent adjustments allowed only once annually, despite hyperinflation and rental contracts to be denominated in the Argentine peso, a currency experiencing chronic devaluation. Landlords often chose to withdraw their properties from the rental market. In Buenos Aires, for instance, it was estimated that one in seven homes remained vacant as owners opted not to rent them out under the unfavourable conditions.

In late 2023, President Javier Milei enacted an emergency decree that significantly liberalised Argentina's tenancy laws. Lease terms and currencies are now to be freely negotiated between landlords and tenants, and many agreements are set on a quarterly basis. This policy shift had an immediate impact: real estate platforms reported a near doubling of available rental listings, the housing supply surged by approximately 200%, and real rent prices decreased by 40%.

The increase in housing supply, an expected economic outcome, is a clear success. However, the impact on rent prices is more complex. Many existing tenants faced rent increases of up to three times their previous rates when renewing contracts, and the reduction of subsidies, especially for energy, led to higher additional costs for many households.

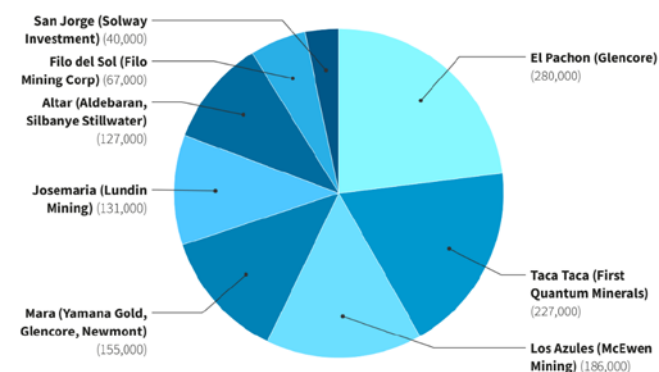
4. Boosting investments in the energy and raw materials sectors

Argentina is not without its strengths. In addition to holding three World Cup titles, it is South America's third-largest economy, the world's leading exporter of soybean oil and meal, the second-largest exporter of corn, and the third-largest exporter of soybeans. The country holds substantial gas and hydrogen reserves, favourable conditions for renewable energy, and valuable raw materials resources like lithium, a critical component for battery production, as well as copper.

Historically, investment in Argentina, particularly in lithium extraction, has predominantly come from China. Despite its resource wealth, Argentina's challenging investment climate has previously deterred Western investors. This is where Milei stepped in, implementing the RIGI (Régimen de Incentivos para Grandes Inversiones or Incentive System for Large Investments). The initiative provides 30-year tax concessions and streamlines foreign trade processes for major investments exceeding USD 200 million in sectors, like energy, raw materials, infrastructure, and technology. Since the implementation of RIGI, there has been an uptick in foreign investment announcements, for instance, BHP's return to Argentina after two decades, through a \$3.25 billion partnership with Lundin Mining to develop copper mines.

Argentina: Copper projects

Argentina has eight major copper projects in the pipeline with potential for some 1.2 million tonnes of annual production of the red metal.



Note: Data is estimated annual copper production in tonnes
Source: Argentine government

Source: Bloomberg

Outcome so far

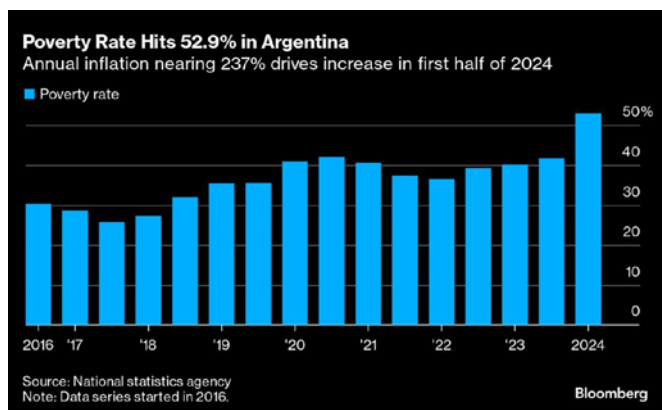
One year into Javier Milei's presidency, the economic "shock therapy" is beginning to yield tangible results. Inflation, Argentina's most persistent challenge, started to ease. As of October, monthly inflation fell to 2.7%, down from 3.5% the previous month, marking its lowest level since 2021. The annual inflation rate dropped below 200% for the first time in nearly a year, with further declines anticipated as the effects of the previous government's high inflation cycle phase out of annual calculations. Food price increases slowed but rent and energy costs continue to rise at higher-than-average rates.

For the first time in 12 years, Argentina achieved a budget surplus, with public finances recording a surplus of 1.7% of GDP in the first nine months of this year, compared to a 4.6% deficit at the end of 2023. The country's EMBI index, a measure of sovereign risk, dropped from 1,920 points when Milei assumed office to 984 in October. Additionally, Argentina's GDP is now forecast to grow by 5-6% next year, supported by increased investment, consumption, and monetary stability.

"It is no miracle" Milei said, but merely "governing with macroeconomic prudence."

Financial markets responded positively to the chainsaw therapy. The stock market has surged by approximately 125% this year, and the Global X MSCI Argentina ETF, a popular option for traders bypassing Argentina's restrictive capital controls, saw its assets grow sevenfold from \$104 million when Milei took office to \$750 million. Bonds also rebounded, with Argentina's country risk decreasing by 10.4% as measured by the spread between U.S. and Argentine government bonds.

However, these gains come with social costs. Milei's stringent austerity measures deepened the recession that began in 2023. The IMF projects the economy will contract by 3.5% in 2024. Poverty rose sharply, with 53% of Argentines now living below the poverty line, a 20-year high. Argentina remains heavily indebted to the IMF, owing \$44 billion, and is seeking additional funding to lift currency and capital controls prolonging the recession. Milei hopes to find an ally in Donald Trump, who might support Argentina's efforts to renegotiate the massive loan taken out under former President Mauricio Macri.



Source: Bloomberg

Conclusion

Javier Milei has set Argentina on an uncharted path. Early results, like slowing inflation and growing investor confidence, are promising, but with limited seats in Congress, Milei must rely on alliances to push his agenda and legal disputes with international creditors, potentially costing \$31 billion, could complicate his plans. The coming years will determine whether Javier Milei's economic recipe can truly bring lasting change for Argentina and inspire other nations.

Global Equity ETFs: 2024 Total Returns (in US \$)								
Country/Region	Ticker	2024 TR	Country/Region	Ticker	2024 TR	Country/Region	Ticker	2024 TR
Argentina	ARGT	62.6%	United Kingdom	EWU	9.0%	Austria	EWO	0.7%
Israel	EIS	28.5%	Italy	EWI	8.8%	New Zealand	ENZL	0.3%
Peru	EPU	27.9%	Spain	EWP	8.8%	Switzerland	EWL	0.3%
US	SPY	26.9%	UAE	UAE	7.9%	Hong Kong	EWH	-0.2%
Singapore	EWS	23.2%	Japan	EWJ	7.5%	Ireland	EIRL	-0.5%
Total World	VT	19.2%	Colombia	GXG	5.9%	Saudi Arabia	KSA	-1.2%
Canada	EWC	18.0%	Qatar	QAT	5.3%	Sweden	EWD	-1.7%
Taiwan	EWT	17.4%	EAFE	IEFA	5.0%	Poland	EPOL	-2.0%
Malaysia	EWM	17.3%	Greece	GREK	4.8%	Finland	EFNL	-3.9%
South Africa	EZA	14.8%	Belgium	EWK	3.5%	Indonesia	EIDO	-5.7%
China	MCHI	14.3%	Norway	NORW	3.0%	France	EWQ	-6.2%
Turkey	TUR	13.6%	Netherlands	EWN	2.3%	Chile	ECH	-8.3%
India	INDA	12.4%	Philippines	EPHE	2.0%	Vietnam	VNM	-9.3%
Kuwait	KWT	10.8%	Eurozone	EZU	2.0%	South Korea	EWY	-10.4%
Australia	EWA	10.2%	Denmark	EDEN	1.7%	Brazil	EWZ	-19.0%
Germany	EWG	9.5%	Thailand	THD	1.4%	Mexico	EWX	-25.3%

CREATIVE PLANNING Data via YCharts as of 11/25/24 @CharlieBilelo

Source: Charlie Bilelo

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