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Analysis of Javier Milei's Macroeconomic Reforms in Argentina

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ABSTRACT

This thesis is divided into six chapters. The overarching aim is to dissect the short-term macroeconomic implications of Argentinian President Javier Milei's reforms, focusing primarily on his fiscal austerity, trade liberalisation, monetary stabilisation, labour market deregulation, and potential dollarisation. To provide historical context, it includes an analysis of past presidents' reforms, comparing both neoliberal and Peronist approaches over the past decades. Finally, the empirical section draws from macroeconomic data from approximately the start of Milei's presidency to the present. Various time series graphs have been included to grant comparative clarity of the trajectory of Milei's new policies and determine whether the trends align with his stated objectives. Ultimately, this thesis aims to accentuate the complexities and trade-offs inherent in macroeconomic reforms, especially in the context of chronic structural fragilities. It hopes to contribute to the broader discourse on the adoption of liberalisation in crisis-prone economies, questioning whether short-term pain can sincerely lead to long-term prosperity.

EXECUTIVE SUMMARY

This thesis investigates the short-term macroeconomic consequences of President Javier Milei's market-liberal reforms in Argentina. It is structured around three core components: theoretical contextualisation, historical comparative analysis, and empirical observation of macroeconomic indicators.

Chapter 1: Introduction presents Argentina's long-standing macroeconomic instability, governed by consistent high inflation, poor fiscal management, and debt crises. It contextualises Javier Milei's radical economic vision to shrink the state, eliminate market distortions, and dollarise the economy. Finally, it lays out research questions that address the potential short-term impact and historical comparison of Milei's liberal reforms.

1. What are the key macroeconomic reforms that Javier Milei is adopting?
2. How do Milei's reforms compare to historical cases of market liberalisation?
3. Will these reforms resolve Argentina's structural issues?

Chapter 2: Theoretical Framework provides a theoretical framework that draws from various schools of thought that underpin Milei's programme. Classical liberalism and neoliberalism sustain limited government and free markets. Friedman's monetarist theory argues that excessive growth in the money supply ultimately leads to inflation. Structural Adjustment Programmes provided by the IMF are included as precedent for Milei's austerity. The dollarisation debate leans on historical examples such as Ecuador and Panama to attempt and extrapolate the potential outcomes. These ideologies shape the interpretive lens of the analysis. Key macroeconomic indicators such as GDP growth, inflation, employment, fiscal policy, and exchange rates are incorporated with supporting theoretical models such as Solow growth, Harrod-Domar, Okun's Law, and PPP. The intent is to provide a base to assess later the data provided under Milei's reforms.

Chapter 3: Milei's Economic Reforms details Milei's structural reforms. His agenda rests on four pillars.

1. Fiscal Austerity: The "Chainsaw Plan" is defined by a 30% cut in public expenditure and a hiring freeze to eliminate the primary fiscal deficit (p.23).
2. Monetary Policy: Milei's proposal to abolish the Central Bank as a means to curb monetary financing, alongside his push for dollarisation despite insufficient foreign currency reserves (p.25).

3. Trade and Deregulation: Examines the slashing of export tariffs and import controls, motivated by a desire to increase competitiveness (p.26).
4. Labour Deregulation: Introduced a decree to loosen both hiring and firing laws to try and increase formal employment and attract investors. Nonetheless, these were faced with strong union resistance and legal hurdles (p.27).
5. Housing Market Deregulation: Boosted listings and reduced real rents. Traditional rental listings in Buenos Aires skyrocketed. From 5,500 before the reform to 15,300 at the start of 2025. A staggering 180% rise (p.29).

The initial impacts of all these factors combined induced a peso collapse, a rise in unemployment, and a strong social backlash. Notwithstanding, inflation was tamed by late 2024 and signs showed reserves improving.

Chapter 4: Historical Comparison delves into a retrospective analysis of the three previous liberalisation and Peronist episodes in Argentina, which span the last couple of decades.

- Carlos Menem's (1989-1999): Neoliberal strategy, marked by privatisations and the convertibility plan, achieved short-term inflation control but led to long-term stagnation and job losses (p.30).
- 2001-2002 Crisis: Included to highlight the serious fiscal mismanagement and rigid currency peg (p.31).
- Mauricio Macri's (2015-2019): Highlights the risks of a gradualist approach. His failure is attributed to a hesitant implementation that caused a significant market backlash (p.33).

The chapter closes off with a comparison of Milei's reforms thus far, summarised in Table 1 (p.35-36). The discussion finds that his divergence occurs in the pace of his implementation as well as his ideological coherence. However, he is still prone to repeating past errors if social stability is not controlled. This chapter was included to identify, the successes, and failures of previous presidents and attempt to assess Milei's approach.

Chapter 5 Empirical Analysis focuses on empirical research concerning inflation, GDP growth, unemployment, exchange rates, foreign reserves, and public debt. The data was sourced from reputable institutions such as the Central Bank of Argentina, INDEC, the International Monetary Fund, Bloomberg, and many more cited in the references. The data

collected ranges from late 2023 through the end of 2024 to observe the immediate market responses:

- Inflation: Dropped from over 25% monthly to approximately 2.7% in December 2024. (Figure 6, p. 37)
- GDP Growth: Contracted significantly in Q1 and Q2 of 2024. Stabilised in Q2-Q3 2024 and rebounded to +2% in Q4 2024 (Figure 7, p.39).
- Unemployment: Rose to from 5.7% in Q4 2023 to a peak of 7.6% in Q2 2024 amid mass public layoffs and weak private hiring. Fell to 6.4% by Q4 2024, reflecting improving macro conditions (Figure 8, p.40). Poverty had fallen to 38.1%, a decrease of nearly 15 percentage points.
- Public Debt (% of GDP): Fell from approximately 110% in Q4 2023 to around 102% in Q3 2024 (Figure 9, p.41). Reduction due to inflationary erosion of liabilities, improved fiscal balance, and nominal GDP rebound
- Exchange Rate Gap: The gap between official and parallel rates narrowed from over 150% in late 2023 to 10% by November 2024 (Figure 10, p.43).
- Foreign Reserves: Increased from USD 22 billion in late 2023 to over 31 billion by December 2024 thanks to IMF support (Figure 11, p.44).

The convergence of these elements contributed to a deterioration in social stability. Protests erupted causing governance challenges due to Milei's minority in Congress. In essence, this chapter aims to offer both a conceptual and empirical assessment of whether Milei's reforms have begun to stabilise the Argentine economy.

Chapter 6: Discussion and Policy Recommendations synthesises the findings presented in the previous chapters. It presents two diverging projections. The optimistic lens claims that Milei's reforms have mostly stabilised the economy, attracted investment, reduced inflation, and if dollarisation is cautious, re-entered credit markets. However, a pessimistic stance is provided to measure the worst possible outcomes. It is argued that continued austerity, deepening poverty, and inflation resurgence could likely provoke a political backlash. This would strongly lead to economic collapse, risking serious defaults. Finally, a policy recommendation section attempts to shine a light on possible strategies to help mitigate a disastrous ending for Argentina. Gradual dollarisation, prioritising central bank independence, and phasing out subsidies with social safeguards are suggested. The evidence suggests that while Milei's approach has achieved partial stabilisation, the absence of institutional

safeguards and inclusive social measures risks subverting long-term success. Milei's future focus should diverge from emergency stabilisation to rebuilding inclusive growth.

CHAPTER 1: Introduction

1.1 Background On Argentina's Economy

Argentina has long been afflicted by an unstable economy. Due to repeated debt crises, chronic inflation, and current instability over the past decades, the economic situation has never been tame. Historically, the country's prices have often risen to double-digit or higher rates annually. In the late 1980s, annual inflation reached daunting heights of 5000%, leading to dramatic currency devaluations. From 2013 to 2022, Argentina's inflation consistently stayed among the world's highest. Overall, Latin American countries averaged rates of approximately 8%, while Argentina averaged nearly 39% per year in the decade up to 2022 ("Argentina Inflation"). In 2022, inflation had amounted to over 50% annually and continued to accelerate. By 2023, the country faced triple-digit inflation. Consumer prices were rising over 142% by October of that year. This was the worst the inflation had been since the early 1990s, causing a drastic deterioration of real income and savings. Argentina was unable to get a grip on its unstable currency.

Another culprit in the desperate situation was the recurring sovereign debt crisis. Over the past century, Argentina has suffered nine sovereign defaults with the most recent major default in 2020 (Argentina's Struggle for Stability | Council on Foreign Relations). It has historically relied on borrowing heavily from offering institutions and ultimately not being able to repay its debts. In 2001, Argentina underwent the largest default of \$100 billion and relied on the International Monetary Fund to bail them out. In 2018, the country secured a record-breaking bailout program of \$57 billion. Despite the resources, the economy remained in massive debt and deficits. Public debt stood at approximately 85% of GDP in 2022, an average increase of 70% of GDP over the previous decade ("Argentina Inflation"). The accumulation of all these factors forced Argentina to seek restructurings or new loans to avoid default. This severely weakened investor confidence and fed back into currency instability and inflation, causing a vicious cycle.

Argentina has attempted both a populist and interventionist model as well as the opposing neoliberal approach. The populist movement in Argentina began with Juan Perón's presidencies in the mid-20th century and the implementation of his Peronist economic model. He advocated for a strong state presence in the economy, nationalised the central bank and key industries, and expanded welfare programs and labour rights, ultimately building one of the world's largest welfare states (Anderson). His model emphasised social programs, protection

of domestic industry, and subsidies. At the other end of the policy spectrum, Argentina implemented neoliberal reforms during various periods. The transition was initiated by President Carlos Menem, ironically a Peronist himself. His ideas took the country by surprise as he undertook widespread privatisation and deregulation after years of state-centric policies (Pfeiffer). Some of his reforms included pegging the peso to the U.S. dollar, cutting public spending, and trade liberalisation. Despite initial economic improvements, the situation quickly turned dire. The year 2001 exemplifies this as the economy collapsed when the rigid currency peg and rapid debt accumulation culminated. From then on, the government swung again to neo-Peronist policies under the Kirchners and swung again back to liberalisation under Mauricio Macri in 2015. This back and forth between populism and liberalisation has left Argentina without a lasting solution to its structural programs (Argentina's Struggle for Stability | Council on Foreign Relations). As a consequence, Argentina remains divided both socially and economically with some Argentines refuting free-market corrections and others strongly disapproving of large state intervention.

With Javier Milei entering office in December of 2023, he inherited a country whose government's chronic fiscal deficits were exacerbated by pandemic spending, have practically run out of foreign reserves, and multiple exchange rates emerged as the peso continually lost value ("Argentina Inflation"). The erosion of the currency caused havoc, leading the Argentines to protect themselves by informally using U.S. dollars for savings and transactions. At the same time, poverty and social indicators worsened (Fanelli 20-23). Data showed that poverty rates reached 40.1% of the population in early 2023, an increase from 36.5% the year prior. Unemployment and inequality became critical and over one-third of people relied on government assistance (INDEC). To make matters worse, Argentina suffered a historic drought in 2022-2023 which significantly disrupted agricultural exports, compounding the economic contraction (World Bank 11). By late 2023, Argentina was undergoing stagflation. Prices soared while the economy stagnated. The currency was weak and the government was on the verge of another default. The country was in a perilous state, setting the stage for the radical libertarian Javier Milei to take matters into his own hands.

1.2 Javier Milei's Economic Vision

"¡Viva la libertad, Carajo!" has been a defining catchphrase used by Javier Milei in his rise to power. The economist-turned-politician is a self-proclaimed libertarian who takes inspiration from the traditions of the Austrian School of Economics and other free-market

schools of thought. Thinkers such as Ludwig von Mises and Friedrich Hayek, Austrian economists who warned against government intervention, and Milton Friedman have also heavily shaped Milei's worldview. Milei has surrounded himself with like-minded figures such as his Vice President Victoria Villarruel, a signatory of the Madrid Charter which is a far-right treatise put into effect by the Spanish political party Vox. He also designated Luis "Toto" Caputo as his economy minister, who also served as the president of Argentina's Central Bank in 2018 (Explainer).

At the core of Milei's economic philosophy is a scrutinizing critique of the Argentine welfare state and government intervention in the economy. He believes that many of the country's market failures are the result of this. This is illustrated in many of his public speeches where he references Hayek's "knowledge problem" and Mises's theory of interventionism to argue that central planners could never attain enough information to improve upon the free market. He has stated that for state intervention to be beneficial, they must be cognizant of "the utility function of all individuals (preferences) for the past, the present, the future, the time preference rate and knows the state of the current technology and all future enhancements, along with their respective amortization rates". Seeing as this is practically impossible, he exposes his view that "the idea of the welfare state acting on the market to correct failures is a contradiction" (The Economics of Javier Milei | Mises Institute). He also asserts that "State intervention is always bad because it's based on coercion... nothing based on coercion can be good" ("The Market Is Ourselves"), encapsulating his radical free-market ideologies.

1.3 Research Scope and Questions

Given the fierce approach of Milei's government, in a country that has suffered economic turmoil for many years prior, this thesis will analyse the macroeconomic reforms implemented by Javier Milei in Argentina and their potential ramifications. The scope of the research is centred on the monetary, fiscal, and regulatory economic reforms that form the core of Milei's agenda. The main purpose of this paper is to use relevant macroeconomic indicators and models to attempt and forecast possible outcomes for Argentina's economy in the near future. The study will also compare Milei's reforms to previous episodes of market liberalisation in Argentina to decipher the potential drawbacks or strong suits of his strategies. The most important research questions this thesis will address are the following:

What are the key macroeconomic reforms that Javier Milei is adopting? Explored primarily in Chapters 2 and 3, the aim of this question is to give proper context and material to properly understand Argentina's current situation.

How do Milei's reforms compare to historical cases of market liberalisation? This question will be explored in Chapter 4. The intention behind this chapter is to provide hindsight to determine whether or not Milei will fall victim to the shortcomings of previous presidents.

Will these reforms resolve Argentina's structural issues? Chapters 5 and 6 attempt at answering this question by deciphering official data through graphical representations for various macroeconomic indicators. The aim is to approximate the potential negative or positive outcomes for the country. Chapter 6 will include a personal prediction of what will unfold in the coming years.

CHAPTER 2: Theoretical Framework

2.1 Theories of Liberalisation & Market Deregulation

2.1.1 Classical Liberalism and Neoliberalism

Classical liberalism is a political ideology reigned by a notion of individual freedom, private property, free markets, and limited government intervention. Maximizing economic and political liberty is entrenched in the policy. The doctrine's key principles sustain that government should prioritise maintaining law and order, enforce contracts and obligations, and protect property rights. It claims that there is no real necessity for further involvement, and if anything further intervention would damage the efficiency of the economy. It maintains that supply and demand dynamics are much better indicators when allocating resources rather than central planning. It strongly advocates for free trade as it affirms reduced tariffs and barriers, stimulating economic growth. As quoted by Milton Friedman, "Liberalism emphasised freedom as the ultimate goal and the individual as the ultimate entity in society." (Capitalism and Freedom, 1962). As will be explored in further sections, these principles directly correlate with the economic policies of Javier Milei, who has already made substantial headway in pruning government influence and restoring market competitiveness in Argentina.

While neoliberalism is rooted in classical liberal economic thought, it has recently evolved to developed concepts of monetary stability, privatisation, deregulation, and reducing state welfare. Milton Friedman, Friedrich Hayek, and Ludwig von Mises, the fathers of this shift are key in exploring its philosophies. With regard to monetarism, Friedman argues that the control of the money supply is vital for economic stability and fostering long term prosperity. Hayek on the other hand claims that social institutions evolve without the inclusion of central planning, contending that effective systems evolve organically. Mises agreed with this theory claiming that government planning fails due to a lack of price signals, which are crucial for rational economic calculation. Hayek critiques the growth of welfare states, lamentating "how little the legal position even in the freest countries still corresponds to the ideals and concepts to which we still pay lip service" (Hayek 113). Comparably, Mises makes a clear distinction between state-controlled systems and free markets. He contests that "the market economy must be strictly differentiated from the second thinkable—although not realizable—system of social cooperation under the division of labour: the system of social or governmental ownership of the means of production" (Mises 259).

With regard to market deregulation and economic freedom, Friedman, Hayek, and Mises assert that state intervention inevitably leads to inefficiencies. They believe that free markets are the solution to allocate resources efficiently. Friedman is strongly opposed to government wage and price controls and advocated for school vouchers as a privatised alternative to public education. He also supported floating exchange rates instead of government-managed currency values. With respect to central planning, Hayek clashed with Keynesian economic principles which promote government intervention to smooth economic cycles. He highlighted that central authorities are unable to efficiently allocate resources as information is decentralised. Mises proposes that socialism fails as it lacks a price mechanism to determine resource allocation. He supported gold-backed currency instead of fiat money.

Despite its popularity, neoliberalism is scrutinised for its disproportionate advantages to the wealthy. People of lower and middle classes typically recognise it as another vessel for rising inequality, financial instability, and reduced social protections. Nonetheless, Milton Friedman claims “in a free market society, voluntary exchange benefits both parties. No external force, no coercion, no violation of freedom is necessary to produce cooperation among individuals all of whom can benefit” (Friedman), suggesting that ultimately, a free market benefits everyone regardless of social class. Everyone involved is trading something they value less for something they value more. Additionally, a free market is achieved on the general public's terms, without the restrictive intervention of enticing individuals to trade based on self-interest. With regard to market failures, Hayek states “it is by no means clear that it would be a gain if we could produce the human types that it was generally thought we needed. It is not at all unlikely that the great problem in this field will soon be that of preventing the use of powers which we do possess and which may present a strong temptation” (Hayek and Hamowy). His claims propose that centralised decisions lead society to become homogenous. All sense of diversity, individual freedom or innovation perish. It is also suggested that even interventions with pure intent can have damaging effects when they attempt to mould society according to a predetermined vision.

2.1.2 Monetarism & Inflation Control (Friedman's quantity theory of money)

Monetarism is a school of thought founded on the notion that the total amount of money circulating in an economy is the leading determinant of current dollar GDP in the short run and the price level in the long run (What Is Monetarism? - Back to Basics - Finance & Development, March 2014). Milton Friedman is one of the most important figures when it

comes to monetarism due to his revitalization of the classical quantity theory of money. As will be further developed in the following section 2.2 for key economic indicators, Friedman asserts that changes in the money supply are the leading influencers of economic fluctuations, particularly inflation and output variability in the short-run. Moreover, he argues that inflation is always a monetary phenomenon. This suggests that sustained price increases only occur when the money supply grows faster than real economic output (Bordo and Rockoff).

The first assumption of the classical QTM assumes that the velocity of money is stable, meaning that changes in the money supply directly influence nominal GDP. Second, it claims that money is neutral in the long run and that changes in money supply affect prices but not real GDP. Finally, it asserts that wages and prices are flexible, allowing markets to adjust avoiding persistent unemployment. Cambridge economists such as Alfred Marshall and Arthur Pigou proposed an alternative theory that money demand is a function of an exogenous constant. Friedman contests that money demand rather depends on expected inflation, interest rates, and wealth levels, making it a function of economic agents' portfolio choices (Bordo and Rockoff).

Friedman's monetarist perspective challenges the Keynesian view by maintaining that short-run deviations from monetary equilibrium affect output, but in the long run, monetary expansion only influences prices. He also advocates for a constant money growth rule to prevent inflationary shocks. Finally, he assumes that money demand is predictable and stable, responding primarily to permanent income rather than short-term interest rate fluctuations. The sweeping claim that Friedman posits is that monetary aggregates should be the primary tool of macroeconomic stabilisation (Bordo and Rockoff). This contrasts with the Keynesian view that active fiscal policy and liquidity preference are drivers of economic fluctuations.

2.1.3 Structural Adjustment Programs (SAPs)

Structural Adjustment Programs were first implemented by the IMF and World Bank in the 1980s and 1990s in response to fiscal crises in Latin America. Both institutions decided to provide loans to countries requiring economic policy reforms ("What Are Structural Adjustment Programs (SAPs)?"). One of its components comprises reducing government deficits through spending cuts, otherwise known as fiscal austerity. It includes deregulation, trade liberalisation, privatisation, and exchange rate reforms. The exchange rate reforms aim to stabilise currencies through managed float or pegged exchange rates (Stig2002). The

Washington Consensus, a term coined by John Williamson, summarises the set of ten economic policies recommended to developing countries. It typically refers to the consensus among the International Monetary Fund, the World Bank, and the U.S. Department of the Treasury on policy recommendations for Latin America, particularly those aligned with a neoliberal approach (Britannica Money)

Latin American countries like Argentina, Brazil, and Mexico reaped the early benefits of Structural Adjustment Programs in times of crisis. They were able to reduce hyperinflation for a short time period. Nonetheless, its implementation was met with heavy social unrest due to the austerity measures (Williamson). Argentina suffered high unemployment rates of around 10-20% due to SAPs throughout the 1990s despite its initial benefits of economic stabilisation (Stig2002). SAPs have been denounced for disproportionately affecting the poor through their public service cuts as well as their over-reliance on foreign capital and weak institutional reforms (Williamson). American economist Joseph E. Stiglitz supports this claim in his book 'Globalization and its Discontents'. He challenges that "the IMF's structural adjustment programs often resulted in rising unemployment and increased poverty" and that "Argentina suffered from double-digit unemployment for nearly a decade despite economic stabilisation" (Stig2002).

2.1.4 Dollarisation Debate

The notion of dollarisation can be defined as a country adopting the U.S. dollar as its official currency in order to stabilise inflation and attract investment. One of the potential benefits of this transition is an elimination of currency risk leading to stabilised inflation. Furthermore, it increases investor confidence, encouraging foreign investment and stimulating the economy. Dollarised economies could potentially enjoy lower interest rate spreads on their international borrowing and reduced fiscal costs (Economic Issues No. 24 -- Full Dollarisation). However, these benefits are met with potential risks as full dollarisation implies a complete surrender of an independent monetary policy, leaving the country vulnerable to US economic conditions. Inflation of interest rates in the US could lead to a subsequent recession in the dollarised country. This is exemplified in countries such as Ecuador and Argentina, where financial crises may be harder to manage (Eichengreen and Hausmann). As quoted in the book 'Exchange Rates and Financial Fragility', "Dollarisation can bring stability, but it must be adopted within a framework of fiscal discipline and structural reforms to avoid crises"

(Eichengreen and Hausmann). While dollarisation can harvest many fruitful benefits for economically struggling nations, its implementation must be well monitored.

Panama is an example of a Latin American country that dollarised in 1904 and has profited from low inflation and financial stability. Nonetheless, its absence of a central bank limits its ability to respond to economic shocks (Eichengreen and Hausmann). Ecuador adopted dollarisation in 2000 after a devastating banking crisis that followed hyperinflation of over 90%. The country's transition to dollars stabilised inflation and restored confidence in the economy. Having said this, Ecuador remained vulnerable to external shocks. Argentina is another case study that implemented a currency board in the 1990s that pegged the peso 1:1 to the US dollar. It rapidly failed in 2001 due to fiscal deficits, capital flights, and an inability to devalue the peso. This led to economic stagnation and a financial crisis (Eichengreen and Hausmann).

2.2 Key Macroeconomic Indicators For Analysis

2.2.1 GDP Growth and Investment

As defined by the OECD, Gross Domestic Product is “the standard measure of the value added created through the production of goods and services in a country during a certain period”(“Nominal Gross Domestic Product (GDP)”). It encompasses all output generated within the borders of the country. Consequently, a country's economic growth can be measured by the increase in real Gross Domestic Product (GDP). Moreover, in the long run, it can be determined by the factor accumulation of capital and labour and technological progress.

According to both classical and neoclassical models such as Solow-Swan, capital investments expand an economy's productive capacity (Keightley and Weinstock). Early Keynesian models such as Harrod-Domar exemplify a direct link between the savings-investment rate and growth, implying that a higher savings rate directed towards investment will eventually lead to higher economic growth.

This notion can be studied looking at the national income definition for GDP: $Y = C + I + G + NX$. Focusing on factor I (investment), representing gross capital formation, holding the other factors constant we can notice that a higher level of investment will directly increase GDP. As maintained by the Harrod-Domar framework, the rate of economic growth depends on two factors, the level of savings and the capital-output ratio. Looking at a simplified

model of Harrod-Domar, the rate of economic growth (g) is equal to the level of savings (s) divided by the capital-output ratio (k): $g = \frac{s}{k}$.

Following this, the neoclassical Solow growth theory takes into account a production function $Y=F(K,L)$. The function is governed by a diminishing return to capital implying that the marginal product of capital decreases as more capital is added. The output increases at a decreasing rate. Solow analyzed how higher savings and investment affect long-run economic growth. He analyzed how in the short-run, higher savings and investment do have an increasing impact on the rate of growth of national income and products. Nonetheless, it will have no effect on the rate of growth in the long run. The Solow model reaches a steady state, where net investments, defined in the official equation as savings minus depreciation, equals zero. Once it reaches this equilibrium, output grows only at the rate of technological progress and labour force growth.

There are two key factors that influence capital stock in an economy. The first being investment, meaning the expenditures on new plant and equipment. The second key factor is depreciation, i.e. the natural decline in capital due to degradation. The investment per worker, defined by 'i', is determined by the savings rate (s) and output per worker (y). We can write their relationship using the formula $i = sy$. Introducing the production function $y = f(k)$, we can rewrite investment as: $i = sf(k)$, demonstrating its reliance on both savings and factors of production. Depreciation is symbolised by 'δ', and represents the fraction of capital (k) that wears out annually. Consequently, the amount of capital lost each year is written as δk . The change in capital stock (Δk) is given by: $\Delta k = \text{Investment} - \text{Depreciation}$, otherwise written as: $\Delta k = sf(k) - \delta k$. As capital stock (k) increases, output and investment also rise. Nonetheless, this implies that depreciation increases proportionally. We obtain a steady state (k^*) when investment equals depreciation, suggesting that capital stock no longer fluctuates, $\Delta k = 0$. Hence, this illustrates the long-run equilibrium of the economy. The economy will eventually converge to a steady state regardless of the initial level of capital. If investment surpasses depreciation, capital stock grows over time. If the investment is less than depreciation, capital is depleting faster than it is being replaced, leading to a decline in capital stock until an equilibrium is reached. This steady state is key to understanding macroeconomic growth

models. It shows how savings, investment, and depreciation will impact long-term economic output.

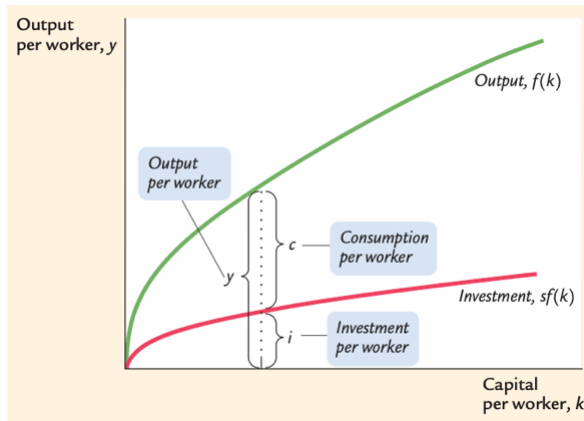


Figure 1: Solow Growth Model - Consumption and Investment per worker (Mankiw).

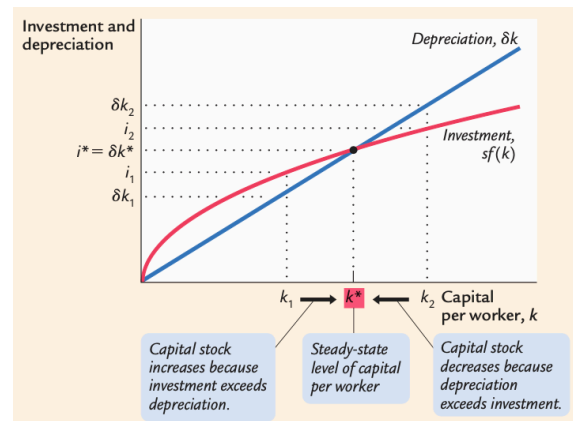


Figure 2: Solow Growth Model - Investment equals depreciation (Mankiw.)

Despite this, for short-to-medium-term time frames, investment has been shown to be a vital step for the growth of an economy. It increases the capital stock and may improve labour productivity. The growth accounting equation exemplifies this:

$$\frac{\Delta Y}{Y} = \alpha \frac{\Delta K}{K} + (1 - \alpha) \frac{\Delta L}{L} + \frac{\Delta A}{A}$$

The variable $\frac{\Delta A}{A}$, represents total factor productivity growth. $\alpha \frac{\Delta K}{K}$, represents the contribution of capital accumulation, or investment, to GDP growth.

Research shows that countries will struggle to grow economically if they do not focus on battling chronically low investment rates. An example of this can be seen in politically and financially unstable Latin American economies which have endured long periods of stagflation due to volatile investment and productivity growth. As stated in the Congress Research Service report, “the stock of physical capital in an economy is largely dependent on the rate of investment... The higher a country’s investment rate, all else equal, the faster its capital stock will grow”. This confirms the idea that if the net investment is zero or negative, an economy’s productive capacity can stagnate or decline (Keightley and Weinstock).

2.2.2 Inflation & Monetary Policy

The Organisation for Economic Co-operation and Development defines inflation as the “change in the price of a basket of goods and services that are typically purchased by specific groups of households”(“Inflation (CPI)”). According to macroeconomic theory, the primary

long-run driver of inflation is the growth rate of the money supply relative to the growth of real output.

This is supported by the equation for the Quantity Theory of Money: $MV = PY$. M represents the money supply, V is the velocity, P is the price level, and Y is the real output. We can observe that as we hold velocity and output growth approximately constant, an excessive increase in money supply will lead to higher inflation. Milton Friedman has famously stated that “inflation is always and everywhere a monetary phenomenon” (Friedman, 1977). This can be explored by looking at the central banks, who in the long run, control inflation by managing money growth and interest rates. However, if we focus on the effects in the short run, inflation can be impacted by real factors such as aggregate demand shocks, supply shocks, exchange rate movements and many more. The Phillips Curve developed by A.W. Phillips shows an inverse relationship between unemployment and wage inflation. Nevertheless, Friedman and Phelps argued that this trade-off is only temporary as in the long run, if central banks try to keep unemployment below the natural rate, inflation expectations will rise, causing a shift to the Phillips curve. The economy will eventually reach a natural rate of unemployment, also defined as NAIRU (Non-Accelerating Inflation Rate of Unemployment) where inflation becomes stable. Consequently, the long-run Phillips curve is a vertical line, suggesting that expansionary policy only leads to accelerating inflation with no lasting gain in employment.

The main actors in managing inflation, central banks, use monetary policy instruments like open market operations, interest rate policies, and reserve requirements. The Taylor Rule is a framework used to guide such decisions:

$$i_t = r^* + \pi_t + 0.5(\pi_t - \pi^*) + 0.5(y_{gap})$$

The formula sets the policy interest rate based on inflation and output deviations. i_t represents the nominal policy rate, r^* is the long-run real neutral rate, π_t is current inflation, π^* is the inflation target, and y_{gap} is the percentage by which actual GDP is above or below potential. This formula captures that when inflation is above target or output is above potential, the policy rate should be higher.

Another key equation is the Fisher equation: $i = r + \pi^e$. This equation relates nominal interest rates (i), real interest rates (r), and expected inflation π^e . It demonstrates that a prolonged high inflation will eventually intertwine with nominal interest rates. When short-

term rates hit their lower bound, central banks use balance sheet rules to influence longer-term rates and financial conditions.

2.2.3 Employment & Labour Markets

When examining an economy's well-being, unemployment and employment can be key indicators. The unemployment rate is defined as the percentage of the labour force that is jobless but still actively seeking work. According to macroeconomic theory, there are various types of unemployment. The first is frictional unemployment, a short-term transitional unemployment as workers shift between jobs. The second is structural unemployment which can be seen as a mismatch of skills, geographic location, or even other long-term market rigidities ("Basic Concepts of Macroeconomics"). Finally there is cyclical unemployment which arises due to economic downturns which in turn reduces overall demand for labour.

Keynesian and New Keynesian theories incorporate wage and price stickiness which suggest that insufficient aggregate demand can cause persistent cyclical unemployment. As previously discussed, the Natural Rate of unemployment (NAIRU) is the rate of unemployment consistent with stable inflation when the labour market is in the long-run equilibrium. This explores the limit to how low unemployment can reach without having a ripple effect on inflation. Employment is also dependent on population growth, labour force participation rates, and labour productivity. Inevitably, structural policies such as education, job training, and unemployment benefits affect the natural rate of unemployment over time. For example, better job specific training could improve matching of worker to jobs and reduce structural unemployment.

These concepts can be further explored using Okun's Law. This macroeconomic concept ties GDP to changes in unemployment. Okun's law claims that a 1% increase in unemployment will usually be met with a 2% decrease in GDP ("Okun's Law"). More generally speaking, for every percentage point by which actual GDP growth exceeds potential growth, the unemployment rate is predicted to fall by β percentage points and vice versa. Nonetheless, this relationship is not precise seeing as the coefficient may vary depending on country and period. Okun's Law does however capture the notion that when output is growing at a rapid rate, businesses tend to hire more causing unemployment to fall. In the same way, when output declines, unemployment will rise. Okun's Law is a helpful tool for policymakers when trying to gauge how much stimulation of GDP is needed to decrease unemployment rates.

When analysing labour market indicators and models, the labour force participation rate tracks the ratio of working-age people who are either employed or actively looking for work. People aged between 15 and 64 are qualified as working age population (“Labour Force Participation Rate”).

2.2.4 Fiscal Policy & Government Spending

Fiscal policy concerns the government decisions regarding taxation and spending and how these effect the economy (“Fiscal Policy”). Fiscal policy has various important macroeconomic roles such as managing aggregate demand, otherwise known as stabilisation policy. Redistributing income and allocating resources through education and public investments are also key features.

According to the Keynesian approach, fiscal policy is vital when it comes to combatting economic decline. The fiscal multiplier materialises this concept seeing as it is the ratio of a change in GDP to an initial change in government spending or taxation. The government spending multiplier is often expressed as: $\frac{1}{1-MPC}$, where MPC represents the marginal propensity to consume.

2.2.5 Exchange Rates & Trade Balances

An exchange rate can be defined as the price of one currency with regards to another. There are two possible exchange rates. The nominal exchange rate is simply the quoted price, whereas the real exchange rate adjusts for price level differences between countries. The formula for the real exchange rate (RER) is the following: $RER = e \times \frac{P^*}{P}$. The term ‘ e ’ represents the nominal exchange rate, P^* is the foreign price level, and P represents the domestic price level. If the RER equation is equal to 1, this implies that good in both the domestic and foreign market expressed in a common currency cost the same. However, if the value of RER is greater than 1 then the domestic currency is undervalued in real terms and the goods are relatively cheaper. The opposite is true when the value of RER is less than 1, domestic good are now being overvalued implying that domestic goods are expensive.

A key element to most models of exchange rate determination concerns the Purchasing Power Parity (PPP) theory in the long run (Abuaf and Jorion). The theory states that the

exchange rates should adjust over time so that a basket of goods costs the same in differing countries when measured using a common currency. This idea builds from the concept of the Law of One Price that states: “The price of an identical asset or commodity will have the same price globally, regardless of location, when certain factors are considered” (“Law of One Price”).

In financial markets, the national income identity is defined by the following equation: $Y - C - I - G = I + NX$. This formula describes the relationship between total income (Y), consumption (C), investment (I), and net exports (NX). National saving is defined as total income (Y) minus consumption (C) and government spending (G) and can be separated between private saving and public saving. Private saving encapsulates the portion of income that remains after consumption and taxes and is defined as: $Y - T - C$. Public savings is the difference between tax revenue and government expenditures given by: T-G. Given these two equations, the equation is rewritten as: $Y - C - (Y - T) - G = I(r)$. More generally, it can be written as $S - I(R) = NX$ where savings minus interest rates equals net exports. This equation suggests that if a country has a higher expenditure than it saves ($S < I$), it must import the difference by running a trade deficit and borrowing from abroad. On the other hand, if it saves more than it invests ($S > I$), it will run a trade surplus and lend the excess abroad. The overarching idea of this identity is that trade imbalances directly influence financial flows.

CHAPTER 3: Milei's Economic Reforms

3.1 Fiscal Austerity & Spending Cuts

A core pillar of Milei's electoral campaign was a commitment to radically cut government spending and implement fiscal austerity to reduce Argentina's chronic deficits. His campaign aimed at combatting Argentina's large fiscal deficit was very successful seeing his audience's frustration with the country's long history of inflation and corruption.

Milei's fiscal consolidation strategy termed the 'Chainsaw Approach,' focuses on rapid, deep spending cuts rather than gradual deficit reduction. Inspired by Austrian and libertarian economic thought, it prioritises shrinking the state and reducing reliance on taxation or monetary expansion. Milei believes that to successfully combat inflation, they must primarily focus on spending cuts rather than taxation as attempted in the past. Argentina has historically combatted its high inflation by using methods such as seignorage or foreign borrowing to mitigate the dramatic effects of inflation. Unfortunately, these methods have not had any long-term or significant effect on fighting the high levels of prices. In the first year of Milei being in office, his government has already reduced state expenditure by 30%, which comes to approximately 5% of Argentina's GDP. He has argued that this is a direct tax cut on citizens.

The first phase of his "Chainsaw Approach", named "Chainsaw 1.0" has been termed the "pruning" phase. Milei's government began by eliminating 10 of the government ministries, starting with the Ministry of Infrastructure and Housing which they argued should be handled by the private sector. They also eliminated the Ministry of Culture as they recognised it as a non-essential government expense. As for Public sector layoffs, Argentina's federal workforce has shrunk from 210 000 to 175 000 employees coming to a 15% reduction. Furthermore, some state-owned enterprises are being reviewed for a potential shift to privatisation. The second phase, named "Chainsaw 2.0", focuses on deep structural austerity and the decentralization of public services. Milei and his team believe that many government functions should be handed off to local governments, or alternatively should be privatised. An example of this was Milei's closure of the Comisión Nacional de Microcrédito, otherwise known as CONAMI. It was a state-run microloan program that focused on providing small-scale credit to lower-class individuals, aspiring entrepreneurs, and small businesses who would not otherwise have access to traditional banking services. It was initially implemented to offer low-interest loans to the struggling sectors and further financial inclusion. This program was also partnered with civil society organizations to distribute funds and manage repayment.

Milei's government shut it down on the basis that state-run credit programs disform the market seeing as they artificially lower interest rates, followed by the assumption that they are inefficient due to bureaucracy. Allegedly, 99.85% of the funds allocated to CONAMI over the past 15 years were mismanaged and were allocated to bad loans or absorbed by bureaucratic overhead. He also decided to cut energy and transport subsidies, ultimately leading to higher consumer costs.

The primary goal of Milei's fiscal reforms is to provide fiscal sustainability and restore investor confidence after years of deficit financing. The government aims to terminate the money-printing presses that fueled inflation and stabilise public debt dynamics. Milei's administration has forecasted that inflation will drastically fall, hoping to reach 18% annually by the end of 2025. They predict that the economy could rebound by 5% growth. This would be a significant improvement from inflation rates of 200% in 2023. Looking at the long term, they wish to improve efficiency by suppressing bureaucracy and corruption. Milei's team thinks this is achievable by reducing the state's footprint to free up resources for the private sector.

There is an ongoing debate as to whether Milei's approach is fiscally and socially viable. Argentina's economy contracted by approximately 3.5% in 2024, reflecting the immediate effects of sharp fiscal retrenchment. The poverty rate surged from 42% to 53%, primarily due to inflation outpacing wage adjustments and the withdrawal of social subsidies (AP News, 2024). Nonetheless, in the second half of the year, official data from INDEC showed a reduction in poverty, with estimates falling to 38.1%. Poverty however is a difficult metric to calculate due to methodological concerns.

Despite the initial contraction, investor sentiment improved. Argentinian bonds doubled in value, and Argentina's credit rating upgraded. The fiscal deficit turned into a fiscal surplus leading Argentina to record its first budget surplus in years. However, economists have noted that the early surpluses relied on one-off cuts and frozen nominal outlays. They believe it may be hard to maintain without further dampening public services. There are risks that austerity could undermine social stability. Furthermore, Milei's boosting of defence and security spending such as expanding the intelligence budget by +216% and planning to quadruple defence's share of GDP, has demonstrated an ideological focus on order and sovereignty. Fiscal theory suggests that front-loaded cuts in a fragile economy carry high

output costs if not offset by confidence effects or other reforms. So far, Milei's fiscal austerity has rapidly shrunk the state and tamed the deficit, at the cost of short-term socio-economic decline.

3.2 Monetary Policy: Dollarisation and Inflation control

Milei is attempting to combat Argentina's chronic and ever-rising inflation by eradicating the country's central bank and replacing the Argentine peso with the U.S. dollar to become the official national currency. He aims to remove any possibility of the government printing money to control inflation and rely on the strength of the U.S. dollar for stability. His views sympathise with monetarist theory. Argentina's inflation crisis has been recognised as a monetary phenomenon ruled by an uncontrolled money supply. Warranted by their historic failures, public trust in wage-price controls and IMF programs has eroded. The people of Argentina are therefore open to the idea of dollarisation and its potential benefits. However, as of the start of 2025, Argentina has yet to implement dollarisation. Several factors have influenced its beginning.

Milei's administration has ruled economic stabilisation measures such as fiscal austerity and monetary tightening as their primary concern. This has aided them in significantly reducing inflation rates. Moreover, removing Argentina's Central Bank requires a very complex and time-consuming revisiting of legislation as well as institutional restructuring. Furthermore, there has been an improvement in investor confidence, leading to increased foreign investment and a more positive economic perspective thanks to the administration's fiscal discipline. This argument is sustained by Argentina's annual inflation rate having decreased from 211.4% in 2023 to 117.8% in 2024, a significant victory for Milei's administration. This is also supported by analyzing monthly inflations and noticing that they have stabilised with December 2024 recording a 2.7%. Due to the easing of inflation rates, the Central Bank was able to focus on stimulating economic activity while maintaining monetary stability by reducing the benchmark interest rate to 35%.

Milei's economic team has nonetheless mapped out how they would approach dollarisation. Emilio Ocampo, the Argentine dollarisation chief, claims that they will achieve dollarisation in little over a year and won't need a large upfront reserve stockpile. Ocampo has estimated that a daunting sum of \$60 billion is required to exchange all pesos for dollars, despite scant central bank reserves. Nonetheless, he thinks this is achievable due to Argentina's

large overseas savings of around \$2000 billion and a potential tax amnesty to entice those funds back onshore. Bank deposits and loans would also convert to dollars to maintain balance sheets in the new currency.

While having made significant improvements, Milei’s administration still has many battles to face in the near future. One is the loss of Argentina’s independence in monetary policy. By adopting the U.S. dollar, the government would have a limited response to domestic economic fluctuations. Dollarisation could potentially implicate a constraint on Argentina’s fiscal policy flexibility seeing as the U.S. would control its currency issuance. Finally, the transition process would involve complicated logistical challenges such as currency conversion financial system adjustments, and public acceptance. Milei’s early monetary stance combined orthodox deflationary policies such as budget cuts and tight control of the money supply, with the legislative push toward eventual dollarisation.

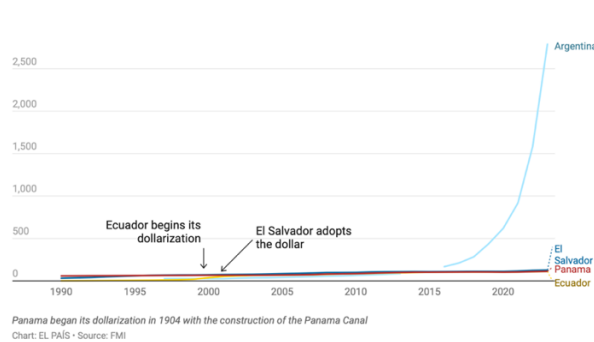


Figure 3: Comparison of Argentina's Monetary Base with Dollarised Economies (El Pais)

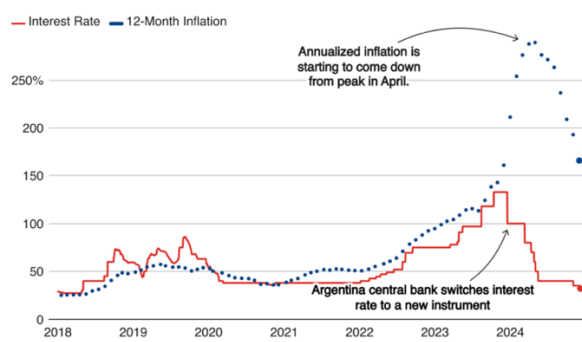


Figure 4: Argentina's Interest Rate and 12-Month Inflation from 2019 to 2024 (International Monetary Fund)

3.3 Trade and Deregulation

Another principal concern of Milei’s was to open Argentina’s economy to global markets. In December 2023, Milei passed a decree that ended limits on international exports to boost trade and attract foreign investment. His administration has also proposed to reduce the common external tariff as they recognised it as vital to reduce the cost of living and enhance competitiveness. To encourage more domestic and international investments, economic regulations were loosened to create a more friendly environment for pre-existing national but also up-and-coming businesses (Keightley and Weinstock).

The economic impacts of these trade liberalisations and deregulation policies have already had significant impacts on the economy. At the start of his term, he issued decrees to

remove export restrictions on key goods. They ended bans and quotas on beef and other farm exports that previous administrations had imposed to control local prices. Milei also wished to phase out export taxes seeing as farmers have faced long punishing taxes on soy, corn, wheat, and more. This confiscated up to 30% of their export earnings to fund government spending. Milei recognised this as an oppressive model where “the state expropriates 70% of what the countryside produces” through various levies and controls”. Milei kept his promise and issued significant cuts to agricultural export tariffs. For example, they were able to reduce soybean export tax from 33% to 26% and corn and wheat from 12% to 9.5%. Some minor crop taxes were eliminated. As for imports, in December 2023, his administration proposed an emergency decree to remove many import controls and licensing requirements. The overarching aim of these shifts was to end the prior regime’s bureaucratic hurdles as well as to swiftly integrate Argentina into global supply chains.

The immediate effects that trade liberalisation has had on inflation and consumers are yet to be determined. Traditionally, cheaper imports and the withdrawal of export taxes should

decrease domestic prices for tradable goods. This was seen in late 2024 when food items saw slower price increases as more supply reached markets. However, other factors of liberalisation initially caused inflation to spike. The 50% drop in the peso to normalise the exchange rate made imported goods costlier in local terms overnight. Removing energy

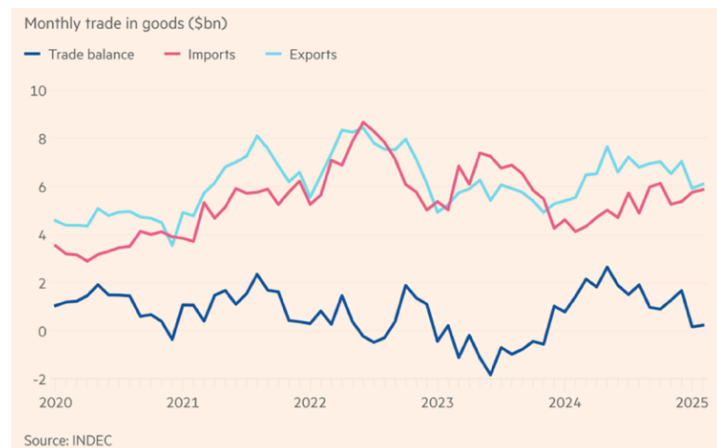


Figure 5: Graph of Argentina's import and export volumes following the removal of trade restrictions (Nugent).

and transport subsidies caused utility and fuel prices to rise exponentially for consumers. Therefore, any deflationary effect from tariff cuts was offset in the short run by these price adjustments. However, to increase competition and supply in the longer term, a more open trade regime could help contain inflation.

3.4 Labour Market Deregulation

Concerning labour market deregulation, Milei’s primary goal is to ease labour protections and weaken the union grip. He recognises strict labour laws and strong unions as impediments to investment and job creation, contributing to high informal employment. Data

shows that around 45% of workers operate outside the formal system (Argentina). In December 2023, his team introduced a “mega-decree” aimed at deregulating labour relations. Their intent is to loosen hiring and firing rules that heavily restrict the freedom of businesses. One of the proposals from the decree was to replace the costly payouts for dismissed workers, with an employee contribution to a severance insurance fund that would finance termination packages. The aim of this was to ease the upfront cost of firing and in turn, encourage firms to hire employees without the dear of prohibitive dismissal costs. Another proposal of the decree was to extend probationary periods for new hires and simplify “just cause” dismissal definitions for dismissing an employee. This would reduce legal uncertainty for employers. This would heavily shift the power dynamic in favour of the employers. Moreover, constraints on union activities at the workplace, such as barring certain on-site assemblies, were included in the decree. For Milei, this means limiting disruption, expanding the freedom of contracting, discouraging judicial conflict, and stimulating formal work (Will Argentina’s Milei Be Able to Win Labor Reforms?). His overarching objective is to incentivise investment and lure workers into formal jobs. Unsurprisingly, this has sparked aggressive resistance from unions.

Even if the effects of Milei’s labour deregulation have been partially hindered due to legal challenges, they have had various impacts on wages, employment, and industrial relations. The CGT, Argentina’s largest union confederation, has labelled Milei’s reforms as “regressive and anti-worker” (“Argentina Court Suspends Milei’s ‘mega-Decree’ Labor Reforms”). A national labour court has also argued that such sweeping changes require congressional approval. Nonetheless, seeing as government firings are an executive decision, many public-sector layoffs have been enacted outside of this. In the short term, this has contributed to rising unemployment. Projections of flexibility in the workforce encouraging firms to hire have yet to be true. The ongoing recession muted labour demand and real wages have continued to fall given high inflation. Critics of Milei have claimed that if firms have free reign to fire with minimal cost, workers may lose bargaining power. This would lead to lower job stability and benefits. Argentina historically relied on labour protections to ensure decent benefits and severance. Ridding the workers of these benefits without a safety net such as effective unemployment insurance could increase insecurity followed by a larger share of national income going to profits over wages. As of late 2024, data has shown that Argentina’s official unemployment rate had risen to approximately 8% compared to approximately 6-7% the year prior (Argentina). Many Argentines have been forced to undertake second or third jobs to compensate for lost purchasing power. As Milei’s labour reforms have only recently been

introduced, any attempt to draw direct correlations would be speculative at this stage. Nonetheless, the circumstances highlight Argentina's fragile labour climate. If his reforms are fully implemented, Milei hopes to expand the economy and receive an influx of investment due to the improved business climate. The trade-off remains that his success relies on whether or not economic growth returns. If positive, job creation could absorb displaced workers and competition for labour could start lifting real wages. Conversely, if growth remains elusive the reforms might solely leave workers with less protection in a stagnant job market.

Analysing how these reforms have affected investor confidence, economists believe that Milei's removal of rigid labour laws has been welcomed by business chambers. For example, removing generous indemnities and simplifying collective bargaining could reduce the cost of doing business in Argentina. Eventually, this could improve the investment climate and indirectly benefit employment. However, as previously stated, these reforms have stirred a lot of tension among labour unions, causing prolonged strikes and disruptive action. If their disapproval persists, it could deter the very investors the reforms seek to attract and potentially pressure the government to compromise. Furthermore, Milei lacks a majority in Argentina's Congress. This serves as a threat to his success as they could block or water down legislative attempts at labour reform. The courts must also show a willingness to check executive overreach in this domain. Consequently, Milei must balance meaningful labour flexibilization with political and social stability in order to enact his reforms. Looking at macroeconomic theories, greater labour flexibility could improve the natural rate of output by allowing the economy to adjust faster to shocks. Wages and employment could respond without heavy legal friction. However, Milei's strong libertarian reforms planted in a historically protectionist country leave a lot of uncertainty in how the Argentines will react in the years to come. The coming years will reveal whether this yields a more dynamic labour market or simply a more unequal one.

3.5 Housing Market Deregulation

In December 2023, Javier Milei repealed Argentina's rent control law through an urgent Decreto de Necesidad y Urgencia (DNU 70/2023). The regulations were enacted in 2020 to protect tenants by mandating a 3-year minimum residential lease with annual price adjustments tied to a fixed index ("Milei"). The newly enacted deregulation allows landlords and tenants to freely set contract terms including lease duration, payment currency, and adjustment frequency.

Under the framework, contractual flexibility was fully restored. Lease durations are no longer subject to a statutory minimum, meaning short-term rentals became legally possible. If not specified, the default lease length is two years for housing, reverting from the previous three-year requirement. Moreover, the one-year interval for rent increases was removed. This allows tenants and landlords to apply an adjustment schedule or index by mutual agreement. As for payments, leases may now be denominated in foreign currency (USD) or pesos upon agreement. This overturned prior limitations that discouraged dollar-linked rent. The changes also led to limited court intervention, meaning judges cannot alter the contract terms unless the law explicitly empowers them to.

Milei justified the reform on macroeconomic grounds, framing that rent control was counterproductive. He blamed the restrictive laws for discouraging property owners from renting out units. The aim was to stimulate supply and restore a free market balance. Lifting price ceilings and rigid rules would incentivise investors and landlords, increasing the rental housing demand and eventually moderating rent prices. Milei's team sustained that this deregulation would attract new housing development and bring vacant properties back onto the market.

The short-term impact on the housing market was dramatic in the rental sector. In Buenos Aires, traditional rental listings skyrocketed, from 5,500 before the reform to 15,300 at the start of 2025. This is a staggering 180 percent rise. A third of that increase occurred within just one month of Milei's deregulation ("Javier Milei Ended Rent Control. Now the Argentine Real Estate Market Is Coming Back to Life."). As Milei had hoped for, rent prices began to stabilise and even drop in real terms. Data from Buenos Aires showed that the cost of a recent rental contract dropped around 26-30% in inflation-adjusted terms after six months of the deregulation (Ley_alquileres_informe_1410).

Nonetheless, this could strongly reflect a correction after a steep hike in prices in late 2023 as landlords anticipated the law's abolishment. By the start of 2025, rent in Buenos Aires was roughly back to the 2019-2020 real price levels. Landlords benefited from the reform seeing as they regained flexibility to impose shorter contracts and peg rents to inflation, protecting their income. Many ex-property owners were re-entering the market. Renters on the other hand lost key protections. Landlords can now raise rents more frequently than once a year. There is also the possibility that landlords in more desirable areas will demand rent in

USD while most tenants earn devaluing pesos. In the absence of regulatory oversight, these changes may lead to dual-market segmentation, with dollar-denominated contracts increasingly concentrated in high-demand districts, potentially displacing lower-income tenants and expanding informal tenancy arrangements (*Kholodilin, Konstantin A. "Rent Control- Do Economists Agree*).

CHAPTER 4: Historical Analysis

4.1 Argentina's Neoliberal Reforms Under Carlos Menem (1989–1999)

Carlos Menem swiftly entered office in 1989 after Argentina faced catastrophic economic decline and was suffering from raging inflation. Consumer prices had increased by 3,610%, and wholesale prices by 5,062% (Smith). Menem's vision was for Argentina to adopt neoliberal "free-market" reforms via the Convertibility Plan (Smith). Menem's government imposed a 1 peso for 1 US dollar exchange rate. It was supported by a currency board regime that required 100% foreign reserve backing of the monetary base (Zhang). Fortunately, this approach decreased annual inflation from 171% in 1991 to single digits in the late 1990s. However, the price of this decrease was the surrendering of independent monetary policy (Argentina's Economic Crisis).

To shrink the public sector and improve efficiency, Menem engaged in a fast privatisation of state-owned enterprises. This led to many important utilities and firms in telecommunications, electricity, oil, and transport being sold off in the early 1990s (Zhang). The agglomeration of these privatisations, accompanied by mass deregulation, helped attract foreign investment. Over 3,500 foreign companies entered Argentina from 1991-94. Moreover, this helped boost productivity in services like telecom and energy (Argentina's Economic Crisis).

Concerning trade liberalisation and deregulation, Menem's reforms were able to tear down protectionist barriers. Argentina opened its economy to global competition by slashing import tariffs and removing quotas (Zhang). However, a consequence of this reform was that the domestic market was flooded with imports, which ultimately undercut local industries. Uncompetitive factories crumbled under import pressure, causing unemployment to exceed 17% by the late 1990s (Zhang). Under the Washington Consensus policies, many trade and financial controls were stripped away from the state, further reducing Argentina's role in the economy (Smith).

Analyzing Menem's fiscal policy and austerity, he was initially able to ease budget pressures through the proceeds of privatisation and lower inflation. To relieve the chronic deficit, the government applied various spending cuts and tax reforms, but austerity was only partially successful (Zhang). Menem's Argentina failed to fully control public spending, with defeat, especially apparent at the provincial level. This led to continuous budget deficits and a

growing public debt burden. The state failed to put Argentina's finances on a sustainable path (Argentina's Economic Crisis).

Despite Carlos Menem's efforts, as of 1999, his contribution to the economy was short-term stability. As the U.S. dollar strengthened in the late 1990s, Argentina's currency became overvalued, as the 1:1 peg signified that the peso rose in real terms and hurt export competitiveness (Zhang). This meant that Argentina was importing far more than it was exporting, running current account deficits. The country was forced to borrow abroad, pushing external debt to around 54% of GDP, followed by the debt service ratio reaching a worrying 75% by 2000 (Argentina's Economic Crisis). Post-1997, Argentina entered a recession, as GDP fell to -3-4% and unemployment remained in double digits (Zhang). All of these factors combined meant that Menem's liberalisation model was ineffective, and Argentina's economy was left damaged (Smith).

Comparing Carlos Menem's approach to current president Javier Milei's, we notice clear similarities. They both strongly support free-market policies, such as wide-ranging deregulation, privatisation or closing of state enterprises, and strict fiscal discipline through spending cuts (Dhojnacki). Furthermore, Milei, like Menem, emphasises a smaller state and austerity via a neoliberal approach to stabilise the economy. The key difference, however, is concerning their exchange-rate strategies. While Menem chose a fixed exchange rate under the Convertibility Plan, Milei is opting for full dollarisation, eliminating the peso. Critics warn that dollarisation is a serious commitment, seeing as it cannot be abandoned in crisis. It is an irreversible policy and would leave Argentina with no lender of last resort or monetary flexibility in a downturn ("JP Morgan Warns of Dollarisation Risks under Milei Government"). Fundamentally, both leaders focused on prioritizing market liberalisation. However, attempting to avoid Menem's shortcomings, Milei is adopting a more radical approach, while accepting the risk of giving up Argentina's monetary sovereignty completely (Smith).

4.2 The 2001-2002 Economic Crisis

At the start of the 2000s, Argentina had cycled through five presidents in twelve days. This, followed by the Convertibility Regime unravelling by 2001, contributed to the start of the collapse of liberalisation in Argentina (Argentina's Economic Crisis).

The key economic causes of this crisis can be drawn back initially to the fixed exchange rate failure. The U.S. dollar's rise in the late 1990s, alongside Brazil's devaluation in 1999, left Argentina's peso overvalued (Argentina's Economic Crisis). The country did not have an independent monetary policy, they could not rely on devaluing to regain economic strength. This led to a severe tightening of exports, and in 1998, a deep recession began (Smith). Argentina was accumulating an enormous foreign debt of over \$150 billion due to historical deficits and high interest rates. The debt crisis hit when Argentina halted all debt payments of \$155 billion in December 2001, becoming the largest sovereign default in history (Zhang). As the crisis deepened, people withdrew money from banks, fearing devaluation. In an attempt to prevent this, the government imposed the corralito, which was a nationwide freeze on bank withdrawals (Argentina's Economic Crisis).

The policy response to this crisis was first to renounce the peso-dollar peg in January 2002. This led to a massive devaluation, and the peso lost 70% of its value in mere months. An immediate consequence of this was an inflation spike. However, the policy was able to fuel economic recovery, as it made Argentina's exports competitive again (Smith). When President Néstor Kirchner came into power in 2003, he reversed liberalisation policies by focusing on expansionary fiscal policies, re-imposing capital controls to stabilise the economy, and restructuring Argentina's debt by negotiating haircuts with creditors. Argentina was able to economically recover from 2003 to 2007, with GDP growth exceeding 8% annually (Argentina's Economic Crisis).

Milei has essentially adopted the opposite approach that was implemented in the early 2000s. It has been suggested that the 2001 crisis is exactly the situation he aims to avoid. His government's primary aim has been to restore fiscal solvency by implementing spending cuts to prevent a tragic increase in debt and to regain investor trust. By achieving a stable budget balance, his team hopes to safeguard against a similar default and currency collapse as in 2001. Nonetheless, Milei's full dollarisation approach is spurring scepticism, as this could potentially increase liquidity risk, seeing as Argentina would not have a lender of last resort in times of crisis ("JP Morgan Warns of Dollarisation Risks under Milei Government | Buenos Aires Times"). However, Milei is countering these claims, stating that his approach is backed by strict fiscal prudence, which will ensure stability, a strategy that was lacking in the 1990s approach (Smith).

4.3 Mauricio Macri's Liberalisation Attempt (2015-2019)

Mauricio Macri's was Argentina's second attempt at neoliberal reform since Menem. To achieve this, he initially had to dismantle the interventionist policies of the previous president, Cristina Fernández de Kirchner, who was in office from 2003 to 2015 (Smith).

Macri's first economic policy was lifting capital controls and floating the peso. The Argentina that Macri inherited was still under strict foreign exchange controls from Cristina Fernández de Kirchner, which led to a thriving black market for U.S. dollars (Zhang). His attempt to combat this was lifting currency controls and allowing the peso to float freely against the dollar. The official exchange rate jumped from 9.8 to almost 15 pesos per U.S. dollar overnight (Argentina's Economic Crisis). By removing controls, Macri was able to improve transparency and reassure investors that Argentina was on the right economic path. Nonetheless, the peso depreciation rose inflation as imported goods became significantly more expensive (Smith). Additionally, as Argentines preferred dollars over pesos, this worsened capital flight (Zhang).

Another policy Macri adopted was trade liberalisation and deregulation. His team eliminated export tariffs on agricultural products, excluding soybeans, and removed trade restrictions to encourage exports (Argentina's Economic Crisis). For a short period, this increased foreign direct investment, but eventual economic instability scared off investors (Smith). This benefitted Argentine farmers, but costs fell back on industry and manufacturing as cheaper imports flooded the market (Zhang).

Macri also attempted a "soft austerity" approach, termed fiscal gradualism. He tried to reduce the budget deficit gradually over time, rather than imposing immediate shock measures (Smith). He undertook this by cutting subsidies on energy, transport, and utilities, leading to sharp increases in consumer prices. This caused poverty to spike from 27% to 35% by 2019, as wages failed to match inflation (Argentina's Economic Crisis). Social uproar broke out as Argentines faced sharp increases in consumer prices (Zhang). Moreover, Macri's gradual approach caused investors to lose confidence, allowing debt and inflation to rise (Smith). In 2018, the peso lost over 50% of its value in a year, leading Macri to turn to the IMF for a \$57 billion bailout, the largest loan the IMF has granted historically (JP Morgan Warns of Dollarisation Risks under Milei Government). In return, the government agreed to more aggressive austerity measures, which further deepened the recession (Argentina's Economic

Crisis). While the IMF's advance restored short-term liquidity, Argentina still defaulted on its debt by 2020 (Zhang).

While both Milei and Macri shared many of the same economic policies, Milei has positioned his approach as a corrective to the weaknesses present in Macri's gradualist attempt (Smith). Milei has opted for radical shock therapy by slashing public spending by 15% of GDP in his first year (Zhang). He aimed for a fiscal surplus in his first year in office, a daring goal considering Argentina's deficit-heavy history (Argentina's Economic Crisis). Moreover, he immediately cut fuel and transportation subsidies rather than phasing them out (JP Morgan Warns of Dollarisation Risks under the Milei Government). Milei is taking on the risk of implementing painful adjustments quickly with the hope of restoring credibility sooner than Macri did (Smith). As mentioned in the previous section, Milei disapproved of Macri's attempt with the peso and removed it completely (Zhang). However, chances remain that without sufficient U.S. dollar reserves, Milei's plan could create heavy liquidity shortages, similar to the 2001 banking crisis (Argentina's Economic Crisis). Finally, Milei has vowed to never take an IMF loan. He has proven his dedication by slashing government spending to achieve a primary budget surplus (Smith). Nonetheless, if not carefully monitored, these aggressive cuts could lead to economic contraction if not paired with private sector growth (Zhang).

4.4 Distinguishing Milei's Economic Agenda from Historical Precedents

What will be interesting to witness is whether Milei's economic agenda can outperform past liberalisation attempts. A comparative table has been included in this section to situate Javier Milei's economic reforms with regard to liberalisation attempts under Carlos Menem and Mauricio Macri's administration. While some of the strategies overlap, Milei's approach diverges sharply in both scale and ideological intensity.

Milei advocates for full dollarisation and radical austerity measures, distinguishing himself from Menem's currency board and Macri's gradualist reforms. Milei's rejection of incrementalism in favour of immediate fiscal correction marks a significant departure from Macri's more measured consolidation and the crisis-driven fiscal collapse of the early 2000s.

As for privatisation efforts, Milei's team is reevaluating the repercussions given Menem's expansive approach and the partial revitalization under Macri. Milei argues that to restore Argentina's long-term competitiveness, privatisation must be coupled with sweeping

deregulation and labour market liberalisation. His primary focus to achieve this is avoiding IMF loans and opting instead to achieve a domestic fiscal surplus. This heavily differs from Macri’s reliance on multilateral assistance.

Milei inherited a fragile economy battered by stagflation, a depleted reserve position, and widespread social dissatisfaction. The risks Milei will face are rooted in Argentina’s historical vulnerabilities. Table 1 below exemplifies how previous attempts at liberalisation involving fixed exchange regimes or rapid austerity have caused a deterioration of the socio-economic situation. The risk of social backlash looms large as past experiences suggest that without a credible safety net and institutional stability, such reforms can exacerbate volatility. Therefore, whether Milei’s shock therapy will succeed where others have failed remains a central question pertaining to Argentina’s contemporary political economy.

Table 1: Comparative Overview of Argentina’s Liberalisation Approaches (1989–2023)

Category	Carlos Menem (1989–1999)	2001–2002 Crisis	Mauricio Macri (2015–2019)	Javier Milei (2023–)
Exchange Rate Policy	Fixed 1:1 Peso-Dollar Peg	Peg Collapsed (peso devalued 70%)	Floating Peso	Plans Full Dollarisation
Privatisations	Massive Privatisations	Some Reversals	Partial Privatisations	Privatisations under review
Trade Liberalisation	Tariff Cuts, Open Markets	Trade collapsed during crisis	Tariff Cuts, Deregulation	Decree to liberalise exports, imports
Fiscal Policy	Austerity + Privatisation revenues	Default & fiscal collapse	Gradual Fiscal Consolidation	Radical Austerity (“Chainsaw Approach”)
Debt Management	Rising Foreign Debt (54% of GDP)	Sovereign Default (\$155 billion)	IMF Loan (\$57 billion)	Avoid IMF loans, aims for fiscal surplus
Labour Market	Privatisations increased unemployment	Massive Unemployment & Informality	Minor Labour Reforms	Deregulation, weaken union powers
Social Impact	Initial growth then high unemployment	Severe poverty, social collapse	Increased poverty (27% to 35%)	Poverty spike then decline
External Shocks	Strong US Dollar hurt competitiveness	Brazil devaluation worsened crisis	Currency Crisis in 2018	Drought and stagflation in 2022–23

Stabilisation Strategy	Currency Board	Abandon peg, chaotic devaluation	Gradualism failed	Shock therapy stabilisation
Major Risks	Overvalued Peso, Growing Debt	No lender of last resort	Capital Flight, Inflation	Risk from Dollarisation & social unrest

CHAPTER 5: Data Analysis: Short-Term Impact of Milei’s Policies

5.1 Initial Market Reactions (2023-2024)

In December 2023, Javier Milei’s administration implemented a striking 120% devaluation of the official exchange rate, transitioning from approximately ARS 400/USD to ARS 800/USD. In other words, it took twice as many pesos to buy the same amount of US dollars after the devaluation. The IMF has recognised this move as necessary to “avoid catastrophe” and effectively halved the peso’s value overnight (Argentina’s Milei Starts Shock Therapy by Devaluing Peso by 50 Percent | Business and Economy News | Al Jazeera). While Inflation already reached 200% annually, this shift caused a further spike as import costs and expectations reset.

To better visualise the impacts of Milei’s policies, recently available data has been gathered and represented in various types of graphs. Figure 6 below shows Argentina’s monthly inflation rate from October 2023 to December 2024. The data shows that inflation remained high but stable from October 2023 until the start of 2024. The rates fluctuated around 7% and 9%, before momentarily decreasing in February 2024. However, inflation spiked significantly from April to mid-June in 2024. A significant peak happened in September of the same year at approximately 25%, before declining again month by month until reaching 11% by December. This trend suggests a slow inflationary response to initial shock policies, followed by signs of stabilisation.

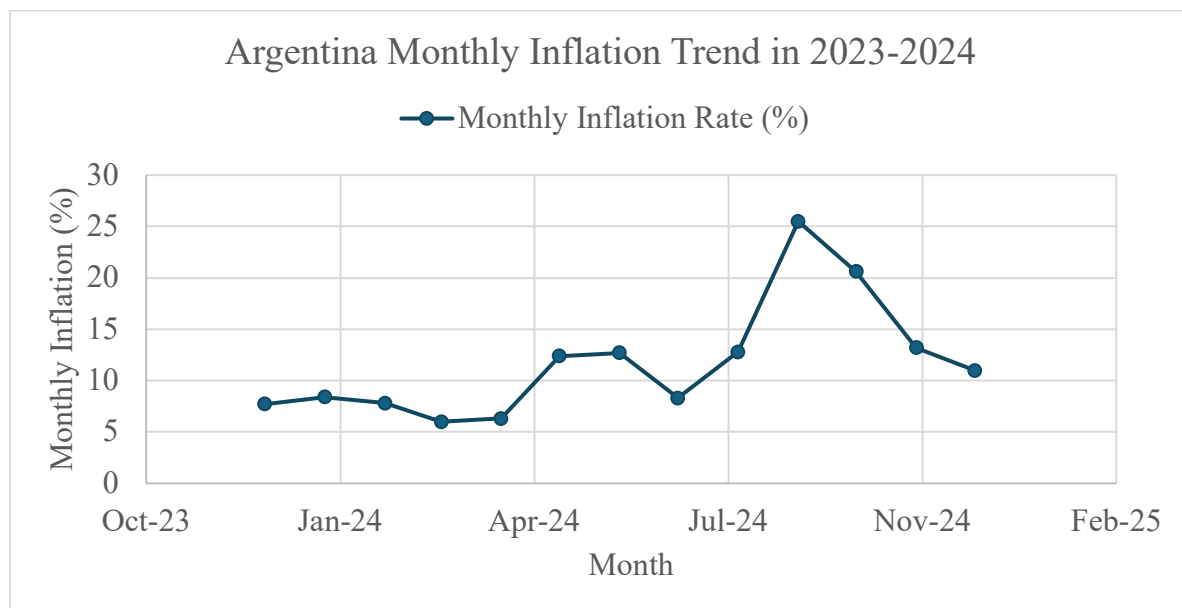


Figure 6: Visual Representation of Argentina's Monthly Inflation Trend in 2023-2024

SOURCES: INDEC, Central Bank of Argentina, Reuters (2024)

It is possible to discern that financial markets reacted with both caution and optimism in response to Milei's shock therapy. Bonds denominated in dollars jumped to approximately 3% as investors accepted the fiscal tightening. Moreover, the IMF commended the Argentinian government's impressive fiscal effort and welcomed the harsh approach aimed at reaching a zero fiscal deficit. As the new policies took hold, capital flight began to falter. Nonetheless, sustained external support was as crucial as ever seeing as the country's net foreign reserves lingered at critical levels. Consequently, due to the volatile outcome of the short-term inflation spike and economic contraction, Milei's reforms received a mix of optimism and scepticism.

5.2 GDP & Labour Market Trends

Figure 7 below depicts Argentina's quarterly GDP growth from Q4 2023 through Q4 2024. It captures the trajectory of the recession triggered by Milei's orthodox stabilisation programme. In the fourth quarter of 2023, the economy contracted by approximately 1.5%, followed by a sharper decline of nearly 5% in the first quarter of 2024. The immediate output costs associated with fiscal consolidation and rapid deregulation are mirrored in this trend. Despite the negative rates of real GDP through the second and third quarters of 2024, with quarterly declines of around 2%, the sequential easing in contraction suggests that the initial disinflationary shock had begun to appease by mid-2024. The prolonged recession during this period agrees with the textbook short-term trade-off faced under the contractionary fiscal and monetary policy. The fulfilment of aggressive fiscal retrenchment, primarily through reductions in public spending and subsidy rollbacks, mixed with Milei's determination to control the monetary base, led to a significant drop in aggregate demand. Real incomes fell under the pressure of elevated inflation expectations, lagging wage indexation, and declining public transfers. Private investment declined amid uncertainty and elevated real interest rates.

However, by Q4 2024, the economy experienced its first quarter of positive growth of 2%, providing reason for optimism. This could potentially be interpreted as a delayed response to the deceleration in monthly inflation, the increasing confidence among investors, and the recovering exchange rate. While the increasing growth implies an end of a recessionary period, the longevity of the recovery relies on the people's confidence in Milei's policy implementation. Argentines have endured severe hardship as a consequence of the prolonged downturn. Structural reforms will have to be carefully adopted with the aim of supporting long-term productive capacity and restoring inclusive growth.



Figure 7: Visual Representation of Argentina's Quarterly GDP Growth, Seasonally Adjusted, in 2024

SOURCES: INDEC, IMF, Buenos Aires Times (2024)

The labour market's response to the macroeconomic adjustments is captured in Figure 8 below as it represents Argentina's quarterly unemployment rate from Q4 2023 through Q3 2025. The increase in poverty rates from 5.7% in Q4 2023 to a peak of 7.6% in Q2 2024 can be linked back to the intense retrenchment in public employment and deficient private-sector job creation. According to data, around 33,000 public-sector layoffs were adopted as part of Milei's austerity drive, while heightened uncertainty discouraged private investment and hiring. Moreover, reduced public consumption and dire credit conditions worsened the situation. The observed trends are consistent with Okun's Law, which predicts a negative relationship between real GDP growth and changes in the unemployment rate during cyclical downturns.

The stabilisation of macroeconomic variables could indicate that the labour market was finally on the path to recovery. By the third quarter of 2024, the unemployment rate began to fall toward 6.9% and continued to improve into the fourth quarter of 2024, reaching 6.4%. This argument is supported by the diminishing inflation which improved real wage dynamics and the stabilisation of financial volatility which boosted business confidence and hiring. Despite this, the unemployment rate remained high and signals that there are discrepancies in the labour market. In the long run, a sustained labour market recovery will rely on both cyclical stabilisation and the implementation of active labour market policies aimed at kickstarting new job opportunities and workforce reallocation.

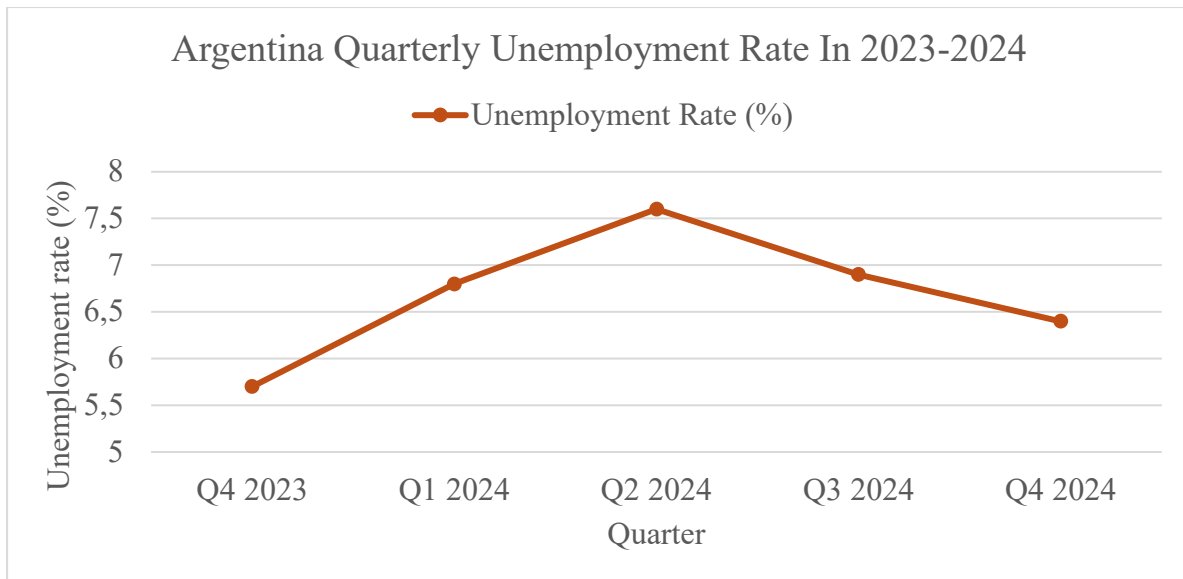


Figure 8: Visual Representation of Argentina's Quarterly Unemployment Rate in 2023-2024

SOURCES: INDEC, Central Bank of Argentina, Reuters (2024)

Argentina's public debt has historically been a complex issue, defined by high debt-to-GDP ratios, defaults, and restructurings. Figure 9 presents Argentina's public debt as a percentage of GDP across 2024, revealing a clear downward trend from approximately 110% in Q4 2023 to just above 102% by Q3 2024. The apparent downward trend is surprising given typical post-crisis trajectories. This improvement in debt dynamics could potentially reflect the influence of rapid fiscal adjustment, inflationary erosion of nominal liabilities, and a rebound in nominal GDP. From a theoretical standpoint, the observed decline can be interpreted through the lens of the standard debt dynamics identity, where the debt-to-GDP ratio declines if the growth–interest rate differential is favourable and the primary balance is in surplus. As previously explored, Milei's administration adopted aggressive reforms and by mid-2024, was able to achieve a primary surplus. In Article IV, the IMF highlights Argentina's "extraordinary fiscal effort".

Inflation in this case was able to both erode the real value of peso-denominated debt as well as inflate the nominal GDP denominator. This mechanically lowered the debt ratio despite the economic contraction in real terms and temporarily alleviated the debt burden. Nonetheless, this raises concerns about its durability as it is dependent on continued nominal growth and positive primary balances. Argentina's capacity to manage its debt obligations without defaulting or needing outside assistance remains low. Its public debt remains strongly dollarised and has significant short-term maturities, exposing it to exchange rate volatility.

Relying on inflationary erosion as a strategy to reduce debt is a very risky attempt especially when real wages and public services have been sharply compressed. Even if Argentina was able to improve its public debt trajectory in the short run, its fiscal outlook remains exposed and depends on the government's aptitudes. The improved public debt was achieved through a combination of disinflationary arithmetic and fiscal compression, rather than structural reforms to the state's capacity to generate stable revenue or manage liabilities.

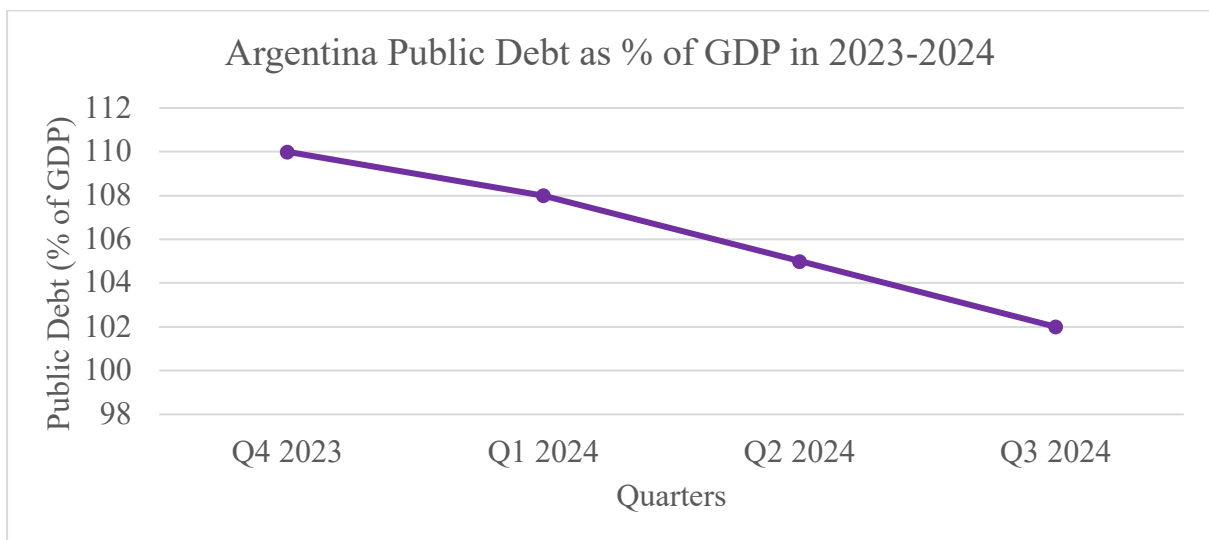


Figure 9: Visual Representation of Argentina's Public Debt as % of GDP in 2023-2024

SOURCES: Ministry of Economy Argentina, IMF, Bloombers (2024)

5.3 Social & Political Stability

As explored in Chapter 3, Milei's stabilisation program, while aimed at restoring macroeconomic order, triggered immediate and profound social costs. Unrest and political resistance nationwide were fueled by Milei's abrupt purging of subsidies, intense public-sector cuts and initial inflation shock. Nonetheless, Milei did not shy away from the social tension and confidently recognised that "today there are two Argentinas", one impatient for change, and another gripped by hardship (Misculin and Raszewski).

Despite this, social indicators such as the narrowing of Argentina's exchange rates exemplify one of the clearest signs of improving financial credibility. Figure 10 illustrates the evolution of both the official and parallel exchange rates from early 2023 through early 2024. From the debut of his presidency, Milei was dealing with a spread between the official exchange rate of ARS 360/USD and the parallel "blue dollar" rate approaching ARS 950/USD,

exceeding 150%. This was a clear indicator of the acute pressure on the peso and deteriorating investor confidence.

In December 2023, Milei’s team decided to freeze the Central Bank’s financing of the Treasury in an effort to eliminate the primary deficit. This implementation of tighter fiscal and monetary policy, fortunately, led to an improved trust in the peso. The gap between official and parallel rates steadily declined throughout 2024. By September, the spread had narrowed to 27%, and by November to just 10%, an exemplary compression by historical standards. This trend was supported by Milei’s commitment to phasing out capital controls and allowing the market to determine a unified exchange rate.

The tightening spread of the official and parallel exchange rates helped restore policy credibility. A stable exchange rate is crucial for rebuilding functional capital markets and encouraging investment inflows. Nevertheless, it is important to contextualise this success with regard to severe contractionary conditions and suppressed import demand. The longevity of the convergence will depend on institutional reforms, credible monetary governance, and gradual liberalisation of the exchange rate regime. In sum, while 2024 witnessed extreme social hardship, it also delivered signs of macro-financial stabilisation. The narrowing of the exchange rate gap encapsulates the broader intent of Milei’s program. Short-term pain and social costs are excused when pursuing long-term nominal anchor restoration and structural adjustment.

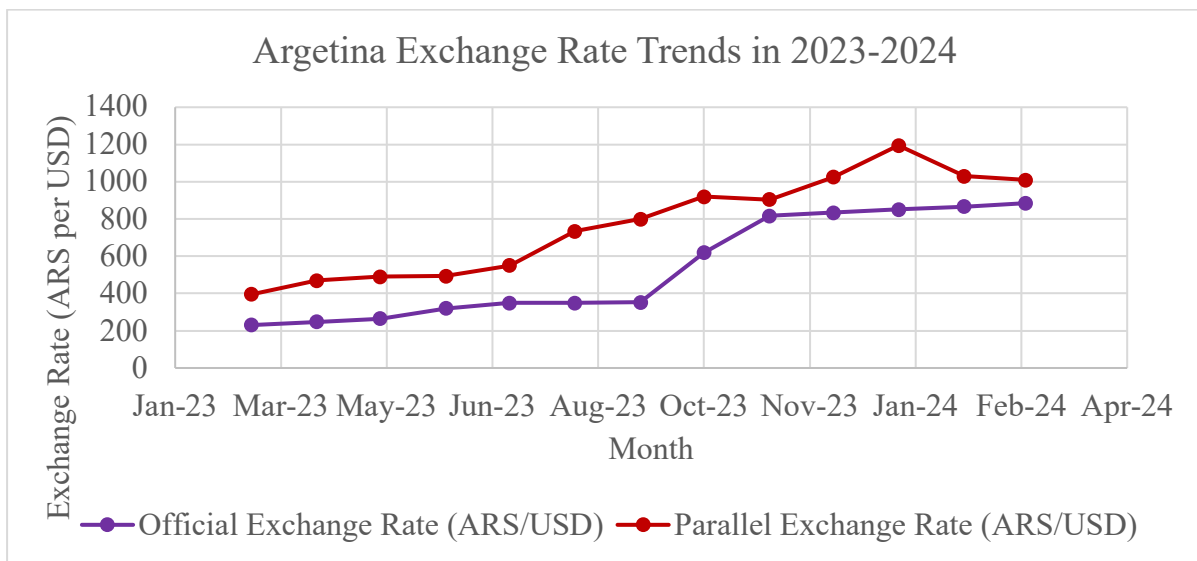


Figure 10: Visual Representation of Argentina's Exchange Rate Trend in 2023-2024

SOURCES: Central Bank of Argentina, Bloomberg, Buenos Aires Times (2024)

The gradual accumulation of Argentina's gross foreign reserves throughout 2023 and 2024 is apparent in Figure 11 below. Gathering from the data provided, foreign reserves were at critically low levels in late 2023, approximately USD 22 billion, to over USD 31 billion by year-end. This is one of the most tangible proofs of restored external credibility and improved macro-financial fundamentals under Milei's stabilisation plan. Argentina held a very fragile external position at the start of 2024 as net international reserves were in the negative once they were adjusted for bilateral currency swaps and IMF liabilities. At the initial stages of the reform programme, the Central Bank was forced to intervene in the foreign exchange market to defend the peso, further depleting its already thin reserve buffer. In January, gross reserves floated around dangerously low levels of 22-24 billion in the context of the size of Argentina. An open economy subject to terms of trade volatility and constant capital flight pressures typically requires much higher reserves.

Milei's administration viewed policy credibility and IMF support as vital in tackling this issue. Their aggressive fiscal tightening and monetary discipline impressed the IMF and were able to secure a partial relaxation of performance criteria and the disbursement of approximately USD 5 to 6 billion across 2024. These inflows, combined with reduced currency interventions, improved the reserve position month by month, allowing Argentina to exit the "critical zone" and rebuild a basic buffer against external shocks. Noticeable in the graph below, the accumulation of gross reserves led to a key turning point for Argentina's balance of payments. At the start of 2025, a renewed Extended Fund Facility agreement was completed with the IMF, offering a USD 20 billion package, of which USD 12 billion was front-loaded in April 2025. This injection increased reserves above USD 36 billion. While this is still below the IMF's recommended adequacy threshold of roughly USD 47 billion, it is sufficient to anchor short-term confidence and reduce rollover risks on foreign-denominated debt.

While the foreign reserve recovery was a clear victory of Milei's shock stabilisation strategy, the initial phase of Milei's program was characterised by inflationary spikes, a collapsing peso, declining output, and social distress. He was able to turn this around by late 2024 seeing as key financial indicators including inflation, the exchange rate spread, and reserves began to improve. Future conditions will rely on converting these short-term gains into sustained macroeconomic stability while avoiding the erosion of public support and ensuring that the burden of adjustment is more equitably shared.

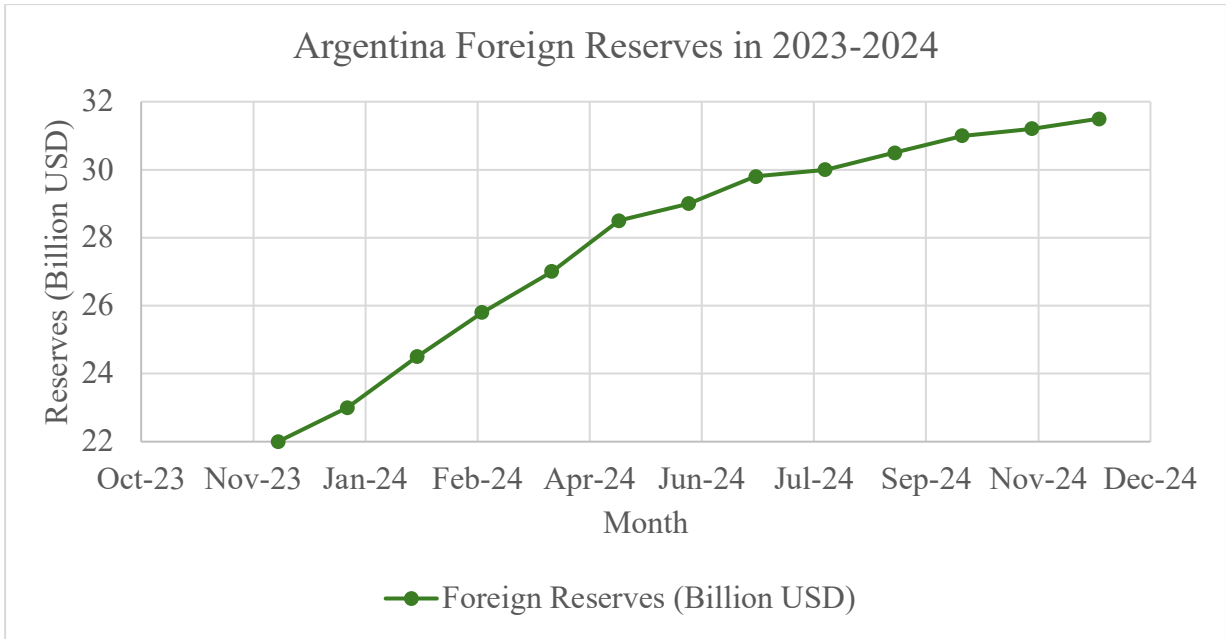


Figure 11: Visual Representation of Argentina's Foreign Reserves in 2023-2024

SOURCES: Central Bank of Argentina, IMF, Reuters (2024)

CHAPTER 6: Discussion & Conclusion

6.1 Future Projections

From an optimistic viewpoint, Argentina is on track to finally achieve stabilisation. Hyperinflation has slowed drastically thanks to strict fiscal discipline and the freeze on money printing. If Milei can keep price levels at feasible levels, investor confidence may gradually return. Argentina's country-risk index reached its lowest in five years. It was at approximately 2,000 at Milei's inauguration and has plummeted to around 750 by the end of 2024 (Werner). Moreover, if they follow through with dollarisation or successfully stabilise the peso, they could guarantee low inflation and entice investors to capitalise on a more predictable Argentine market.

Forecasting three to five years in the future, a prosperous Argentina could cause a shift in global dynamics. A credible monetary regime, whether that implies a hard currency board, an independent central bank, or full dollarisation, could once and for all solidify their long-term price stability. This would result in the vanishing of inflation tax on the poor and ease social tensions. Furthermore, Argentina could potentially re-enter international credit markets, removing itself from its notorious reputation as a "serial defaulter" (Argentina Secures IMF Loan and Ends Most Capital Controls in Key Milestones for President Milei | PBS News). If this actualises, Argentina could further capitalise on its agriculture, energy, and mining resources and potentially enter into a virtuous cycle of continuous growth. A prosperous economy would allow real wages to rise and rebuild safety nets. Nonetheless, this all relies on the condition that Milei is triumphant and that he stays true to his best intentions. If all turns out victorious, Argentina could break its cycle of a vicious crisis and Milei would go down in history as an exemplary president.

Unfortunately, there are various risk factors that could hinder the success of Milei's reforms and could easily veer into a worse crisis if they falter or backfire. The most prominent danger is the persistence or resurgence of inflation. Milei's price stabilisation method could be coined a "short-term hack" and is possibly limited. As recognised in the data, the peso became increasingly overvalued in real terms throughout 2024. This caused a restriction on exports and investor confidence. If the situation takes a turn for the worse, a sharp devaluation when the currency is finally floated or dollarised could release another spur of inflation. Credited economists have claimed that once the peso is liberated, a second wave of price hikes as the official rate moves towards the significantly weaker parallel-market rate (Inflation down,

Poverty up as Milei Takes Chainsaw to Argentina's Economy | Inflation News | Al Jazeera). Furthermore, the deep recession influenced by his austerity measures could worsen. If investor confidence does not materialise in time, the economy collapsing could cause unemployment and real incomes to exacerbate. There is a severe risk that stagflation will persist if reforms do not quickly produce unswerving growth. Moreover, this would heavily weigh on debt sustainability as Argentina's already massive debt of over \$40 billion owed to the IMF alone becomes ceaselessly harder to combat. Finally, due to the significant pain of poverty leaping from 40% to over 50% of the population coupled with almost 7 in 10 children falling into poverty, the Argentines may quickly become impatient and inflame turmoil. The fragile governing coalition could crumble under pressure and potentially might revert to populist measures of printing money to ease social unrest. This evidently would cause yet another cycle of hyperinflation and currency collapse.

Looking again to the future, the risks compound if foundational issues remain unresolved. A leading concern is that if dollarisation is not implemented with caution and adequate U.S. dollar reserves, Argentina could experience a very painful conversion rate and cause a massive devaluation of all peso assets. This could even lead to the widespread freezing of bank deposits. This outcome would replicate the crisis of 2001-2002. Even if the transition is executed with wariness, Argentina could remain defenceless without any domestic central bank tools. If U.S. interest rates are misaligned with local conditions, any fiscal issues would lead immediately to default or bank failures as the government would not be able to print any money to relieve suffering. Fundamentally, the pessimistic outlook is a continuation of Argentina's past government failures. The country's history emphasises that reforms require meticulous caution.

6.2 Possible Policy Recommendations

Building from the arguments presented above, this section will focus on pragmatic strategies for Milei's future policies. If the goal remains to replace the peso with the US dollar, Argentina must first meet important preconditions. These include decreasing inflation to manageable levels and accumulating sufficient foreign reserves to support the monetary base. As of the end of 2024, Argentina does not qualify for either criterion. Remarkably, in April 2025 Argentina was able to secure a \$20 billion IMF package. The official stated that "with this level of reserves, we can back up all existing pesos" in circulation. If used correctly, this buffer would lead to a smooth dollarisation. The government needs to choose a conversion rate

that is close to the free-market rate to avoid massive distortions (“Argentina Secures IMF Loan and Ends Most Capital Controls in Key Milestones for President Milei”). Dollarizing gradually by phasing out the peso over 12-18 months would be another strategy to evade issues such as how to price contracts, pensions, and wages in dollars. As a matter of fact, Milei has mentioned the idea of a parallel currency system as a provisional step. Another key factor is barricading the banking sector. Banks will need methodical plans for converting peso loans and deposits to dollars. Milei could also potentially change trajectory and steer toward alternative approaches. Experts from institutions such as the Friedrich Naumann Foundation argue that enshrining central bank independence could grant price stability without giving up sovereign currency (Argentina). Essentially, they recommend using dollarisation as a tool and using it only if it can reinforce stability instead of undermining it.

Another potential approach is a hybrid strategy of shock therapy for nominal stabilisation and gradualism for implementing structural reforms. This could allow for seamless adjustment, especially with regard to subsidies. For example, instead of removing the energy subsidy all at once, it could be phased out over several quarters to prevent households from receiving excruciating energy bills and give consumers and businesses time to adapt their spending. This can be applied to the labour sector as well. Instead of a sudden purging of job positions, the government could continue the hiring freeze and offer voluntary early retirement packages. However, as proved by Macri’s failed attempt, gradualism should not be applied to core macro-stabilisation. Milei was seemingly correct in applying a rapid reform to act on the deficit and money supply as partial measures in those sectors historically have backfired. Nonetheless, seeing as Milei has achieved a reduction in inflation rates, he no longer has to focus on emergency stabilisation and rather can focus on balancing economic prosperity with social wellbeing. Spending on infrastructure or education, even modestly, could stimulate demand and enhance long-term productivity, making the reforms more politically palatable.

Reducing the soaring poverty rate will be key in Milei’s future policy decisions. Short-term relief could come from expanding food assistance programmes to ensure that the people suffering are reassured that the government has not neglected them. A cash transfer to the poorest families and for the Argentines directly impacted by the reforms could also be considered. Moreover, retraining programmes to incentivise private-sector hiring of the unemployed could significantly improve conditions. While it would contradict Milei’s small-government ethos, extreme poverty and malnutrition will undercut human capital and long-

term growth. Any part of fiscal over-performance can be directed towards supporting the ones in dire need. To accompany this, the government should focus on clear communication when it comes to the repercussions of certain strategies. It should publish understandable and transparent updates on economic progress. For example, if inflation is falling or investor confidence is rising, it should highlight the policy's success. Saying this, it should also take ownership of future challenges Argentina may face. The government should avoid appearing deaf to popular suffering.

To summarise, these findings aim to shed light on the formidable complexities of reforming a historically volatile economy. While the gathered data is useful to analyse current trends, it is not an accurate prediction of what the future years will hold. Javier Milei's attempts may result in either the start of Argentina's rebirth or yet another cautionary tale to learn from. The years to come will reveal the true strengths and weaknesses of Javier Milei's reforms.

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