Argentina’s Milei Continues “Shock Therapy” Reforms

On March 26, Argentinian President Javier Milei unveiled a plan to reduce 70,000 jobs from the state sector and halt more than 200,000 social welfare plans as part of reforms meant to stabilize the country’s faltering economy.

Milei revealed the proposed measures during an hour-long speech at the IEFA Latam Forum in Buenos Aires. In his detailed speech, the president laid out the foundations of his economic plan, underscoring the alignment of peso futures contracts with the central bank’s two-percent monthly crawling peg scheme, and labeling calls to sharply devalue the currency again as “ridiculous.”

“There’s a lot of blender,” Milei stated, referring to the dwindling of wages and pensions by 276-percent annual inflation. “There’s a lot more chainsaw,” he warned.

AP Images
Javier Milei

Throughout his presidential campaign, Milei regularly brandished a chainsaw, a dramatic illustration of his promises to cut social spending, reduce retirement and pension funds, shut down the country’s central bank, and decrease the number of government ministries by more than half. He has proposed reducing the functions of the state to a minimum and has placed his trust in market forces instead, hoping to address Argentina’s problems by boosting trade and exports.

Per local media reports, the Argentinian president has to attain a fiscal balance this year and plans to do so at any cost.

Milei also said he will ramp up attempts to reform the economy after the 2025 congressional elections, with more than 3,000 reforms in the pipeline. He envisions a V-shaped recovery, buoyed by increased public confidence in the country’s future.

“People have hope, they’re seeing the light at the end of the tunnel,” Milei maintained, referring to public polls.

The announcement of more austerity reforms has ignited a fierce resistance from the country’s labor unions, one of which went on strike. The leader of the state workers union ATE immediately announced national action on X without providing further details.

A self-described anarcho-capitalist, Milei, who assumed power in December 2023, has warned it will take time for the results of his program to be seen, and that things could get worse before they get better. Latin America’s third-largest economy has been beleaguered by a severe economic crisis after decades of financial mismanagement.

Earlier this year, news outlet Bloomberg reported that Argentina was in talks with the IMF over a new aid program intended to accelerate the process of exiting from capital controls.

The IMF is pushing the government to let the currency devalue faster under its so-called "crawling peg," and keep interest rates above soaring inflation, an unnamed official told Bloomberg.

Milei has pledged that he would eliminate the "cepo" — the word used by Argentines to refer to currency restrictions — before the end of the year.

Argentina already owes the IMF some $44 billion. In January, the fund agreed to unlock $4.7 billion for the country as part of a debt-restructuring plan even though Buenos Aires has missed targets related to its multi-billion-dollar loan program.

On its end, the IMF in January this year revised down its economic outlook in its World Economic Outlook update for Argentina, forecasting a second straight year of negative growth amid Milei's push for what the IMF report calls a "significant policy adjustment" in his country.

Notably, the IMF said that Argentina's gross domestic product will contract 2.8 percent this year, following a 1.1-percent decline in 2023. Back in October, the IMF had projected 2.8 percent growth for the economy in 2024.

Based on the report, Argentina's inflationary surge was the main driver pushing up the 2024 inflation outlook for emerging markets and developing economies, sending it to 8.1 percent.

On December 20 last year, Milei issued an emergency decree aimed at amplifying his deregulation push.

The mandate — which can only be used under "exceptional circumstances" — allows Milei to bypass Congress, where his party La Libertad Avanza holds just 38 of 257 seats (and seven of 72 seats in the Senate). As in the United States, legislation proceeds from the lower to the upper house.

The decree altered, or scrapped, 366 laws with the aim of privatizing the country's state-owned enterprises including an airline, media companies, and the energy group YPF.

Days after he announced his emergency decree, Milei circulated a reform bill, known as the omnibus, to Congress on December 22. The reform bill suggested changes to four key areas of policy — tax, penal, electoral, and the party system — that presidents cannot affect by decree.

Besides spending cuts aimed at eliminating the deficit by the end of 2024, the bill sought to scrap proportional representation in Congress. It also proposed to cede legislative power to the president in areas such as energy and fiscal policy until 2025.

Graham Stock, an emerging markets sovereign debt strategist at BlueBay Asset Management, claimed that Milei looks set to rely on executive powers — as opposed to congressional consent — to implement his radical austerity plan.

"The executive has a lot of control over the expenditure side of the budget, including on discretionary transfers to the provinces, which have already been cut to force the governors to the negotiating table," he said.

In February this year, Milei called for two government officials, namely Mining Secretary Flavia Royon and Osvaldo Giordano, head of the country's ANSES social insurance agency, to resign, saying he needed greater commitment to his agenda after congress rejected his reform package earlier.

"The inherited economic crisis and the current historical moment require public officials committed to the modernization, simplification and de-bureaucratization of the State," Milei's office said in a statement on X calling for the resignations.

Giordano said on X that he regretted not having enough time to enforce planned changes at ANSES. "I wish the president a great administration and wherever I go I will continue to work for the good of Argentina," he said.

As noted above, Argentina is bearing the brunt of a grave economic crisis after decades of debt and financial mismanagement. An estimated 40 percent of Argentinians are living in poverty. The nation's annual inflation rate is among the highest in the world — at around 250 percent — and is poised to accelerate in the months ahead, after the government devalued the peso by more than 50 percent as part of Milei's "shock therapy" reforms.