



“Introduction to President Javier Milei's Impact on the Argentine Economy”

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Milei's Election and Argentina's Economic Policy Shift

The election of President Javier Milei in December 2023 marked a pivotal shift in Argentina's economic landscape. Milei, recognized for his libertarian agenda and opposition to state intervention, campaigned on a platform of radical economic reforms aimed at reversing years of fiscal mismanagement and economic stagnation. His victory signaled a clear mandate for change from the Argentine electorate, exhausted of persistent economic crises. By addressing Argentina's key economic hurdles, Milei's policies aim to create a more conducive environment for business to thrive, potentially leading to long-term economic stability and growth.

Under previous governments, Argentina has grappled with a multitude of economic challenges, including persistent inflation, high public debt, currency devaluation, and a complex tax system. The country has witnessed periods of economic instability, impeded by recessionary cycles and a lack of sustained growth. Government intervention, protectionist policies, and fiscal mismanagement have contributed to an environment that's been challenging for businesses and investors.

Argentina's previous economic policies were marked by:

Heavy state intervention, in which the state played a significant role in the economy comprised of extensive regulation and control over various sectors.

Protectionist measures, indicating a strong emphasis on protectionism, such as import restrictions and tariffs aimed at shielding domestic industries from foreign competition.

High taxation, underscoring how high tax rates on both individuals and businesses as the hallmark in previous administrations have contributed to economic stagnation and a lack of investment.

In stark contrast, Milei's approach represents a shift towards a free-market economy with reduced state intervention, lower taxes, and a focus on private sector-led growth.

Nonetheless, Milei's approach, while offering remedies, necessitates caution in implementation. Abrupt shifts could pose short-term challenges and require careful calibration to prevent adverse effects on sectors heavily reliant on state support. Ensuring social safety nets to protect vulnerable segments during transitions becomes imperative to avoid exacerbating inequality.

Although concerns exist, it is notable to highlight that Milei receives widespread approval across all working classes of the Argentine population, including the lower, middle, and upper classes, despite being aware of potential short-term challenges.

Key Economic Changes Introduced

1. Deregulation and Market Liberalization

Bureaucratic Streamlining: Milei initiated a comprehensive deregulation program to reduce bureaucratic red tape. This involved eliminating numerous regulations that were deemed unnecessary and cumbersome, thereby facilitating easier business operations.

Milei's emphasis on reducing bureaucratic hurdles and deregulating industries intends to foster a more competitive and investment-friendly environment. By curbing excessive government spending and adopting a more disciplined fiscal approach, Milei seeks to address the chronic issue of public debt and inflation, aiming for greater stability in the economy.

Sector-Specific Reforms: Specific sectors such as energy, telecommunications, and transportation saw significant deregulation, opening up these industries to increased competition and investment.

2. Tax Reforms

Flat Tax Proposal: One of the most ambitious aspects of Milei's economic policy was the introduction of a flat tax system. This aimed to simplify the tax code, reduce evasion, and stimulate economic activity by providing a more predictable tax environment.

Milei's vision of streamlining the tax system and reducing burdensome regulations could incentivize entrepreneurship and attract both domestic and foreign investments. The potential resultant increase in productivity and job creation could play a vital role in revitalizing Argentina's economy, fostering a cycle of sustainable growth.



The Ley de Bases

Enacted alongside a separate law introducing tax reforms with similar objectives, authorizes the privatization of several government-owned entities and promotes the development of large projects by shielding investors from certain Argentine economic risks and providing tax, foreign exchange, and regulatory incentives, including a 30-year guarantee of stability. It also implements measures to increase labor market flexibility and promote registered employment, authorizes the renegotiation of certain public infrastructure contracts, and modernizes the regulatory landscape for energy and oil and gas sectors.

1. Public Sector Downsizing

Privatization: Milei's administration moved quickly to privatize several state-owned enterprises, including those in the energy and transportation sectors. This was intended to improve efficiency and reduce the financial burden on the state.

The privatization of companies and corporations owned by the State, or those with a State majority, was proposed, among which are: Aerolíneas Argentinas ; Arsat ; AySA ; Banco Nación Argentina ; Investment and Foreign Trade Bank SA ; Casa de Moneda SA , Correo Argentino ; Enarsa ; Argentine Railways ; Fiscal Oilfields ; Railway Operator, among others .

Public workforce reduction: Significant cuts were made to the public workforce as part of efforts to streamline government operations and reduce the fiscal deficit. This included layoffs and early retirement incentives for public employees.

Public infrastructure: The Ley Bases authorizes the executive branch to renegotiate public infrastructure and related service agreements and introduces amendments to the public infrastructure regime. Key changes include:

- Concessions will only be granted through national or international public tender processes, eliminating direct awards to state-owned companies allowed under the previous regime. The executive branch may also invite private initiatives for the development of public infrastructure with private funding.
- The government must maintain the economic-financial balance originally considered by concessionaires under the agreements.
- If the federal government agreed to pay in US dollars, the law prohibits the government and judges from authorizing payment in any other currency or method.

Additionally, the Ley Bases allows the federal government to approve the resumption of suspended or inoperative public infrastructure and service contracts to enable private funding contributions and the completion of committed works.

2. Incentives to Large Investments

RIGI: The Large Investment Incentive Regime (RIGI) is proposed, which provides tax, customs and exchange incentives, with the aim of promoting the development of productive and infrastructure investments. With a program duration of two years with the possibility of extending it for one more year and considering as "large investors" investments of 200 million US dollars, among the benefits that the RIGI brings for 30 years for investors are:

- **Accelerated return** of balances in favor of the owner of the investment not exceeding three months with regard to VAT
- **Exemption from import** duties on capital goods, inputs, spare parts and components.
- **Reduction of the income tax rate** to a fixed 25%.
- **Gradually** released the availability of foreign currency for exports (20% the first year, 40% the second and 100% from the third).

- **Changes in labor law:** The “Ley Bases” extend the trial period and simplify employment relationships, registration, payment processes, and conditions for assemblies and dismissals.
- **Extended Trial Period:** The trial period for employees is extended.
- **Simplification and Registration:** Employment relationships, registration, payment processes, and mutual terminations are simplified.
- **Worker Assemblies and Dismissal Conditions:** Workers can hold assemblies without disrupting activities. Employers can dismiss employees without prior notice if they damage the workplace.

3. Monetary Policy and Inflation Control

Inflation targeting: The central bank, under Milei's directive, adopted a stringent inflation targeting regime. Interest rates were adjusted to curb inflation.

Dollarization exploration: Milei's administration began exploring the feasibility of dollarizing the economy, which would involve adopting the US dollar as the official currency to stabilize the financial system and restore confidence in the Argentine peso.

4. Energy

The Ley Bases introduces a series of changes to Argentina's energy regulatory framework, subject to further regulations by the executive branch. These changes aim to:

- Promote and facilitate the international trade of LNG, hydrocarbons, and electricity.
- Modernize the existing electric power infrastructure.
- Prevent the executive branch from intervening or fixing prices in the internal hydrocarbons market.

- Harmonize environmental regulations between the federal government and the provinces.
- Eliminate or restrict certain preferences for government-owned companies in hydrocarbon exploration and natural gas procurement.
- Loosen rules for companies holding hydrocarbon exploration permits and exploitation concessions.

Specifically, the Ley Bases provides that:

1. Permit holders and concessionaires can freely transport, commercialize, industrialize, and sell the hydrocarbons they extract, subject to executive branch regulations.
2. Permit holders, concessionaires, refiners, and traders can freely export hydrocarbons and their derivatives, pending no objections from the Secretary of Energy.
3. The international trade of hydrocarbons will be free, subject to the import and export regimes established by the executive branch.
4. Natural gas imports are authorized without prior approval.
5. LNG export authorizations will be firm and binding for up to 30 years.
6. Holders of firm and binding LNG export authorizations have the right to export authorized volumes continuously and without restrictions, and access natural gas supply and related transportation, processing, or storage capacities without interruptions.

Additionally, the Ley Bases amends the current hydrocarbons transport concessions regime to create processing permits and transport and storage authorizations. It allows owners of processing projects or plants to obtain authorizations to transport hydrocarbons to their plants and subsequently to the next phases of industrialization or commercialization. These authorizations will not be subject to a term limit.

5. Public Emergency

The Ley Bases declares a one-year public emergency in administrative, economic, financial, and energy matters, granting the executive branch extensive administrative and emergency powers. These powers are intended to reorganize the federal administration, enhance its functioning and internal control, reduce the size of the government, increase spending transparency, and balance the budget. Additionally, legislative powers are delegated to the National Executive Branch (the "PEN" for its acronym in Spanish) under Article 76 of the National Constitution, with a requirement for the PEN to provide detailed monthly reports to Congress about the exercise of these delegated powers and the results obtained.



Conclusion

Thus, president Javier Milei's election has ushered in a paradigm shift in Argentina's economic policies, moving away from interventionist strategies to market-driven reforms. This transition has generated optimism among foreign investors, with the reduction in corporate taxes and simplified regulatory frameworks prompting several multinational companies to expand their operations in Argentina. At the same time, following Milei's election, Argentina's international bonds maturing in 2041 rallied by seven percent and the country's stock market experienced a significant uptick, both being key indicators of investor confidence in the new administration's economic approach. Hence, while the long-term impact of the changes remain to be seen, potential investors and foreign companies are watching closely, weighing the opportunities presented by the new pro-business environment against the risks associated with rapid economic transformation.

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