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Cross-Asset- and Strategy-Research

Taking more Milei-style risks?

Argentina's experiment is fascinating – but it is going nowhere fast

Since late 2023 Javier Milei has been president of Argentina. For years before that, mismanagement and cronyism under successive Peronist governments had been ruining the country. In [1929](#) Argentina's per-capita income in purchasing-power terms was still higher than Germany's or Austria's. Today, Germany's prosperity is roughly two and a half times as high. Argentina is blessed with natural resources that would make most of the world envious. Yet among economists it has become shorthand for hyperinflation and serial default.

Milei came into office with a clear and radical mission: to push through sweeping free-market reforms and bring to an end the century-long economic decline that has been eroding his country's prosperity. He is not the first reformer to try to stop the slide. In the 1990s Carlos Menem – formally a Peronist – tried to revive the economy with market-oriented reforms. From 2015 Mauricio Macri took a turn, but his gains did not last.

Now it is Milei's moment. (There seems to be an unwritten rule in Argentina that reformers' family names must start with the letter M. Perhaps that is an encouraging omen for the German Chancellor Friedrich Merz's own largely stalled reform plans.) Milei differs from his predecessors in his uncompromising, libertarian approach. He shot to fame by brandishing a chainsaw on-stage – a metaphor for cutting through the thicket of regulation and public spending.

Impressive early wins

The macro numbers initially looked striking. Inflation in 2024 first surged above 200% after the peso was devalued, but by late summer 2025 it had dropped to "only" a little above 30%. The

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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Javier Milei:
a mandate to
clean up

Reform with
a chainsaw

Inflation and
the budget
deficit are falling

budget deficit, still 5% of GDP in 2023, turned into a small surplus in 2024 – courtesy of that chainsaw. It was the first surplus in more than a century. Milei cut the number of ministries in half, slashed subsidies and largely halted transfers to the country's 23 provinces. That allowed a rapid correction of the fiscal imbalance and ended the central bank's deficit financing. Both were crucial in bringing inflation down. And despite the harsh adjustment he demanded, Milei's party emerged by far the strongest force in midterm elections last October.

Should others follow Milei's example?

The policy experiment from Jujuy to Ushuaia has not gone unnoticed abroad. It did not take long for market-liberal politicians in Germany to argue that their own country should take more Milei-style risks. Christian Lindner, former finance minister and leader of the liberal FDP, claimed: "A pinch of Milei and Musk, a bit of disruption, willingness to take risks, openness to change and innovative strength would do our country good." The second half of that sentence is hard to dispute, even if Germany's economy is nowhere near as deeply stuck as Argentina's.

Milei's reforms: now for the hard part

But in Milei's Argentina, too, not everything that glitters is gold. Between 2023 and 2025 [industrial output shrank](#) by almost 8%, the second-worst performance in the OECD. Only Hungary's industry did even worse. That is not something Germany will want to copy. At the same time poverty is rising. In surveys, more than [one-third](#) of Argentines said that over the past year they had at times lacked the money to buy food. In February [economic activity contracted](#) by 2.6%. In April Milei's [approval rating](#) dropped to 35.5% – a personal all-time low.

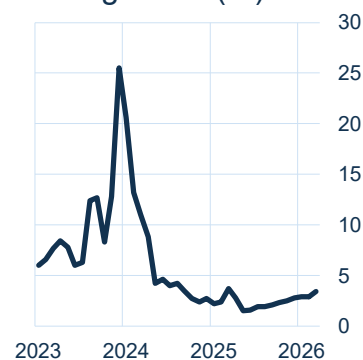
The early progress on inflation has also faded. Since September the annual rate has been stuck a little above 30% and has recently begun to edge up again (see Fig. 1). The success of the disinflation drive will only be beyond doubt once the overvalued exchange rate has been fully liberalized – and only if that does not trigger renewed capital flight. The IMF has raised its inflation forecast for 2026 from 20% to 30%.

Then there is the question of outside help. Without heavy support from abroad, Milei's reforms might have failed at the outset. With more than [USD 55bn](#) outstanding, Argentina is by far the IMF's largest debtor (see Fig. 2). The country accounts for more than one-third of all IMF lending worldwide. On top of that comes a [USD 20bn bilateral credit line](#) from the U.S.

Rating agencies assign the country CCC grades – the anteroom of sovereign default. And bonds maturing after Milei's term ends trade at a high premium, implying elevated default risk. Before others reach for the fiscal chainsaw, they may want to wait and see how this bold experiment on the Rio de la Plata turns out.

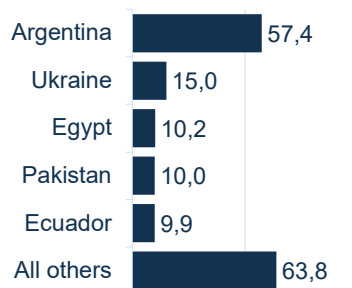
2025: Milei's party wins the election

Fig. 1: Monthly inflation rate Argentina (%)



Source: [INDEC](#), LBBW Research

Fig. 2: IMF Lending to Member Countries (USD Bn.)



Source: [IMF](#), LBBW Research

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