

Policy Backgrounder: Argentina's New President and Possible Dollarization

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Argentina's new President, Javier Milei, has described himself as an "anarcho-capitalist." As he takes office on December 10, many questions remain about his new government and how much he will be able to realize his ambitious (and often strident) campaign promises.

- Milei's political movement, Liberty Advances, won 20 of 23 provinces in Argentina despite being only two years old, and he defeated the moderate Peronist candidate Sergio Massa, the current Economy Minister, by 56% to 44%.
- But Milei's party only [won](#) 38 seats of 257 in the Chamber of Deputies and seven of 72 in the Senate, which will force him to make coalitions, particularly with the center-right led by Patricia Bullrich and possibly with moderate Peronism to have a realistic chance of enacting his proposals in Congress.
- Argentina's economic situation is very serious, with [142%](#) inflation in October, [40%](#) of the population living in poverty, and a fiscal debt estimated to be [89%](#) of GDP, making it difficult for the country to borrow on international markets as the country has [defaulted](#) three times in 20 years. While all this pushes Milei's desire (and campaign promise) for dollarization, it may also make dollarization more difficult.

Milei's election

Milei is an economist and politician who has spent only one term in Argentina's Congress. An admirer of Donald Trump, he promised to make Argentina "great again" and rose to power on deep popular frustration with Argentina's hyperinflation and pervasive corruption.

Milei's political movement, Liberty Advances, won 20 of 23 provinces despite being only two years old, and he defeated the moderate Peronist candidate Sergio Massa, the current Economy Minister, by 56% to 44%. However, the party controls no provincial governorships and holds only a small number of seats in Congress—political realities which may force Milei to moderate his radicalism to achieve results. In particular, as his election likely depended on the support of the center-right, he will seek to work with them—and has already indicated this through key appointments including the new Economy Minister, Luis Caputo. Milei's sister (and campaign manager Karina Milei) will [reportedly](#) serve as the secretary to the Presidency (a position roughly equivalent to White House Chief of Staff).

During the campaign, Milei proposed to [dollarize the economy](#) and eliminate the Argentine Central Bank as a means to "kill" hyperinflation. Mr. Milei said the value of the Argentine peso had been "melting like blocks of ice in the Sahara." However, closing the Central Bank would [require approval](#) from Congress and could possibly require changing the constitution. Just days before his upcoming inauguration on Sunday, Milei may be [backpedaling](#). "No one said eliminating the central bank was going to be

instantaneous,” he said on Sunday. This post-election moderation has been welcomed by Wall Street investors concerned about the president-elect’s ability to govern.

Dollarization: What is it, and why is Argentina considering it?

What is it?

The IMF defines ‘Dollarization’ as the replacement of a country’s currency with a foreign one, which then becomes the new legal tender for all monetary transactions.

Why would a country consider it?

There are two main reasons to adopt a new currency. The first one is to use the same currency as your main trading partner to benefit from lower transaction costs, which will stimulate trade and economic activity. This is essentially what some EU member states decided to do in 1999 when they adopted the euro as a new currency.

The other reason is to quickly restore financial stability to a country’s economy after a period of unsuccessful economic policies produced high and accelerating domestic inflation and a weak and depreciating currency. Clearly, Argentina’s case falls into the latter category.

Currently, eight countries besides the US and its territories use the US dollar as an official national currency (Ecuador, El Salvador (where bitcoin is also legal tender), Marshall Islands, Micronesia, Palau, Panama, Timor-Leste, and Zimbabwe). The British Overseas Territories of the British Virgin Islands and Turks and Caicos also use the dollar, as does the Netherlands Municipality of Bonaire. Argentina would be by far the largest country to adopt the dollar. Dollarization had also been considered during the term of President Carlos Menem in the 1990s after another bout of high inflation, but nothing came of the proposal.

What are the benefits of Dollarization?

The main benefit is the immediate stabilization of the economy and the end of high inflation and financial instability. That leads to lower interest rates and increased availability of longer-term financing for borrowers. It can help refocus the economy away from deficit-financed consumption to more private and public investment, which can increase a country’s underlying growth potential.

Argentina had a currency board system in the 1990s that pegged the peso to the US dollar. Yet, it eventually unraveled in 2002 because financial markets lost confidence that Argentina would be willing to stick to the peg. Dollarization would be harder to reverse and may provide the kind of credibility boost that is needed to bring foreign investors back and stop Argentinians from holding savings in US dollars.

What are the costs?

The main cost is the loss of independent monetary policy as a tool to deal with economic fluctuation at home. In fact, a central bank is largely redundant in a dollarized economy, yet the loss of policy flexibility only matters for an economy that is already stable, which is not the case of Argentina.

Another problem is the immediate need to accumulate US dollars. Argentina’s official foreign exchange reserves have fallen sharply, and the country would have to run a current account surplus for a while to build up the stock of dollars needed to grow its money supply. In the first half of 2023, Argentina’s current account deficit stood at 3% of GDP. Swinging that into a surplus would mean a very sharp contraction in domestic demand, or, in other words, a major recession.

What is Argentina's situation?

Argentina's economy is in deep trouble. Persistent government deficits monetized by the central bank in the past few years have led to a surge in inflation and a dramatic weakening of the country's currency, the peso. In October, Argentina's consumer price index was up 142% from a year ago and the central bank's [policy rate stood at 133%](#). Since the start of 2020, the officially quoted exchange rate has soared from about 60 to 390 pesos/US\$, which represents an 83% loss in value. According to Ambito, one of the country's leading financial newspapers, the black-market rate at which most Argentines have to exchange their pesos is nearly [3 times higher](#).

While Milei [said November 24](#) that closing the country's central bank was a "non-negotiable matter," the situation on the ground is more complex. Economist Emilio Ocampo is a strong [proponent](#) of dollarization, writing a [book](#) calling it "A Solution for Argentina." However, Ocampo has [reportedly](#) declined the position as head of the Central Bank -- to promote its abolition -- and an opponent of dollarization, [Luis Caputo](#) from the center-right bloc, who had served under President Mauricio Macri, was [appointed](#) head of the Ministry of the Economy, a move which cheered financial markets. Caputo had earlier served as Governor of the Central Bank and Minister of Finance. Skeptics argue that Argentina [would need to have in hand](#) the US dollars to replace the pesos. Experts believe this move could require between \$35-\$50 billion which indebted Argentina does not have and may not be able to borrow easily.

So, should Argentina dollarize?

At the end of the day, it's a political decision that needs to weigh the potentially substantial cost against the potential benefits of such a move. The new administration will need to find support in Congress for any new policies. Yet, if the current economic situation worsens, supporters of full dollarization may win the day.

Other economic policies

Milei's other economic policies generally reflect his libertarian orientation. He has pledged to [slash state spending and subsidies](#). However, in another sign of potential compromise or more limited ability to impose change, Argentina's social security administration, ANSES, will be led by economist Osvaldo Giordano rather than a political ally.

State companies

During his campaign, Milei vowed to [privatize state-controlled companies](#) like YPF, one of the country's top domestic sellers of refined fuels which also leads development of the [Vaca Muerta](#) Formation in Neuquén province in western Argentina, a key source of domestic natural gas and crude oil. Private sector energy executive Horacio Marin will serve as the new head of YPF. The Minister of Energy and Natural Resources for Neuquén province [expects](#) that the new Administration will bring "more opening, more free markets, more rapidly" and raised the possibility of reducing export restrictions on shale oil and gas from Vaca Muerta to raise foreign currency reserves.

The day after winning the election, Milei said in a radio interview that "everything that can be in the hands of the private sector will be in the hands of the private sector." He has said he wants to [privatize](#) state-owned media companies and other state-run oil and gas firms, and has raised the possibility of privatizing water distribution and train service, as well as ending all public works. However, Milei stressed during his campaign the need for these entities to gain value first so they can be sold more easily. Milei also said he [wants](#) to move public schools to a voucher system and make the public health care system insurance-based but also noted in a recent radio interview that Argentine law would restrict him from privatizing health care and education.

State-owned media companies, which Milei has termed "a covert ministry of propaganda," are likely to be first to be privatized. Milei also said he will seek to [repeal a rental law](#) passed in October that allows

property owners to update rental prices biannually as opposed to annually, contending that the state should not regulate rental contracts and that tenants and landlords should be able to choose the conditions of their agreements.

Since the election, Milei has [dialed back his tone](#), acknowledging that the transition from nearly two decades of leftist Peronist governments to his vision of unfettered capitalism could take longer than expected. This moderated view comes as powerful labor unions [warn of resistance](#) to the president-elect's radical reforms.

Government ministries

During his campaign, Milei promised to [cut the number of government ministries](#) from 18 to eight. This [includes](#) shutting down the environment ministry. During a presidential debate, Milei said that "I do not deny climate change. What I am saying is that there is a temperature cycle in the history of Earth. . . . Therefore, all those policies that blame humans for climate change are false." Milei has also pledged to close or possibly privatize the country's main science agency, the National Scientific and Technical Research Council (CONICET), as well as [eliminate the ministries](#) of health, science, and the environment. CONICET, which provides funding to approximately 12,000 researchers across 300 Argentinian institutions, has a \$400 million annual budget and is one of the most prominent science institutions in Latin America. The ministry of human capital is a [new portfolio](#) that will combine health and labor, which will no longer be ministries in their own right.

"Shock therapy" reforms

Milei recently said he would call Congress into session on December 11 and send a package of major reforms for consideration rather than waiting for the new session to begin in March, with a goal of [s]olving the central bank's problems as soon as possible and reducing increases in the money supply that lead to inflation. Following this, Milei hopes to lift capital controls and unify the peso/dollar exchange rates—of which there are nearly a [dozen](#). Milei [noted](#) that the positive market reaction to his early moves "has given us greater strength to redouble our bets in favor of fiscal order," adding that "[i]f the financial markets accompany us and interest rates fall, this will be painful but a lot less painful."

Trade and foreign policies

Argentina received an invitation to join the BRICS grouping earlier this year (see CED Policy Backgrounder [BRICS Summit--Deepening the Divide](#)). However, Milei's incoming Foreign Minister Diana Mondino [said](#) on November 29 that "[w]e won't go in to the BRICS. . . . If the BRICS are already our primary trading partners, what's the difference?" Before the election, Milei signaled that he could [freeze ties](#) with Brazil and China, Argentina's two top trading partners on the grounds that he did "not make pacts with communists" and called the Chinese government an "[assassin](#)." Since the election, however, his tone has moderated, including thanking Chinese President Xi Jinping for a congratulatory letter and inviting Brazilian President Luis Inacio (Lula) da Silva to his inauguration. Mondino [added](#) that "[t]here's no breaking or freezing of relations. There never can be." (Milei also invited Pope Francis to visit Argentina after extremely harsh rhetoric towards him during the campaign.) Milei will almost certainly also not fulfill his threat to leave the Mercosur trading bloc. An early goal for trade policy may be to [end most regulations on imports and exports](#).

Visit to Washington

Following his election, Milei received a congratulatory phone call from President Biden. The [readout](#) of the call from the White House noted the "two leaders discussed the importance of continuing to build on the strong relationship between the United States and Argentina on economic issues, on regional and multilateral cooperation, and on shared priorities, including advocating for the protection of human rights, addressing food insecurity and investing in clean energy." From this short summary, it seems clear that the conversation centered around Argentina's economy and possible dollarization, Argentina's important

grain harvest, and Argentina's lithium reserves, in which Chinese companies have [recently](#) taken strong stakes.

Argentina is a designated [Major Non-NATO Ally](#) of the US; both Milei and the US will wish to rekindle ties to the degree possible, whether or not dollarization proceeds. During Milei's visit to Washington in late November, he [met](#) with National Security Advisor Jake Sullivan, while his economic team held meetings at the Treasury Department. A spokesperson for Milei [said](#) that his meetings while in Washington "are protocol-driven to explain the economic plan: fiscal adjustment, monetary reform, state reform and deregulation" and "not in search of financing." In addition, however, Milei's team also [met](#) with IMF officials to explain his economic plans. During his US visit, Milei also had lunch with former President Clinton in New York. Milei also visited a grave of a prominent Jewish rabbi; he has expressed [staunch support for Israel](#). During his campaign, he often waved an Israeli flag at his rallies, and he has said he wants to move Argentina's embassy in Israel from Tel Aviv to Jerusalem.

Conclusion

During the campaign, Milei's radicalism frightened many both in Argentina and abroad, but the prospect of continued economic stagnation or decline encouraged support for Milei. The support of the center-right bloc was essential to his election and will be essential if Milei is to succeed in office. Facing a Congress in which he has little direct support, he will have to temper both his expectations and his goals—and those of his supporters. In this, a possible historical analogy is the election of Carlos Menem as President of Argentina in 1989. Menem, a Peronist, nevertheless embraced free-market reforms to address hyperinflation, supported strong relations with the United States, and embraced a more moderate path than might have been predicted. Coming from the opposite side of the political spectrum, Milei may need to continue to tack politically as well given Argentina's challenges and his reliance on the center-right bloc—all while not disappointing his core supporters and solving serious economic challenges. Milei is doubtless aware of the analogy; whether he follows it remains to be seen.

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