

## Argentina's economic future, seen from Wall Street: Arturo Porzecanski analyzed the impact of Milei's reforms

*The experienced Uruguayan economist in the analysis of the national economy highlights an opportunity to stabilize through an austere fiscal policy and free exchange rate, dismissing the current monetary management. Political uncertainty remains a cause for concern.*

By Daniel Sticco, May 25, 2025



President Javier Milei said in a forum with businessmen that “Argentina is cheap, it is a buying opportunity,” after making a detailed management assessment and announcing that “inflation will collapse next year.”

In this context, which is shared more by the world of finance – according to the performance of the prices of public sector bonds and private sector stocks – than by the real economy, especially by consumers, Infobae interviewed economist Arturo Porzecanski, to give his perspective from New York.

A native of Uruguay, Porzecanski has developed his long educational and professional career in the U.S. He worked for almost three decades as an economic advisor at five large banks in New York, starting as an economist for Latin America at the former Morgan Bank in 1977 and culminating his work on Wall Street in 2005, after serving as chief economist for emerging markets at ABN Amro.

From there he began a second act as a full-time university professor at American University, in Washington DC, during 2005-21. In the last four years, he has worked as a researcher at the Center for Latin American Studies of that university and as a consultant to investors in emerging markets.

**—What do you say to foreign investors who consult you regarding the opportunities and risks of investing in liquid assets in Argentina?**

— In the middle of last year, I was convinced that the prices of Argentine bonds and stocks could skyrocket in the following months. And I thought this way because the Milei government's economic policy was already bearing good results: inflation had slowed rapidly, and economic activity had bottomed out and was recovering. Furthermore, the National Congress had approved the essential laws proposed by the Executive.

However, only the most aggressive foreign funds were willing to make small investments in Argentine assets. After bonds and stocks rose so much in the second half of last year, and despite some declines so far this year, the risk-return ratio has changed enough to not recommend purchasing at these levels.

**—How do you evaluate the macroeconomic policies of the Milei government?**

—Fiscal policy is very well positioned, in the sense that there is an ironclad commitment to avoid deficits. The quality of the fiscal adjustment certainly could have been better – for example, wouldn't it be preferable to give public works in concession to private parties, instead of denying them funds and paralyzing them? – but the quantity and speed of the fiscal adjustment were unusual. However, monetary and exchange rate policies, although recently modified, leave something to be desired.

It is true that a BCRA that monitors the evolution of the private transactional M2 concept is better than one that merely targets the broad monetary base; that a commitment to an exchange band is better than one that clings to the mast of a devaluation schedule (*tablita*); that releasing some of the capital controls is better than maintaining them all; and that stopping losing net international reserves is better than continuing to waste them. However, even these modifications must give way to other options. Let's hope for the better.

**—Do you think that the monetary and exchange management until the beginning of last April was defective or even dangerous?**

—Yes, it was defective and even dangerous! The staff and management of the International Monetary Fund insisted, throughout last year, that there would not be a new program with the Argentine government until the exchange rate *tablita* was abandoned and monetary management was improved. However, in January the Argentine economic team had the audacity to redouble its commitment to the *tablita*, slowing the speed of the monthly devaluation of the peso from 2% to 1% for the rest of the year – and this despite the growing overvaluation of the Argentine peso.

The IMF, for its part, responded by toughening its negotiating position, and the authorities of the Treasury Palace resisted until March, when they realized, due to the rumors and pressures that arose and affected the currency market, that the new *tablita* was losing the credibility it needed to last until the elections.

If the economic team had not made the change in scheme that it carried out, and they had not obtained massive support from the IMF, I think that the BCRA would have run out of usable reserves this month or in June, thus generating a financial crisis of its own creation.

**—Do you think there were or are there better or more durable monetary and exchange regimes that could have been applied?**

—The dollarization that candidate Milei had promised had the potential to eliminate, and quickly, the hyperinflation that was brewing in the inherited Argentina. Unwilling or unable to implement it, the economic team devised a hybrid solution that consisted of a mixture of orthodox elements with heterodox elements.

For example, limiting monetary issuance by closing the BCRA's credit tap to the public sector is a cornerstone of an orthodox anti-inflationary policy. But trying to anchor inflationary expectations with an announced currency schedule is not only a heterodox recipe that has been out of fashion for decades, but sooner or later it has always failed, causing financial crises. That is true not only time and again in Argentine history, but in many other experiences in Latin America and other continents.

**— Could the absence of a fiscal deficit guarantee exchange rate stability?**

— No, that does not guarantee it because the supply and demand of dollars also depend on other factors. That is why fixed exchange rates, as well as exchange tables and bands, have failed even in countries whose governments did not have fiscal deficits, as was the case in Chile during 1980-82 and in Mexico in 1991-94. History teaches that only sudden and complete dollarization, or the combination of an austere fiscal policy reinforced with a restrictive monetary policy in the context of a free exchange rate, are capable of mitigating high inflations without triggering major imbalances and future financial crises.

The economic team could have been inspired by the successful stabilization experiences in partially dollarized countries such as Peru and Uruguay, among others. However, it is true that the more the exchange rate determines inflation expectations, or the more indexed all contracts are, the longer the inflationary deceleration process will last.

As the political priority of the incoming government was to slow down inflation as quickly as possible, to maximize its popularity in the months prior to the legislative elections next October, the economic team chose to mix fiscal orthodoxy with exchange rate heterodoxy.

**—Is the peso overvalued?**

— The currency has increased in value relative to the dollar and almost all other currencies, largely because the “free” exchange market does not reflect a huge demand for dollars that the government continues to repress. Companies have faced multiple restrictions regarding acquiring dollars to transfer them abroad, whether for profits, dividends, interest, or royalties.

The issuance of Bopreal by the BCRA, to begin to face the stock of these obligations abroad, is a temporary measure that postpones the problem's solution. In addition, there are still restrictions and taxes associated with the purchase of dollars by individuals, whether to pay for travel and tourism abroad and with credit cards, import luxury products, send remittances to relatives, or pay the cost of medical or educational services abroad.

The purchasing power of the Argentine peso abroad has grown significantly, and this is measured by the BCRA itself through its multilateral real exchange rate index. The lower the index, the more overvalued (“expensive” or “backward”) the Argentine peso is relative to the currencies of its twelve main trading partners. Before the implementation of the exchange rate band, the peso was as overvalued as at the beginning of the Milei government – and even now it remains at levels close to those of the last years of Convertibility.

## Multilateral Real Exchange Rate Index (12/17/2015=100)

*Tipo de Cambio Real Multilateral (12/17/2015=100)*



*Fuente: En base a datos del BCRA*

This index measures the relative price of goods and services of the Argentine economy with respect to that of the country's twelve main trading partners, according to the flow of manufacturing trade. And this exchange rate overvaluation already shows observable effects, such as the fact that the trade balance has gone from generating a surplus of USD 1.3 billion from January to April of this year compared to one of USD 6.2 billion in the same period of 2024 – mostly due to a 36% increase in imports.

Furthermore, the balance of services is now considerably in deficit, largely due to the rise of Argentine tourism abroad and the decline of foreign tourism in the country.

For all of the above, I am skeptical regarding the viability of the exchange rate band, particularly if the freedom of economic agents to transact in foreign currency were increased.

### **—What do you think of the decision to relax controls on the use of dollars “under the mattress”?**

— Before it was announced, it seemed to me that it would be an excellent initiative to advance the cause of economic freedom in Argentina, fulfilling one of the outstanding promises of President Milei's campaign. However, after the announcement, although we still need to know the “fine print” of the decrees to be issued – and without mentioning the text of the bill to be presented to Congress to modify certain regulations – it seems to me that this initiative does not promote said freedom. In particular, I do not find that it relaxes the controls on the use of dollars “under the mattress.”

The initiative seems to align with the work carried out by the Ministry of Deregulation and Transformation of the State, since its main objective is to simplify and reduce the documentation that ARCA requests from banks and people, particularly for certain types of transactions and for amounts that, after all the inflation that has taken place, are too small and onerous.

### **—What events would lead you to again recommend that foreign investors buy bonds or stocks in Argentina?**

—They want to see Argentina making progress in two areas. First, a Central Bank without net international reserves – and even worse, with negative net reserves – has little credibility with

investors, especially those interested in buying bonds. Even if the BCRA manages to get the IMF to forgive it for not generating the reserves that its agreement specified for June, September or December, I don't think the bond investor community will overlook this. This conspires against a decrease in Argentina's country risk premium.

The dilemma lies in the fact that the Government is completely focused on establishing all the conditions so that the inflation rate in the coming months is increasingly lower. That is why it does not allow the BCRA to buy foreign currency within the exchange band, but only when the price of the dollar reaches its minimum.

That is to say, Argentina has gone from an exchange rate regime of announced daily devaluations to a regime of announced bands that expand day by day. But in practice, in relation to the BCRA and the effects on currency purchases to strengthen its position, the obstacle imposed is to wait until supply and demand bring the exchange rate to a low price – one which continues to decrease daily.

Meanwhile, it is most likely that Argentina will lose even more international competitiveness, because if the peso remains in the center of the band, once an inflation rate is incorporated that will continue to be higher than that of its trading partners, the currency will continue to become more overvalued.

This trend will lead to more questions about the viability of exchange rate policy, given the tendency for the balance of payments to deteriorate, especially in upcoming months with less influx of foreign currency from exports and nervousness regarding the result of the October elections.

#### **—What is the other front that matters to foreign investors?**

—The other front is the political one. Investors are concerned that in the October elections *La Libertad Avanza* will win more seats in Congress, although at the expense of the PRO and other parties that sometimes support the government – and not at the expense of the staunch opposition of *Unión por la Patria* legislators. And this is worrying, because without a legislative majority in favor of improvements in the business and investment climate, it will be difficult for the government to obtain approval of tax, labor, pension and other reforms committed to 2026 in the agreement with the IMF – and that investors also want to see approved.

The recent failure of the Clean File project, which many investors wanted to see approved, showed the fragility of the situation in the current Congress. Meanwhile, the elections in the Province of Buenos Aires in September will also be of interest to investors. The Conurbano suburbs around the capital have been the base of Peronism, so if *La Libertad Avanza* and its allies manage to win there, or lose narrowly, that result could influence expectations regarding the legislative contest in October.

In sum, the evolution of the BCRA's international reserves and the results of the upcoming elections in September and October are two milestones that will mark the investment climate in bonds and stocks.

Original in Spanish: <https://www.infobae.com/economia/2025/05/25/el-futuro-economico-de-argentina-desde-wall-street-arturo-porzecanski-analiza-el-impacto-de-las-reformas-de-milei/>