

# Impact of Argentina's Midterm Elections

*President Javier Milei's party, La Libertad Avanza, won a decisive victory in Argentina recent midterm elections. The results calmed the markets, stabilized the price of the peso, and created a renewed sense of momentum for the President's libertarian reform agenda. Will this newfound momentum last? And what changes can Milei hope to achieve in the second half of his Presidency with a more favorable Congress?*

## A Legislative Reset

Prior to the recent midterms, La Libertad Avanza (“LLA”) had little representation in the legislature—less than ten percent of seats in the Senate and less than twenty percent in the House of Deputies. The rest of the Congress was split between the Peronist opposition party, with a plurality, the center-right PRO party associated with former President Mauricio Macri, various groups controlled by the provincial governors, the centrist Unión Cívica Radical, and a scattering of smaller parties.

LLA's low support can be attributed, at least in part, to Milei's fast and unexpected rise to power. LLA was formed in 2021, and prior to the 2023 federal elections, the party was generally viewed as a fringe political movement with virtually no representation in Congress. While that began to change after the party's historic first-place showing in the country's August 2023 primaries, the general election only led to moderate gains for LLA in the legislature, with Milei ultimately securing the presidency in a run-off election. The result was that Milei faced a hostile Congress in the first two years of his term.

## A New Balance of Power

Fast forward to 2025, and the landscape has shifted in Milei's favor. LLA has added a significant number of seats in both houses, and while still short of a majority, the president's party has far more leverage than before. If LLA maintains its alliance with PRO, it will be the dominant party in Congress, with approximately 40% of the seats in the lower house and one-third of the seats in the Senate once the new Congress meets on December 10th. This level of support gives LLA the ability to block attempts to override presidential vetoes and a greater chance of preventing presidential decrees from being overturned.

The key challenge for Milei will be building coalitions with the remaining group of legislators who are not aligned with the two major parties. Constructing a majority in both houses is essential to satisfy quorum and, ultimately, to pass legislation. Of

particular importance are the parties aligned with the provincial governors. Part of their support will hinge on the discretionary funds sent by the federal government to the provinces. This is a delicate issue, as Milei has previously cut these payments as part of his broader austerity efforts. While agreements with some provincial governors have already been reached, the real proof will come in December or January when the first votes are taken.

## **Agenda 2026**

Feeling the wind in his sails, the President has announced an ambitious legislative roadmap for the upcoming Congress. The regular session begins in March. However, the president can convene Congress sooner, with special sessions possible as early as December. The current expectation is that the 2026 budget will be considered then, followed by potential reforms to tax and labor laws starting in February.

Other reforms proposed include changes to the Penal Code and environmental regulations. These changes will allow a greater amount of oil and gas exploration in Patagonia. We expect reforms to social security (such as raising the retirement age) to be left for Milei's potential second term.

## **Labor Reform under the Spotlight**

The labor reforms have attracted a lot of attention. While the final proposal has yet to be announced, it is expected to focus on reducing the high labor costs in Argentina to make the country more competitive for investment.

Some reforms being discussed include a common fund to compensate workers who are laid off (a long-awaited shift away from severance payouts made solely at the employer's expense), flexibility with respect to scheduling and overtime payments, and moving away from unionization based on industry sector to collective bargaining agreements negotiated with individual companies.

A legislative package containing some or all of these proposals may make its way through Congress but, even so, is likely to face legal challenges and resistance from the labor courts (see our recent publication on this statement [here](#)). Argentina's labor unions are a factor and only a fool would underestimate their power, but they have been weakened by dwindling membership (given the spike in informal workers) and political infighting.

## **Prospective Tax Reforms**

The potential reforms to the tax regulations have also yet to be formally proposed, and it is less likely that we are going to see fundamental changes here in the short term. The government would love to lower the effective tax rate for businesses to attract investment but the country's desperate need for revenue tempers this impulse.

Given these competing interests, we expect the first tranche of reforms to focus on simplification of the tax regulations and the removal of dozens of niche taxes (e.g., on gambling, alcohol, fuel, cigarettes, and vehicles) that do not significantly impact the federal budget.

## **Will the Momentum Hold?**

In addition to enhanced legislative power, the midterm elections have given Milei some much needed breathing room after the volatile few months before the election. Just one month prior, Milei's party experienced a resounding defeat in the elections held in the Province of Buenos Aires, home to about a third of the country's population.

This loss had led to significant uncertainty as to whether Milei had the political will to continue with his aggressive reform program, and whether the changes enacted in his first two years would hold, including Milei's efforts to remove the country's onerous currency controls and move towards a free-floating peso. Many attribute Milei's subsequent victory to the decision of the United States to extend a US\$20 billion swap line to buy Argentine pesos and help stabilize the currency just weeks before the election.

Yet even with October's favorable election results, currency stability remains Milei's key challenge heading into 2026. The peso-dollar exchange rate continues to be controlled by the Argentine Central Bank, limiting Argentina's competitiveness in international trade. Removing the remaining controls and truly floating the peso is likely critical for the country to achieve the economic growth promised by Milei. Nevertheless, the exchange rate is a tight rope and moving too quickly could lead to an abrupt currency devaluation and a return to high inflation. Even with a more supportive legislature, a significant economic downturn would evaporate any hope of continued reform.

## **Conclusion**

Following the success of LLA in the midterms, Milei heads into 2026 with a seemingly renewed mandate from voters. For the first time in his administration, a working majority in Congress is within sight. Congress is set to consider key

legislative reforms to the country's tax and labor laws critical to the Milei government's vision for long-term growth.

Milei can take advantage of the current momentum by working collaboratively and expeditiously with potential allies—ideally before the country heads into 2027 and the focus shifts toward presidential elections.

The success of these legislative reforms depends largely on Milei's ability to maintain economic stability and float the peso. Managing all of this is a tall order, but Milei seems to be in a better position—for now—to pull it off.