Argentina and IMF Lending

Just over two years after winning elections, Argentinian President Mauricio Macri has found himself negotiating with the International Monetary Fund (IMF) for a recovery package. With a sickly economy, and a now-approved $50 million IMF loan, could the remedy prove worse than the disease? Seventeen years ago, the Argentinian people vowed to never again turn to the IMF for a lifeline. Indeed, for many Argentinians “Fund” is a word synonymous with economic and social chaos as they recall the 2001 currency plummeting and $100 billion debt default that resulted in a fifth of the population unemployed, froze bank deposits, and left more than 20 people dead in nationwide protests. Many blame IMF-imposed conditions for the disaster, and those who don’t, still condemn the Fund for not halting it. Fast forward to 2018, President Macri has found himself in the all-too familiar position for Argentinian presidents of asking the IMF for liquidity.

Last June 20th, the IMF Executive Board officially approved a $50 billion Stand-By Arrangement (SBA) over a three-year period to stabilize the Argentinian peso and pay the government’s obligations. In exchange, Argentina must be fiscally balanced by 2020, give more autonomy to its Central Bank and stop transferring money to its Treasury to avoid further inflation peaks. This deal could become the priciest move in Macri’s presidential career. First, there is the current political turmoil: former president Cristina Kirchner’s Peronist party, whose dislike of the IMF during her tenure further strained the nation’s relation with the Fund, is adamantly denouncing the move with “IMF OUT” signs in Congress. Then, there are the ongoing public protests: demonstrations that started in April show no sign of ceasing and are to a large extent, the result of the contractionary measures adopted since Macri’s ascent to power in 2015. Thus, considering Argentina’s traumatic past with the IMF, heavy political opposition, ongoing protests, and losing a future re-election out of unpopularity, why is Macri making such a risky move? Put simply, a very turbulent economy

To begin with, a three-week sharp fall in the Argentine peso that wiped out a fifth of its value against the dollar. It is now the worst-performing emerging-market currency in 2018. To attempt to halt a run on the currency, the central bank rolled over $25 billion in short-term notes and raised interest rates three times to a sky-high 40%. This is likely to have a negative impact on investment growth, further compounding the currency devaluation. Second, inflation is running at a dangerous 25.5%. Whilst the SBA does not require immediate reductions in inflation targets, it does expect it to consistently lower (in tandem with a macro-prudential approach). But how can Argentina accomplish this? The end of the commodity boom with China significantly reducing their imports from Argentina (take for instance, soybeans) has damaged Argentina’s GDP. And the projections for this year are also discouraging: less than 1.5% as opposed to the original forecast of 3%.

Many economists believe that Argentina is already showing clear signs of heading into a recession very soon. This could certainly problematize its ability to fulfil its IMF obligations. However, the Argentina of today is not the Argentina of 2001 and this move could help "make Argentina normal" again as Macri’s campaign promised. In this sense, the economy has already made great strides towards recovery and rebuilding market confidence. Argentinian banks are much stronger and more regulated than they were in 2001: toxic debt levels are currently less than 2% versus over 20% pre-crisis. Experts question the selling of $2.75 billion worth of 100-year bonds to lure investors with a false sense of confidence. Nevertheless, the bulk of Argentina's financing needs for this year is already covered. With a floating exchange rate and almost half of public debt held by public institutions, it appears that, structurally-speaking, Argentina has learned a few lessons from the past.

This is not to say that the economy is not in trouble; these are sensitive times for Macri. But to say that there has been no change after almost two decades – in the case of the economy at least – would be hyperbolic. More worrying scenarios are associated with the political and social unrest that arose from rekindling relations with IMF. Hence, messages such as Macri's May 8th speech are crucial to reassure the international community and more importantly, the Argentineans themselves, that they are not reliving the past. On the other end, the IMF has adopted language that signals change, with Lagarde admitting in an interview that: "At times we went in too deep and too fast for society to deal with." This is more explicit in the SBA's inclusion of terms committing to social protection and room to maneuver in benefit of the vulnerable populations.

All in all, while current fears of crisis are not unfounded and the economy is indeed very volatile still, one could arguably say that Argentina's ghosts from the past are worsening the situation. What the nation needs is on the one hand a strategic, smart plan of recovery and strong leadership on the other hand, to appease and stabilize both the international markets as well as the Argentinians themselves, and assure them that history is not repeating itself.