

## Economics Group

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### IMF to Argentina: Is \$50 Billion Enough?

*On Thursday, June 7, the IMF authorized a 3-year Stand-by agreement with Argentina worth \$50 billion. The agreement included typical measures on the fiscal deficit as well as more autonomy for the central bank.*

#### Not \$30 Billion, Not \$40 Billion, It's \$50 Billion

When Argentina indicated several weeks ago that it was calling in for IMF help, analysts estimated the Stand-by agreement was going to be worth approximately \$30 billion. However, on June 7, 2018 the Argentine government reported (and the IMF confirmed) a three-year Stand-by agreement worth \$50 billion.

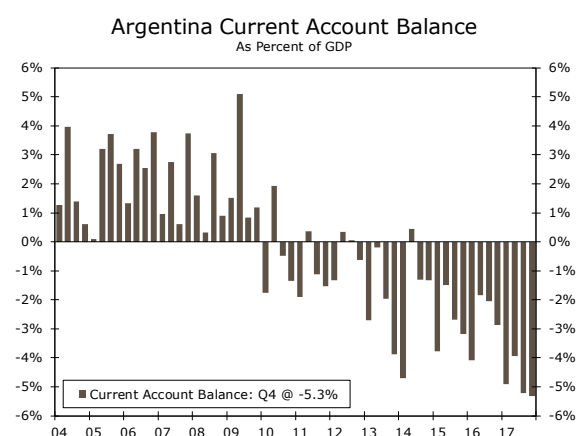
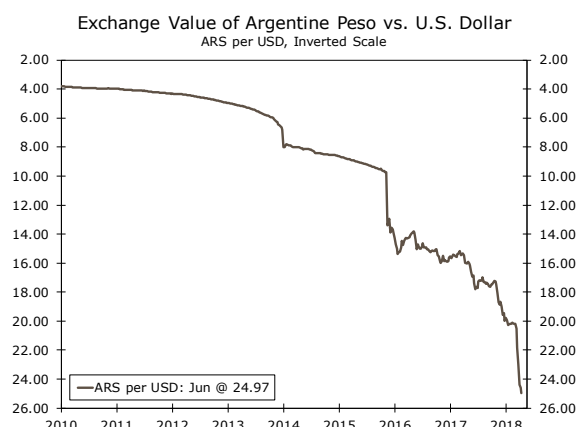
The agreement is a typical Stand-by agreement in the sense that it imposes conditions regarding the fiscal deficit, inflation, exchange rates, etc. At the same time, the agreement includes several measures that will give the central bank more autonomy in conducting monetary policy. But, perhaps the most notable news coming from this agreement is that it forbids the Argentine central bank to finance the Treasury; that is, the central bank will no longer be able to finance the fiscal deficit, which has been at the core of recent market volatility.

The government is dropping its inflation target rate of 15 percent for 2018. The executive branch determined the target until today, not the central bank. Congress is expected to give more autonomy to the central bank, such that the central bank, in consultation with the Treasury department, will determine the inflation target going forward. For 2019, the inflation target will be reinstated at 17 percent, with a 13 percent target for 2020 and a 9 percent target for 2021. Meanwhile, primary deficit estimates have been lowered to 2.7 percent of GDP in 2018, 1.3 percent in 2019 and 0.0 percent in 2020. According to the plan, debt as a percentage of GDP is expected to start to come down by 2019.

#### Is \$50 Billion Enough?

The question is: is \$50 billion enough to stabilize expectations and continue to move reforms forward? We think it has the potential to do the trick. However, it will depend on how international capital markets react to the news and if the central bank is able to contain inflationary expectations. As a back-of-the-envelope estimate, this package is as large as the one given to Mexico during the Tequila crisis in the mid-1990s, which, at the time, was worth about 10 percent of Mexican U.S. dollar GDP. This package is also in the same ballpark figure for Argentina now as that given to Mexico in then.

Furthermore, during the Tequila crisis the Mexican economy collapsed 6.2 percent. The situation in Argentina during the 2000-2001 crisis may have been a similar comparison to Mexico's Tequila crisis, but today, nobody is expecting such a severe crisis in Argentina. Importantly, both Mexico in 1994 and Argentina in 2000 had relatively fixed exchange rates and both economies were not growing. Today, both economies have flexible exchange rates. The biggest risk today for Argentina is political, and that is no small change! For more a more detailed discussion regarding the Argentine economy, please see, "[Argentina Gets a New Start: Is This Time Different?](#)"



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