



# Economics Group

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## Argentina to Negotiate With the IMF

*In an effort to regain market confidence in his economic agenda, which has been recently hit hard by an attack against the peso, President Macri indicated Argentina would begin to negotiate a line of credit with the IMF.*

### Pulling All Levers: Macri Faces His Worst Crisis

The Macri administration said that Argentina will start negotiations for a stand-by agreement with the International Monetary Fund (IMF) in order to calm the markets and salvage its economic agenda. The country has faced increased pressure from markets as the Argentine currency, the peso, has come under attack (top graph). The situation has pushed the central bank to increase its policy rate to 40 percent in order to contain the run against the peso and minimize the depreciation of the currency (middle graph).

Although the details are still being worked out, the idea is to get a line of credit of approximately 30 billion dollars that the country could tap if conditions worsen. Of course, the stand-by agreement will probably come with strings attached, as the IMF typically has rules regulating these types of agreements. Some of these strings have to do with improving the country's fiscal situation, which is a central reason as to why markets have become so bearish regarding the country's prospects.

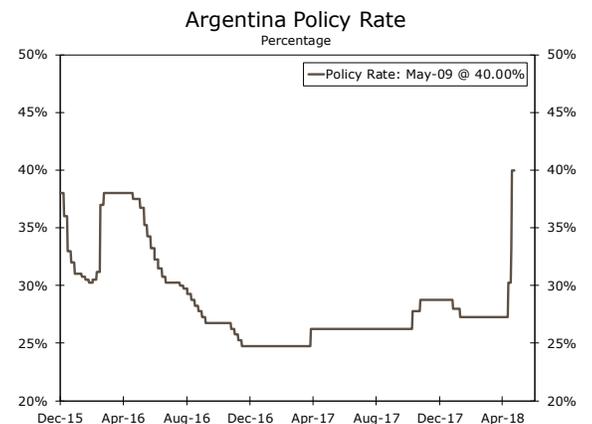
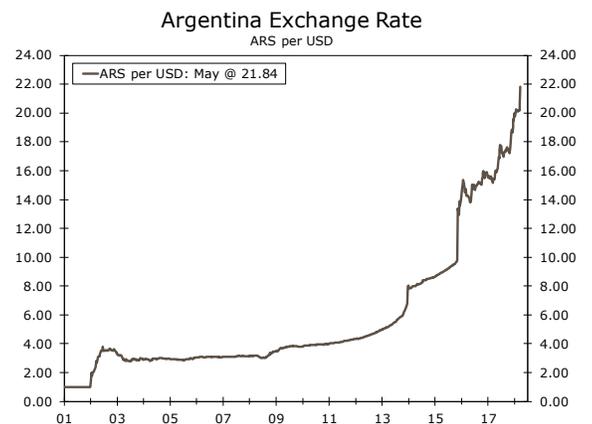
President Macri's economic agenda has been threatened by higher inflation due to the elimination of public utilities subsidies (bottom graph), an attack on the domestic currency and a still high primary fiscal deficit. Moreover, an ill-advised change to the country's inflation target for 2018 was interpreted by markets as a measure to undermine the independence of the country's central bank. For a more detailed discussion, please see our recent report, "[Argentina Gets a New Start: Is this Time Different?](#)"

### Is Macri's Re-election Off the Table?

The negotiations with the IMF present new risks for the Macri administration. Not only do the strings attached to this type of agreement present potential complications, but uncertainty in the domestic political environment likely represents downside risk. That is, many people are already speculating that this crisis could cost Macri his re-election in 2019.

We are not sure that this crisis will definitely have a negative effect on the president's re-election bid. As we said in our previous report, a year and a half is an eternity in political terms. However, what the Macri administration does from this point on will be a crucial determinant in whether he can run and win re-election. That is, his chances will follow the same fate as inflation, the fiscal deficit, interest rates (today at 40 percent), economic growth, etc.

President Macri and his coalition have already survived and improved its electoral result during a mid-term election that traditionally goes against the incumbent. However, Argentina's political and economic history have not been kind to presidents that do not hail from the Peronist or Justicialista Party. Thus, the Macri administration will have to be very careful on the economic front to avoid repeating the mistakes of the past.



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