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Argentina fiasco should prompt reflection at the IMF

The Fund's biggest-ever programme was poorly thought through

Arturo Porzecanski, October 17, 2019

This week's IMF and World Bank annual meetings in Washington are likely to be dominated by growing concern over the global economic slowdown.

In an effort to better prepare the IMF to meet the challenges posed by that slowdown, time will also be spent on a plan to raise the IMF's core funding as part of the 15th general review and increase of membership quotas — an issue unlikely to make progress, given the confrontational state of US-Chinese relations.

Missing from the agenda of multiple main and side gatherings, however, is the proverbial elephant in the room: Argentina.

While it is too soon for the Fund to launch a formal post mortem, last performed by its staff and its Independent Evaluation Office in 2004 in the wake of Argentina's debacle of 2001-02, the time is ripe for serious reflection about what went wrong with last year's rescue package.

Blame should not be pinned solely on Argentina. The first question is whether the IMF should be in the business of committing as much funding to any country's financial stabilisation effort as it did in this case, rather than playing more of a catalytic role.

In June 2018, the Fund offered a 36-month "exceptional access" standby arrangement foreseeing disbursements of $50bn, or 35.4bn of the IMF's special drawing rights (SDRs), its internal currency. This sum is equal to 11 times the size of Argentina's IMF quota.

The ink was barely dry on that deal when the economic programme went off the rails. Rather than proceeding with greater caution, in September 2018 the Fund offered to enlarge its loan to $57bn — SDR 40.7bn, or 13 times Argentina's quota — in return for a modest additional tightening of Argentina's fiscal and monetary screws.

To put matters in context, both sums committed were by far the largest in the IMF's history in absolute terms, while the second amount ranks among the top four ever in relation to country quotas.

The enlarged standby for Argentina dwarfs what had previously been the IMF's largest programmes with Brazil in 2002 (SDR 22.8bn) and Greece in 2010 (SDR 26.4bn). Argentina's previous standby programme with the IMF (2001-03) was a more modest SDR 16.9bn.

The SDR 32bn already disbursed to Argentina accounts for 47 per cent of the Fund's total outstanding credit. All else being equal, the IMF's credit exposure to Argentina would reach 60 per cent of its total if the programme's remaining funds were to be disbursed soon.

The size and concentration of such a single credit on the IMF's books is alarming. Furthermore, the repayment risks are growing daily because Argentina is using the Fund's money to prop up the peso. Since early April, the central bank has gone through more than $30bn of its international reserves, despite meanwhile receiving $16bn from the IMF.

A related issue is the exceedingly front-loaded nature of the IMF's three-year programme. After its augmentation, the standby was structured to deliver SDR 31.9bn, or 78 per cent of the committed funds, in its first 13 months (June 2018-June 2019). This compares with the SDR 15.6bn, or 59 per cent of committed funds, foreseen for the first 13 months of the May 2010, three-year programme for Greece — the largest ever in relation to country quotas.

Another question is the appropriateness of the economic programme agreed last year. There is little doubt that there was strong government "ownership" of the plan, a feature that is highly prized by the Fund ever since it came under heavy criticism in the 1990s for imposing overly complex and conditional programmes, especially during the Asian financial crisis.

The IMF programme with Argentina has largely met its fiscal and monetary targets, for items such as the primary fiscal balance and monetary base. However, it has been severely disappointing in terms of reducing inflation, boosting demand for pesos and government debt, and supporting an economic recovery. While it has gone off the rails again in recent weeks because of confidence-destroying political developments in Argentina, with the benefit of hindsight the programme was overly optimistic and poorly designed.

The programme also exhibited a lack of prudence in writing big cheques to president Mauricio Macri's administration without considering the likely need to spare enough funds for a programme with the new government taking over in December, after the general elections on October 27.

As a result, it will be hard to motivate the new authorities to maintain a constructive attitude with respect to their hefty financial obligations to the IMF.

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