# The Role of the International Monetary Fund in the World Economy: Argentina as a Case of Sovereignty, Conditionality, and Foreign Influence

A Case Study IMF Programs and Domestic Politics from the 2001 Crisis to the 2025 Developments

By: Hryhorii Bavykin (učo 579414)

Course: Economic dimension of international relations: an introduction

Lecturers: Oldřich Krpec, Vladan Hodulák

## Introduction

The International Monetary Fund (IMF) is a United Nations specialised agency established in 1944 after the Great Depression, to promote global monetary cooperation, financial stability, and stable economic growth for all its 191 member states (International Monetary Fund [IMF], n.d.). As a central institution in the global financial system, the IMF provides liquidity support, helps stabilise balance-of-payments crises, and promotes macroeconomic stability through policy advice and conditional loans.

Beyond its purely technical role of assisting members facing serious economic difficulties, the IMF also functions as a powerful actor in the international political economy. Its programmes not only influence national policies but, given the vulnerable position of borrowing countries, can also indirectly challenge their political autonomy and economic sovereignty.

Argentina provides a particularly relevant example of the IMF's dual role. Since joining the fund in 1956, Argentina has participated in 23 programmes totalling $177 billion in agreed funds (Elliott, 2025), repeatedly looking for assistance during the cycles of debt, inflation, and currency devaluation. This long relationship has made Argentina one of the most frequent and politically sensitive clients of the IMF.

This case study focuses on the major IMF programmes during the 2001 and 2018 crises, while also considering recent developments in 2024-2025. Using the International Political Economy lens, it analyses how IMF conditionality and lending policies have influenced Argentina’s domestic politics, economic sovereignty, and international position. By using the IMF internal reports, academic and journalistic sources, the study analyses the mechanisms of interaction between external financing and domestic constraints, helping to explain why IMF programmes have continuously struggled to produce lasting stabilisation.

## Main Actors, Interests, and Objectives

Argentina’s relationship with the International Monetary Fund is formed by a dense network of domestic and international actors whose interests often conflict with each other. The IMF itself plays a central role as both a creditor and a supervisor of the

Argentinian economy. While formally governed by the Board of Governors, an independent actor consisting of one representative per member country (IMF, 2022), the Fund is heavily influenced by its largest shareholders, particularly the United States and other G7 economies. Empirical research shows that IMF conditionality often reflects Washington's geopolitical interests, with politically aligned countries (measured by UN voting patterns) receive loans with fewer conditions, especially prior to elections (Dreher & Jensen, 2003). In Argentina, U.S. support for extensive IMF involvement reflected its interest in backing an ideologically aligned government and limiting China's growing influence in Latin America(Roy, 2025), which played a decisive role in the scale and timing of the programs.

The Fund also faced internal concerns about its credibility. If its policies "cannot help its most chronic patient" (Obregón, 2025, para. 12) to achieve-long term stability, it would risk undermining its authority both domestically and internationally, indirectly contributing to the overly optimistic targets in the 2018 agreement (Campos, 2021; Lulu, 2022).

On the domestic side, Argentinian governments often engaged with the IMF from a position highly influenced by electoral cycles, social pressures and economic vulnerabilities. Their immediate objective was often a political survival, which emphasises "electoral gambles" (Obregón, 2025, para. 12) though short-term stabilisation over long-term compliance. Additionally, the government is limited by its own domestic players. Negotiations with the IMF were formally led by the Ministry of Economy and the Central Bank, but both institutions had little room for manoeuvre, limited by political pressure and low reserves. Domestic interests further narrowed what was politically acceptable: business representatives are generally in favour of IMF involvement to stabilise the peso and protect assets, while agricultural exporters favoured sharp devaluation to increase export competitiveness. Meanwhile, trade unions and social movements, who are often hit the hardest by cuts in subsidies and rising unemployment, mobilise against austerity measures that often disproportionally harm low-income groups.

Together, these competing domestic pressures meant that no government in Argentina could fully implement IMF conditions without facing severe political backlash. While international actors set the terms of financial support, domestic actors defined the political limits of compliance level. This misalignment helps explain why IMF programs in Argentina struggled to achieve long-lasting, sustainable results.

## Mechanisms of IMF Influence and Conditionality

The core mechanism of a problem lies in the divide between the technical requirements of IMF conditionality and the political reality in Argentina. Even when governments disagreed with the IMF's terms, Argentina's structural dependence on IMF funding left it with very limited negotiating flexibility. As a result, Argentina formally accepted conditions to unlock the funding, but in practice, only partially implemented them, trying to avoid the politically costly measures required for full compliance.

From its side, the IMF kept sending the funding despite systematic failure to meet program targets, regularly issuing "waivers of non-observance" (basically ignoring non-compliance). As the IMF's own Independent Evaluation Office later admitted, the "weak enforcement of fiscal conditionality" was "admittedly inadequate," noting that even though "the annual deficit targets were missed every year from 1994", the financing continued regardless, "by repeatedly granting waivers". (Mateos y Lago et al., 2004, p. 4) This pattern also repeated itself during the 2018 crisis (IMF, 2018, p. 61).

During the late 1990s, the Menem and de la Rúa administrations were primarily concerned about defending the "Convertibility" regime, which fixed the peso to the US dollar at a 1:1 rate. Its status, as a symbol of anti-inflation success, meant that "convertibility and price stability were almost interchangeable terms in the public arena" (Frenkel, 2002, p. 59), preventing the government from abandoning the policy, despite it becoming economically unsustainable by 1997 (Alberola et al., 2004, p. 19). However, maintaining this exchange rate system required continuous external financing, making IMF support a political necessity.

The mechanism of failure here was the incompatibility between the government's goals of short-term political survival and long-term external credibility. The IMF continued to provide this funding, partially due to pressure from its largest shareholders – what the IMF itself calls "largely noneconomic considerations" (Mateos y Lago et al., 2004, p. 5), which viewed Argentina as an important success story of market-oriented and neoliberal policies. Yet, the required spending cuts and subsidy reductions that came with this support led to significant social unrest, ultimately limiting the government's ability to implement the required reforms. When the IMF finally suspended the funding in late 2001 due to missed fiscal targets, the crisis culminated in the "largest sovereign default in history" (Arsenault, 2013), totalling $93 billion, demonstrating the limits of IMF influence when domestic pressure becomes overwhelming.

The mechanism repeated itself under different, but related scenario in 2018. Facing high inflation, rapid currency devaluation and rising fiscal debt, the Macri administration negotiated a record $57 billion arrangement with the IMF, supported by the United States and other G7 actors. The program required aggressive fiscal consolidation and monetary tightening, aimed at restoring confidence in the peso and stabilising the economy. Again, the government faced strong opposition from unions, social movements, and the economic segment impacted by austerity. However, a big portion of the IMF funding, intended to stabilise debt, was instead used by the Central Bank to intervene in currency markets, protecting the peso. By 2019, inflation remained high, economic indicators worsened, and the pro-Western government lost the October general election, leaving the country with a massive debt and no improvement in key indicators.

Across both crises, the same pattern is visible. IMF programs provide essential financial support but impose conditions that often conflict with domestic political realities. Governments are forced to satisfy international lenders to maintain the funding, but also to avoid social response at home. This tension illustrates how external financing limits economic sovereignty, making the effectiveness of IMF programs as much a political problem as an economic one.

## Current Status (2023-2025)

The election of a new administration under Javier Milei in late 2023 has led to a significant shift in the relationship with the IMF. Running on an openly libertarian platform, Milei promised radical fiscal austerity, deep deregulation, widespread privatisation, and eventual dollarisation with the abolition of the Central Bank. Unlike previous governments that tried to moderate austerity or negotiate softer targets, Milei's administration moved to implement fiscal adjustments even more aggressive than those originally requested by the IMF, presenting them as necessary steps toward breaking with Argentina's long history of interventionist policy cycles.

Despite Milei's anti-establishment rhetoric, the IMF became a central component of his stabilisation strategy. After negotiations during 2024, the government secured a $20 billion four-year Extended Fund Facility (EFF) in early 2025 (Otaola, 2025), recently complemented by a $20 billion currency swap line backed by the Trump administration to strengthen reserves (Mena, 2025). Publicly, Milei and his team presented the IMF program as a tool to rebuild credibility, normalise the exchange-rate regime, and provide room for lifting capital controls. In turn, the Fund emphasised reserve accumulation as the most important pillar of the program.

Following these measures, a political-economic tension emerged almost immediately. Despite the fact that Milei has let the peso float freely in April 2025 (Debre, 2025a; Kolbe, 2025). Only a month later, the Argentinian Central bank spent $409 million defending the peso on the markets - "a move that stands in sharp contrast to its commitments to the International Monetary Fund" (Doll, 2025). This intervention has proved that even a radical liberal government cannot escape the structural constraints of a vulnerable economy. The sharp depreciation of the peso in May raised fears of rising inflation, threatened public support for Milei's austerity program, and risked weakening the credibility of the new IMF deal. In this situation, the government fell back on the same short-term logic as its predecessors: artificially defending the currency during a politically sensitive moment to prevent panic and protect the fragile support needed to keep its reforms going.

## Future Outlook and Conclusion

Looking ahead, Argentina's relationship with the IMF will likely remain shaped by the long-standing structural tensions: the need for external financing in the context of chronic budget deficits, lack of reserves, and persistent inflation. Even with the new $20 billion Extended Fund Facility and temporary support provided from external partners, Argentina continues to face the same dilemma that has undermined past stabilisation attempts – the gap between the technical requirements of IMF programs and the political and social cost of implementing them.

The Milei administration represents a partial break from earlier governments, with its intent to implement deeper austerity and more market-oriented reforms. However, while policy preferences of specific governments affect the pace and form of reforms, they do not influence Argentina's fundamental dependence on IMF support during cycles of crises. Early electoral gains for Milei's party in the 2025 mid-term elections, "widely seen as a referendum" (Debre, 2025b), suggest that a society is still willing to give the government time for "deep restructuring" (Alcoba, 2025).

However, the recent fall in poverty - from a peak of 52.9% in early 2024 to 31.6% in mid-2025 (Cardin, 2025; Plummer, 2024) also demonstrates how quickly social indicators can change, highlighting the fragility of political support if conditions worsen again. The public support, in turn, is directly linked to investor confidence, measured by expectations about whether new reforms will stick for long, which is central for Milei's strategy of attracting new capital.

For the IMF, Argentina remains both a test case and a self-repeating dilemma. As funds largest shareholders – primarily the United States and other G7 members – continue to view Argentina's stability and the survival of the current regime as strategically important, their political preferences will impact the scope and flexibility of future programs. Yet, the broader question remains whether IMF-supported stabilisation can produce durable outcomes in an economy where external shocks, weak institutions, and social pressure consistently interrupt cycles of reforms.

In conclusion, Argentina's future within the IMF will depend less on the ideological orientation and more on whether the state can maintain political and social stability while fully and consistently following the program's requirements. Without deeper institutional reforms, the long-standing pattern of partial compliance followed by crisis is likely to persist.

## References


Alberola, E., López, H., & Servén, L. (2004). *Tango with the Gringo: The hard peg and real misalignment in Argentina* (No. 3322; Policy Research Working Paper). World Bank. https://documents1.worldbank.org/curated/en/411111468768684008/pdf/wps3322.pdf

Alcoba, N. (2025, October 27). Argentinian president wins critical midterm elections. *NPR*. https://www.npr.org/2025/10/27/nx-s1-5585097/argentina-president-wins-milei-midterm-elections

Arsenault, C. (2013, July 31). *'Vulture funds' battle Argentina in US*. Al Jazeera. https://www.aljazeera.com/features/2013/7/31/vulture-funds-battle-argentina-in-us-court

Campos, R. (2021, December 23). IMF evaluation says 2018 program too fragile for Argentina's structural issues. *Reuters*. https://www.reuters.com/markets/us/imf-evaluation-says-2018-program-too-fragile-argentinas-structural-issues-2021-12-22/

Cardin, A. (2025, July 15). Argentina's poverty falls to 7-year low as inflation eases and wages outpace costs. *The Rio Times*. https://www.riotimesonline.com/argentinas-poverty-falls-to-7-year-low-as-inflation-eases-and-wages-outpace-costs/

Debre, I. (2025a, April 12). Argentina secures IMF loan and ends most capital controls in key milestones for President Milei. *PBS News*. https://www.pbs.org/newshour/world/argentina-secures-imf-loan-and-ends-most-capital-controls-in-key-milestones-for-president-milei

Debre, I. (2025b, October 26). Milei triumphs in Argentine midterm elections closely watched by Washington. *AP News*. https://apnews.com/article/argentina-midterm-election-javier-milei-66d7c03825a7a0f56ce5808ff3ac1df4

Doll, I. O. (2025, May 28). Milei intervenes in currency market despite letting peso float. *Buenos Aires Times*. https://batimes.com.ar/news/economy/milei-intervenes-in-currency-market-despite-letting-argentine-peso-float.phtml

Dreher, A., & Jensen, N. (2003). Independent actor or agent? An empirical analysis of the impact of US interests on IMF conditions. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.459280

Elliott, L. (2025, April 12). Argentina and the IMF: A troubled history. *Reuters*. https://www.reuters.com/world/americas/argentina-imf-troubled-history-2025-04-12/

Frenkel, R. (2002). *Argentina: A decade of the convertibility regime*. Centro de Estudios de Estado y Sociedad (CEDES). https://repositorio.cedes.org/bitstream/123456789/3533/1/5018.pdf

International Monetary Fund. (n.d.). *About the IMF*. https://www.imf.org/en/About

International Monetary Fund. (2018). *Argentina: First review under the stand-by arrangement; inflation consultation; financing assurances review; and request for rephasing, augmentation, waivers of nonobservance and applicability of performance criteria, and modification of performance criteria-press release; staff report; and staff supplement* (No. 18/297; IMF Country Report, p. 113). https://www.imf.org/en/publications/cr/issues/2018/10/26/argentina-first-review-under-the-stand-by-arrangement-inflation-consultation-financing-46309

International Monetary Fund. (2022, September). *How does the IMF make decisions?*

https://www.imf.org/en/about/factsheets/sheets/2022/how-the-imf-makes-decisions

Kolbe, T. (2025, April 28). Peso free float: Argentina's Milei keeps up reform momentum. *Newsmax*. https://www.newsmax.com/finance/thomaskolbe/argentina-peso-u-s/2025/04/28/id/1208629/

Lulu, S. (2022, October 14). The Argentine case: Lessons for the CMIM. *ASEAN+3 Macroeconomic Research Office*. https://amro-asia.org/the-argentine-case-lessons-for-the-cmim/

Mateos y Lago, I., Takagi, S., Martin, R., Takebe, M., & Cohen, B. H. (2004). *The IMF and Argentina, 1991-2001* (Independent Evaluation Office Reports). International Monetary Fund. https://www.imf.org/en/publications/independent-evaluation-office-reports/issues/2016/12/31/the-imf-and-argentina-1991-2001-17590

Mena, B. (2025, October 12). FAQ: Why America just bailed out Argentina with a $20 billion lifeline. *CNN*. https://www.cnn.com/2025/10/12/economy/argentina-america-bailout-currency

Obregón, L. P. (2025, October 22). Argentina's economy stumbles again under the IMF watch – who is to blame? *European Univesity Institute*. https://blogs.eui.eu/latin-american-working-group/argentinas-economy-stumbles-again-under-the-imf-watch-who-is-to-blame

Otaola, J. (2025, April 14). What do we know about Argentina's IMF deal and FX policy? *Reuters*. https://www.reuters.com/world/americas/what-do-we-know-about-argentinas-imf-deal-fx-policy-2025-04-14/

Plummer, R. (2024, September 27). Argentina records sharp rise in poverty. *BBC*. https://www.bbc.com/news/articles/ceqn751x19no

Roy, D. (2025, June 6). China's growing influence in Latin America. *Council on Foreign Relations*. https://www.cfr.org/backgrounder/china-influence-latin-america-argentina-brazil-venezuela-security-energy-bri