

Can the IMF Overcome Argentina's Geopolitical Climate to Foster Sustainable Growth?

Exploring the International Monetary Fund's Role in Argentina's Struggle for Stability and Growth

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Illustration: Chat GPT

December 9th, 2024 | Davidson, NC

FOR DECADES, Argentina has faced one economic crisis after another, and with new leadership under Javier Milei, the nation stands at a crossroads. Can the IMF—once seen as the lifeline for struggling economies—still be the solution Argentina needs in today's volatile geopolitical climate?

Since taking office in 2023, Milei has implemented sweeping reforms aimed at reducing government intervention, cutting public spending, and encouraging foreign investment. While these policies have successfully reduced inflation to 2.7% in October 2024 (down from 25.5% earlier in the year), they have also ignited the possibility of social turmoil, as poverty rates surged to 53% in 2024, up from 42% at the start of his term. The IMF continues to support Argentina, but its involvement remains controversial, particularly as Milei's reforms have exacerbated inequality and social unrest.

Over its history with the international lender, Argentina has entered 22 arrangements, reflecting its reliance on the institution during periods of economic distress. In 2018, Argentina secured a \$44 billion loan, which was later modified to address evolving fiscal challenges. In May 2024, the Fund approved a \$792 million

¹ On my honor I have neither given nor received unauthorized information regarding this work, I have followed and will continue to observe all regulations regarding it, and I am unaware of any violation of the Honor Code by others.

installment as part of its ongoing bailout program, endorsing the government's spending cuts based on Argentina's adherence to the agreed-upon economic policies.

While inflation is falling, relations with the Fund are improving, and Milei's approval remains higher than his predecessors' after a year in term, Argentina's ongoing poverty and unemployment threaten the sustainability of these economic constraints. As long as Milei retains public support, he can continue implementing IMF-backed reforms with minimal political cost. However, if the expected economic benefits take longer to materialize, Argentine society may grow impatient, making it more difficult to push these measures through the Senate and potentially straining Milei's relationship with the organization.

While Milei's reforms have garnered some success, particularly in reducing inflation, the long-term effects remain uncertain. The Fund optimistically projects a 5% economic growth in Argentina by 2025, but this estimate may not fully capture the political challenges Milei will face in implementing economic reforms. As seen in countries like Kenya, Ecuador, and even Argentina itself, the IMF's cost-cutting measures often lead to protests and the renegotiation of previously agreed-upon terms. Critics in these countries contend that these policies impose external control over national budgets and social policies, eroding sovereignty. These concerns are especially prevalent in developing countries where the institution's recommendations are seen as favoring global financial interests over national development needs. Milei has less than a year to stabilize the economy while adhering to the contingencies of the deal before the next election. This short window poses significant challenges, especially given the limited control his party has in the Senate and possible social unrest. Achieving stability in such a short time would be a remarkable achievement, but it remains unclear whether the Fund's ambitious projections can account for the political realities on the ground.

The more likely scenario is increased social strain in the short term, which would lower Milei's popularity and erode his political support ahead of the 2025 elections. The opposition would likely seize this opportunity, weakening his ability to negotiate with the legislative branch and undermining his economic and political agenda. If this happens, there is no guarantee that the next government will be as IMF-friendly as Milei has been. For instance, the previous administration under Alberto Fernandez renegotiated its deal to avoid unpopular measures.

If Milei fails to implement the rest of his economic agenda—or, worse, loses the next election—the Fund will be forced to renegotiate its existing agreements, a process that can take months and may not yield the desired outcomes. Debt restructuring, which involves renegotiating repayment terms, reducing debt, or extending payment periods to make debt more manageable, is a complex challenge for the IMF, especially when countries have significant loans from China, as is the Argentina case. Unlike traditional creditors, China's lending practices complicate restructuring efforts because it does not easily agree to write off debts. As a result, Argentina's mounting debt makes future negotiations even more difficult, slowing down the process of restructuring and potentially exacerbating economic instability.

In this complex scenario, the only consistent factor seems to be the IMF's advisory role. As political and economic tensions rise in Argentina, and with increasing difficulties in negotiating debt restructuring due to China's influence, the multilateral lender may find itself primarily providing guidance. This could involve offering technical expertise on policy measures, debt restructuring frameworks, and economic stabilization strategies. While its financial support remains crucial, the Fund's ability to drive substantive change will largely depend on Argentina's political will and the shifting dynamics of global lending. ■

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