Argentina: a life-line from the IMF

Resorting to the IMF could help stabilize near-term FX dynamics, but seeking assistance could also carry a stigma that prevents a recovery in investor sentiment

Source: Niels Mickers

Emerging market FX remains on the back-foot and whilst Argentina hasn't been the cause of the widespread sell-off, it is certainly emerging as one of the weakest links in the EM space. 1275bp of rate hikes and the announcement of a fiscal tightening program have so far failed to restore confidence. The Macri administration has decided, as a result, to turn to the IMF and request a US$30bn Flexible Credit Line (FCL).

Despite good relations with the Fund and with US authorities, it is unclear that Argentina would qualify for an FCL (such as the ones currently held by Mexico and Colombia). A Precautionary and Liquidity Line (PLL), which carries a lower standard for qualification, could be an option for Argentina as well. The amount, US$30bn, could also be lowered.

If granted, the requested amount, comparable in size to Argentina's net-FX reserves, along with the implicit endorsement of the IMF authorities to its economic program, would boost Argentina's ability to stabilize FX markets and should be well-received by investors. But the need to resort to the Fund represents a harsh reality-check for the country, possibly carrying a stigma that could continue to depress investor sentiment.

Ultimately, Argentina's outlook remains weighed down by the worrying rise in its current account deficit, which is rising towards an unsustainably high 6% of GDP, and the still large fiscal deficit. With these twin-deficits likely topping 10%-of-GDP this year, Argentina has become especially vulnerable at a time that FX financing costs and risk aversion are rising.

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