“The Risks of Argentina and the IMF's Ongoing Negotiations for the Future of Multilateral Financing”

Speech by Martín Guzmán

Pontifical Academy of Social Sciences, Vatican

Fraternal Economy Session on the UN Financing for Development

April 1–2, 2025

Thank you for the opportunity to speak at the Fraternal Economy Session on the UN Financing for Development. I have been asked to discuss the case of Argentina and the IMF, in light of the risks that the ongoing negotiations for a new IMF loan pose for the future of multilateralism.

Let me begin by providing some context.

First, Argentina is the IMF's largest debtor—approximately 30% of the Fund’s total outstanding credit is to Argentina. The country currently owes SDR 31.1 billion out of a total outstanding IMF credit of SDR 102.8 billion. This exposure originated in 2018, when the IMF granted the largest loan in its history to a single country: nearly USD 45 billion was disbursed out of a total approved loan of USD 57 billion. Disbursements ceased after the incumbent government lost the 2019 presidential primaries. That loan financed a capital flight of around USD 24 billion by carry-trade speculators and was also used to amortize roughly USD 21 billion in unsustainable sovereign bonds—debt that had to be restructured in 2020.

The IMF itself acknowledged this in December 2021 through its Ex-post Program Evaluation of the 2018 Stand-By Arrangement (SBA). It concluded that the program failed and stated that capital account regulations—what the IMF now terms “capital flow management”—should have been in place to prevent financing capital flight with IMF resources. It also noted that a debt restructuring should have occurred to avoid using IMF funds to repay unsustainable private debt. That loan was widely seen as a politically motivated one. That is the first key piece of context.

Second, what is happening in Argentina today? In 2024, we saw a massive resurgence of carry trade activity. The government used the exchange rate as a nominal anchor to contain inflation, resulting in a sharp real appreciation of the peso. Investors, expecting a stable official exchange rate and government intervention in the parallel "blue-chip" (CCL/MEP) market—still relevant due to the existence of tight capital controls—bet heavily on carry trades. The returns on local-currency financial investments far exceeded the rate of exchange rate depreciation.

To illustrate the magnitude: in just the past 15 months, carry trade returns in US dollars have reached 43%. That's 43% in USD over 15 months. However, this capital inflow did not translate into sustainable investment in the real economy—especially not in the tradable sectors. The money went into short-term financial speculation, not productive capacity. Now we are witnessing a reversal of those flows.

So how is the Argentine government responding? By seeking a new IMF loan, aiming to use the funds to intervene in the exchange markets—while increasing the country's debt burden. Managing the exchange rate is especially crucial this year because Argentina is holding legislative elections, and the exchange rate is widely seen as a key determinant of the government's electoral prospects.

This brings us to the multilateral implications. Unlike in 2018, Argentina now has a law that requires Congressional approval for any IMF financing program. This law—the "Law for Strengthening the Sustainability of the Public Debt"—was passed almost unanimously by both houses of Congress in 2021. Its aim is to prevent future governments from borrowing massively in foreign currency and under foreign law without proper Congress oversight, thereby avoiding long-term consequences for future generations.

Yet the current government bypassed this law. It issued a **Decree of Necessity and Urgency (DNU)**—the Argentine equivalent of an executive order—skipping Senate approval altogether. Notably, the decree was issued **before** any agreement was reached with the IMF staff.

There is still no formal agreement with the IMF, although the institution's leadership continues to express optimism. However, this unilateral move triggered backlash within Argentina's political system. Three senators sent a letter to the IMF's Managing Director and the 24 Executive Board members, warning that disbursing a loan under such irregular conditions would violate the IMF's **Exceptional Access Criteria**—specifically the criterion #4 requiring broad political support and institutional capacity for program implementation.

The senators warned that such a breach would render the loan illegitimate. Many of us share that concern—particularly since Argentina's finance minister publicly admitted that the real reason for the DNU was the lack of a Senate majority, not a genuine emergency. In other words, the government could not secure enough political support to authorize a new loan that would finance capital flight and deepen the IMF debt burden on future generations.

The government has explicitly stated that it does not seek the loan for budget support, but to increase foreign exchange reserves for **"libre disponibilidad"**, meaning to be used at the central bank's discretion.

Furthermore, the DNU states that part of the new loan will be used to roll over IMF debt coming due between **September 2026 and March 2029**, totaling around USD 14 billion. The total financing under the proposed new program is USD 20 billion, according to both the Argentine government and IMF management. However, the government is requesting a large **upfront disbursement of 75%** of that amount—USD 15 billion—on day one.

But why would the government need USD 15 billion immediately if repayments to the IMF only resume in September 2026, and the net increase in IMF debt is expected to be USD 6 billion? The logical inference is that the government seeks immediate liquidity to fund exchange rate interventions. If the IMF approves this, it will further reinforce the perception that the loan is politically motivated.

To conclude: we all know that the IMF is a senior creditor with preferred creditor status. When a country owes a significant amount to the IMF, it deters other lenders from extending credit, knowing they would be behind the IMF in repayment priority. Thus, this arrangement would not only harm Argentina again, but also make it harder for the country to roll over its remaining external debt with private creditors.

But more broadly, the global implications of a new politically driven IMF loan to Argentina are profound. The IMF could become even more entangled in domestic politics to ensure repayment. Already, part of the Argentine political system is warning the IMF that any new disbursement will be considered illegitimate—meaning the Fund may end up campaigning, implicitly or otherwise, for the current government in the upcoming presidential election. This would severely damage the IMF's global credibility.

And that's not the only damage. A politically motivated loan would add risk to the IMF's portfolio, reducing its ability to respond to crises in other countries. It would compromise the Fund's ability to fulfill its core mission: assisting countries facing balance of payments distress.

That is why the world should pay close attention to what is happening. And I thank you again for the opportunity to bring this issue to light.