

UNDERSTANDING THE ECONOMIC TURMOIL IN ARGENTINA

Relevant for: International Relations | Topic: India - South America

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Argentina's currency, the peso, has lost approximately 50% of its value this year and 25% in August alone, falling to new lows on Monday as confidence in the currency continued to drop. Earlier this week, President Mauricio Macri asked the International Monetary Fund (IMF) to accelerate the disbursement of a \$50 billion loan, on the premise that the money could be used for servicing debt and intervening in currency markets. Mr. Macri said that a lack of confidence in the peso and inflation of around 30% had compelled him to do this. The IMF had already disbursed a tranche of \$15 billion in June. Most of Argentina's debt is dollar denominated and the growing weakness of the peso against the dollar has been a cause for concern to markets. Argentina's central bank announced last week that it was increasing the quantum of reserves banks would have to hold, and it hiked interest rates to 60%, to rein in inflation and increase investor confidence in its currency (higher interest rates attract more capital). The administration announced "emergency" austerity measures on Monday, including temporary increases in export taxes on certain raw and processed agricultural goods; soymeal, soya bean and corn represent a large chunk of exports (over 30% in 2016).

Also in the works are a 27% cut in capital spending and closing down and consolidation of ministries (from 19 to 10). The centre-right Macri administration has said it will have a balanced budget next year and a budget surplus of 1% by 2020 — significantly more ambitious than the 1.3% budget deficit target set by the IMF as part of the bailout agreement. The taxes are a noticeable departure from the free market platform on which Mr. Macri started his presidency in 2015, a theme that ran counter to years of intervention by his predecessors, Cristina Fernandez de Kirchner (2007-2015) and her husband Néstor Kirchner (2003-2007).

Argentina is no stranger to financial crises (including the 2001 crisis). Years of populist policies under the Kirchners coupled with controls on the exchange have again unsettled an economy that had benefited from the commodity boom, creating persistent fiscal and current account deficits and high inflation. The U.S.'s interest rate hikes and an appreciating dollar have exacerbated the troubles of several emerging markets, including Turkey and Argentina.

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