

After Argentina's midterms: Can Milei's momentum drive economic transformation?

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[00:00:24.12] - Maurice Obstfeld

Welcome to this Peterson webinar on After Argentina's Midterms: Can Milei's Momentum Drive Economic Transformation? My name is Maury Obstfeld. I'm the C. Fred Bergsten Senior Fellow at Peterson, and we have a fantastic panel here today. I will start off with some stage-setting remarks, but Let me introduce the panel in the order in which they will speak. All of them are senior fellows at Peterson. First, we will have Alejandro Werner, who is the founding director of the Georgetown Americas Institute and the former director of the IMF Western Hemisphere Department. Next, Monica de Bolle. Monica hosts the biweekly Peterson podcast Policy for the Planet and is former professor of macroeconomics at Johns Hopkins SAIS and at the Pontifical University, Catholic University in Rio de Janeiro. Last but not least, José de Gregorio, Dean of the School of Economics and Business at the University of Chile and former governor of the Central Bank of Chile. Argentina is a perpetual source of fascination. And from a very early time has been no stranger to crises. With its rich resources in the 19th century, it was a tremendous magnet for people and for capital from Europe. But already in 1890, it was the center of the Baring Crisis.

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Argentina had a slowdown. Uh, Baring, a major investor, uh, went into crisis. The Bank of England carried out a massive intervention and, uh, important regional spillovers ensued. Um, Michel Camdessus, who was the managing director of the IMF at the time of the Mexican crisis in the mid-1990s, called that crisis the first 21st century crisis. But I would argue that the Argentine crisis of the 19th century already had the hallmarks of 21st century crises. Even notwithstanding that crisis, by 1895, Argentina had the highest per capita income in the world. And 100 years ago, it was still in the top 10 in global per capita incomes. Over the years, however, it has suffered cycles of populism and market-oriented reforms punctuated by military rule. And all of these cycles have taken a toll on Argentina's growth so that now it is viewed no longer as the richest country in the world or one of the top 10, but a country that has, uh, uh, endemic and persistent political turmoil and macroeconomic instability. Javier Milei's presidency

has been the latest cycle in a return to market-oriented reforms. And the big question for everyone is, will this time be different for Argentina?

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Impressively, he has brought down inflation, which was running at double digits in December 2023 when he was inaugurated. He's balanced the budget. And with a new \$20 billion IMF program last April, he liberalized the capital account and started an exchange rate-based stabilization program based on a wide and expanding currency band for the Argentine peso. But in September, after a provincial Buenos Aires electoral loss that was much severer than expected, a currency and debt crisis broke out. The exchange rate hit the top of the band. And this reflected political problems, but also fundamental economic problems. Argentina's current account is in deficit. Growth has been slow recently, though it is forecast to pick up. Net international reserves remain negative and hefty bills to international creditors are coming due. Many observers believe, and I'm sure our panelists will address, that without a real depreciation of the currency beyond the band, growth will be held back. It will be hard to attract capital inflows to Argentina, which Argentina needs to repay its foreign debts and attract reserves. The big surprise in September, which was good news for Argentina, was extensive U.S. backing of the government's program. The U.S. Treasury created a swap line with Argentina.

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It also intervened directly in the peso market to the tune of \$2 billion, something that is really unprecedented for an emerging market currency. And also in October, the US simply transferred about \$900 billion in SDRs within the IMF to pay Argentina's debts to the fund. Following these events, the October 26th election delivered a big victory for Milei and demonstrated that whatever else is going on in Argentina, there's certainly no overwhelming sentiment to return to Peronism. The history of exchange rate-based stabilizations in Argentina and in Latin America more generally is unfavorable, but there may be a narrow path to success for Milei. No one has ever had U.S. Treasury support of the kind he has had. And obviously, the U.S. can peg the peso-dollar exchange rate if it has the political will. The U.S. administration apparently sees lucrative investment opportunities in Argentina. And while it has adopted an America First policy, some of its spokesmen are redefining that to include not only the homeland of the U.S., but also the Western Hemisphere. And the big question is, will voters in the U.S. buy it? Before the October 26th election, I posed the question of whether Argentina and its government and its political program is politically illiquid or politically insolvent.

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The verdict of the October 26th election was that we were seeing a bout of illiquidity for now. The U.S. bailout, I think, proved that. But the need for long-term U.S. support, if that occurs, would indicate insolvency and probably be unsustainable. An important paper from 1995 in Brookings by Rudy Dornbusch Eline Goldfein and Rodrigo Valdez. They were then graduate students. They are now quite prominent policymakers, documented the many failures of exchange rate-based stabilization programs in Latin America and indeed throughout the world. And one quote from that paper stays with me, and I think it is relevant for the discussion today and for thinking about where Argentina may go. And the quote is this, quote, an exchange rate strategy that is only viable with good news is a bad strategy. With that, I'll turn it over to Alejandro.

[00:08:42.01] - Alejandro Werner

Thank you very much, Maury. And following on that quote, I will share my slides and I think we We had a seminar in June talking about Argentina, and let me start by recapping what have been the major events since that seminar that Mauricio just went over them. There was the election in the province of Buenos Aires, then a run on the peso. The government intervened significantly to sustain demand. Then we were surprised with unexpected and large US financial support for Argentina. And after that, we were again faced with very positive news for the government that was a much better than expected electoral result in the midterm elections. However, and linking to the the last quote that Mori cited, I think so far we have not seen from the government a clear assessment that its monetary and exchange rate policy is unsustainable, given that it had to be supported and saved first by a larger than expected IMF program in April, and after that by a completely unexpected, and we have to praise the government for having been able to achieve this, international support by the US government. So let me go over quickly a little bit on where we are in the Argentinian economy.

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After a very important recovery that started in the second half of 2024, the economy has basically stagnated after the first quarter of 2025, something kind of expected of an exchange rate-based stabilization, but it's going on. Secondly, I mean, we had an— I mean, on the back on financial fragility and volatility after the election in the province of Buenos Aires and after the midterm election and the US financial support, Country risk has gone back to its floor of 650 basis points, that it's very hard to see a country risk really breaking through that floor and the economy financially being stuck there. We have seen some real exchange rate depreciation. I think that's important, maybe explained by the depreciation of the dollar. And also explained by the flexibility provided by the new band that started in April, May, and the government kind of used it to move to the upper half of the band. And we have seen like a 10, 12% real exchange

rate depreciation since then. However, I mean, none of this has been enough to really jumpstart the process of accumulating international reserves. That is one of the weak points of the program so far.

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I think as Maurice said, we have seen an impressive and unexpected fiscal consolidation that is going to be sustained as long as Milei is president. But on the monetary and exchange rate side, I think there's a lack of conviction of where to go besides using the exchange rate as an anchor and therefore running the risks of what Maurice said has been an established fact on exchange rate-based stabilization that many times they are overused and end up in a balance of payment crisis. What are we seeing in the current account? I mean, we're seeing, if we look at tourism, obviously outflows increasing much faster than inflows. That's the first slide on the left. These are indexes. So 100 is the first data point there, and it shows us the average rate of growth much faster on outflows than inflows. When we look at imports versus exports in the chart in the middle, I mean, again, a very good performance of exports, but I mean, outmatched by a very fast trend of growth in imports. And when we look within imports, we see a very fast increase on consumption goods imports and capital goods, not that much activity on intermediate goods.

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But we can foresee that to the extent that the currency continues to appreciate or remains at the current levels in real terms, we will be seeing a widening in the current account deficit. So looking forward, I think, I mean, we are at the best point that the Argentinian administration is going to have financially. Maybe when they close the second review with the IMF, let's say sometime in the first 2 months of 2026, that might be the highest point of strength for Milei government with the support of the US government, with, let's say, a revised IMF program and still with significant political capital hopefully being reflected in important structural financial reforms being passed by Congress in this period. And that I think is the moment for the Milei administration to change track a little bit, move to a more balanced stabilization, focusing more on activity and external balance and a little bit less on achieving such a fast disinflation. I mean, work done by the IMF like 6 years ago, looked at other inflation stabilization programs. And basically going from 40, 50 annual inflation to one-digit inflation took most of the countries more than 4 years.

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We also had the examples of Chile, Colombia, and Mexico. So trying to do it in 4 seems to be, to me, to be overdoing it and building up financial fragility that is unwarranted. And again, I mean, quoting Rudy Dawn Bush, himself quoting a Republican senator about the war on Vietnam, having said, "Let's declare victory and get out." It seems that it is the time for Millet to claim that 80% or 70% of the inflation fight has been done. Now they should move to a slower disinflation and a more sustainable disinflation and stabilization pattern, looking at the real sector and the external sector. If you look at the case of Mexico, after losing all of its reserves in '94, it continuously build its reserves. I might agree with the Argentinian authorities that the real exchange rate might be at a long-term equilibrium if we consider a nice and positive outcomes on its hydrocarbon exploration and exports, on mining exploration, et cetera. However, even looking at Mexico after NAFTA, it is true the real exchange rate came back to the level we had after before the 1994 crisis, but it took 6 years to reach there. So I do think after significant depreciations and financial fragilities, I mean, currencies, and given the demand to rebuild reserves and balance sheets, currencies should go through a much longer period of a weakened currency.

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The case of Brazil, I mean, and Monica might talk more about this, I mean, Brazil did not deplete its reserves as much as Argentina, and the accumulation of reserves was a little bit more opportunistic on the back of the commodity boom. So it built reserves faster and during a shorter period than Mexico. But when we look at the real exchange rate, the same kind of story. I think now Milei faces on the one hand, the political economy dilemma. To get reelected, he needs to show that economic transformation, inflation stabilization, and growth is dependent on him. To grow, the economy needs investment, and for this to happen, lowering political risk is a necessary condition. So he needs to show that reform is based on a much broader political consensus. And I think the exceptional results of the election will allow Milei to pass his budget and some important reforms, but also to continue on the polarizing trend that might keep alive political risk in Argentina. On the economic side, as I said, Milei should move fast to approve the 2026 budget and 2027 deficit targets, approve tax and labor reforms. But I think this will not be sufficient for markets to reopen fully.

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So he needs to float the currency or significantly move the ban to something more realistic. The central bank should move to a very clear, transparent monetary policy, maybe money aggregates growth. We need to have more transparency on US support. We still do not know what is happening with the second tranche that the US was arranging, a private sector operation for \$20 billion. Maybe that will not be there. And also exactly what are the conditions

for the swap. Hopefully the US Treasury support will be linked much closer to the IMF program. We still do not know what are the US Treasury's views On currency accumulation of reserves and monetary policy, I think if Argentina moves ahead with a strategy along these lines, it is warrant an augmentation of the IMF program to guarantee refinancing of IMF debt service. However, if the government insists on a strong currency to accelerate disinflation, I think fragilities will build up and we will reach a national election in a very shaky situation. Thank you very much.

[00:19:10.08] - Maurice Obstfeld

Okay, thank you, Alejandro, and also for keeping, uh, so, um, strictly within your time budget constraint. Um, if only Argentina could learn that lesson.

[00:19:21.11]

Uh, Monica,

[00:19:26.27] - Monica de Bolle

Thank you, um, and thank you, Maury. I'll be very brief. I have basically 3 points. The first is, and Alejandro has already mentioned it, so have you, Mauri, is the issue of the monetary and exchange rate regime in Argentina. So it is my view that the monetary and exchange rate regime is vulnerable, is unsustainable, but it's actually unsustainable by design. Argentina is a bit different these days from other countries in the region, and I say these days on purpose because about 20, 30 years ago A lot of countries in South America had these dual exchange rate regimes whereby, or dual monetary regimes, I should say, whereby countries use their own currencies as well as the U.S. dollar to run their economies. But since then, what we saw in the last 30 years or so is that a number of countries in the region have abandoned that kind of dual currency regime. And now, you know, Argentina is pretty much, alongside Uruguay perhaps, is the one remaining country that's still has not only its own currency but the dollar as well being used as legal tender. So it's not really a question of just, you know, saving in dollars or using the dollars.

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It's a question of how the currency is actually used. And in Argentina, the reason why the dollar is used this way is because given the fraught financial history that the country has had, the dollar is really the safe harbor. It's a safe currency. It's the currency that no Argentinian in his right mind will ever want to abandon, which poses a really big problem for the Milei administration in terms of thinking about how to go forward with this monetary and exchange

rate regime. It's not as simple for a country like Argentina caught in this kind of dual currency regime to just float. Whenever that idea comes up in Argentina, Argentini-ans panic. And the reason why they panic is because they don't want to hold the pesos at the end of the day. They don't trust their own currency, and they will always run to the dollar. So self-fulfilling expectations set in whenever the word float is mentioned, meaning that they just immediately—Argentini-ans just immediately flock to the dollar. And the devaluation that they so fear always comes to pass. And breaking that kind of impasse, or breaking that kind of stalemate, is not easy, because one really has to think about various different options.

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And amongst them is the option of perhaps formally dollarizing Argentina. It's already a dollarized economy, and formal dollarization is always in somebody's mind in Argentina. It has certainly been on President Milei's mind when he was himself running in 2023 for president. It was a— the formal dollarization of Argentina was in the cards until it wasn't. When he was elected and came into office, those plans were put on the back burner and he gave priority to a number of other reforms. But it's my view that unless they— and I'm not an advocate for dollarization in any way, shape, or form, But I am an advocate for picking a currency. You can't have both worlds. You can't have pesos and dollars. It's got to be one or the other. Else otherwise, we— Argentina will keep falling into the same kinds of patterns that we've seen over many, many decades. And it's, it's a problem without— it becomes a problem without a solution, um, in that respect. The second point I wanted to make has to do with the U.S. involvement that Maury was mentioning before. So we all know now what that looks like. We've seen how the Treasury has extended this currency swap line to Argentina.

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We have seen how the U.S. administration has come out forcefully backing the Milei administration in Argentina. And there are two things I think that one should be looking at when one sees this. On the one hand, you know, the U.S. is being very, very hands-on with a number of countries in South America specifically. So South America is a region that for a very long time was sort of out of the spotlight from a US perspective and now has come back to a very large extent to the spotlight, not only with the actions taken in Argentina, but notably what's happening in neighboring Venezuela and the things that are likely to, to come forward from that. So I think this U.S. interest or geopolitical interest in the region, which has grown quite substantially in recent months, is something to keep looking to when one thinks about Argentina. Because if ever formal dollarization comes back to, to being in the cards, or if ever that idea comes back in the way that it did in 2023, would the U.S. be willing to step in and help the Argentini-ans fully dollarize their economy? I think that's a a question for us now.

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It wasn't a question a few years ago, but it seems to be certainly a question when we try to look forward and see what U.S. engagement in Argentina looks like, in particular given this renewed interest in South America more broadly. Finally, my last point, Maury, and I'll end here, is that Argentina, for all, you know, the attention we give it and for all the time we spend talking about it, is not a systemic country. It's not a country that is likely to have its problems contaminating other countries in the region, let alone the United States. It is not that kind of a country. So in other words, Argentina is sort of like Las Vegas. You know, what happens in Argentina stays in Argentina. It doesn't really move from there. Which is what brings me to what really concerns me in the region at the moment, and it is Venezuela and not Argentina, because what happens in Venezuela will likely not stay in Venezuela and will likely boil over to the rest of the region. So I'll end there. Thank you.

[00:25:58.29] - Maurice Obstfeld

Okay, thank you, Monica. And, um, I'll just note that the recent, um, presidential tweets about Honduras fit in with your remark about U.S. Enhance interest in Latin America. Um, let me move on to, uh, José. Oh, José, you're muted. Jose, you're muted.

[00:26:47.21] - José de Gregorio

Okay.

[00:26:49.07] - Maurice Obstfeld

Great.

[00:26:50.08] - José de Gregorio

Great. Now, and you can see my presentation?

[00:26:53.00] - Maurice Obstfeld

Yes.

[00:26:53.29] - José de Gregorio

Okay. Well, thank you very much. It's a pleasure to be here. We had this interesting discussion in June. I would say, and from my personal point of view, I was a little bit more optimistic. They

were consolidating in Argentina a great fiscal adjustment, 5% of GDP roughly, which is quite important, important even for this magnitude of the disequilibrium in Argentina. So it was quite significant. Of course, It's not, as someone said, the largest in the world and that they like to exaggerate, but has been quite relevant. There has been many other experiences even more strong, but this was a— and they were also with the reforms, doing reforms to support growth. So there was, I think, that a very high chance of successful. And then came, after our talk came the 7th of September elections in Buenos Aires, which was a very big bad news for the government. But then they, on late October, they had this huge, receive a big support in the presidential, in the, sorry, in the late October elections that again renewed optimism. That was very close to a currency collapse. This of course can calm down things and it was quite important.

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Now what's it? Problem of Argentina, and I think that they still have them so seriously as it was some months ago. And as time goes on, things become more vulnerable because relying on an exchange rate, and the big problem is that Argentina, and I will complement what Alejandro said, Argentina has low growth, is an economy that is with with problems now in terms of activity. They had a recessionary adjustment on the fiscal front, but they don't have fiscal policy. I'm sorry, they don't have monetary policy because they are using an exchange rate to anchor inflation or using the exchange rate to combat inflation. So as we know from school, there is no space for monetary policy to to have some recovery. So the economy is not growing with a tight exchange rate, and that's a problem. If on top of this we add that they have the largest IMF program, and on top of that they receive some support, swap line from the US, there is a real trouble. And I think that this reminds me the paper that you wrote, Maurice, published in 1996, that when economies in a recession and the exchange rate is managed, fixed, whatever, they are firm candidates for a currency collapse.

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And why? Because at the end, the credibility on the exchange rate system is reduced and is harmed because of the recession. Not because fiscal problems that Argentina do not have currently, but it's because of the inability to grow. So let's just look at the data. So this is what show Alejandro. He showed the index of economic activity. And what we see in the index of economic activity of Argentina is that indeed Argentina in the year '23 and '24 output decline, then it recovered. It's still at levels close to what it was like 3 years ago. So Argentina is still with a lot of lack of activity, but it was flat all this year. And in the last couple of months, we have seen growth in activity in Argentina, and that has led to some optimism that the economy could recover. Under current conditions, and that of course will reduce the pressures on the exchange

rate front. However, I want just to put a question mark on this 2 months of positive growth. These are 2 months, August and September. So this is 2 months before, this is before the winning the election. And I don't know of the more current figures, but what we see, this is a decomposition, it's in Spanish, but I would say, and in the red, the 3 most important sectors in Argentina are by far financial intermediation, mining, and real estate.

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So I don't like to put weights on sectors, but when you see construction, manufacturing, services with negative growth of very small growth, you wonder whether this is a very strong growth and is here to remain. So that's, I would say, is sort of my main point about that. Growth has been good, 5% on 12-month and going up on a month-to-month basis. But in terms of the composition, there are some doubts on how sustainable is the rate of growth. Then, and why this happened, these are financial conditions. And I got this data, they don't have data for November, so this is until October. So, and this is a way to contain exchange rate pressures. What is the way? Is with high interest rate. So at the end, monetary policy, instead of providing relief, monetary policy tighten. You see the blue line is the interest rate, is the more than 90 days to the non-financial private sector. And the red is the 12-month expected inflation for the next year. So this is roughly close to a real exchange rate. And what we see that real exchange rates all this year have been quite high, going up, going up a lot, very close to the elections and the maximum periods of turmoil.

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However, they have declined. I have seen figures for recent days, they haven't had a further decline, but still we're talking of real interest rate of 20%. Argentina, the financial system is pretty small, still has been growing. So, but this is a rough indicator that financial conditions are tight related to the defense of the currency. One would say with normal real interest rate, we are not sure whether they would be able to contain the pressures on the exchange rate. So this is—now, where is the big concern about Argentina? The concern about Argentina is the exchange rate. So this is a problem. And here we see that in the elections, they were at the top, at the ceiling of the band. The ceiling of the band, now there is some space, but still there are pressures for the currency to depreciate. That's one point. The ceiling of the bond is going up at 1% a month. But remember that inflation in Argentina is about 2% a month. So with the US and the difference in decimals, you may be appreciating by 1% a month in real terms, so which deepens the problem. This is Argentina multilateral exchange rate.

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We see that more recent, has been the most appreciated of the last years. And here I have just 10 years, but when I compute the average for 20 years, the currency may be appreciated like 15%. There has been a depreciation, but that depreciation is more closely related to the fact that the Argentina is roughly pegged to the dollar and the dollar have been depreciating. And that has been usually the problem of Argentina, that it pegs sometimes at the wrong time. The dollar appreciates when they need a depreciation. That was happened with the collapse of the convertibility. But now things are difficult and they need, not urgent, but they need to depreciate. So let me just conclude saying that Argentina's authorities do not have fear of inflation. They have panic, fear of floating. They have panic of floating. They have panic of floating. They really, they should move to much more flexibility. There are two options. I think that allowing to float the currency, it has cost, there is no financial cost in terms of misalignment, which was a very big concern for authorities in Latin America in the past. But there is a cost in inflation.

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It's a transitory cost, but at least can normalize situations in Argentina. Otherwise, they could go more moderate, but increasing more rapidly the ceiling of the bond and just let the change rate adjust. There are costs in terms of inflation, but I think that is an avoidable cost for Argentina given the tensions that they have now., and if you want to consolidate the fiscal reform and to keep going with the structural reforms in order to foster Argentina's economic growth. Thanks, Maurice.

[00:36:42.00] - Maurice Obstfeld

Okay, thank you, José, and this is great. We're right on time on the predetermined schedule, so that's good. I just can't resist noting one thing from Alejandro's presentation. Uh, uh, uh, you know, in the, in the U.S., there's been a discussion about affordability and about the seeming inability of voters to determine between the, the price level and the inflation rate, which is the first derivative of the price level. You know, we say, well, inflation is way down compared to 2021, but prices are still high. Voters really can't tell the difference. And, um, Alejandro referred to the desire of the government to accelerate disinflation. So I think that's the third derivative of the price level, and that's an indication of how sophisticated Argentines have become over the many years of high and nearing hyperinflation. Um, but, um, Just to make a serious point, what I wanted the panelists to address is what, you know, we macroeconomists often point to the inflation targeting regime as being successful and has been very successful, including in many Latin American countries. But if the Malay government were to move to a float, say, or a managed float, What would be the anchor?

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Would the exchange rate still function as some sort of a nominal anchor, or what would replace it? You know, when I talk to Argentine economists, they feel very badly burned by the Macri administration's experience with inflation targeting, which ended up being fairly disastrous because the target wasn't credible. So what would the Milei government put in its place? In your estimation? And why don't we start with José? We can go in reverse order.

[00:38:49.05] - José de Gregorio

Yeah, just a very small point. I think that inflation target has been quite successful. I think that Argentina, my view is Argentina should move to flexible exchange rate and then grant full autonomy to the central bank and forget about dollarization and all that. Kind of extreme view. And why is this important? Why Macri inflation target failed? Because it was an incredible target because the central bank was still financing the budget. So that's kind of very 101 answer. So the problem in Argentina was that Macri government didn't do any fiscal adjustment. It needs monetizing the deficit. It asked the money to the central bank that was not independent to say no. In Chile, it's unconstitutional to provide money to the government. So what Milei should do in order to have a credit after has solved the fiscal source of inflation, which is the problem in Argentina, float, give full independence and a very strong mandate that does not allow the central bank to finance the budget. And I think that that's a way to go. And an anchor, an exchange rate anchor has completely failed. There is no— and the monetary anchor, we know that has many technical problems and inflation targeting has been extremely successful.

[00:40:18.04]

And keeping with the exchange rate anchor is what you mentioned in Donbass, Goldfam Baldez paper that they say that exchange rate and misalignments are never solved without doing big changes in the exchange rate.

[00:40:39.09] - Maurice Obstfeld

Okay, Monica, reactions?

[00:40:44.05] - Monica de Bolle

Well, I go back to my point, Maury. I think the issue in Argentina is the way by which the dollar is used alongside side the peso, which is different in a lot of other countries in Latin America these days. They just don't do it like that anymore. I will go back to an even older literature than the one you cited, and that's the literature on currency substitution in Latin America. It's literature of the '80s and the late '80s and the early '90s, where, you know, we were interested in understanding why you had these instances in the region where the local currency was

substituted informally by the dollar because of these problems of the past. You know, the many financial crises, the hyperinflations, and all of that. And the countries that didn't adopt this, José's own country, Chile, as well as Brazil, the two countries in the region that completely escaped currency substitution, Those were two countries that managed to move to inflation targeting fairly well after going through a number of problems, obviously. Argentina is different. Argentina has still the currency substitution problem. So it still has, you know, this, this use of the US dollar, which basically, in my view, doesn't really allow it to have it, to have any other anchor but the exchange rate.

[00:42:13.29]

So in other words, the reason why they keep falling back on this very imperfect anchor, the exchange rate, is because they have a degree of currency substitution in their economy that doesn't really allow them to do anything else. And that, I think, is the real Gordian knot in the Argentinian case, because at some point you need to choose. You need to choose whether you're going to have your own domestic currency and use it as such, or if you're going to adopt somebody else's. And like I said, I'm no advocate of dollarization at all, but I do think that the problem in Argentina goes beyond the usual discussions that we have about fixed versus floating exchange rates and inflation targeting in that context.

[00:43:02.01] - Maurice Obstfeld

Yeah, I mean, just to put a point on that, the, um, Some of the older literature indicated that with really free currency substitution, the exchange rate could become indeterminate. And that's very different than standard economies. Alejandro, your thoughts?

[00:43:19.06] - Alejandro Werner

No, I think— I mean, and Argentinians have looked at this. I think Peru and Uruguay had a significant degree of dollarization. I think in the case of Mexico, we had a low level of dollarization, but we had it. So countries have been able also to get away from that with a more prudent transition to inflation targeting, et cetera, et cetera. So I think it is doable, and especially is doable with such a strong fiscal anchor. I think what Argentina has not had in the last, since Federico Sturzenegger left the central bank, a central bank team and an economic team that is convinced on a monetary framework that they design. So I think Argentina should not adopt inflation targeting now. I think it's too early to adopt a strict inflation targeting, but I think they should announce that they will be transitioning to inflation targeting in 3, 4 years. They should have slightly more flexible inflation objectives. I mean, if they announce that next year inflation will come down by 10% and it ends up coming down by 6%, it's a success. And they should

guide the economy on this path towards lower inflation. And eventually, when money demand is more stable and local currency assets demand is not so volatile, they can move to a much more strict inflation targeting framework.

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In the transition, I think I would like much more a very traditional a system of strict money aggregates growth. Well, I mean, base money growth, M1 growth, with an escape clause that they will allow breaching the targets if the economy is remonetizing through the accumulation of international reserves. And I think that's feasible to do It goes very well with the IMF program. If they float or they go to a wider band and realistic band because now the lower part of the band is irrelevant, I think that's a debate that would be nice to have. But I think they should move to much more flexibility. Some type of exchange rate move in the future will take place. Monetary aggregates policy in their transition to inflation target.

[00:45:54.20] - Maurice Obstfeld

If you read the IMF program from April, the way I read it is that there was an optimistic path set out where inflation comes down, interest rates come down, the demand for pesos goes up.. And with, with, um, very limited growth in domestic credit, which was one of the requirements of the program, uh, you have to satisfy that money demand with, um, reserve accumulation. And Argentina's— Argentina's hold— and again, if, you know, if American voters were informed about this, they might not be happy, you know, vast amounts of dollars offshore So, if you know, basically the program is saying if we can restore credibility and stability and get those assets repatriated to some degree, then the central bank, the government end up with more reserves that can pay their bills. And this liquidity problem is really a serious problem unless the US is willing to just pay all of the bills. For a normal country without support You know, this, this wouldn't— just wouldn't be— wouldn't be an option, uh, you know, on top of the IMF support. So it seems like, you know, again, if you put together all of the, all of the stresses— I mean, you, you, uh, you and José referred to the, um, uh, the need for some, some degree of real depreciation.

[00:47:28.03]

Um, Monica talked about the legacy of, um, the past and dollarization. Um, it seems like a very narrow, uh, narrow path to, to navigate, to make, to make all of this work and to satisfy all of the, all of the constraints. And that, that in turn seems to be, you know, as we, as we approach the next presidential election, uh, you know, what, what is happening in the economy will be very you know, the, the, the, there'll be a sort of multiplier effect of any bad news insofar as it affects

the polls. So, um, you know, I'm not sure how, how the panelists see this, see this playing out over the, over the longer term. Um, there does seem to be some short-run stability and an opportunity here, but, um, uh, uh, you know, there's room for destabilizing shocks as well.

[00:48:26.12] - Alejandro Werner

I, I don't know, something.

[00:48:28.15] - Monica de Bolle

Um, I, I fully, I fully agree with that, Maury. I think the, the extent, the extent of Argentina's vulnerability cannot be exaggerated. It is still completely vulnerable, and things may go off course easily. Whether that happens because of domestic reasons or external reasons is really besides the point, because the way we see crises playing out in Argentina. There's always a cause. That cause may be external, internal, it doesn't really matter. As long as you have a vulnerable exchange rate regime and monetary regime in the way that they do, it eventually befalls, you know, the problems befall on that, and people run and balance of payments crises ensue and all of that. So the really, the fascinating question to me, and I know it is to you as well, is that now that we know that the US has decided to become involved in Argentina in the way that it has, And given that the U.S. administration has thrown its weight behind the Milei administration, in other words, there's a very clear intent to support the Milei administration. That administration has another 2 years in office. 2 years is a long time for things to happen in Argentina.

[00:49:44.14]

And I do wonder to what extent the U.S. administration isn't going to become ever more embroiled in Argentina especially to prop up Milei for the upcoming elections in 2027. That to me is the real fascinating geopolitical political question that's running in the background of this discussion.

[00:50:07.11] - Alejandro Werner

Let me jump in. I think the support of the Trump administration to Argentina has been very strong. I think we will get to know through time how generalized within the administration the support is. We know that it's pretty strong at the Treasury, but I don't know in other parts of the administration. And then when you go to the broader Republican Party, the support is clearly not there. So I think Argentina should be very smart in trying to link the US Treasury support closer to the IMF program. If Secretary Bessant leaves the Treasury, who can come? Will the support be there? Or even Bessant might move to other things. Only having \$2.5 billion in a swap line

that is fully guaranteed with no currency risk, et cetera, is not that a big deal to abandon. So I think they should try to lock it in significantly more. And if the America First policy is America with an accent, then maybe they get better news, but they prepare for bad news. And let the upside there. I think then the narrow path to me that you mentioned, Mauricio, is less narrow maybe than what you think. I do think that with the fiscal anchor, with the political capital that Milei has, with expected support from the US, if they move to flexibilize their exchange rate policy and have a clearer monetary policy framework, Maybe pushing the IMF to commit to do 70% of refinancing of amortizations in '26 and 50% in '27.

[00:51:59.08]

Argentina is relatively well placed to reach the election, to have somebody, Milei or somebody that is centrist, to get reelected and have another 4 years of reform and maybe really put this thing on on a much stronger footing. It's a less narrow path, I think, than the one that you described. It's narrow, but I think it has a good shot.

[00:52:20.27] - José de Gregorio

Yeah, just to complement what we said before, I like to, and the timing of the different objectives in terms of monetary policy and the risk that they have because of targeting the chain rate. Is the Chilean experience. The Chilean experience after the crisis of 1982, it took 2, 3 years to clean up the financial sector, then the fiscal, with a very depreciated exchange rate, 30% inflation a year, a new central bank independent. And only in 1994, inflation came to one digit, but with this very strong growth. And now it was consolidated. So the question is, and this is for Milei government and now for this government, the question is whether you kind of jumping to objective that should be further in the future. And Alejandro is completely right. You have to announce 3 more years. Don't need to announce a table of convergence, but you have to announce an independent central bank, that you will go, and then you'll be quite strong in fiscal and structural reforms and on competitiveness. We are small open economies in which competitiveness at the end could be quite complicated. I'm surprised even one thing that is, this is a story everywhere, but in Argentina, you solve the fiscal problem, you have a strong Strong exchange rate, you solve the fiscal problem, restrictive monetary policy, and inflation is still 3%, 20%.

[00:54:12.17]

So there is a lot of inertia and it will take time and it could dent a lot of competitiveness. So I think that the timing is quite important and try to consolidate what has been achieved.

[00:54:31.14] - Maurice Obstfeld

Okay, let me turn to a question in the online Q&A, which I think is a great question. You know, Millais' strength has been his determination, but one wonders if in some respects it can also be a weakness. And the questioner raises the issue of, you know, the extreme polarization, you know, the alternative to Millet is the Peronists. So it's either, you know, this or something very, very bad. So is there, is there some scope for Millet to, you know, build out a more centrist, um, consensus about policy in Argentina that might marginalize the Peronists more, building on his electoral victory? It seems clear that, you know, the, the, the, in the midterms that Peronism was, was rejected, but there was a light turnout. So, um, uh, you know, what are, what are the political challenges and do you think Milei is someone who can surmount them?

[00:55:37.18] - José de Gregorio

That's a great question because I, I think that is at the core of Argentina's problem and it's the, not the polarization, the completely different views about how the world works and how Argentina should work. There is no basic consensus. So that's created a lot of political polarization. Let's go at the other side of the Andes. In Chile, we have a communist candidate and a very right-wing candidate, and they agree in 70% of the things that the country needs. And in Argentina, so in Argentina, the big thing, the uncertainty is that also because it's divided, because Milei got less than 50%. So you can have a new government that will do things completely different. And that's, I think that that kind of uncertainty is very weak for growth. And I fully agree. Well, that's, I think that Milei should try to move more to the center to give a greater scope and to create more consensus around his policies. And not this is the right guys against the corrupt insane, stupid. And this is kind of a, it's all this discussion about kind of the new populism in the world, in which, or you are with me or you are corrupt.

[00:56:57.14]

I think that that kind of a dilemma poses by Milei government. They should move more to build some consensus, at least for the day that they are not there, because governments have finite life.

[00:57:14.00] - Alejandro Werner

Yeah, a little bit. The question goes to a line that a friend told me, that maybe the second worst thing that could have happened in the midterm elections is for Millet to have a very good result. The worst outcome would be for him to do very poorly, but him having done that well might validate the polarizing strategy and that he will continue to do it and he might feel that he does not need to look for that center. So I think one is that maybe the signal that he got from the

midterm doesn't bode well for this. And secondly, in terms of personality, and it might be asking Lionel Messi to play basketball. I mean, that would be very hard. So, and he knows that for him to get reelected and be in a campaign in 2027, Having moved to the center and be a more normal politician kind of loses a lot of what drove people to vote for him. So it might be a big challenge. I totally agree that is what Argentina needs, but I think it's a tall order for this administration to have.

[00:58:33.25] - Monica de Bolle

I'll just add one thing, Maury. Peronists, as we know, are not a unified group. They're not necessarily leftist or centrist or right-wing. They come in all shapes and forms and flavors. The, the Peronism that has come under strain in Argentina and has been very much rejected and creates this sort of scission or rupture within the political spectrum is the stuff espoused by Cristina Kirchner. Not defending Peronism, obviously. I'm just making the point that it's a much more heterogeneous group of people and of politicians that align themselves with the word Peronism, which doesn't really have a worldview attached to it. In a way, I think that that kind of framing of the political situation in Argentina doesn't really help us see what the center would be. And therefore, I agree, you know, with the sense that finding a center in Argentinean politics is extremely hard. And by the way, that is echoed throughout the region these days. It's hard to find a center anywhere because a lot of countries are suffering from this anti-sentiment on one side. In Argentina, it's anti-Peronism. In neighboring Brazil, it's anti-PT or anti-Lula, where Lula is the current president. So that kind of intolerance that has built in political systems across the region makes it very difficult for politicians to even have the incentive to find whatever the center might now be in the electorate's mind.

[01:00:21.05]

So I just wanted to, to underscore that.

[01:00:24.29] - Maurice Obstfeld

Okay, uh, and, um, on that note, Monica, uh, we're out of time. I'll just mention that that seems to be a growing problem further north as well. So, uh, thank you all, uh, this has been great. And, um, yeah, I hope we can, uh, you know, periodically come back and revisit, um, how Argentina is doing. It's going to be an ongoing, fascinating story.

[01:00:49.24] - Alejandro Werner

Thank you.

[01:00:50.28] - José de Gregorio

Great being here and see you.

[01:00:52.26] - Alejandro Werner

Bye-bye.

[01:00:53.25] - José de Gregorio

Bye-bye.