Argentina’s Peso

Why in news?

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- Argentina’s currency, the peso, has lost approximately 50% of its value this year and 25% in August, 2019.
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What is happening with Argentina’s economy?

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- President of Argentina has asked the International Monetary Fund (IMF) to accelerate the disbursement of a $50 billion loan.
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- The loan money could be used for servicing debt and intervening in currency markets.
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- The IMF had already disbursed a tranche of $15 billion in June.
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- Most of Argentina’s debt is dollar denominated.
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- The growing weakness of the peso against the dollar has been a cause for concern to markets.
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What was the response in this regard?

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- Argentina’s central bank announced that it was increasing the quantum of reserves banks would have to hold.
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- The central bank hiked interest rates to 60%, to rein in inflation and increase investor confidence in its currency.

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- The administration announced **emergency austerity measures**.
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- One such measure is temporary increase in export taxes on certain raw and processed agricultural goods.
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- Over 30% of exports in 2016 were represented by soy meal, soya bean and corn.
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- Also in the works are a 27% cut in capital spending and closing down and consolidation of ministries.
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- The administration has also said it will have a balanced budget next year and a budget surplus of 1% by 2020.
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- The target is more ambitious than the 1.3% budget deficit target set by the IMF as part of the bailout agreement.
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What are the factors that led to this situation?

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- Argentina is no stranger to financial crises.
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- Years of populist policies from 2007 to 2015 under former President Kichner's rule coupled with controls on the exchange have unsettled the economy.
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- These measures created an economy with a persistent fiscal and current account deficits and high inflation.
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- The U.S.'s interest rate hikes and an appreciating dollar are the reasons that exacerbated the troubles of Argentina.
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Source: The Hindu

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