Argentina

Argentina imposes currency controls

Government moves to prevent capital flight after peso slides in spiralling economic crisis

Demonstrators march in Buenos Aires against the economic policies of the government of President Mauricio Macri © AFP

Benedict Mander in Buenos Aires and **Colby Smith** in New York SEPTEMBER 1 2019

Argentina slapped currency controls on businesses on Sunday to prevent capital flight after the peso lost more than a quarter of its value since primary elections last month, in its latest move to stave off a rapidly spiralling economic crisis.

The central bank will require exporters to repatriate earnings from sales abroad, while all companies, not just banks, must seek authorisation to sell pesos for foreign currency, after it lost $3bn in reserves on Thursday and Friday alone.

The move follows the surprise announcement on Wednesday that Argentina will seek to defer payments on $101bn of debt, which rating agency Standard & Poor's briefly classified as a default on Thursday.

It reverses one of the first big achievements of President Mauricio Macri who, shortly after taking power in December 2015, abruptly removed strict capital controls that had been in place since 2011. These controls had prompted the MSCI index to strip Argentina of its status as an emerging market, demoting it to a frontier market.

With markets jittery over the prospects of a return to populism in Argentina, causing Argentine asset prices to plunge further this week, the government published a decree on Sunday aimed at reducing market volatility and "containing the impact of the fluctuations of financial flows on the real economy".

"Given diverse factors that affected the evolution of the Argentine economy and the uncertainty caused in the financial markets, the [government] considered it necessary to adopt a series of extraordinary measures aimed at assuring the normal working of the economy, sustain the level of [economic] activity and employment, and to protect consumers," said the official statement.

The central bank specified that individuals would be limited to the purchase of no more than $10,000 a month "to protect savers and achieve greater exchange rate stability". It added that no one is restricted from withdrawing dollars from their accounts, while there is no barrier on trade or travel restrictions.

Investors had been expecting some form of capital controls. But some fear that the move could jeopardise the IMF's latest disbursement of its $57bn bailout programme secured by Argentina during a currency crisis last year, with a $5.4bn tranche due by the end of September.

"How is the IMF supposed to disburse the last tranche into this environment?" asked Ed Al-Hussainy, an analyst at Columbia Threadneedle, noting it is a "massive moral hazard".

The IMF said in a statement that it was analysing details of the latest measures.

"Today the Argentine authorities announced capital flow management measures with the aim of protecting exchange rate stability and the savers....Staff will remain in close contact with the authorities in the period ahead and the Fund will continue to stand with Argentina during these challenging times."

Paul Greer, a portfolio manager at Fidelity International, said that local bank deposit holders, both in pesos and in dollars, "must now be anxious that they could be next for restructuring or reprofiling of their assets — this would not be unprecedented in the recent history of Argentina."

"The power vacuum between now and the likely inauguration of Alberto Fernández on 10th December makes all of Argentina's imbalances and macro headwinds much more challenging than normal," he added.