Argentina

Javier Milei's quest to defuse Argentina's currency control bomb

Libertarian president aims to secure IMF deal to help prepare for end of fixed exchange rate

Javier Milei has managed to tame the country's inflation crisis with a severe austerity package © AP

Ciara Nugent in Buenos Aires

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Argentina's President Javier Milei is promising to lift the country's strict capital and currency controls this year, starting the clock on a high-risk mission that is essential to his attempt to revive the economy.

The controls, which limit individuals' and companies' access to dollars and set an official exchange rate, have been in place for nine of the past 13 years. Foreign businesses say they are a huge hurdle to investment in Argentina, even as Milei's free market reform drive piques their interest.

Milei, a libertarian, is seeking an IMF loan to help him lift the controls, but says he will do so by the end of this year regardless.

"Even without the IMF's help . . . the controls will no longer exist on 1 January 2026," he told a local television station on Monday. "Now, [if there is a disbursement], we can do it faster. We'll have to see how the programme is structured."

Milei has a good reason to hesitate, economists say. Known collectively as "*el cepo*" ("the trap"), the controls are made up of half a dozen critical regulations and many smaller rules, which help to stabilise the peso and prevent capital flight from Argentina.

Removing the wrong rule at the wrong time could unleash too much pent-up dollar demand, leaving Argentina's cash-strapped central bank unable to respond, and force the government to devalue the peso's official exchange rate. Or it could provoke volatility on the black and legal financial markets where Argentines buy dollars, because access to the official market is restricted.

Either of these scenarios could reignite the inflation crisis that Milei has tamed with a severe austerity package. The monthly inflation rate has fallen from a peak of 26 per cent in December 2023 to below 3 per cent — the main factor sustaining Milei's consistent 50 per cent approval rating, pollsters say.

"Milei doesn't want to risk cutting the wrong wire in this [bomb] that he is disarming, and blowing up his whole success story," said Fabio Rodriguez, a director at M & R Asociados, a financial consultancy in Buenos Aires.

"The problem is, we've had the controls for so long that we don't know how many people will sell pesos when they are lifted, or where exactly the exchange rate should be," he added.

Argentina is due to hold midterm elections in October, where Milei's La Libertad Avanza hopes to grow its tiny congressional minority. Analysts say the president is unlikely to risk changes to the controls in the run-up to the polls, and authorities say they aim to reach an agreement with the IMF by April.

Milei has said he needs $11bn to replenish central bank's negligible hard currency reserves and bolster its firepower to prevent a potential run on the peso as controls ease.

Argentina is the fund's largest debtor, still owing more than $40bn for its most recent programme, which concluded in December.

An IMF delegation left Argentina last week after negotiations in which the main sticking point was Milei's unorthodox exchange rate policy.

The peso was allowed to weaken just 2 per cent a month in 2024, with the pace reduced to 1 per cent from this month. With inflation running well above that, the currency appreciated more than 40 per cent in real terms last year. Argentina has run a current account deficit since June and the central bank has struggled to build up reserves.

But IMF officials, including managing director Kristalina Georgieva, have praised the rest of Milei's policies, which in 2024 delivered Argentina's first budget surplus in 14 years.

That has fuelled growing expectations of a deal, particularly as the fund was willing to lend to Milei's left-leaning predecessor, who printed billions of dollars' worth of pesos to fund spending and failed to relax currency controls.

Analysts and people familiar with talks said the deal could hinge on a phased lifting of controls, designed to carefully manage new dollar demand.

"I would be very surprised if they decided to lend without a commitment on lifting controls, but they shouldn't empty the whole spaghetti bowl in one go," said Hector Torres, an Argentine former IMF director.

Milei's team has a lengthy menu of options to choose from. The government has started removing barriers for importers to send money overseas. Experts say some minor financial regulations, such as holding peso government bonds for a minimum of 24 hours, may be removed with limited fallout.

Others regulations are harder to cut. A restriction that prevents multinational companies from transferring profits overseas, for example, is keeping some $10bn worth of pesos in Argentina that would be probably converted to dollars if the rule was scrapped, according to consultancy Fundación Capital.

Central bank president Santiago Bausili said in November that such stockpiles were "the main impediment to lifting controls" and the government was prioritising restrictions on future flows of money.

One key regulation in the IMF's crosshairs is the government's regime for Argentina's crucial agricultural exporters, who must convert 80 per cent of their dollar earnings with the central bank but can divert the remainder into a parallel market for a better exchange rate. That cost the central bank up to $12bn in potential reserve inflows last year.

When and how IMF support arrives is unclear. While fund watchers say a deal looks increasingly close and that Milei's $11bn figure is feasible, it is unclear how much would be transferred upfront.

Alejandro Werner, a former Western Hemisphere director at the IMF, wrote in a blog last week that disbursing large amounts upfront would allow Argentina to spend IMF resources on keeping the peso strong and deepening its current account deficit. That would "leave the country in a weaker financial position once the exchange rate correction happens", he added.

The "most likely outcome", he argued, was for the fund to only offer financing to allow Argentina make $2.5bn in payments it has due to the fund itself in 2025, relieving the stress on its scarce cash resources, but wait until 2026 to provide "greater financial backing" to lift controls.

In that scenario, the government would lift only minor parts of the controls until elections, while focusing its economic policy on securing enough dollars to sustain the exchange rate and control market jitters.

"They will do whatever it takes to maintain stability until the elections and then their options start to open up," said Amilcar Collante, an economist at Argentine consultancy Profit Consultores. "Until then, they're putting the economy in cruise control."

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