

# Weekly Asado



W|Wilson Center

Argentina Project

**Friday, January 11, 2019**

*Uncle Sam: Can you spare a dime?*

# TO ARGENTINA

## Mechanisms for Loans

### Exchange Stabilization Fund

*Authorized by the president without congressional approval*

The ESF allows the U.S. to extend lines of credit to countries in financial crises, such as President Clinton's \$20 million loan to Mexico during its 1995 "Tequila Crisis."



### System Market Open Account

*Under the Federal Reserve's Jurisdiction*

SOMA is the Fed's instrument for foreign currency swaps, and was used extensively during the 2008 financial crisis, amounting to \$550 billion in swaps.



## The ESF and Argentina



\$2.7 billion

Total Amount made available to Argentina since 1959



## China Opens Vaults for Argentina



2014

Agreements  
are finalized for an

2018

The swaps are

Last September, media [reports](#) suggested Argentine authorities were in negotiations with the U.S. Treasury for a \$10 billion line of credit. The country was experiencing rapid capital flight, and its currency was rapidly losing value. But Economy Minister Nicolás Dujovne denied any requests for direct financing from Washington. The United States, he [noted](#), was supporting Argentina “through its role as a shareholder in the IMF.” Indeed, after Argentina [secured](#) an additional \$7 billion from the International Monetary Fund, Buenos Aires credited the White House for championing the expanded bailout, the largest in IMF history.

The appreciation from the Casa Rosada was no doubt genuine. But China’s willingness late last year to [expand](#) its bilateral credit line to Argentina, from \$11 billion to \$20 billion, has raised questions about whether the United States has similar tools to shore up troubled allies.

In the past, the U.S. government extended credit lines to friendly governments through the [Exchange Stabilization Fund](#), and the U.S. president retains the ability to authorize credit through the ESF without congressional approval. Given China’s liberal use of currency swaps as a foreign policy tool, the White House will likely make more regular use of the ESF, notwithstanding President Trump’s misgivings about foreign assistance. *Whether that occurs in time to help Argentina whether its latest economic turmoil, however, is not clear.*

The United States established the ESF in the 1930s, and has used it to support countries grappling with currency crises. In all, the ESF has provided funds more than 100 times to governments and central banks (see chart). It is perhaps best known for its role in stabilizing the peso during Mexico’s 1995 “Tequila Crisis.” That \$20 billion loan, approved by President Bill Clinton, helped restore confidence in Mexico’s economy, and in NAFTA, which had been established only a year earlier. “We must act now in order to protect American jobs, prevent an increase in the flow of illegal immigrants across our borders, ensure stability in this hemisphere and encourage reform in emerging markets around the world,” Mr. Clinton [said](#) at the time.

The same year, Argentina also [received](#) support from the ESF, [as it had in](#) 1988, 1987, 1985, 1984, 1968, 1967, 1962 and 1959.

Less well-known than the Treasury Department’s Mexico bailout was its helping hand to Argentina’s neighbor, Uruguay, in 2002. At the time, Uruguay was suffering the contagion effects of Argentina’s 2001 default, which provoked a bank run among Argentine depositors in Uruguayan banks. Uruguay’s dramatic

response – it devalued its currency, and declared a bank holiday – did not prevent the worst economic crisis in Uruguayan history.

In response, President George W. Bush extended Uruguay a \$1.5 billion loan from the ESF. The loan, Treasury Secretary John Taylor later recalled, “bolstered confidence and enabled Uruguay to reopen its banks without a resumption of the bank run.” Uruguay avoided default and maintained access to international financial markets, which locked out Argentina until 2016.

*For the United States, Argentine bailouts are more complicated, and more expensive, than helping out tiny Uruguay, and they are less directly related to the U.S. economy than a Mexican financial rescue. But as with many aspects of U.S. foreign policy, China’s behavior might change the U.S. calculation.*

Thirty-two countries have negotiated [swap agreements](#) with China. For Argentina, China’s initial credit line, in 2014, helped President Cristina Fernández de Kirchner avoid a politically damaging devaluation in the last years of her administration, as she depleted central bank reserves. Now, the expanded loan is helping Ms. Fernández de Kirchner’s successor, Mauricio Macri, restore confidence in Argentina’s crisis weary economy and wobbling currency.

The U.S. Federal Reserve also has a mechanism for foreign currency swaps, known as the [System Open Market Account](#). The use of that mechanism expanded during the 2008 financial crisis, as the amount of dollars sent to foreign central banks [reached](#) \$554 billion at the height of the crisis. Like the Treasury’s ESF, the Fed’s SOMA does not require congressional approval. Unlike the ESF, however, the SOMA is not controlled by the president. That means, unlike with Chinese swaps, the Fed’s decisions to offer swaps are not based on U.S. foreign policy interests.

That said, the Fed and Treasury often coordinate their lending. At one point, it appeared as if direct support for Argentina might be forthcoming. Last September, President Trump’s senior economic adviser, Larry Kudlow, offered assurances that, “Treasury is deeply involved” in supporting Argentina. (Following the interview, it was Mr. Kudlow’s off-script recommendation that Argentina re-introduce a currency peg that captured most attention.)

In this context, and given President Trump’s apparent fondness for Mr. Macri, it is odd that the notion of direct U.S. support for Argentina – perhaps through a combination of the ESF and the SOMA – is still regarded as a nonstarter.

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# KEEPING CARRIÓ



**Elisa Carrió**

Elisa Carrió is a national deputy of Buenos Aires, protégé of Raúl Alfonsín, and two-time presidential candidate.

She has often clashed with Cambiemos, leading to rumors she will exit the coalition she helped establish.

- 1 “Tarifazo”** Carrió publicly questioned the Macri government’s sharp increase in electricity, gas, water and transport prices.
- 2 Germán Garavano** Carrió challenged the Secretary of Justice’s opinion that former presidents, such as Cristina Fernández de Kirchner, should go to prison.
- 3 Nicolás Caputo** Carrió accused Macri’s close friend, a prominent businessman and senior official, for his offshore accounts.
- 4 Abortion** Carrió questioned Macri’s decision to promote a Congressional debate over abortion, and voted against against it.
- 5 Police Reform** Carrió denounced Macri’s proposed police reforms relating to the use of deadly force as a human rights violation.

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Wilson Center  
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One Woodrow Wilson Plaza  
1300 Pennsylvania Ave., NW  
Washington, DC 20004-3027  
T 202-691-4000



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