

Currency Crises: A Practitioner's View

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Abstract

Machinea, formerly Argentina's minister of finance, analyzes the period leading to Argentina's crisis from the perspective of a key decisionmaker and in the context of existing literature on currency crises. Machinea focuses on the charge that the inflexible nature of the convertibility regime was central to Argentina's problems. He carefully weighs the criticisms of convertibility against what he perceives to be alternative policies, and argues that it is unclear that a move to official dollarization or a more flexible regime would have been more effective. He defends the government's decision for fiscal adjustment and an IMF loan, and blames political disagreement and the worsening global economic climate for its failure.

Machinea draws several lessons from this crisis that should better inform policymakers in the future. Foremost, while convertibility was an effective short-run monetary stabilization tool, he believes it should have been abandoned in the good times. Furthermore, he sees implications for financial market policy. Unlike other countries that suffered currency crises, Argentina's financial system was extremely solid, fettered only by the potential cost of devaluation due to high liability dollarization. Machinea therefore concludes that liability dollarization should be discouraged. He also believes that market instruments, such as the Argentine mega-swap, cannot be used to solve liquidity problems in the middle of a crisis.