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Comparative Analysis of a Dollarization Process in Argentina in Relation to the Process in Ecuador

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Abstract

This research has been focused on analyzing the causes that produced the dollarization process in Ecuador, in order to identify the behavior of certain economic and social variables through their historical study from that moment, determining the causes that led to this decision, and the results that they have produced in the short and medium term. Subsequently, through the study of the timeline of the same variables but in Argentina, conclude the effects that could be produced in the hypothetical case that this last country also dollarizes. This study does not intend to justify that dollarizing is beneficial or not, but to compare the similarities and differences between two countries.

Keywords

Economic Situation, Dollarization, Ecuador, Argentina

1. Introduction

Our study starts by examining the definition of dollarization, as described by Bourguinat & Dohni (2002), which is the replacement of a country's national currency with the U.S. dollar for pricing goods, making payments, and saving. Broadly, dollarization can also refer to the substitution of any foreign currency for a country's domestic currency (Central Bank of Ecuador, 2000a). In essence, dollarization occurs when a foreign currency takes over the roles of local money: as a store of value, a unit of account, and a medium for payments and exchanges, with the U.S. dollar being the most common replacement (Central Bank of Ecuador, 2000b).

Complete dollarization means the local currency is fully replaced by the U.S.

dollar, acting as the store of value, unit of account, and medium for all transactions. Several factors contribute to this phenomenon, particularly in South American countries, including macroeconomic instability, underdeveloped financial markets, distrust in stabilization efforts, economic globalization, a history of high inflation, and significant institutional factors.

A country might turn to dollarization following a loss of faith in its currency's ability to function as a means of payment, a unit of value, and a store of wealth. The fundamental roles of money are highlighted as a method of payment, a standard of value, and a means of saving.

When a country's currency loses value, its citizens often turn to saving in foreign currencies to maintain their wealth's value, leading to many transactions being conducted in foreign currencies. Implementing total dollarization as an economic policy means completely replacing the local currency with a foreign one, typically the U.S. dollar, meaning that all prices, wages, and contracts are set in dollars.

Total dollarization is based on a few key principles:

- The U.S. dollar becomes the sole currency, eliminating the local currency. For example, Ecuador introduced fractional coins equivalent to their U.S. counterparts to prevent merchants from rounding prices.
- The monetary supply is denominated in dollars, influenced by the balance of payments surplus and a significant initial amount of international reserves.
- Capital flows are unrestricted, allowing free entry and exit.
- The Central Bank undergoes a transformation, shifting away from its traditional roles to take on new responsibilities.

Adopting formal dollarization typically leads to a swift restoration of economic credibility, addressing the root causes of financial distrust, such as inflation and frequent devaluations. Furthermore, it compels governments to practice fiscal discipline and exposes underlying economic issues, prompting societal and structural reforms.

The benefits observed from formal dollarization include:

a) Dollarization specifically addresses the impact of external shocks, such as the adverse effects on exportable goods due to changes in trade terms, and the imposition of quotas, tariffs, and taxes by other countries. By eliminating the possibility of devaluing the local currency, dollarization shields the economy from these external pressures.

b) Following dollarization, local inflation rates tend to align with those of the United States. While price levels between the two countries might not always match due to differences caused by arbitrage costs, tariffs, and taxes, their inflation rates eventually tend to converge. The rate at which this alignment occurs can also be influenced by factors like labor market flexibility and initial price imbalances.

c) The gap between domestic and international interest rates narrows as dollarization removes currency exchange risks and inflationary expectations, equating the nominal interest rate with the real interest rate. This new monetary system fosters confidence, leading to a gradual reduction in interest rates and bolstering trust across the entire economy.

d) Dollarization promotes financial integration by encouraging the entry of international financial institutions, thereby integrating financial assets and liabilities into a vast pool of liquidity and funding. This integration has the potential to resolve balance of payments crises, which track transactions between residents and non-residents over a specific period but do not tally the total financial assets and liabilities at the period's end.

e) Dollarization helps cut down on certain transaction costs by eliminating the need for foreign currency exchange transactions. The difference between the buying and selling rates of the dollar translates into savings for society at large, as it removes speculative intermediation that profits from currency value fluctuations.

f) Medium-term social benefits emerge from formal dollarization, which leads to macroeconomic stability, lower interest rates, and enhanced purchasing power. These changes foster growth in productive activities and a steady increase in employment.

g) Dollarization reveals structural issues within an economy due to its inherent demand for openness and transparency. It effectively lays bare financial sector problems, quickly addressing them by removing the moral hazard associated with the Central Bank's role as the lender of last resort—a role it no longer plays under dollarization.

h) Dollarization enforces fiscal discipline since the government is unable to print money. Balancing the budget must then be achieved through loans or taxation. External borrowing brings with it fiscal discipline requirements, compelling not only fiscal balance but also ensuring that government spending is more effective and socially beneficial.

In examining Ecuador's situation, it's notable that the country achieved significant monetary stability compared to its regional counterparts. Starting in 1982, however, Ecuador entered a period of chronic inflation, with the annual inflation rate hovering around 40 percent from 1982 to 1999. This inflationary period was marked by a financial crisis and subsequent adjustments in the balance of payments, complicating the management of external debt payments. To address this, Ecuador implemented two key strategies.

First, the Ecuadorian government initiated challenging negotiations with international creditors, a process that spanned the 1980s and 1990s. These negotiations were crucial in restructuring Ecuador's external debt.

Second, in terms of economic policy, the government shifted away from import substitution towards promoting exports. The goal of this shift was to generate a commercial account surplus, thereby securing the funds needed to service the country's debt. Initially, this involved strict import restrictions, but the core strategy focused on boosting exports.

This export promotion strategy, popular among developing countries starting in the early 1980s, aimed to enhance the profitability of exportable goods and services. The strategy sought to lower the relative production costs of these goods and services compared to their international prices, effectively suggesting a depreciation of the real exchange rate. This approach encouraged an increase in the prices of tradable goods relative to non-tradable goods, as outlined by Guillaumont & Guillaumont (1993).

In the years leading up to the late 1990s, Ecuador grappled with deep-rooted social issues, including significant social inequality, exclusion, and poverty. By 1995, the poverty rate had soared to 56%, with rural areas particularly hard hit, showing a poverty incidence of 76%—figures that stood well above the Latin American average (Larrea-Maldonado, 2004).

The Ecuadorian economy faced heightened challenges during 1998-1999, marked by the rise to power of Jamil Mahuad's government. In 1998, the financial sector saw the intervention of four banking institutions, starting with Solbanco. This bank encountered financial difficulties while attempting to fund a doomed affordable housing plan initiated by the ousted President Abdalá Bucaram, eventually being taken over by Banco Continental. Following this, Banco de Préstamos, belonging to the Peñafiel-Salgado group, experienced a significant withdrawal of 140 million in April 2018. This group, which owned the oil company Tripetrol, found itself in dire straits as oil prices plummeted and the Russian crisis unfolded, rendering loans given to these enterprises irrecoverable (Oleas-Montalvo, 2020).

Another significant casualty was Filanbanco, the country's fifth-largest bank, holding 11.4% of the total banking system assets. It was part of the Isaías Group, which traced its roots back to the early 20th century with the arrival of Lebanese immigrants in Ecuador. Over time, through mergers and the infusion of Lebanese capital, this community solidified its economic influence, diversifying its investments into various productive sectors. This group included prominent families such as the Isaías, Dassum, Kronfle, Kuri, Anton, Raad, Adum, and Bucaram (CEDIS, 1986).

Filanbanco was in dire straits by September 1998, as revealed by an audit showing only 8% of its portfolio was in prime condition (type A), posing a 37% risk. Essentially, Filanbanco was bankrupt. Yet, it received a significant bailout from the Central Bank of Ecuador (BCE)'s newly appointed Board, which approved a liquidity loan of $151 million, a substantial portion of the BCE's international reserves at the time. By October, Filanbanco had incurred losses amounting to 45,000 million sucres, with 40% of its portfolio exposed, endangering its assets. Further, it secured additional loans worth roughly $250 million in national currency by November (Oleas-Montalvo, 2020).

According to Oleas-Montalvo (2018), the financial crisis unfolded in three distinct phases. Initially, Filanbanco's collapse led to increase money printing, which, coupled with dwindling confidence in the financial system, spiked the public's demand for cash. This situation was exacerbated by a tax reform in December 1998, introducing the Capital Circulation Tax (ICC), imposing a 1% levy on all transactions within the National Financial System. This move, aimed at dodging income tax by economic groups, further fueled the demand for cash and led to severe financial disintermediation.

This turmoil sparked rampant speculation on the exchange rate. Meanwhile, the existing exchange rate policy, a band system maintained by the interim government of Fabian Alarcón Rivera, failed to stabilize exchange rate fluctuations and prevent the depletion of the International Monetary Reserve. This led to the most economically damaging event for Ecuadorians: the freezing of savers' bank deposits.

On March 8, 1999, Ecuadorians were caught off guard by an unprecedented announcement: for the next 24 hours, all savings accounts would be inaccessible, with no withdrawals or transactions permitted. This "banking holiday" was initially set for a day but was extended to five, allowing limited withdrawals of up to 2 million sucres or $500 from accounts in foreign currencies. The banks ended up holding onto 4 trillion sucres and $350 million in total.

This drastic measure came despite President Mahuad's reassurance just days before that the government would "never seize or confiscate anyone's accounts". Over a million people, including many retirees who had depended on their bank deposits for interest income, were left unable to everaccess their savings.

The collapse of Banco del Progreso marked the second phase of the crisis, eroding public trust in both the national currency and the government itself. In the third phase, bailouts for Popular, Previsora, and Pacífico banks led to an explosive 13.3% average monthly increase in the monetary base, destabilizing Ecuador's monetary system (Oleas-Montalvo, 2020).

The cost of rescuing Ecuador's banks reached at least $6 billion, about 50% of the country's GDP. This included $900 million in Central Bank loans to financial institutions, $3.8 billion in frozen depositor funds, and an additional $1.3 billion in loans from the Central Bank through the AGD. This financial rescue operation was significantly more expensive relative to GDP than similar interventions in other countries (Mancero, 2001).

Faced with a deteriorating mandate due to his failure to address the crisis and his ties to bankers—a sentiment echoed widely over the years and noted in (Vistazo Magazine, 2021)—that the former president enacted policies favoring bankers, notably Banco Progreso under Fernando Aspiazu, who had donated $3 million and funded his campaign. Consequently, on January 9, 2000, Jamil Mahuad, then President of Ecuador, made a bold decision to dollarize the Ecuadorian economy. This move, aimed at salvaging the country from its deepest financial turmoil, was largely viewed as Mahuad's final attempt to retain favor, especially given his known affiliations with the banking sector. However, just twelve days following this announcement, Mahuad was ousted from office. Despite the initial political fallout and immediate repercussions, the decision to adopt the U.S. dollar has since garnered staunch support among Ecuadorians.

Initially, the concept of dollarization was not widely embraced. Throughout 1999, a minority of Ecuadorian economists and business leaders, united under the Economic Forum, passionately advocated for dollarization through publications and seminars (Schuler, 2002). The chronic economic instability that Ecuador faced for two decades culminated in the devastating financial crises of 1998 and 1999. The move towards full dollarization, while directly addressing the immediate crisis, can also be seen as a response to the destabilizing effects of earlier attempts at partial dollarization.

2. Methodology

This study utilized a mix of research techniques. Inductive, or empirical methods, were primarily employed, supplemented by deductive approaches to draw on theoretical frameworks, analytical insights, and overarching principles to dissect the case at hand. Drawing from the outlined conceptual framework, we've engaged with a broad spectrum of ideas, theories, and analytic methods to unlock the essence of the issue at heart. This approach facilitated a comparative analysis, shedding light on the nuances among various macroeconomic indicators.

3. Theoretical Framework and Empirical Evidence

It has been 23 years since Ecuador transitioned to using the U.S. dollar, a move that has ushered in an era of monetary and financial stability despite the barrage of external economic challenges over the past two decades (Avellán, 2023). Toscanini (2020) posits that dollarization has been instrumental in curbing inflation, subsequently exerting a positive effect on reducing unemployment rates. This transformation has provided substantial benefits to Ecuador's economy, epitomizing the early successes of dollarization in curbing or softening the blow of exchange rate volatility.

"In the 1980s and 1990s, Ecuador tirelessly searched for economic policies that would kickstart economic growth, but to no avail. The banking system began to show cracks in 1998, a situation worsened by the general economic frailty, partly due to low oil prices. Brazil's monetary devaluation on January 18, 1999, added fuel to the fire, ramping up speculative pressure on the sucre" (Schuler, 2002: p. 6).

Argentina has faced a plethora of macroeconomic crises from its independence to the present, holding the dubious distinction of experiencing the most such events in Latin America over the past 70 years. Crises related to exchange rates or balance of payments were a recurring theme, particularly in the late 1940s and early 1970s. These issues have persisted over time, evolving in complexity and remaining a significant concern. Since 2001, Argentina has seen these economic crises become more frequent. The introduction of the so-called "currency clamp" at the end of 2011 marked a return to exchange control measures as a cornerstone of Argentine economic policy, using these controls primarily to address the country's negative balance of payments.

To address the exchange rate imbalance, the government considered three strategies: firstly, an orthodox approach involving a significant devaluation to reassure the market that the exchange rate misalignment was rectified. Additionally, to keep savings in the national currency appealing, they contemplated raising interest rates. The second strategy involved creating two separate exchange rates: a commercial rate for imports and exports, and a financial rate for private savings and tourism, which would vary based on market dynamics. This dual-rate system aimed to prevent price inflation due to devaluation and safeguard international reserves. The third option was to maintain the current exchange policy without devaluation but introduce controls on foreign exchange to protect international reserves. This would involve restricting access to foreign currency, with the Federal Revenue Administration, the Central Bank, and the Commerce Secretariat determining allocation and quantity. The government favored this interventionist strategy, involving these three institutions in its implementation (Badosa, 2015).

"Specifically, the removal of currency restrictions at the end of 2015 caused the free-market dollar to drop. However, this did not translate to a decrease in the inflation rate, which instead experienced a temporary increase. This outcome contrasted with the previous model, where lifting the currency controls would coincide with a reduction in both the inflation rate and the market gap" (Mosquera & Sturzenegger, 2021: p. 119).

When Mauricio Macri, an engineer by profession, became president on December 10, 2015, he was faced with a daunting economic legacy, marking the end of four years of exchange controls implemented during Cristina Fernández de Kirchner's presidency. Finance Minister Alfonso Prat-Gay declared that both individuals and businesses would now be allowed to buy up to 2 million dollars per month in foreign currency, a significant increase from the previous cap of 2,000 dollars. This move by Argentina's new administration effectively lifted the four-year-old restrictions on the foreign exchange market, introduced due to a shortage of foreign currency, which had negatively impacted short-term domestic growth (Diario El País, 2023).

At a press event in Buenos Aires on December 16, 2015, Finance Minister Alfonso Prat-Gay announced significant relaxations to the existing foreign exchange market restrictions, aiming for almost complete freedom. This policy shift, he predicted, would result in a substantial devaluation of the peso. Center-right President Mauricio Macri had committed during his campaign to eliminating the "cepo" exchange controls and export quotas that deterred investors in recent years. Nevertheless, this liberalization is expected to depreciate the local currency and decelerate economic activities in 2016. To mitigate the peso's devaluation, the government secured at least 5 billion dollars in financing from international banks, aimed at bolstering the country's dwindling reserves. In his recent appointment, Prat-Gay emphasized at a press conference that his ministry's goal was to "normalize the economy", highlighting the challenges of a 236 percent devaluation, halved Central Bank reserves, and the stagnation of the economy, employment, and regional economies over the past years (Casa Rosada, 2023).

"Anyone who wants to export or import can do so freely, buy or sell dollars without intimidation." stated Alfonso Prat-Gay (González, 2023). The government, moving away from the previous 12 years of center-left Peronism's restrictive policies, aimed to draw significant foreign currency influx to revive the stagnant economy and tackle the annual inflation rate exceeding 20%. However, the immediate aftermath of these measures saw a spike in inflation, spurred by devaluation speculation.

To mitigate the impact of devaluation on consumer prices, the Central Bank on Tuesday dramatically increased interest rates by up to 1,000 basis points to 38%. This hike prompted some banks by Wednesday to offer deposit rates approaching 40%. While the exact future value of the U.S. dollar wasn't disclosed, the Treasury Secretary confirmed the benchmark would be the "contado con liquidación" rate, standing at 14.2 pesos per dollar.

"Contado con liquidación" refers to dollars gained from buying local assets in pesos and selling them abroad for dollars, closely mirroring the higher parallel market rate, well above the official rate of 9.825 pesos per dollar. An anonymous Central Bank source indicated the official dollar would be priced between 13.5 and 15 pesos. The effectiveness of this strategy hinges on the speed with which dollars circulate back into the national economy

Following the PASO election outcomes, Javier Milei emerges as the leading contender for the presidency. His campaign is marked by a bold vision: to dollarize the economy, thereby replacing the depreciated Argentine peso, dismantle the Central Bank, and drastically cut state expenditure. In essence, Milei advocates for sweeping governmental reforms, labor market deregulation, opening up to international trade, and tax reductions.

A cornerstone of Javier Milei's campaign is the proposal to dollarize the economy, which involves discarding the devalued Argentine peso and abolishing the Central Bank to streamline government spending significantly. According to his advisory team's estimates, about 35 billion dollars would be necessary to bring this plan to fruition without causing further devaluation. Milei believes shutting down the Central Bank would release dollars currently held as international reserves into circulation, boosting the availability of the US currency (El Universo, 2023).

Milei's strategy is underpinned by the quantity theory of money, which connects the amount of money in circulation with overall price levels. Essentially, this theory suggests that the volume of money available in an economy directly influences inflation and purchasing power. Central banks typically regulate this money supply, underscoring the significance of Milei's proposal to eliminate the Central Bank as a means to alter the economic landscape.

$$MV = PQ$$

The concept of the quantity theory of money traces back to the 16th century, emerging from the "price revolution". This period of economic upheaval in Europe, following the influx of gold and silver from the Americas, challenged the initial European expectation of wealth from these precious metals. Instead, it led to a significant rise in the prices of commodities, with prices increasing sixfold from 1500 to 1650. Although not as pronounced as 20th-century inflation rates, such price increases were uncommon at the time. Martín de Azpilicueta of the School of Salamanca was the pioneering economist to connect the surge in prices to the growing volume of precious metals, or the era's money supply. He observed that as American metals exchanged for European goods, their value decreased, resulting in higher goods prices due to the metals' supply outpacing the availability of goods (Gaviria-Rios, 2000).

Building on this historical context, Javier Milei, a presidential candidate, argues that solving inflation necessitates stripping politicians of their ability to print money indiscriminately. Milei proposes a comprehensive overhaul involving state reform, labor market flexibility, and economic liberalization as prerequisites to adopting the U.S. dollar as the national currency. This strategy, endorsed by Krugman and Wells (2019), aligns with the quantitative money theory, illustrating how excessive money creation by governments, intended to finance significant budget deficits, can lead to rampant inflation.

The proposed second step in the transition towards a dollarized economy involves dismantling the oversight body for financial institutions, thereby fostering "monetary competition". In a deregulated environment, individuals would have the freedom to conduct transactions in their preferred currency, be it gold, Swiss francs, or British pounds.

The final stride in adopting the dollar involves reallocating a portion of the Central Bank's reserves to public debt, with the remaining assets being used to distribute dollars throughout the economy. This process culminates in the cessation of the Argentine peso's production. Advisors to the plan highlight a significant shift in Argentine savings behavior, with a marked preference for the dollar, effectively making it the currency of choice (**Table 1**).

4. Results and Discussion

Ecuador's decision to embrace dollarization has yielded numerous benefits, effectively addressing fiscal mismanagement, stabilizing prices, enhancing the purchasing power of its citizens, simplifying financial planning for businesses, diminishing poverty rates, and laying down a conducive environment for investment and economic expansion.

Central Bank data reveal a significant transformation in the financial landscape: the private sector's gross financial portfolio surged from accounting for 19.5% of GDP in 2001 to 46% in 2021. Additionally, from 1977 to 1998, Ecuador saw a 14% increase in real per capita production. Remarkably, this growth accelerated during the dollarization era, with a 22% increase recorded between 2001 and 2022.

Table 1. Comparative analysis of economic indicators between ecuador and argentina.

	Argentina August 2023	Ecuador December 1999
Montegary Regime	Exchange Control	Dirty Float
Financial System Status	Stable	Quiebra de 18 entidades financieras
Annual Inflation Rate	113.5% annual	96% annual
Nominal GDP (Millions of dollars)	632.770	15.933
Monetary Reserve at Dollarization (in dollars)	27.955	872726.100
Minimum Living Wage at Dollarization (Monthly in dollars)	202	56
Dollar Exchange Rate (in national currency)	745 pesos per dollar	18.287 sucres per dollar

Sources: (Banco Central del Ecuador, 2023).

Ecuador's journey towards complete dollarization is notably profound, distinguishing it as the only major economy to have successfully transitioned from a state of partial or informal dollarization to a fully dollarized financial system. This milestone, achieved as of the latest accounts in 2010, underscores the country's pivotal role in the global discourse on dollarization strategies (Gastambide, 2010).

The reinforcement of dollarization stands as a pivotal economic milestone for Ecuador, showcasing its significant impact on the nation's economy. During the pandemic's peak, Ecuador faced a daunting challenge as its International Reserves dipped below USD 2 billion, barely covering 25% of the deposits held by various financial institutions within the Central Bank of Ecuador (BCE). This scenario underscored the vulnerabilities of a transitioning economy. Nevertheless, by the conclusion of 2022, a remarkable recovery was observed, with reserves climbing over USD 8.3 billion, ensuring complete coverage of these deposits, a testament to the resilience and strategic financial management within the country.

In this evolving landscape, the BCE's role is increasingly critical, positioned as the guardian of dollarization. It bears the responsibility to safeguard institutional autonomy and to pursue three strategic aims diligently:

- To bolster monetary stability by adeptly managing its investment portfolio.
- To oversee the central payment system, ensuring its efficient operation.
- To ensure the national availability and distribution of currency, both coins, and banknotes.

It's pertinent to highlight that within Latin America, Ecuador stands among the exclusive trio of dollarized economies, alongside El Salvador and Panama. Javier Milei, drawing inspiration from Ecuador's experience, praises its dollarization as a model of success, suggesting that Ecuadorians enjoy a superior economic standing compared to Argentines. Proposing to emulate this model, Milei hints at a potential hybrid approach, combining elements of Ecuador and Salvador's dollarization strategies, particularly focusing on the pace of their implementation.

In 2000, Ecuador embarked on a dollarization journey amidst an economic turmoil so severe that adopting the US dollar was seen as a desperate bid to rescue the nation from the grips of hyperinflation. The inflation rate had soared to 96%, and the national currency, the sucre, had faced a staggering devaluation of 346%. This phenomenon aligns with the "law of one price", as elucidated by Martín-Marín & Télez-Valle (2014), which posits that identical goods in different countries should, theoretically, have the same price when converted into any currency. The theory suggests that inflation-induced price hikes lead to increased demand for foreign currencies, causing currency devaluation. The situation in Ecuador, where devaluation outpaced domestic inflation, serves as stark evidence that the crisis was exacerbated by those hoarding cash.

In the subsequent year, El Salvador's President Francisco Flores declared the adoption of a dual-currency system: the colon and the dollar. However, the transition to the dollar as the sole currency was swift as the circulation of colones ceased. The motivation behind El Salvador's shift to dollarization was fundamentally different from Ecuador's; it was driven by economic interests rather than an economic emergency. Specifically, dollarization was a prerequisite for the approval of a free trade agreement with the United States, aimed at eliminating customs duties and tariffs between the two nations.

Analyzing Argentina's economic landscape reveals no current banking crisis, with financial institutions maintaining sufficient dollar liquidity to cover savers' deposits. However, the effectiveness of such measures is questioned, as it's argued that Ecuador, despite adopting dollarization, has not effectively tackled growth and productivity challenges, unveiling considerable social vulnerabilities and fragility within its society.

The debate extends to structural reforms, perceived as rational; however, their implementation brings to light the redundancy of dollarization. Politically, for Javier Milei's ambition of dollarization to materialize, Congressional backing is crucial, a support he presently lacks.

Reflecting on Argentina's past under Menem's leadership, as noted by Zícari (2020), the enactment of the State Reform Law facilitated privatizations and the liquidation of public assets, transitioning the democratic narrative towards individual freedom, ultimately culminating in market dominance. This period saw the introduction of convertibility, Argentina's closest experience to dollarization, establishing a fixed exchange rate where one peso equaled one dollar. This regime, while initially curbing hyperinflation, was critiqued for embedding the economy's rigidity and competitive disadvantage, evidencing the inherent pitfalls of pegging the national currency to the dollar. It underscores a broader economic dependency on global financial dynamics, manifesting in pronounced unemployment and a susceptibility to international market fluctuations in the medium term.

To mitigate capital flight and safeguard the reserves of the Central Bank, successive Argentine administrations over the past two decades, spanning both Kirchnerist and Macrist tenures, have instituted controls on dollar acquisitions. These measures, known colloquially as "cepos", or controls, have been a characteristic response to the economic challenges faced.

For Argentines wishing to save in US dollars, the "savings" or "solidarity" dollar is available at official rates. However, the Central Bank of Argentina (BCRA)'s set dollar price is not readily accessible to the general populace, who end up paying a 75% premium and are limited to purchasing a maximum of 200 dollars monthly, subject to stringent eligibility criteria met by only a fraction. Consequently, many turn to the black market to fulfill their currency needs.

Furthermore, the "blue dollar" refers to the black market rate, which for most Argentines, represents the most feasible route to obtaining dollars outside government regulation. The term "blue" is believed to derive from slang used by the underground economy, likening the US dollar to elusive entities like "caves" or "little trees". This rate is particularly relevant in the Argentine context as it is determined by market dynamics of supply and demand, offering a real-time reflection of the dollar's value in the eyes of the public.

In the Argentine market, when engaging in transactions involving significant assets like houses, cars, or high-value electronics such as computers or smartphones, the blue dollar rate is often applied. This black market rate is subject to fluctuations driven by market dynamics, making it notably unstable. Around electoral periods, the blue dollar has historically surged, sometimes costing up to 100% more than the official rate, a phenomenon referred to as the "exchange gap". The wider this gap, the stronger the push towards devaluing the Argentine peso.

For credit card users, expenses on foreign services (like Netflix or Amazon) or minor international purchases incur an additional 75% markup, akin to the savings rate, applicable on transactions below $300. This is known Moreover; the percentage goes up to 80% when an Argentinian who travels abroad and spends more than $300. This is known as the tourist or Qatari dollar, named peculiarly due to its adjustment right before the 2022 World Cup, celebrated even more due to Argentina's victory.

For those seeking to acquire dollars without resorting to the unofficial market, the "Electronic Payment Market" (MEP) serves as a legitimate channel. Through this method, individuals buy and sell bonds via a brokerage, earning the informal title "stock market dollar" for its operation within the financial system's legal framework.

In Argentina, bonds are denominated in pesos but are aimed at purchasing dollars, engaging in transactions that span both local and international markets, adhering to the prevailing regulatory framework. The MEP dollar's value typically aligns closely with the official rate, offering less volatility and, at times, lower prices due to the Central Bank's interventions to stabilize the currency's ascent.

The CCL (Contado con Liquidación) rate provides an estimated exchange value for converting pesos to dollars (and vice versa) through a straightforward calculation. This "liqui" dollar serves as a financial conduit, enabling the conversion of pesos to dollars outside Argentina. This mechanism is crucial for businesses and investors seeking to legally transfer funds internationally, making the CCL and stock market dollar critical indicators of the dollar's "real" value in the eyes of economic analysts (Raimundi, 2023).

Accessing what's termed as "liquidity-based" conversions necessitates an overseas account, an option not commonly pursued by the average Argentine saver. Similar to other dollar acquisition methods, assets bought with pesos are transferred to foreign accounts and sold for dollars, with the transaction's peso-dollar exchange rate defining the specific dollar value. This strategy is particularly utilized for repatriating funds when direct transfers of dividends are subject to restrictions.

As of March 2023, Argentines collectively held assets worth 261.124 billion dollars in foreign currencies, marking a 3.047 billion dollar increase from the previous year and setting a new record at 258.077 billion dollars, according to Ämbito (2023). This represents a year-on-year growth of 1.18%. However, to ascertain the precise volume of cash holdings in dollars among Argentines, it's essential to adjust for the balances of private sector deposits in the US currency.

5. Conclusion

Ecuador's shift to dollarization brought about significant social costs, notably impacting workers' incomes. For instance, in December 2000, while the basic basket cost stood at USD 252.9, the average monthly family income was only USD 163.6, creating an access deficit of USD 89.4 for the basic necessities. Should Argentina opt for dollarization, similar socio-economic challenges are anticipated, including substantial devaluation and inflation spikes, culminating in a marked reduction in workers' salaries.

Although Ecuador transitioned to a dollarized economy, it did not dissolve its Central Bank, contrary to Javier Milei's proposal for Argentina. The Central Bank's role extends beyond exchange rate regulation; it is pivotal in overseeing the financial system to avert systemic crises and buffer against external shocks, underscoring the necessity of maintaining such institutions for effective economic and monetary policy implementation.

Argentina's chronic battle with high inflation, exacerbated by governmental over-reliance on printing money for public expenditure, has eroded the peso's value. Consequently, the dollar has become a benchmark for pricing and savings among Argentines. Additionally, the reliance on imported raw materials further strains the demand for dollars in an economy that does not generate them, frequently leading to what is described as "external constraints".

Comparing the economic landscapes of Argentina and Ecuador presents a complex challenge due to their distinct differences. Argentina boasts a larger economy, distinct market dynamics, and unique foreign trade characteristics. Unlike Ecuador, which did not experience widespread dollar hoarding before its official dollarization, Argentina has seen a trend of informal dollarization among its populace since the 2001 crisis. This reflects a profound loss of faith in the national currency, leading to a consistent push for a higher exchange rate against the dollar.

Javier Milei's populist rhetoric, while resonating with many, lacks immediate practicality. Dollarization, though potentially stabilizing inflation rates swiftly, risks exacerbating income inequality and economic instability. In reaction to Milei's unexpected primary victory, the Central Bank of Argentina (BCRA) has implemented an 18-month peso devaluation plan, resulting in a 22% rise in the official dollar rate—a significant move for a country grappling with an annual inflation rate surpassing 115%. The BCRA's decision to elevate interest rates to 118% sets the official dollar price at $350 in the wholesale market.

Narrowing the disparity between the official and financial dollar rates aligns with the International Monetary Fund's (IMF) conditions for Argentina, a nation indebted to the IMF for $44 billion from agreements made during Mauricio Macri's tenure. This strategy underscores the intricate balance Argentina must navigate between international financial obligations and its internal economic health.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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