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Argentina's Crisis and the
US-Backed Rescue Package
By
Nato Balavadze



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For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

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Nato Balavadze, *Argentina's Crisis and the US-Backed Rescue Package*, 22 October 2025

Executive Summary

Milei's Chainsaw Economics

- ✦ Initially celebrated by investors and the IMF for balancing the budget and curbing inflation through austerity, Milei's "chainsaw economics" relied on heavy IMF support and an overvalued peso to project stability.
- ✦ The illusion collapsed after his party's electoral defeat triggered a run on the peso, forcing Argentina to burn through over \$1 billion a week in reserves—of which only about \$10 billion were truly usable—exposing the fragility of its strong-peso strategy and the limits of external financing.
- ✦ Argentina's fiscal stability is largely superficial—built on austerity and foreign borrowing rather than genuine growth. Capital flight, an overvalued peso, and weak exports have drained reserves and stalled economic activity, revealing the fragility of Milei's "strong-peso" strategy.
- ✦ Investor confidence has collapsed as inflation rises, bond yields soar, and investment hits record lows. With just \$6 billion in usable reserves and \$44 billion in repayments due by 2027, a 30% devaluation now seems unavoidable to restore competitiveness and rebuild reserves.

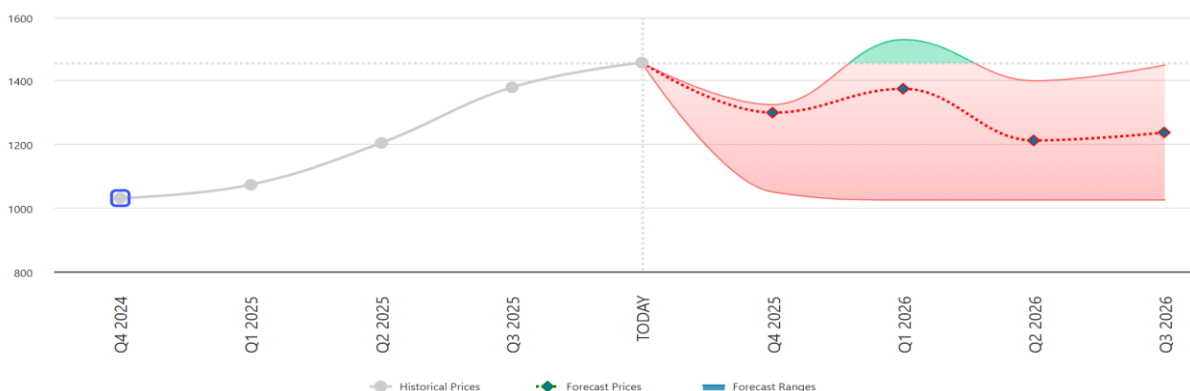
Trump To The Rescue Of Friend Milei

- ✦ The US support for Argentina could hit \$40 billion, combining a \$20 billion Treasury swap and direct peso purchases with a parallel \$20 billion facility from private banks, to stabilize the collapsing peso and shore up President Milei ahead of the October 26 elections, blending emergency financial aid with overt political backing from Washington.
- ✦ The Trump administration has launched a \$20 billion rescue package for Argentina, combining a US Treasury swap and private lending, to stabilize the peso ahead of October's elections, despite the country's missed IMF targets and uncertain repayment prospects.
- ✦ Financed through the Exchange Stabilization Fund, the intervention marks Washington's first direct emerging-market currency purchase in decades, exposing U.S. taxpayers to potential losses if the peso continues to fall.

Intervention Driven More by Ideology Than Strategy

- ✦ The U.S. intervention in Argentina is driven more by ideology than strategy, aiming to showcase Milei's market reforms as a regional model rather than addressing systemic financial risks; yet with the peso overvalued, reserves draining, and inflation rising, the move risks repeating past Argentine failures and politically backfiring if the bailout collapses.
- ✦ U.S. banks, including JPMorgan and Goldman Sachs, are struggling to finalize a \$20 billion loan, part of Washington's broader \$40 billion rescue plan, due to disputes over collateral and repayment security for a country with a long history of defaults.
- ✦ The proposed deal has heightened tensions with the IMF, which is owed \$60 billion, as lenders seek priority repayment or export revenue pledges, raising fears that the package merely delays Argentina's solvency crisis while undermining debt discipline and US credibility.

Key Picture: USD to Argentina's Peso - Projections



Source: exchangerates.org.uk

Introduction

The US Treasury has taken the unprecedented step of both buying Argentine pesos directly in the spot market and formalizing a \$20 billion currency swap with Argentina's central bank. The swap provides Buenos Aires with temporary dollar liquidity, while the direct market purchases offer immediate peso support without adding to Argentina's debt, though at considerable risk to Washington if the peso weakens further.

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The move forms part of a broader \$40 billion US-backed rescue package, which also includes a planned \$20 billion facility from private banks and sovereign wealth funds. Treasury Secretary Scott Bessent argues that the peso is undervalued and that the intervention could eventually profit the US while supporting President Javier Milei's reform agenda.

Yet the package comes amid deep political stakes. The peso has plunged nearly 30% this year, inflation is again rising, and Milei's austerity measures have eroded domestic support ahead of the October 26 midterm elections. Hosting Milei at the White House, Donald Trump openly linked continued aid to Milei's reelection, saying that if he lost, the US would not "[waste our time](#)" with helping Argentina.

Together, these actions mark a historic and politically charged US intervention, blending financial support with strategic influence as Argentina faces mounting economic instability and the prospect of another currency crisis.

What Happened to Argentina's Economy and Its Peso?

[In recent months, markets and major institutions have hailed Javier Milei's economic policy economics as a success.](#) Since taking office, he has slashed welfare and public spending, dismissed thousands of public workers, and briefly balanced the budget. Supported by record IMF financing, the government has kept the peso artificially high to slow inflation, prompting praise from investors and international agencies as proof that austerity works.

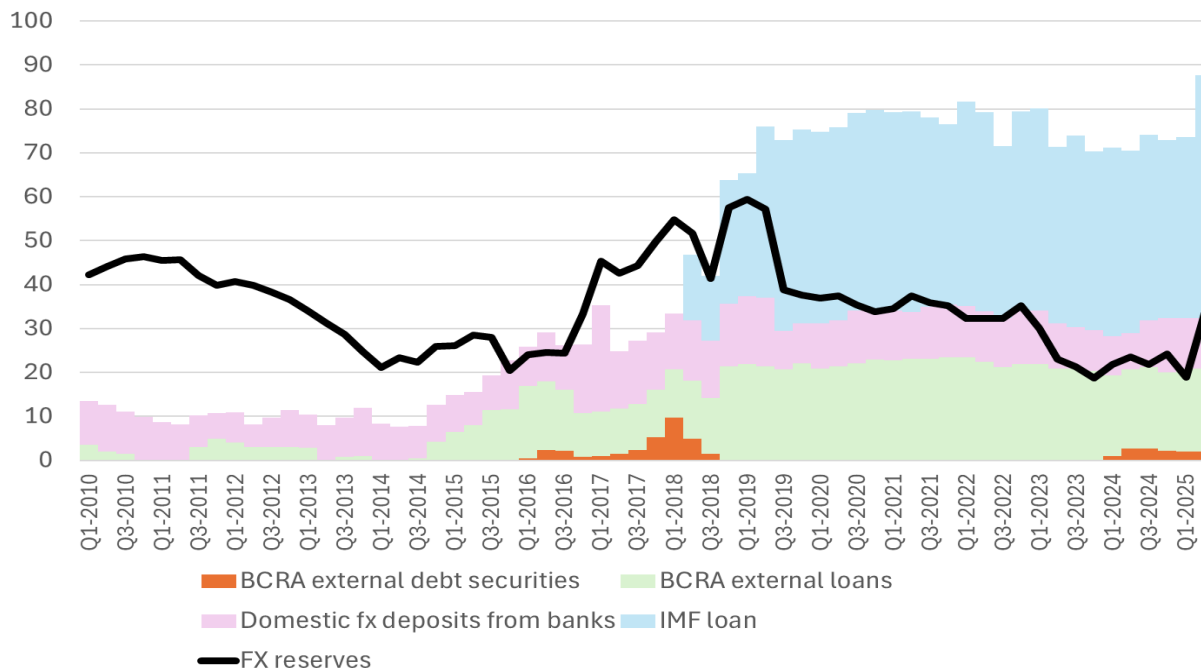
[In Spring Meetings in Washington, IMF Managing Director Kristalina Georgieva signaled strong confidence in President Javier Milei's economic program,](#) wearing a pin of his trademark chainsaw and urging Argentinians "to stay the course" ahead of October's elections. Her remarks underscored the IMF's unusual degree of political endorsement for a sitting government. In April, the Fund's approval of a \$20 billion package reflects its backing of Milei's rapid fiscal consolidation and market-driven reforms. Yet it also raises questions about policy consistency and debt sustainability.

The optimism surrounding Milei's "chainsaw economics" quickly collapsed after [his party's defeat](#) in Buenos Aires province, the country's largest electoral and economic region. Expected to ride on the success of his fiscal austerity, Milei instead lost by 14 points, as the opposition Peronists swept six of eight districts, including key areas lost decades ago.

Investors, fearing a Peronist comeback, triggered a run on the peso, forcing the government and central bank to burn through [over \\$1 billion in reserves per week to defend the currency.](#) The crisis stems from Milei's decision to maintain a strong peso within a fixed exchange-rate band introduced in April as part of a \$20 billion IMF agreement. While the policy temporarily helped curb inflation, it has crippled exports and drained reserves, forcing the government into ever-larger interventions. Economy Minister Luis Caputo's vow to "[sell to the very last dollar](#)" has underscored the desperation behind the policy and heightened investor skepticism. With only \$30 billion in reserves, this pace was unsustainable.

However, [as Brad Setser points out](#), Argentina's headline reserves of \$33 billion overstate its actual capacity to defend the peso (**Figure 1**). About \$13 billion are in Chinese yuan tied to a swap line with the People's Bank of China and cannot be used without Beijing's approval. Another \$12 billion are dollar deposits from domestic banks, which tapping would risk a banking panic. This leaves as little as \$10 billion in usable reserves, alarmingly low given the \$14 billion IMF loan received earlier this year.

Figure 1: FX Reserves, Selected FX and BRCA Liabilities (Quarterly Data, USD Billion)



Source: [Brad Setser](#)

The Cracks Beneath Argentina's Fiscal Façade

Argentina's apparent fiscal balance rests on fragile foundations: austerity and external borrowing have replaced productive recovery. While budget cuts briefly stabilized public finances, they failed to resolve the country's external imbalances. Exports rose marginally but so did imports, and much of the foreign income flowed abroad, widening the current account deficit.

Capital flight has intensified this weakness. In 2024 alone, \$4.7 billion left the country through outbound investments and reduced inflows, followed by another \$2.6 billion in 2025—an unsustainable drain on reserves. To curb inflation, the government defended an overvalued peso using scarce foreign currency, further eroding competitiveness. Growth has since stalled, revealing the limits of Milei's "strong-peso" strategy.

Market confidence has deteriorated accordingly. Sovereign bond prices have plunged, with yields on dollar debt jumping 5.5 percentage points to 14.5% above US Treasuries, signaling rising default risk. Meanwhile, inflation has rebounded despite the tight currency, and investment has collapsed: from Q2 2024 to Q2 2025, Argentina's investment-to-GDP ratio fell to a record 15.9%, reflecting shrinking profitability and business confidence.

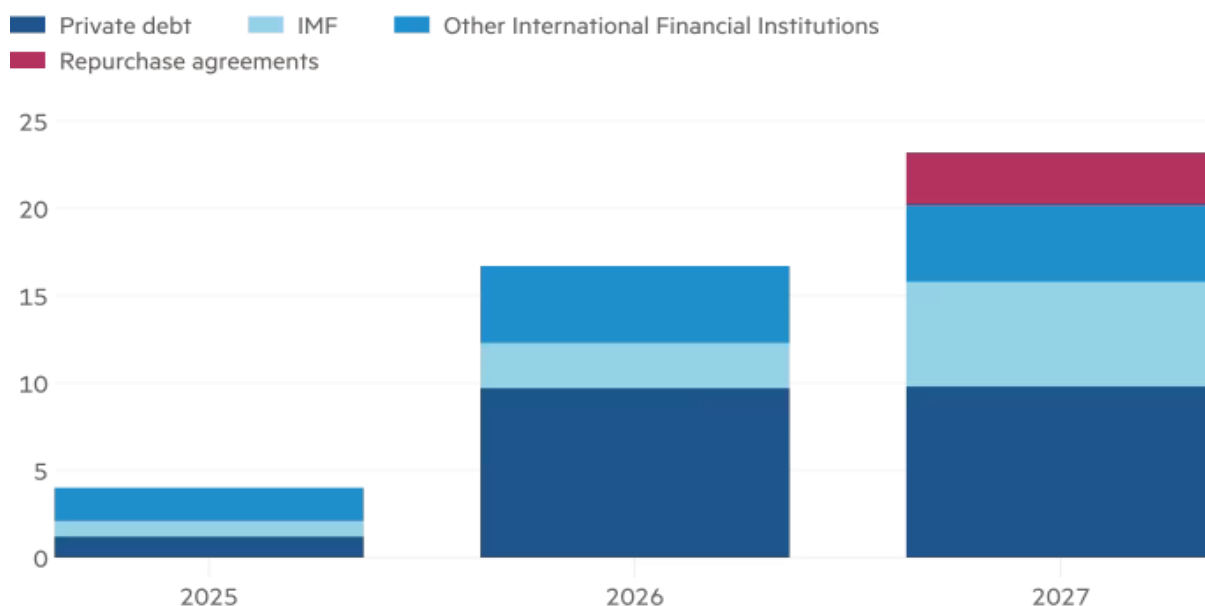
Pursuing a strong peso has made imports cheaper but exports less competitive, depriving Argentina of the dollars needed to service its \$95 billion foreign debt ([Figure 2](#)). With only \$6 billion in net reserves and \$44 billion in repayments due by 2027, Milei cannot continue using reserves to defend the currency. Though US support has temporarily eased pressure, [a 30% devaluation now appears inevitable to restore competitiveness and rebuild reserves](#), whether managed after the October elections or forced by market panic.

The US Treasury's \$20 Billion Bet on Argentina

In a rare and controversial move, the Trump administration [has launched a \\$20 billion financial support package for Argentina](#), aimed at stabilizing its economy before the October 26 midterm elections. The package—spearheaded by Treasury Secretary Scott Bessent—includes a \$20 billion currency swap with Argentina's central bank and a matching amount in private lending from banks and sovereign wealth funds.

Figure 2: Argentina's Financing Needs

Debt repayment due (\$bn), by lender



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Source: [FT](#), Barclays Research

Bessent argues that the peso is undervalued, claiming the US could profit while also securing strategic access to Argentina's lithium and uranium reserves. However, this support comes despite Argentina's missed IMF targets and lack of a clear repayment plan, making Washington's backing highly irregular.

The rescue is being financed through the Exchange Stabilization Fund (ESF)—a \$22 billion emergency pool used for currency interventions. Although structured as a swap rather than a direct loan, the operation effectively functions as a bailout: Argentina's central bank receives dollars and credits the ESF with pesos, which the US expects to be repaid in dollars. If the peso collapses, US taxpayers bear the losses.

In an unprecedented step, the Treasury has also begun directly buying pesos—its first foreign-exchange intervention since Japan's 2011 earthquake, and the first involving an emerging-market currency. [On Friday alone, it purchased over \\$200 million, half of it in the last ten minutes of trading, as the peso fell 5% intraday to 1,450 per dollar.](#)

Strategic Rationale

Unlike past rescues, Argentina's bailout serves no direct US strategic or systemic interest. The country is neither a key ally nor a global financial node, and its crisis poses little contagion risk. The Treasury's justification is ideological: backing President Javier Milei's free-market reforms as a model for Latin America. Yet critics see the move as a political lifeline for Milei ahead of the vote—an election where his party controls only 15% of Congress.

Analysts warn the intervention could repeat Argentina's past failures. The peso remains overvalued, propped up by IMF inflows and reserve sales while inflation and dollar demand persist. Indicators such as the BIS real effective exchange rate show the currency at unsustainable levels—similar to Mauricio Macri's 2017–18 stabilization attempt.

As Paul Krugman notes, exchange-rate-based disinflation programs in Latin America often collapse: a strong peso may suppress inflation temporarily but drains reserves and chokes growth. If the peso keeps sliding, the US could face heavy losses and damage to Bessent's credibility.

For Washington, success would mean Argentina stabilizes without drawing on the full credit line—or repays it quickly after the election. Failure would deepen skepticism about US financial interventions and leave the Treasury holding a politically costly loss. Despite massive intervention, the peso is down 30% this year, and Argentines continue hoarding dollars in anticipation of a post-election devaluation. The effort underscores both the scale of Argentina’s crisis and the limits of US influence in trying to contain it.

US Banks Struggle to Finalize \$40 Billion Argentina Rescue

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A group of major US banks, including JPMorgan, Bank of America, Goldman Sachs, and Citigroup, is struggling to finalize a \$20 billion loan package for Argentina, part of a \$40 billion US-led rescue effort supporting President Javier Milei ahead of elections. Talks have stalled over collateral guarantees, as lenders seek protection from a country that has defaulted nine times and remains locked out of global markets.

The deal also raises tensions with the IMF, which is owed nearly \$60 billion, amid concerns that US claims could take priority. Lenders want Treasury guarantees or access to Argentina’s export revenues as collateral—but pledging those earnings would divert funds from repaying the IMF and World Bank, raising questions about debt priorities.

In reality, Argentina’s only reliable source of dollars is an export surplus, which can only be achieved through a weaker peso or recession—both politically toxic for Milei. Even if part of the new financing replaces old debt, the country’s repayment capacity remains unchanged. With few conditions attached and little transparency, the US-led package risks papering over solvency problems rather than fixing them, leaving Argentina’s recovery—and the credibility of Washington’s intervention—on uncertain ground.