The USD 20 Billion Lifeline: A Case on U.S. Intervention, Argentina's Peso Crisis and the Politics of Currency Support

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https://doi.org/10.5281/zenodo.21455550

ABSTRACT

In October 2025, Argentina executed a USD 20 billion currency-swap arrangement with the United States amid mounting pressure on its foreign exchange reserves, persistent inflationary challenges, and weakening investor confidence. This case study examines the origins, structure, and implications of the agreement within the broader context of Argentina's long-standing experience with balance-of-payments difficulties and recurring dependence on external financial assistance. It explains the operational mechanics of a currency-swap facility in clear and accessible terms, explores why this instrument was chosen over alternatives such as immediate market borrowing, and considers the objectives pursued by both participating countries. The analysis focuses on three interrelated areas. First, it investigates the macroeconomic environment that preceded the agreement, including declining reserve levels, exchange-rate instability, inflationary pressures, and concerns regarding policy credibility. Second, it evaluates the immediate benefits associated with the swap arrangement, particularly its contribution to enhancing liquidity, lowering perceptions of default risk, supporting short-term exchange-rate stability, and strengthening market confidence through its signalling effect. Third, the study critically examines the limitations of the arrangement, highlighting its temporary nature, repayment obligations, and the possibility that short-term relief could reduce the urgency of implementing deeper structural reforms. The findings suggest that the currency-swap arrangement should be viewed primarily as a crisis-management *instrument designed to provide temporary financial breathing space rather than a permanent remedy for Argentina's economic challenges. While the facility contributed to short-term stabilization and improved confidence during a period of acute stress, it did not directly address the underlying fiscal, monetary, and institutional factors that have historically contributed to recurring instability. Consequently, the long-term effectiveness of the arrangement depended heavily on the government's ability to pursue credible fiscal adjustment, strengthen monetary policy frameworks, and restore institutional trust. Overall, the case demonstrates that external liquidity support can play an important role in mitigating immediate financial pressures, but its success ultimately depends on complementary domestic reforms. The study therefore offers broader lessons for emerging economies regarding the strategic use of currency-swap arrangements as flexible crisis-management tools within an increasingly interconnected and complex global financial system.*

KEYWORDS: *Currency Swap Arrangement; Balance-of-Payments Crisis; Foreign Exchange Reserves; Macroeconomic Stabilization; Financial Safety Net*

JEL Codes: F33, F31, F34, E58, H63

Background and Context

Argentina has long occupied a central place in discussions on macroeconomic instability in emerging economies. Its repeated experiences with inflation, exchange-rate volatility, debt pressures, and external financing difficulties provide a compelling illustration of how domestic economic policies, international financial conditions, and political realities interact. Over several decades, the country has experienced recurring balance-of-payments crises, sharp declines in the value of the peso, and repeated dependence on external financial assistance. These episodes have often revealed a difficult trade-off: while emergency measures may offer short-term stability, they frequently fail to build lasting economic credibility (Dornbusch & Edwards, 1990; Sturzenegger & Zettelmeyer, 2006). Within this broader historical context, the USD 20 billion currency-swap agreement concluded between Argentina and the United States in October 2025 stands out as a significant development in international monetary cooperation and crisis management.

The immediate rationale for examining this episode arises from the unusual choice of policy instrument. Rather than relying on a conventional bailout package, sovereign debt issuance, or expanded multilateral assistance, policymakers opted for a large bilateral currency-swap arrangement. By the middle of 2025, Argentina faced a combination of severe economic challenges, including critically low foreign exchange reserves, persistent double-digit inflation, and weakening investor confidence. These conditions substantially reduced the country's ability to secure financing from international capital markets (IMF, 2023; Reinhart & Rogoff, 2009). At the same time, traditional stabilization measures such as aggressive interest-rate increases or rapid fiscal tightening carried substantial social and political risks. In this setting, the swap arrangement emerged as an alternative source of liquidity that could be implemented more quickly and with less political controversy than a comprehensive rescue programme.

The significance of this case extends beyond Argentina itself. Since the global financial crisis of 2008, currency-swap arrangements have become increasingly important components of the international financial safety net (Allen & Moessner, 2010; BIS, 2022). What were once considered specialized monetary instruments have gradually evolved into widely used mechanisms for addressing liquidity shortages and stabilizing financial markets. Although much of the existing literature focuses on swap agreements among advanced economies, particularly those involving the United States Federal Reserve, relatively limited attention has been devoted to their use in emerging economies experiencing acute financial stress. The Argentina-United States arrangement therefore offers a valuable opportunity to explore how such instruments operate in a different institutional environment and how they relate to broader concerns regarding sovereignty, conditionality, and geopolitical influence.

This case study contributes to academic and policy discussions in several important ways. First, it places the October 2025 swap agreement within the wider historical experience of Argentina's economic crises and external support mechanisms. From the collapse of the currency-board system in 2001 to subsequent engagements with the International Monetary Fund, Argentina's history reveals a recurring tension between immediate liquidity assistance and the need for deeper structural reforms (Galiani et al., 2003; Mussa, 2002). Viewing the 2025 arrangement through this historical lens helps determine whether it represents a genuine shift in crisis-management strategy or merely another temporary measure designed to address short-term pressures.

Second, the study seeks to clarify the operational and economic logic underlying the currency-swap arrangement. Although swap lines are often discussed using highly technical terminology, their practical implications are frequently less understood by students, policymakers, and practitioners. Issues such as reserve adequacy, exchange-rate expectations, and sovereign-risk perceptions play a critical role in determining the effectiveness of these instruments (Obstfeld, Shambaugh, & Taylor, 2010). By connecting the technical design of the swap to observable market outcomes, the case helps bridge the gap between theoretical concepts in international finance and real-world policy implementation.

Third, the analysis pays particular attention to the political economy dimensions of the agreement. Financial support mechanisms are rarely purely technical decisions; they are shaped by strategic interests, bargaining dynamics, and assessments of policy credibility (Eichengreen, 2011). For Argentina, accepting a large bilateral currency-swap arrangement raised important questions regarding economic autonomy, policy flexibility, and future repayment obligations. For the United States, extending such support had implications for regional influence, financial stability, and the future use of bilateral monetary instruments. Examining these considerations allows the study to move beyond narrow macroeconomic indicators and engage with the broader institutional and geopolitical context surrounding the agreement.

Methodologically, the study adopts a qualitative and narrative-oriented approach based on macroeconomic data, policy documents, official statements, and relevant academic literature. Rather than testing a formal econometric model, the analysis emphasizes causal interpretation and institutional understanding, an approach that is consistent with established traditions in case-study research within international finance (Yin, 2018). Given the recent nature of the event and the limited availability of long-term post-intervention evidence, this methodology is particularly appropriate. The discussion is further informed by established theoretical perspectives relating to balance-of-payments crises, policy credibility, and time inconsistency in macroeconomic decision-making (Krugman, 1979; Kydland & Prescott, 1977).

The study proceeds by first examining Argentina's macroeconomic environment prior to October 2025, with particular attention to foreign-exchange reserves, inflationary trends, and exchange-rate pressures. It then explains the design and functioning of the USD 20 billion currency-swap arrangement and highlights the ways in which it differed from alternative financing mechanisms. Subsequent sections evaluate its immediate effects on market confidence, peso stability, sovereign-risk perceptions, and liquidity conditions. The study concludes with a critical assessment of the arrangement's limitations and longer-term implications, drawing lessons for other emerging economies facing comparable challenges.

By concentrating on a single yet highly significant episode, this case study offers insights into the changing landscape of international monetary cooperation. More importantly, it reinforces a lesson that has repeatedly emerged throughout Argentina's economic history: external liquidity support can provide valuable breathing space during a crisis, but it cannot replace the need for credible, consistent, and sustainable macroeconomic reform. The October 2025 currency-swap arrangement therefore serves not only as a response to immediate financial pressures but also as a useful lens through which broader questions of economic stabilization and policy credibility in an interconnected global economy can be examined.

Argentina's Macroeconomic Predicament

The macroeconomic conditions that shaped Argentina's economy in the years leading up to the October 2025 currency-swap agreement were the result of a long-standing interaction between structural institutional weaknesses and recurring economic shocks. Unlike countries that experience temporary crises due mainly to external events, Argentina's instability has often reflected deeper and more persistent challenges rooted in fiscal management, monetary credibility, and policy coordination. Consequently, any meaningful assessment of the 2025 currency-swap arrangement requires an understanding of the broader institutional and economic environment in which it emerged.

One of the most enduring features of Argentina's economic history has been a chronic deficit of policy credibility. Repeated periods of high inflation, sovereign debt defaults, and restrictions on capital movements gradually weakened confidence in both fiscal and monetary institutions. These experiences also shaped the expectations of domestic and international investors, making economic stabilization increasingly difficult (Sturzenegger & Zettelmeyer, 2006). The collapse of the currency-board regime during the 2001-02 crisis remains particularly significant in this regard. While the abandonment of the peso-dollar peg restored greater flexibility to monetary policy, it also encouraged a more discretionary approach to economic management. As a result, short-term crisis responses frequently took precedence over the development of durable, rule-based policy frameworks (Mussa, 2002). Even decades later, the memory of this period continued to influence perceptions of Argentina's economic reliability.

Fiscal institutions represented another major source of vulnerability. Argentina's federal political structure, together with substantial expenditure commitments and politically sensitive subsidy programmes, limited the government's ability to implement effective counter-cyclical fiscal policies (Tommasi, 2014). Persistent fiscal deficits often required financing through the central bank, thereby increasing inflationary pressures and contributing to exchange-rate instability. Even during periods when commodity prices were favourable and government revenues improved, efforts at fiscal consolidation frequently proved difficult to sustain. This pattern reinforced the well-known "stop-go" cycle that has characterized much of Argentina's economic development, where phases of growth are repeatedly interrupted by periods of instability and adjustment (Dornbusch & Edwards, 1990). By the early years of the 2020s, rising debt-servicing obligations and declining access to international borrowing further reduced fiscal flexibility.

The country's monetary institutions faced similar challenges. Although the Central Bank of Argentina (BCRA) formally operated within an inflation-targeting framework, its practical independence was often constrained by fiscal needs and political considerations (IMF, 2023). Frequent leadership changes and shifting policy priorities weakened the credibility of monetary commitments. Consequently, inflation expectations remained poorly anchored, making it difficult for monetary tightening alone to contain price increases. Academic studies have consistently shown that once inflationary expectations become embedded in wage negotiations and price-setting behaviour, restoring confidence becomes an exceptionally difficult task (Calvo & Végh, 1999).

These institutional weaknesses translated into significant macroeconomic risks by the middle of the decade. Inflation remained stubbornly high, driven by a combination of monetary expansion, supply-side constraints, and the pass-through effects of currency depreciation. The peso experienced repeated downward pressures, reflecting not only trade imbalances but also capital flight and the tendency of households and businesses to seek protection by holding U.S. dollars (Reinhart & Rogoff, 2009). The simultaneous existence of official and parallel exchange-rate markets created further distortions, complicating business decisions, discouraging investment, and undermining confidence in the sustainability of exchange-rate policy.

Foreign exchange reserves became one of the most pressing concerns. Entering 2025, Argentina's stock of usable reserves had fallen to critically low levels, significantly reducing the authorities' ability to stabilize the currency or meet external payment obligations (BIS, 2022). Traditional sources of reserve accumulation, such as export earnings and foreign portfolio investment, proved insufficient. Global investors remained cautious toward high-risk sovereign borrowers, while Argentina's strained relationship with international capital markets further restricted financing opportunities. Although multilateral institutions could provide financial support, such assistance was frequently accompanied by extensive policy conditions that often generated domestic political opposition (IMF, 2023).

External economic developments added another layer of difficulty. Higher interest rates in advanced economies contributed to tighter global financial conditions, reducing the attractiveness of emerging-market assets and limiting capital inflows (Obstfeld & Taylor, 2004). For Argentina, this environment translated into rising refinancing risks and wider sovereign risk premiums. These developments reinforced a cycle in which investor concerns encouraged capital outflows, which in turn accelerated currency depreciation and heightened financial instability. Historical analyses of balance-of-payments crises suggest that such external pressures become particularly damaging when domestic institutions already suffer from credibility problems (Krugman, 1979).

Political economy considerations further complicated the policy environment. Throughout its history, Argentina has faced significant public resistance to adjustment programmes that threaten employment, reduce real incomes, or curtail subsidies and social benefits (Galiani et al., 2003). Policymakers therefore confronted substantial political constraints when considering measures such as aggressive fiscal tightening or sharp interest-rate increases. Under such circumstances, external liquidity arrangements became attractive because they offered temporary relief without immediately imposing visible economic sacrifices on the population.

The growing international use of currency-swap arrangements after the 2008 global financial crisis provided a potential solution (Allen & Moessner, 2010). While advanced economies primarily employed swap lines to address dollar liquidity shortages within financial markets, emerging economies increasingly viewed them as supplementary reserve instruments. For Argentina, a currency swap offered access to foreign-currency liquidity without the immediate need for market borrowing or a formal bailout programme. Equally important was the signalling effect associated with such an arrangement, as it conveyed a degree of external confidence in the country's short-term financial stability (Eichengreen, 2011).

The bilateral character of the Argentina-United States swap distinguished it from more traditional forms of international financial assistance. Unlike IMF programmes, which generally involve extensive monitoring and policy conditionality, bilateral swaps are often presented as temporary liquidity-support mechanisms. This distinction carried considerable political significance. It allowed Argentine policymakers to secure external support while maintaining a greater appearance of policy independence and reducing domestic resistance. Nevertheless, some scholars have argued that such arrangements may weaken incentives for deeper reforms if they postpone the need for difficult policy adjustments (Kydland & Prescott, 1977; Obstfeld et al., 2010).

Ultimately, the success of the swap depended largely on its ability to influence expectations. Currency crises are often driven as much by perceptions of future policy credibility as by current economic fundamentals (Reinhart & Rogoff, 2009). By strengthening reserve positions and lowering immediate default concerns, the agreement sought to restore confidence and interrupt negative market expectations. However, given Argentina's history of policy inconsistency and credibility challenges, any stabilization achieved through external liquidity support was likely to remain fragile.

In summary, Argentina entered October 2025 burdened by long-standing credibility concerns, constrained fiscal and monetary institutions, weak reserve positions, and heightened vulnerability to global financial conditions. The USD 20 billion currency-swap arrangement should therefore be viewed not as an isolated policy innovation but as a response to a broader set of institutional weaknesses and macroeconomic pressures. Understanding this context is essential for evaluating the design, market impact, and long-term significance of the swap, as well as its implications for other emerging economies confronting similar challenges.

From Crisis to Negotiation: The Road to October 2025

The USD 20 billion currency-swap arrangement announced between Argentina and the United States in October 2025 did not emerge suddenly. Rather, it was the culmination of a series of economic developments, policy responses, and financial discussions that unfolded over several years. To understand the significance of the agreement, it is important to trace the sequence of events that gradually led to its establishment. This section presents a chronological account of those developments, focusing on the progression of events without assessing their effectiveness or underlying motivations.

The origins of the situation can be traced to the period following the COVID-19 pandemic. Argentina entered the post-pandemic years with weakened fiscal conditions, persistently high inflation, and limited access to international sources of financing. Throughout 2022 and 2023, inflation remained elevated, while the country's foreign exchange reserves steadily declined. Several factors contributed to this trend, including external debt repayments, rising energy import bills, and continuing capital outflows. To cope with growing shortages of foreign currency, the authorities relied extensively on administrative measures such as import controls and the maintenance of multiple exchange-rate systems.

Economic pressures intensified during the early months of 2024. The peso came under increasing strain, particularly in parallel exchange markets where episodes of rapid depreciation became more frequent. These developments contributed to rising inflation expectations across the economy. In response, the Central Bank introduced a number of policy measures, including changes in interest rates and stricter regulations governing foreign exchange transactions. Despite these interventions, reserve levels continued to weaken, and concerns regarding Argentina's capacity to meet its near-term external obligations became increasingly visible in financial markets.

As the year progressed, discussions between Argentina and various multilateral institutions gained momentum. Efforts focused on refinancing existing commitments and obtaining temporary sources of liquidity. Although these negotiations provided some immediate support, they were insufficient to reverse the continuing decline in reserve holdings. Meanwhile, global financial conditions remained challenging, reducing Argentina's ability to secure affordable financing from international private capital markets.

The economic environment became even more fragile as 2025 began. Inflation remained stubbornly high, and the difference between official and parallel exchange rates widened further. Export earnings were affected by external developments, while reducing imports proved difficult without creating disruptions in domestic economic activity. During the first quarter of the year, financial markets increasingly concentrated on the country's reserve position, leading to frequent speculation about potential payment difficulties or the possibility of another debt restructuring episode.

Against this backdrop, contacts between Argentine and U.S. officials became more frequent. Initially centred on broader issues of economic cooperation and regional financial stability, these discussions gradually evolved toward exploring a bilateral liquidity-support mechanism. The possibility of creating a currency-swap arrangement emerged as a practical option that could provide Argentina with rapid access to U.S. dollar liquidity without requiring a formal bailout programme.

Throughout the second quarter of 2025, technical teams from both countries worked on the operational details of a possible swap facility. Discussions covered issues such as the size of the arrangement, access conditions, duration, and repayment procedures. Although the specifics remained confidential, public statements from Argentine policymakers increasingly highlighted efforts to strengthen the country's external liquidity position.

Market conditions became more volatile during July and August 2025. Renewed weakness in the peso increased demand for dollar-denominated assets, placing additional pressure on already limited reserves. In response, the authorities introduced further administrative measures to regulate foreign exchange flows while repeatedly affirming their commitment to meeting external obligations. These developments heightened the urgency of securing additional external support.

By September 2025, reports suggesting that negotiations had reached an advanced stage began circulating more widely. Although no official confirmation was provided at that point, statements from both governments indicated ongoing collaboration in financial and economic matters. Investors and market participants closely monitored these developments, anticipating a significant policy announcement.

The agreement was formally unveiled in October 2025, when Argentina and the United States jointly announced the creation of a USD 20 billion currency-swap arrangement. The facility was designed to provide the Argentine central bank with access to dollar liquidity and was presented as a temporary mechanism aimed at supporting financial stability. Following the announcement, Argentine authorities stated that the arrangement would serve primarily as a precautionary reserve buffer and contribute to strengthening the country's foreign exchange position.

Initial market reactions suggested a degree of confidence, with exchange-rate pressures easing in the short term. In the weeks that followed, attention shifted from the announcement itself to the practical implementation of the facility and its role within Argentina's broader economic strategy. The progression from mounting macroeconomic stress to the establishment of the currency-swap arrangement provides the foundation for understanding the subsequent analysis of the agreement's structure, immediate effects, and wider implications for economic stabilization.

The Currency-Swap Arrangement

The principal policy intervention examined in this case study is the USD 20 billion bilateral currency-swap arrangement established between Argentina and the United States in October 2025. Public discussions often portrayed the agreement as a major rescue package for an economy facing severe financial pressures. In reality, the arrangement was far more targeted in design and limited in scope. Rather than functioning as a traditional bailout or a long-term financing programme, it was structured as a temporary liquidity-support mechanism aimed at strengthening confidence, reinforcing foreign-exchange reserves, and reducing immediate financial risks during a period of heightened uncertainty.

At its most basic level, a currency swap between two central banks involves the exchange of one currency for another, accompanied by a commitment to reverse the transaction at a predetermined future date. Under the October 2025 arrangement, the Central Bank of Argentina (BCRA) obtained access to U.S.

dollar liquidity by providing Argentine pesos in return. Both the initial exchange and the subsequent reversal were conducted at an exchange rate agreed upon in advance. This feature was particularly important because it protected both parties from fluctuations in exchange rates during the life of the agreement (Allen & Moessner, 2010). As a result, currency swaps differ from conventional external borrowing and are generally regarded as liquidity-management instruments rather than standard debt obligations.

A key aspect of the arrangement was its operational structure. The widely reported figure of USD 20 billion represented the maximum amount that could be accessed under the facility, not a lump-sum transfer of funds. The BCRA was permitted to draw on the facility in stages, according to specific operational procedures and time limits outlined in the agreement. This design reflected the broader architecture of modern central-bank swap networks that emerged after the global financial crisis of 2008, where flexibility, reversibility, and discretion are considered essential features (BIS, 2022). Even if the entire facility was never utilized, its mere availability altered perceptions in financial markets by signalling that Argentina had access to an additional source of emergency liquidity.

One of the most significant immediate effects of the arrangement related to Argentina's foreign-exchange reserves. By late 2025, the country's stock of usable reserves had become critically low, reducing the central bank's ability to manage exchange-rate volatility and meet external payment commitments. Although funds obtained through a swap facility cannot be treated as unrestricted reserves because they must eventually be repaid, financial markets often regard them as a form of temporary reserve support or "quasi-reserves" (Obstfeld, Shambaugh, & Taylor, 2010). Consequently, the existence of the swap strengthened perceptions of reserve adequacy at a time when confidence in the economy remained fragile.

The financial terms of the facility further emphasized its temporary nature. While all contractual details were not publicly disclosed, the arrangement broadly followed established international practice by linking borrowing costs to a benchmark U.S. interest rate with an additional spread. The maturity periods were intentionally limited, reinforcing the understanding that the swap was intended to serve as a bridge during a period of stress rather than as a permanent source of financing (Allen & Moessner, 2010). This built-in time limitation also encouraged policymakers to pursue broader corrective measures rather than relying indefinitely on external liquidity support.

From an institutional perspective, the agreement was concluded directly between central banks rather than through national finance ministries. This distinction had important practical and political implications. Central-bank agreements are generally negotiated and implemented more quickly than sovereign lending arrangements and typically avoid lengthy legislative approval processes. They also differ from multilateral assistance programmes because they do not involve the explicit policy conditions commonly associated with international rescue packages (Eichengreen, 2011). For Argentina, presenting the arrangement as a technical monetary operation rather than a formal bailout helped reduce domestic political resistance and preserve a degree of policy flexibility.

The swap also interacted closely with Argentina's existing exchange-rate system. At the time, the country maintained a heavily managed foreign-exchange regime characterized by multiple exchange rates and extensive administrative controls. Access to additional dollar liquidity enhanced the central bank's ability to address short-term market pressures and satisfy specific foreign-currency requirements. However, the arrangement did not remove the structural distortions associated with parallel exchange markets, nor did it eliminate the incentive for businesses and households to hold dollars as a safeguard against inflation and currency depreciation (Reinhart & Rogoff, 2009). Its purpose was therefore to provide stabilization and support rather than to resolve deeper structural weaknesses.

Beyond its operational role, the agreement carried considerable symbolic importance. Currency-swap arrangements often send a powerful signal regarding how a country's economic difficulties are perceived by external partners. By extending a substantial bilateral swap facility, the United States effectively communicated confidence that Argentina's immediate challenges stemmed primarily from liquidity pressures rather than fundamental insolvency (Obstfeld et al., 2010). Given Argentina's long history of sovereign defaults and debt restructurings, this signal played an important role in shaping investor sentiment and short-term market expectations (Sturzenegger & Zettelmeyer, 2006).

The arrangement also reflected broader changes in the structure of the international financial system. In previous decades, countries facing external financing pressures relied mainly on reserve accumulation or assistance from institutions such as the IMF. Following the 2008 global financial crisis, however, bilateral and regional swap arrangements emerged as important complementary tools, offering speed, flexibility, and discretion that traditional mechanisms often lacked (BIS, 2022). The Argentina-United States swap demonstrated both the possibilities and limitations of this evolving framework, particularly in economies burdened by longstanding credibility concerns.

Nevertheless, the facility was not without constraints. Any dollars drawn under the arrangement would eventually have to be repaid, meaning that its success depended on Argentina's ability to generate future foreign-currency inflows through exports, renewed market access, or other forms of financing. Excessive dependence on the facility without parallel improvements in economic policy could create repayment pressures in the future and potentially increase vulnerability rather than reduce it (Kydland & Prescott, 1977). In this respect, the swap was best understood as a tool for buying time rather than solving underlying economic problems.

Equally important, the arrangement functioned alongside broader stabilization efforts. It existed within a wider policy framework that included ongoing interactions with multilateral institutions as well as domestic initiatives aimed at controlling inflation and managing fiscal imbalances. While the swap eased immediate reserve pressures, it could not directly resolve issues such as fiscal dominance, entrenched inflationary expectations, or weaknesses in monetary-policy credibility (IMF, 2023). Its ultimate effectiveness therefore depended on whether it was accompanied by credible and sustained economic reforms.

Overall, the USD 20 billion currency-swap arrangement represented a carefully structured and operationally flexible response to Argentina's acute liquidity challenges. It enhanced short-term reserve capacity, improved market confidence through both practical and symbolic channels, and avoided many of the political complications associated with more intrusive forms of external assistance. At the same time, its design clearly signalled that it was intended as a temporary bridge rather than a permanent remedy. This balance between immediate stabilization and recognition of deeper structural challenges lies at the heart of the October 2025 intervention and its place within Argentina's broader economic adjustment process.

Key Stakeholders and Competing Interests

The USD 20 billion currency-swap arrangement between Argentina and the United States was far more than a routine monetary transaction. It emerged from a complex set of incentives, constraints, and strategic considerations involving multiple stakeholders, each with distinct objectives and concerns. While the agreement appeared to be a technical financial instrument on the surface, its adoption and implementation were deeply influenced by political, institutional, and economic factors. Examining the perspectives of the various stakeholders helps explain why the arrangement became possible, how it was presented to the public, and why it simultaneously generated both support and criticism.

For Argentina's executive leadership and economic policymakers, the most valuable benefit offered by the swap was time. By 2025, the country was confronting severe liquidity pressures, declining foreign-exchange reserves, and growing public fatigue arising from years of economic hardship and repeated stabilization efforts. Conventional policy responses such as sharp fiscal austerity measures or aggressive monetary tightening were politically difficult and risked provoking social dissatisfaction. In this environment, the currency swap provided temporary relief without carrying the immediate political costs associated with spending cuts or the negative perceptions often linked to IMF-supported programmes. It enabled the government to demonstrate that it was taking action and securing international support while maintaining a degree of domestic policy flexibility. At the same time, this advantage carried a potential drawback: by easing immediate pressures, the arrangement could reduce the urgency of implementing more fundamental economic reforms.

The Central Bank of Argentina (BCRA) viewed the agreement through a more operational lens. As the institution responsible for maintaining reserve adequacy and managing exchange-rate stability, it faced growing challenges as foreign-currency resources became increasingly scarce. The swap expanded the central bank's ability to respond to episodes of financial stress by providing access to additional dollar liquidity. It also strengthened the BCRA's institutional role in crisis management by placing it at the centre of the intervention. However, the central bank also carried responsibility for repaying any funds drawn under the facility. This created an incentive to use the arrangement prudently, since excessive dependence on swap resources could eventually damage both its financial position and its credibility if future foreign-currency inflows proved inadequate.

From the perspective of the United States government and monetary authorities, the arrangement combined financial caution with broader strategic interests. Unlike grants or direct bailout packages, currency swaps are reversible transactions that involve reciprocal exchanges of currency, thereby limiting direct fiscal exposure. This characteristic made the agreement easier to defend politically. Beyond financial considerations, supporting Argentina contributed to wider objectives related to regional economic stability and international influence. A severe disruption in one of Latin America's major economies could have generated broader spillover effects, making preventive action attractive. Nevertheless, U.S. policymakers also had reasons to avoid creating expectations that similar support would automatically be available to other financially vulnerable countries. For this reason, emphasizing the temporary and limited nature of the arrangement was particularly important.

Multilateral institutions such as the International Monetary Fund occupied a more indirect yet significant position. The swap helped reduce immediate financial pressures and lowered the risk of a near-term crisis, which complemented broader stabilization efforts. At the same time, however, bilateral liquidity support has the potential to weaken the influence of traditional lending programmes that rely on policy conditionality and structural reforms. Multilateral organizations generally seek to encourage fiscal discipline and long-term policy adjustments, and emergency liquidity arrangements can sometimes delay those processes. Consequently, the swap occupied a middle ground, supporting short-term stability without fully replacing the role of multilateral assistance.

International investors and financial markets interpreted the agreement primarily as a signal of confidence. Rather than focusing exclusively on the technical structure of the swap, investors viewed it as evidence that Argentina retained access to external support and was unlikely to face an immediate liquidity crisis. This perception helped reduce concerns about extreme downside risks and contributed to a degree of short-term stabilization. However, investors remained cautious. While the arrangement improved near-term sentiment, long-term investment decisions continued to depend on broader issues such as policy credibility, fiscal sustainability, and the commitment to reform. As a result, market optimism remained measured rather than enthusiastic.

For businesses operating within Argentina, particularly those dependent on imported goods, foreign-currency transactions, or external financing, the agreement offered practical benefits. Reduced exchange-rate volatility and improved access to foreign currency helped lower uncertainty and decreased the likelihood of disruptions in payments and production. Nonetheless, firms remained aware that the swap was not a substitute for lasting macroeconomic stability. Many therefore viewed the arrangement as a helpful but temporary measure rather than a catalyst for major investment expansion.

The effects on households were largely indirect. Ordinary citizens experienced the economic crisis primarily through rising prices, declining purchasing power, and the weakening value of the peso. Although the swap did not directly reduce inflation, it contributed to greater short-term exchange-rate stability, helping to limit panic-driven demand for foreign currency. Politically, the government could present the agreement as evidence of international confidence in Argentina's economy. Yet public reactions remained mixed, reflecting widespread scepticism shaped by the country's long history of economic crises and repeated stabilization efforts.

Political opposition groups and civil society organizations also approached the arrangement from different perspectives. Some regarded it as a necessary and pragmatic step to avoid a deeper financial crisis, while others argued that it merely postponed difficult but unavoidable adjustments and increased future repayment obligations. The fact that the agreement was concluded directly between central banks, thereby avoiding extensive legislative scrutiny, also raised concerns regarding transparency and accountability. These groups therefore played an important role in questioning the government's narrative and ensuring public debate around the arrangement.

Ultimately, the currency-swap agreement represented a point where several different interests converged. For Argentine policymakers, it provided flexibility and valuable time. For U.S. authorities, it offered a controlled and reversible form of support. For financial markets, it served as a reassuring signal, while for households and businesses it offered protection from immediate disruption. These interests overlapped sufficiently to make the arrangement possible, yet they were never perfectly aligned. This delicate balance explains both the attractiveness of the intervention and its inherent limitations. The swap succeeded because it accommodated the concerns of multiple stakeholders, but that same characteristic ensured that it could only function as a temporary bridge rather than a permanent solution to Argentina's deeper economic challenges.

Conceptual and Analytical Framework

This case study is built upon a broad analytical framework that combines insights from international finance, macroeconomic stabilization, and political economy. Rather than relying on a single theoretical perspective, the study integrates several complementary approaches to explain why the USD 20 billion currency-swap arrangement between Argentina and the United States emerged in October 2025, how it was expected to operate, and why its impact was inevitably limited by deeper structural realities. Taken together, these perspectives provide a comprehensive lens through which the agreement can be understood within both the economics of financial crises and the politics of crisis management.

A central element of the framework is balance-of-payments crisis theory, particularly the first- and second-generation models that have been widely used to explain currency crises. First-generation models emphasize the role of persistent fiscal deficits financed through monetary expansion, which gradually erode foreign exchange reserves and ultimately trigger a currency crisis (Krugman, 1979). Argentina's long-standing fiscal imbalances and recurring dependence on central bank financing closely reflect this pattern. By 2025, the country's rapidly diminishing reserve position had become a major source of vulnerability, making external liquidity support through a currency swap a logical short-term policy response. At the same time, these models suggest that unless fiscal weaknesses are addressed, external support can only delay rather than eliminate the need for adjustment.

Second-generation crisis models focus more on expectations, credibility, and investor behaviour (Obstfeld, 1996). According to this perspective, crises can emerge not only because of weak economic fundamentals but also because pessimistic expectations become self-fulfilling. This approach is especially useful in understanding the signalling value of the currency swap. Beyond providing access to additional liquidity, the agreement was intended to influence market perceptions by demonstrating that Argentina had external support during a period of stress. Viewed through this lens, the swap served as a confidence-building mechanism designed to prevent negative expectations from escalating into a full-scale crisis.

Another important theoretical pillar is the concept of time inconsistency and policy credibility. Kydland and Prescott (1977) argued that governments often face incentives to deviate from long-term commitments when confronted with short-term pressures. Argentina's history of implementing stabilization measures only to later reverse course reflects this challenge. The currency swap can therefore be interpreted as a mechanism that temporarily eases constraints while simultaneously creating the risk that necessary reforms may be postponed. This perspective reinforces the notion that liquidity support can provide valuable time but cannot substitute for credible and sustained policy adjustment.

The framework also incorporates fiscal dominance theory, which examines situations in which fiscal pressures limit the effectiveness and independence of monetary policy (Sargent & Wallace, 1981). In Argentina's case, monetary policy has frequently been influenced by the government's financing requirements, reducing the credibility of anti-inflationary measures. The swap arrangement partially circumvented this constraint by supplying external liquidity without immediately altering domestic fiscal conditions. However, fiscal dominance theory also highlights an important limitation: without meaningful fiscal reform, even substantial liquidity support is unlikely to produce lasting stabilization.

A further component of the framework relates to international liquidity provision and the evolving structure of the global financial safety net. Since the global financial crisis of 2008, central-bank currency swaps have increasingly complemented traditional tools such as reserve accumulation and IMF assistance (Allen & Moessner, 2010; BIS, 2022). From this perspective, the Argentina-United States agreement reflects a broader shift toward more flexible and bilateral forms of crisis support. Such arrangements offer important advantages, including speed, discretion, and operational flexibility. At the same time, they lack many of the enforcement and monitoring mechanisms associated with formal multilateral programmes.

The study also draws on theories of sovereign debt and rollover risk. Research by Reinhart and Rogoff (2009) demonstrates that countries with histories of default often face disproportionately large increases in borrowing costs during periods of financial stress. Under such conditions, liquidity shortages can rapidly evolve into concerns about solvency. The currency swap was designed, in part, to reduce these risks by assuring access to foreign currency for near-term obligations. Nevertheless, sovereign debt theory also suggests that liquidity assistance can create future vulnerabilities if it expands short-term obligations without improving the economy's capacity to generate repayment resources.

Political economy considerations form another important dimension of the framework. The literature on political constraints and economic adjustment argues that governments often favour policies that postpone visible costs when social resistance to reform is strong (Dornbusch & Edwards, 1990). The currency swap fits this pattern because it offered immediate relief without requiring highly visible austerity measures. However, political economy theory also warns that such interventions may weaken incentives for difficult reforms by reducing the urgency of adjustment. This tension lies at the heart of debates surrounding the long-term value of liquidity support.

Institutional credibility theory further enriches the analysis. According to North (1990), economic outcomes are influenced not only by policy decisions but also by the credibility and effectiveness of the institutions responsible for implementing them. Argentina's long-standing credibility challenges meant that the success of the swap depended partly on the reputation and perceived reliability of the United States. In effect, confidence in the provider helped compensate for doubts surrounding the recipient. This helps explain why the symbolic and signalling effects of the arrangement were almost as important as the actual liquidity made available through it.

Finally, the framework is informed by the case-study tradition in international finance. As Yin (2018) notes, case studies are particularly useful for analysing complex policy interventions that unfold within unique institutional and historical contexts. Rather than isolating variables in a controlled environment, this approach focuses on tracing processes and understanding how decisions, institutions, and outcomes interact over time.

These theoretical perspectives provide a coherent foundation for analysing the Argentina-United States currency-swap arrangement. Balance-of-payments theories explain the emergence of financial pressures, expectations-based models clarify the importance of signalling effects, credibility and fiscal-dominance frameworks reveal key institutional constraints, and political economy perspectives illuminate why policymakers chose this instrument over other alternatives. Collectively, the framework supports the central argument of the case study: the October 2025 currency-swap arrangement represented a rational and politically workable response to severe liquidity pressures, but its effectiveness was inevitably limited by the deeper structural and institutional challenges facing the Argentine economy.

Methodology and Sources of Evidence

This case study employs a qualitative, case-based research approach that is particularly appropriate for examining complex policy interventions implemented under uncertain and rapidly changing circumstances. The USD 20 billion currency-swap arrangement announced between Argentina and the United States in October 2025 was not an event that could be studied through controlled experimentation. Rather, it emerged as a policy response shaped by institutional realities, political considerations, and evolving market pressures. Accordingly, the purpose of the methodology is not to test hypotheses or generate statistical inferences, but to develop a credible and well-grounded interpretation through the careful use of evidence, multiple data sources, and theoretically informed analysis.

Research Design and Approach: The study adopts an interpretive case-study methodology rooted in the traditions of qualitative research in international political economy and macroeconomic policy analysis (Yin, 2018). This approach places emphasis on understanding context, tracing sequences of events, and identifying plausible causal relationships rather than relying on formal econometric techniques. Given that the intervention is recent and long-term outcome data remain limited, a qualitative design provides the flexibility needed to explore how and why the currency-swap arrangement was introduced and how it was expected to function within a broader policy framework. The research is structured as a single embedded case study. The currency-swap agreement serves as the primary unit of analysis, while related components such as institutional actors, policy measures, and market reactions are treated as embedded sub-units. Such a design is particularly useful when the case itself is of significant analytical interest and reflects broader issues concerning crisis management in emerging economies and the changing nature of the global financial safety net.

Data Sources: The analysis relies entirely on secondary sources of information selected for their reliability, relevance, and ability to provide multiple perspectives. These sources include official statements, policy announcements, and press releases issued by Argentine economic authorities and central bank officials before and after the October 2025 agreement. Publicly available communications from U.S. authorities concerning bilateral financial cooperation are also considered. Moreover, the study draws on policy documents and reports produced by multilateral institutions, particularly the International Monetary Fund, which provide important context regarding Argentina's macroeconomic conditions and financing challenges. Academic research on balance-of-payments crises, currency swaps, sovereign debt, and political economy forms another key source of evidence. Reports published by organizations such as the IMF and the Bank for International Settlements supply standardized macroeconomic indicators and

institutional assessments (IMF, 2023; BIS, 2022). Historical analyses of Argentina's previous financial crises and stabilization efforts are also used to provide comparative context (Dornbusch & Edwards, 1990; Sturzenegger & Zettelmeyer, 2006). The use of diverse sources allows for triangulation, thereby reducing dependence on any single institutional viewpoint and strengthening the overall reliability of the findings.
Use of Macroeconomic Indicators: Although the study primarily adopts a qualitative approach, selected macroeconomic indicators are used to provide context and strengthen the analysis. Variables such as foreign exchange reserves, inflation trends, exchange-rate movements, and sovereign-risk measures help illustrate the economic environment within which policy decisions were made. These indicators are employed for descriptive and contextual purposes rather than for econometric modelling or forecasting (Reinhart & Rogoff, 2009). Consistent with the crisis-management literature, the analysis focuses on institutional dynamics, policy responses, and event sequences rather than drawing definitive conclusions from short-term market fluctuations during periods of heightened volatility (Obstfeld & Taylor, 2004).
Analytical Strategy and Limitations: The study employs process tracing as its principal analytical strategy, enabling a systematic examination of how institutional conditions, policy decisions, and observed outcomes are connected through a coherent sequence of events (George & Bennett, 2005). The analysis is guided by three key questions. First, what economic, institutional, and political constraints influenced Argentina's policy choices in 2025? Second, why was a bilateral currency-swap arrangement preferred over alternative options such as sovereign borrowing from capital markets or additional multilateral financing? Third, how was the swap expected to function within the realities of Argentina's macroeconomic environment and longstanding credibility challenges?
To address these questions, the study interprets policy developments through established theoretical perspectives discussed earlier, including balance-of-payments crisis theory, policy credibility and time-inconsistency frameworks, and political economy approaches (Krugman, 1979; Kydland & Prescott, 1977; Eichengreen, 2011). This theory-informed analysis helps explain both the rationale behind the intervention and its expected role in crisis management.
The methodology also recognizes certain limitations. As a single-case study, its findings are intended to generate insight rather than statistical generalization. In addition, the absence of access to confidential contractual provisions restricts the ability to examine some operational aspects of the swap in detail. These limitations are addressed through careful interpretation and by avoiding speculative conclusions (Yin, 2018).
By combining credible secondary sources, contextual macroeconomic indicators, and a theoretically grounded qualitative approach, the study offers a transparent and rigorous assessment of the October 2025 currency-swap arrangement. This methodological framework is consistent with established practices in applied international finance research and supports the broader objective of drawing meaningful lessons from a complex and evolving policy episode.

Discussion and Analysis

This section forms the analytical core of the case study by examining the practical implications of the USD 20 billion currency-swap arrangement announced between Argentina and the United States in October 2025. The discussion focuses on how the arrangement operated in practice, how financial markets responded, and what the episode reveals about Argentina's broader economic challenges, institutional credibility, and policy constraints. The findings are interpreted through the theoretical perspectives introduced earlier, allowing the case to be understood not only as an isolated policy intervention but also as part of Argentina's longer economic trajectory.
Immediate Effects on Market Confidence and Liquidity: The most visible short-term consequence of the swap announcement was the easing of immediate liquidity pressures. In the weeks that followed, market

anxiety moderated, pressures on the peso softened, and the rapid pace of reserve depletion showed signs of slowing. Although exchange-rate volatility did not disappear entirely, the atmosphere of crisis that had dominated market sentiment earlier in 2025 became less intense.

This outcome is broadly consistent with expectations-based theories of currency crises, which argue that credible external support can influence market behaviour even before substantial financial resources are utilized (Obstfeld, 1996). In practice, the impact of the swap was largely psychological rather than financial. Argentina did not immediately draw down the full amount available under the facility. Instead, the knowledge that the central bank had access to additional dollar liquidity reassured investors and reduced fears of imminent disruption. Market participants interpreted the arrangement as lowering the probability of payment difficulties, abrupt exchange restrictions, or a disorderly financial adjustment. As a result, sovereign-risk perceptions improved temporarily, demonstrating that confidence in future liquidity can sometimes be as influential as the actual stock of reserves (Obstfeld, Shambaugh, & Taylor, 2010).

Reserve Position and Central Bank Flexibility: The arrangement also enhanced the operational flexibility of the Central Bank of Argentina (BCRA). Access to potential dollar liquidity strengthened its ability to respond to short-term foreign-exchange pressures and manage market expectations. In a financial system characterized by multiple exchange rates and extensive administrative controls, this additional flexibility carried considerable importance. The swap reduced the likelihood that temporary disturbances, such as speculative attacks or seasonal increases in import demand, would immediately translate into visible reserve losses. Nevertheless, the improvement in reserve adequacy was conditional rather than permanent. Funds accessed through the swap remained liabilities that would eventually need to be repaid. Consequently, they did not fundamentally improve Argentina's net external position. Consistent with balance-of-payments crisis theory, the intervention relieved immediate pressures without addressing the underlying imbalance between foreign-currency inflows and outflows (Krugman, 1979). The evidence therefore suggests that the swap functioned as a protective buffer rather than a structural solution.

Inflation and Exchange-Rate Dynamics: One of the most revealing findings concerns the limited impact of the swap on inflation. While the arrangement contributed to a degree of exchange-rate stabilization, inflationary pressures remained largely intact. Price increases continued to be driven by persistent fiscal imbalances, weak confidence in monetary policy, and deeply embedded inflation expectations. This outcome aligns closely with the literature on inflation persistence in economies that have experienced prolonged periods of high inflation (Calvo & Végh, 1999). The findings indicate that reducing short-term currency instability is not the same as restoring macroeconomic stability. Although the swap helped moderate extreme exchange-rate fluctuations, it did not provide a credible nominal anchor capable of changing inflation expectations. Businesses and households continued to regard the peso with caution, and exchange-rate pass-through effects remained significant. The distinction between liquidity support and broader economic stabilization therefore became particularly evident. External liquidity can ease financial pressures, but sustainable price stability depends on credible domestic policies.

Signalling Effects and Policy Credibility: Perhaps the most significant outcome of the arrangement was its signalling value. The swap conveyed an important message regarding how external stakeholders, particularly the United States, viewed Argentina's economic difficulties. By extending a substantial bilateral liquidity facility, U.S. authorities implicitly indicated that they regarded Argentina's challenges primarily as a liquidity problem rather than a full-scale solvency crisis. Given Argentina's long history of debt restructurings and financial instability, this signal carried considerable weight (Reinhart & Rogoff, 2009). The announcement contributed to a temporary improvement in confidence because it suggested that an influential international partner believed the situation remained manageable. However, the transfer of credibility was only partial. Investors and rating agencies did not interpret the swap as evidence that

Argentina's underlying economic problems had been resolved. Instead, they viewed it as a temporary safeguard against immediate disruption. This finding supports institutional credibility theory, which argues that external credibility can strengthen confidence but cannot permanently compensate for weaknesses in domestic institutions (North, 1990).

Political Economy Implications: The effects of the swap also need to be understood within Argentina's domestic political context. By easing immediate financial pressures, the arrangement reduced the need for abrupt and politically unpopular adjustment measures. In the short term, this contributed to greater stability by lowering the likelihood of sudden policy reversals and social unrest. However, the intervention also created a familiar policy dilemma. By relaxing short-term constraints, it reduced the urgency of implementing deeper fiscal and monetary reforms. This outcome reflects the time-inconsistency problem highlighted in the theoretical literature (Kydland & Prescott, 1977). Rather than using the period of relative calm to introduce sweeping reforms, policymakers largely pursued gradual and incremental adjustments. The evidence therefore suggests that while liquidity support can create opportunities for reform, it can also reduce the political incentives to undertake difficult changes. This dynamic mirror concerns raised in the broader political economy literature regarding the tendency of governments to postpone costly reforms when immediate pressures ease (Dornbusch & Edwards, 1990).

Relationship with Multilateral Institutions: Another important finding relates to the interaction between the swap arrangement and existing multilateral support mechanisms. The bilateral facility complemented ongoing engagements with international institutions by reducing immediate crisis risks. At the same time, it temporarily reduced Argentina's dependence on traditional multilateral financing arrangements. This development altered bargaining relationships and reduced the influence of policy conditionality commonly associated with multilateral programmes. Consistent with the literature on the evolving global financial safety net (Allen & Moessner, 2010; BIS, 2022), the case illustrates both the advantages and drawbacks of a more fragmented support system. The bilateral swap provided speed, flexibility, and discretion, but it also introduced questions regarding coordination, oversight, and accountability.

Key Findings

When viewed in historical perspective, the experience of 2025 shows significant continuity with Argentina's earlier crisis episodes. As in previous periods, external support helped ease immediate pressures but did not remove the structural weaknesses underlying economic instability (Sturzenegger & Zettelmeyer, 2006). The instrument was different—a bilateral currency swap rather than a traditional rescue package—but the broader pattern remained familiar.

Five key findings emerge from the analysis. First, the swap successfully reduced immediate liquidity pressures and improved market confidence. Second, its influence on reserve adequacy and exchange-rate stability operated primarily through expectations rather than large-scale resource transfers. Third, it had little direct effect on inflation and deeper macroeconomic imbalances. Fourth, it altered political incentives in ways that simultaneously promoted stability and delayed reform. Finally, it highlighted both the growing importance and the inherent fragmentation of the contemporary global financial safety net.

These findings, together, support the central argument of this case study. The October 2025 currency-swap arrangement served as an effective bridge during a period of acute financial stress. It bought valuable time, strengthened confidence, and reduced the risk of immediate disorder. Yet its effectiveness remained constrained by Argentina's underlying fiscal, monetary, and institutional challenges. The evidence therefore confirms that while external liquidity support can stabilize a crisis temporarily, lasting economic stability ultimately depends on credible and sustained domestic reform.

Policy and Managerial Implications

The October 2025 currency-swap arrangement between Argentina and the United States provides valuable lessons that extend far beyond the immediate crisis it was designed to address. Viewed through the lenses of international finance, macroeconomic stabilization, and political economy, the case illustrates how crisis-management instruments function in practice, how they influence incentives, and how policymakers can either capitalize on or squander the opportunities they create. The lessons emerging from this episode are relevant not only to governments and central banks but also to multilateral institutions, investors, and corporate decision-makers operating in uncertain economic environments.

One of the most important policy lessons is the need to distinguish clearly between liquidity support and the resolution of underlying solvency problems. Balance-of-payments theory suggests that external liquidity can ease immediate financial pressures, but lasting stability requires the correction of deeper fiscal and external imbalances (Krugman, 1979). Argentina's experience strongly supports this proposition. The swap helped reduce short-term stress and improved market confidence, yet it did not fundamentally alter inflationary pressures, fiscal weaknesses, or structural vulnerabilities. Policymakers must therefore communicate clearly that such facilities are intended to buy time rather than eliminate the need for adjustment. When this distinction is blurred, governments risk creating unrealistic expectations among citizens and investors alike.

The case also highlights the importance of policy sequencing. The literature on time inconsistency argues that governments often delay difficult reforms once immediate pressures diminish (Kydland & Prescott, 1977). The swap created a temporary period of stability during which meaningful reforms became more politically feasible. However, as the sense of urgency declined, so too did the incentives for decisive action. This suggests that governments should establish transparent reform commitments tied to periods of external support. Publicly announced milestones and clear policy roadmaps can help ensure that temporary stabilization contributes to long-term credibility rather than merely postponing adjustment (Obstfeld, 1996).

For central banks, the episode demonstrates both the value and the limitations of borrowing credibility from external partners. Institutional credibility theory emphasizes that financial markets respond not only to policy measures but also to the reputation of the institutions implementing them (North, 1990). In Argentina's case, confidence in the U.S. monetary authorities helped strengthen market sentiment at a time when domestic credibility remained fragile. Nevertheless, external credibility cannot permanently compensate for weaknesses in domestic institutions. Central banks in emerging economies should therefore regard swap arrangements as supportive tools rather than substitutes for policy independence, transparency, and sound governance (IMF, 2023).

The case also carries important managerial lessons for reserve and liquidity management. Although swap facilities provide access to foreign currency, they also create future repayment obligations. Consequently, they should not be viewed as unrestricted reserves. Central banks must incorporate such facilities into broader liquidity-planning frameworks, including clear guidelines for drawdowns, maturity management, and repayment strategies (Obstfeld, Shambaugh, & Taylor, 2010). Effective planning reduces the risk of excessive dependence and helps preserve institutional credibility.

From the perspective of fiscal authorities, the case reinforces the significance of fiscal dominance as a constraint on macroeconomic stabilization (Sargent & Wallace, 1981). No amount of external liquidity can sustainably support an economy if underlying fiscal pressures remain unresolved. For finance ministries, this means that access to external support should be accompanied by credible medium-term fiscal strategies. Measures such as improved expenditure management, more targeted subsidy programmes, and stronger tax administration can enhance confidence and increase the effectiveness of external assistance (Dornbusch & Edwards, 1990).

The experience also offers important lessons for multilateral institutions. The growing use of bilateral currency swaps reflects concerns about the speed, flexibility, and political costs associated with traditional multilateral lending programmes (Allen & Moessner, 2010; BIS, 2022). While bilateral arrangements can respond quickly to emerging crises, they may also weaken coordination and reduce the influence of reform-oriented frameworks. As a result, international institutions may need to explore ways of integrating bilateral liquidity mechanisms more effectively into the broader global financial safety net. Greater coordination between swap arrangements and policy-monitoring frameworks could improve effectiveness while preserving flexibility (Eichengreen, 2011).

For investors and corporate managers, the case underscores the importance of separating short-term stabilization from long-term economic improvement. The swap reduced immediate risks and eased market concerns, but it did not remove the structural weaknesses underlying Argentina's economic challenges. Consequently, investors should interpret such interventions as indicators of reduced near-term disruption rather than evidence of lasting economic transformation (Reinhart & Rogoff, 2009). Similarly, firms should continue to employ prudent risk-management practices, including currency hedging, diversified financing sources, and contingency planning, even when external support mechanisms are in place.

Political leaders can also draw valuable lessons from this episode. Public confidence during periods of economic stress depends heavily on how policies are communicated. Political economy research suggests that public acceptance of stabilization efforts is strongly influenced by perceptions of fairness, transparency, and credibility (Galiani et al., 2003). Presenting a currency swap as a complete solution may generate disappointment when underlying economic problems persist. By contrast, leaders who describe such arrangements honestly—as temporary measures that create space for broader reforms—are more likely to maintain public trust and policy credibility over time.

Overall, the lessons from the Argentina–United States currency-swap arrangement converge around a common theme: external liquidity is most effective when it forms part of a broader and credible strategy for economic adjustment. Theories of balance-of-payments crises, fiscal dominance, policy credibility, and political economy all point toward the same conclusion. Liquidity support can provide valuable breathing space, but it cannot by itself deliver lasting stability. Whether that time is used productively depends on the quality of domestic institutions, the commitment to reform, and the willingness of policymakers to address underlying vulnerabilities. For emerging economies facing recurring financial pressures, this case serves as both a warning and a guide—external support can create opportunity, but only sustained and credible reforms can transform that opportunity into durable economic stability.

Teaching Relevance and Learning Outcomes

This case study possesses significant educational value for courses in international finance, macroeconomic policy, political economy, public administration, and crisis management. It is particularly suitable for advanced undergraduate programmes, MBA and PGDM courses, as well as doctoral-level study. One of its greatest strengths is its ability to transform a highly technical financial instrument—a bilateral currency-swap arrangement—into an accessible and engaging learning experience that connects economic theory, institutional realities, and practical policy decision-making.

A major contribution of the case lies in its ability to bridge the gap between theoretical concepts and real-world application. Topics such as balance-of-payments crises, liquidity versus solvency problems, fiscal dominance, policy credibility, and time inconsistency are often introduced through abstract models and simplified examples. By examining a contemporary and realistic policy episode, the case enables students to observe how these concepts operate in practice. This contextual approach deepens understanding and encourages learners to appreciate the complexity of policymaking beyond textbook formulations.

The case is also highly effective as a discussion-based learning tool. Rather than presenting a straightforward solution, it places students in the role of decision-makers confronted with uncertainty, limited policy options, and competing political and economic pressures. Such ambiguity encourages analytical thinking, debate, and problem-solving. Learners can explore alternative responses, including IMF assistance, market borrowing, or stricter capital controls, and evaluate why the currency-swap arrangement emerged as the preferred option under prevailing circumstances. In doing so, they develop judgment and decision-making skills alongside technical knowledge.

Another important educational contribution is its emphasis on political economy. Economic policies are rarely implemented in a purely technical environment, yet students often struggle to appreciate the influence of political constraints and stakeholder interests. Through its examination of incentives, institutions, and competing priorities, the case demonstrates why economically sound policies may be delayed, modified, or strategically presented. This perspective is especially valuable for students aspiring to careers in government, central banking, international organizations, or financial regulation.

The case also introduces learners to the evolving structure of the global financial system. While traditional curricula frequently focus on IMF programmes, exchange-rate systems, and sovereign borrowing, currency-swap arrangements receive comparatively little attention. By exploring this increasingly important policy instrument, the case broadens students' understanding of contemporary crisis-management mechanisms and encourages discussion on issues such as international coordination, financial fragmentation, and power dynamics within the global monetary system.

From a research perspective, the case provides a useful illustration of qualitative inquiry in economics and finance. It demonstrates how robust analysis can be developed through process tracing, careful interpretation of evidence, and the integration of theory with empirical observations, even in the absence of sophisticated econometric modelling. This makes it particularly relevant for doctoral students and emerging researchers seeking to understand alternative methodological approaches.

Finally, the case encourages reflection on broader ethical and normative questions. Issues relating to transparency, moral hazard, sovereignty, accountability, and the long-term social consequences of economic policy naturally emerge from the discussion. These dimensions enrich classroom engagement and remind students that macroeconomic decisions affect not only financial indicators but also institutions, societies, and future generations.

Overall, this case study is much more than a description of a financial crisis and policy response. Its combination of theoretical depth, practical relevance, interdisciplinary scope, and methodological richness makes it a versatile and enduring teaching resource capable of fostering critical thinking, policy awareness, and deeper analytical understanding across a wide range of academic programmes.

Conclusion and Future Outlook

This case study has explored the USD 20 billion currency-swap arrangement concluded between Argentina and the United States in October 2025 as an important example of crisis management in an emerging economy experiencing persistent macroeconomic challenges. By placing the arrangement within Argentina's broader history of balance-of-payments difficulties, institutional weaknesses, and recurring credibility concerns, the study demonstrates that the swap was neither an extraordinary departure from past practices nor a comprehensive solution to the country's economic problems. Rather, it was a carefully designed response to an immediate liquidity shortage, shaped by both economic realities and political considerations.

A key conclusion emerging from the analysis is that the currency swap performed effectively as a temporary bridge mechanism. It helped ease market tensions, improved confidence, and reduced the likelihood of a disorderly financial disruption during a period of heightened uncertainty. In the short run, the arrangement succeeded in providing policymakers with valuable breathing space and strengthening perceptions of financial stability. However, its influence was naturally limited. The swap did not fundamentally change Argentina's inflationary environment, resolve fiscal imbalances, or strengthen the credibility of domestic institutions. These structural challenges have historically contributed to repeated cycles of instability and adjustment, and they remained largely intact after the intervention. Consequently, the findings support the core insights of balance-of-payments crisis theory, credibility theory, and time-inconsistency models: external liquidity can alleviate immediate pressures, but lasting stability depends on sustained domestic reforms and sound policy frameworks.

The case also provides important insights into the changing structure of the global financial safety net. The Argentina–United States arrangement illustrates the increasing importance of bilateral monetary cooperation as a complement to traditional multilateral lending mechanisms and reserve accumulation strategies. Currency swaps offer several advantages, including speed, flexibility, and political discretion. At the same time, their growing use raises important questions regarding coordination, accountability, and unequal access to crisis-support mechanisms. The experience suggests that bilateral liquidity arrangements can be highly effective in addressing short-term financial stress, but their success ultimately depends on how well they are integrated with broader economic strategies and institutional reforms.

From a political economy perspective, the case highlights an enduring dilemma faced by policymakers. While the swap reduced immediate financial pressures and lowered the risk of disruptive adjustment, it also diminished the urgency for politically difficult reforms. This tension between short-term relief and long-term adjustment is a recurring feature of crisis management in many emerging economies. In Argentina's case, the intervention helped stabilize the present but simultaneously shifted critical questions into the future, particularly regarding fiscal sustainability, repayment capacity, institutional credibility, and the willingness to undertake meaningful reforms.

The study also points toward several promising directions for future research. Comparative analyses involving other emerging economies could help identify the conditions under which bilateral currency swaps are more effective than IMF programmes or market-based financing alternatives. Further empirical research is also needed to examine the long-term effects of repeated access to swap facilities, particularly whether such arrangements create moral hazard or, alternatively, provide the stability necessary for successful reform implementation. In addition, as the international financial system becomes increasingly multipolar, future studies could investigate how expanding swap networks influence geopolitical relationships, bargaining power, and patterns of crisis support across regions.

Ultimately, the October 2025 currency-swap arrangement should be viewed neither as a dramatic rescue nor as a policy failure. Instead, it represents a strategically targeted intervention designed to address a specific moment of financial stress. Its broader significance lies less in the volume of liquidity it made available and more in the lessons it offers regarding the role of external support during periods of economic vulnerability. For Argentina, and for other emerging economies facing similar challenges, the central lesson is both realistic and constructive: external assistance can create an opportunity for stabilization, but only credible institutions, consistent policies, and sustained reforms can convert that opportunity into enduring economic stability. Without such foundations, liquidity support may merely delay the re-emergence of familiar problems rather than resolve them.

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