

Dollar Democracy, Argentina-style

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Argentina's ability, under right-wing governments, to draw record levels of dollar support from the "international community" never fails to surprise. This pattern has only become more pronounced in recent years. But what is more surprising is that, despite evidence that the country cannot absorb further dollar inflows and service those liabilities, huge sums of dollar liquidity have been placed at the government's disposal following the "democratic" revival of the right. This flows not just through large loans from the IMF, but as capital from the US Treasury, as well as investments from private institutions that normally would avoid a distressed country. All these forms of capital inflow are clearly orchestrated by the American state, with its disproportionate influence on IMF decision making and its ability to both cajole and incentivise reticent private investors.

To recall, in 2018, under the right-wing Mauricio Macri government, the IMF provided Argentina with a humongous bailout of \$57 billion to halt a [currency](#) collapse, a spike in inflation, and a deterioration in real economic performance. That, however, did not help. It was clear very soon that Argentina could neither meet the performance targets the IMF had set nor could it earn or mobilise the foreign exchange needed to meet repayment commitments to the IMF when they fell due. In the circumstances, to prevent itself from being the "victim" of default, an ignominy it could ill afford, the IMF offered a [left-leaning](#) Peronist government that had meanwhile come to power a deal to restructure around \$44 billion owed from the previous programme.

But conditions deteriorated and inflation soared from an already high 48 per cent in 2021 to 72 per cent in 2022, 133 per cent in 2023, and 220 per cent in 2024. Reeling under the impact of persistently high inflation, Argentinians decided to give the far right another chance, this time in the form of [Javier Milei](#), who promised to combine austerity and efforts to stabilise the collapsing exchange rate of the Argentinian peso vis-à-vis the dollar. The IMF stepped in to help, reviewed the pre-existing loan of \$44 billion, and provided another \$20 billion in cash even though all of its espoused principles required it to stay away from further lending to Argentina.

Despite opposition from the legislature, which is not under his control, Milei managed to impose severe austerity on the Argentine population. The austerity is transforming the labour force, with a rise in the share of the informal sector and the non-unionised workers. That transformation is clearly tempering the wage-price spiral that wage demands from strong unions gave rise to, when factors like exchange rate depreciation drove up domestic prices. This change, combined with strong demand repression, partly reined in inflation. But what was also crucial was that Milei was free to use the additional support from the IMF to shore up the peso with dollar sales by the central bank and counter the effects of currency depreciation on prices. Not surprisingly, reported inflation came down significantly. Foreign investors were pleased that the value of their investments was being protected with lower inflation and a stable currency.

Austerity measures cause distress

But Milei's conquest of inflation proved inadequate to appease the population who realised that his austerity measures were a greater source of distress than inflation. His party lost badly in the all-crucial provincial elections held in Buenos Aires in early September. Meanwhile, foreign exchange reserves were falling, eroding the central bank's ability to intervene in the markets to stabilise the peso and rein in inflation. Fickle foreign investors were soon pulling out and the peso started losing ground. With a round of legislative elections due end-October, Milei, who was losing popularity, could not risk a return of inflation. So he wants more dollars from his international supporters to stay in power and implement an agenda that suits global finance.

However, the IMF has already overextended itself and even US backing could not help it offer Argentina another bailout. This was when Trump and the US Treasury decided to step in. The Trump administration has directly contributed to Milei's effort to shore up the peso and support the interests of American finance by intervening in the foreign exchange market to buy pesos. It has also announced a \$20 billion swap of dollars for the peso. However, it is unclear whether when the time comes to redeem its dollar debt by buying back pesos at a pre-specified exchange rate, the Argentinian central bank would be able to mobilise the needed dollars. Finally, the Trump administration is arranging and implicitly guaranteeing an effort to persuade financial institutions from the US to put up another \$20 billion, possibly through a purchase of Argentinian government peso debt.

It is unlikely that such an arrangement of a private sector bailout of the Argentine state would occur without a backstop that insures private investors against losses. There is, however, no transparency in this transaction and therefore very little clarity. But media rumours have it that the private intervention would be backed by the provision of "real assets" as collateral. Argentina has much by way of assets to "hypothecate", especially large reserves of lithium. That could be the quid pro quo that the Trump administration desperate as it is for enhanced access to critical minerals is negotiating.

Together with this material benefit, the support for Milei will further other strategic goals of the Trump administration, allowing it to support a right-wing government desperate to please and serve as an American bulwark in Latin America where the US is once again flexing military muscle. And it can force Milei to give up dependence on China, which under Peronist rule supported Argentina with a dollar swap.

But the US faces many obstacles. Milei's party may yet lose the parliamentary election. The private sector deal may not go through. And the peso may collapse, even forcing Milei out of power.

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