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Argentina's President Javier Milei at a campaign rally in Buenos Aires last week. LUIS ROBAYO/ AFP/ GETTY IMAGES

U.S. Banks Are Wary Of Joining Argentina Bailout

BY ALEXANDER SAEEDY AND SANTIAGO PÉREZ

A group of banks including

JPMorgan Chase, Bank of America and **Goldman Sachs**

is struggling to put together a $20 billion loan to Argentina without leaving themselves too exposed to the financially distressed South American country, people familiar with the matter said.

The bank loans would be part of the Trump administration's plan to backstop the finances of libertarian President Javier Milei's government with a $40 billion package, including a $20 billion currency swap with the U.S. Treasury Department and the separate $20 billion bank-led debt facility.

Note

The banks, which also include **Citigroup** , are seeking some type of guarantee or pledge to ensure they will get their money back, the people said. Bankers are waiting for guidance from the Treasury on what collateral Argentina would be able to provide for them or if Washington would plan to backstop the facility on its own, the people said.

While banks normally arrange these types of rescue facilities on their own, the Treasury has been controlling the broader package and banks feel they can't act without backing from Washington, some of the people said. The loan facility hasn't been completed and might not come together if the banks' collateral question isn't resolved, they said.

A Treasury spokesman said "discussions on this facility remain ongoing, and we look forward to sharing more detail when these talks are complete."

U.S. banks haven't been lending to Argentina, and the country has been shut out of the international capital markets for years. Successive governments have borrowed dol-

Note

lars or printed money rather than cutting spending to narrow chronic budget gaps that led to runaway inflation. Latin America's third-largest economy has missed sovereigndebt payments nine times, with three so far since 2000.

To fill the gap, the Argentine government has received more than 20 financial-aid packages from the International Monetary Fund since the 1950s, including a facility agreed to earlier this year. But those bailouts have failed to prevent recurring financialmarket collapses, bank runs and devastating devaluations leading to political and social turmoil.

Alongside the planned $20 billion from banks, the Treasury Department has also agreed to swap $20 billion for a roughly equivalent amount of Argentine pesos, meant to boost Argentina's foreign-currency reserves and help it protect the value of its currency.

By law, the swap doesn't require Argentina to post collateral, and the value of the pesos is supposed to be near equal to Treasury's investment. But the peso is steadily depreciating and could slide further if the government is forced by the IMF to allow the peso to freely float and have its price determined by market forces. In the past, countries including Mexico have pledged other assets to ensure U.S. taxpayers are protected in similar transactions.

"The risks from these operations are unusually large," said Brad Setser, who was a deputy assistant Treasury secretary in the Obama administration. "Should the peso depreciate, which many think is not only likely but necessary, the Treasury would be left holding assets that have fallen in value."

Argentina's currency is down 30% against the dollar this year and depreciated further on Monday as Argentines braced for economic-instability risks ahead of Sunday's midterm elections.

The Treasury spokesman said the government was "using tools that Treasury has available which are quick and effective to stabilize Argentina," calling that "a bridge to a better economic future for Argentina—not a bailout." He declined to specify what collateral, if any, was being used for the swap facility.

Argentina's central bank declined to comment.

Argentina may be able to pledge its own sovereign debt or future tax revenues against any of the bailout packages, but those are less than ideal solutions. Argentina's sovereign bonds are worth far less than their face value. And pledging future tax revenue from Argentina's vast agricultural exports risks sparking political pushback in Argentina, where there are already widening concerns of U.S. meddling in domestic affairs.

Any funding from private financial institutions would likely require some backing or collateral "enhancement" from the U.S. Treasury, market observers say.

Note

The U.S. facilities are also raising the possibility of a conflict between the IMF and the Treasury. The IMF has typically worked in partnership with the U.S. government, but the Treasury has designed its planned rescue largely on its own and without significant input from the fund on some key details, people familiar with the matter said. Argentina owes the IMF almost $60 billion, more than any other country in the world. ← Note

On the sidelines of the IMF meetings in Washington, D.C., last week, officials from the fund said they were concerned that the Trump administration could pressure Argentina to put the U.S. liabilities ahead of the IMF's sizable loans, people familiar with the matter said.

A spokesman for the IMF said the fund "is determined to support Argentina in restoring economic stability and accelerate growth, working side by side with the Argentine authorities and the U.S. Treasury."

The $20 billion currency swap comprises most of the funds available in the Treasury's rainy-day facility, called the Exchange Stabilization Fund. In 1995, the Clinton administration provided Mexico with $20 billion in loans and credits secured by the country's oil exports, following the devastating "Tequila Crisis" sparked by the devaluation of the Mexican peso.

That facility was repaid and the peso was allowed to float freely, becoming one of the most traded emerging-market currencies.

On Monday, Argentina's central bank said it agreed on terms and conditions for the $20 billion bilateral currency swap provided by the U.S. Treasury, without disclosing details. The peso gained on the news but swung back into the red

versus the dollar later.

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