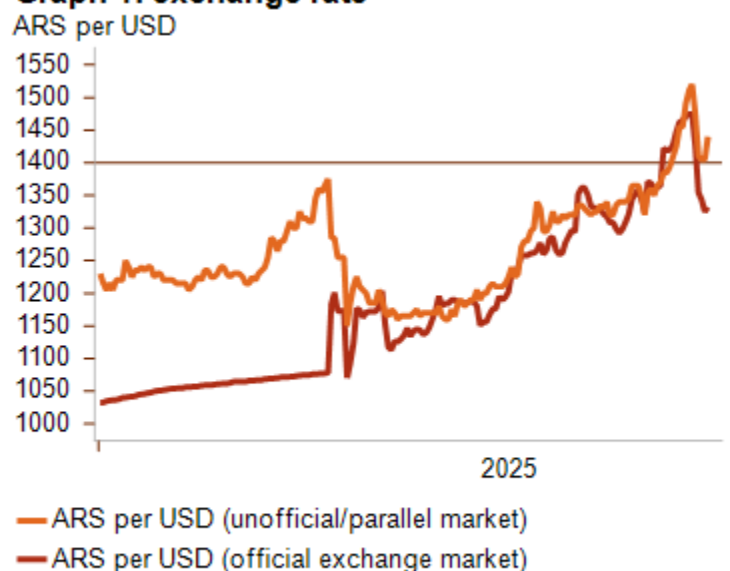


Argentina: A wave of domestic shocks triggered a run on the peso, halted only by unusual US support | Credendo

Event

In the past week, Argentina – once again – experienced a run on its peso. The panic was triggered by a combination of domestic political shocks. First, on 9 September, Milei's party lost the provincial elections in Buenos Aires, historically a Peronist stronghold and Argentina's economic powerhouse, with a landslide. The result was worse than expected and raised doubts about Milei's political momentum ahead of the midterms on 26 October. Second, Congress (dominated by Peronists) overturned the president's vetoes against populist spending bills. These measures are likely to push the overall fiscal balance back into a deficit next year and therefore threaten Argentina's vital IMF programme. On top of that, the corruption scandal involving Milei's sister (his trusted political advisor) erupted. Lastly, Argentina has a history of balance of payments crises and implementation of foreign exchange controls. The combination of these events triggered panic in the financial markets and led to a run on the Argentine peso, which breached the upper limit of its managed exchange rate band (see graph 1). As a result, the Central Bank of Argentina spent more than USD 1 billion in just two days to defend the peso, an unsustainable pace. The peso's slide was only halted after the US Treasury, in an unusual move, announced negotiations for a USD 20 billion swap line, alongside potential USD bond purchases.

Graph 1: exchange rate



Source: BCRA, Macrobond

Impact

The upcoming midterm legislative elections are a litmus test for [President Milei's economic policies](#) over the past two years after he inherited an economy in a balance-of-payments crisis from the Peronist government. Having implemented harsh economic rebalancing measures, Milei has achieved impressive progress: inflation dropped to 34% from a peak of 210% and the economy is

recovering after two years of recession. He also achieved the first fiscal surplus in 20 years at the end of 2024 and the first successful implementation of an IMF programme in a decade. Nevertheless, Milei held on to a still overvalued Argentine peso, despite two devaluations, which led to a merely modest build-up of foreign exchange reserves and made the country vulnerable to a run on its currency.

While markets calmed down and foreign exchange reserves did not dwindle to dangerously low levels (close to 2.5 month of import cover in August 2025), risks remain. Another run on the peso and quick decrease of foreign exchange reserves cannot be ruled out, especially if Milei's party underperforms in the October elections. Although Milei's party is expected to gain seats in Congress, it remains uncertain whether this will be sufficient to enact further reforms, such as a necessary currency devaluation to restore competitiveness and rebuild foreign exchange reserves in view of the large upcoming external debt service. Moreover, (continued) US support may hinge on the results of the midterm elections, Milei's political stability and reform credibility.

In this context, the short-term political risk (category 6/7) – which represents the liquidity of a country – has a negative outlook.

Analyst: Jolyn Debuysscher – J.Debuysscher@credendo.com