

# Funcas Intelligence

FROM FINANCIAL STABILITY TO TECHNOLOGICAL  
INTERDEPENDENCE: HOW POWER IS RESHAPING  
MARKETS AND INSTITUTIONS

Year-end Crossroads

EU Dependence on U.S. Technology

Artificial Intelligence

Argentina Bailout

U.S. Banking Sector

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*Funcas Intelligence (FI)* is a publication directed towards a broad base of international and Spanish readers. Funcas Intelligence's focus is to identify and assess the game changers and relevant events of the global economy and the financial sector with potential impact for Spain.

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Europe’s proposed delay in implementing the AI Act, while understandable, would not solve the EU’s tech competitiveness problems. By announcing strict rules and then delaying them, the EU would undermine its credibility as a global rule-setter without gaining the scale, capital, or technological autonomy it needs to compete with the United States and China.

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Argentina’s latest rescue was less a technocratic bailout than a geopolitical intervention, with Washington using its influence to stabilize an allied government and curb China’s growing foothold in the Americas. The episode exemplifies how multilateral finance is increasingly shaped by great-power rivalry, which poses risks to the IMF’s credibility and signals a broader transformation in the global financial safety net.

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The collapse of Silicon Valley Bank and Signature Bank in 2023 revealed how concentrated deposits, unhedged interest-rate risk, and commercial real estate exposure (CRE) rapidly destabilized these mid-sized institutions in a high-rate environment. While Europe is unlikely to face such episodes of bank failures due to the EU's stronger regulatory framework, the episode offers a clear warning to policymakers: strong frameworks must be continuously enforced to remain effective.

# Year-end Crossroads

Late-2025 rate cuts in the U.S. and UK contrast with an ECB pause, while markets price a soft landing into 2026

- The Fed extended its easing cycle with a further 25 bp cut in December, while the ECB held rates unchanged and the Bank of England delivered a year-end cut amid faster disinflation.
- Markets have leaned into a “soft landing together with lower yields” narrative, with U.S. equities at record highs at the end of 2025, a weaker dollar, and renewed appetite for precious metals.

## United States: A third cut, but “data dependence” remains the anchor

At its 10 December meeting, the Federal Reserve cut the federal funds target range by 25 basis points to 3.50%–3.75%, extending the easing cycle into year-end. The decision reinforces the Fed’s intent to recalibrate policy as inflation pressures continue to cool and growth shows more balanced momentum, while keeping optionality via an explicitly data-dependent stance.

Markets interpreted the move as consistent with a gradual normalization path. Rates markets strengthened their “lower yields” bias into late December. 2-year Treasury yields fell to the mid-3% range by the end of 2025, reflecting confidence that the tightening phase has come to an end.

Beyond rate cuts, the Fed’s ongoing balance-sheet normalization remains an important, and often underappreciated, part of the policy mix. While quantitative tightening continues, more accommodative financial conditions and strong asset markets suggest that the effective stance of policy may be loosening faster than headline rates imply, raising the bar for aggressive further easing in early 2026 unless growth or labor data deteriorate meaningfully.

## Euro Area: Steady hands at the ECB, with policy kept “unchanged” into 2026

In contrast to the Fed, the ECB kept its key rates unchanged in December, holding the deposit facility at 2.00% (MRO 2.15%, marginal lending 2.40%). The messaging remained consistent with a “wait-and-assess” posture: the disinflation process has progressed, but the Governing Council continues to emphasize meeting the inflation target sustainably—especially given lingering uncertainty around wages, fiscal policy, and the growth mix.

The Fed’s latest rate cut reinforces its intent to recalibrate policy, while keeping optionality via an explicitly data-dependent stance

While quantitative tightening continues, more accommodative financial conditions and strong asset markets suggest that the effective stance of policy may be loosening faster than headline rates imply

The policy divergence (Fed easing vs. ECB pause) has contributed to cross-asset positioning that favors duration exposure and selective risk-taking, while keeping currency hedging active as relative-rate expectations shift.

Holding rates steady has helped the ECB preserve policy credibility, but it also shifts attention back to fiscal dynamics and fragmentation risks within the Euro Area

For the ECB, holding rates steady has helped preserve policy credibility, but it also shifts attention back to fiscal dynamics and fragmentation risks within the Euro Area. With several governments entering 2026 with elevated deficits and tighter fiscal rules returning, the ECB's tolerance for market volatility will be tested, reinforcing the importance of tools like reinvestment flexibility and transmission protection alongside conventional rate policy.

### **Global markets: Soft-landing optimism, widening rotation, and late-year crosscurrents**

Global markets finished the year with constructive risk sentiment despite thin holiday liquidity. In the U.S., equities climbed to record highs, with the S&P 500 approaching the 7,000 level and rotation broadening beyond mega-cap tech into financials, healthcare, transports and small caps—suggesting investors are increasingly willing to price a benign macro path into 2026.

In parallel, the U.S. dollar weakened late in the year as investors weighed the path of further Fed cuts and upcoming policy uncertainty, supporting commodity performance. Precious metals were the standout: gold and silver posted exceptionally strong year-to-date gains, supported by a mix of central-bank demand, ETF inflows and hedging against fiscal/monetary uncertainty.

Overall, the late-2025 and early-2026 backdrop still looks like a “fragile equilibrium” as markets price easing and resilience alongside confidence shocks

Overall, the late-2025 and early-2026 backdrop still looks like a “fragile equilibrium”. Markets are pricing easing and resilience, but remain exposed to confidence shocks (policy surprises, geopolitics, and pockets of credit stress) as the cycle transitions into 2026.

# EU Dependence on U.S. Technology

## Implications of the proposed delay in AI Act implementation

- Europe's proposed delay in implementing the AI Act, while understandable, would not solve the EU's tech competitiveness problems.
- By announcing strict rules and then delaying them, the EU would undermine its credibility as a global rule-setter without gaining the scale, capital, or technological autonomy it needs to compete with the United States and China.

### Introduction

The EU has sought for many years to assert regulatory supremacy by leveraging its large consumer market to impose strict standards on digital policy, such as the General Data Protection Regulation (GDPR), Digital Markets Act, and Digital Services Act (DSA). The EU now hopes to put the brakes on some of these ambitious digital regulations in response to concerns from industry and policymakers about implementation and their potential impact on European competitiveness.<sup>1</sup>

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In November 2025, the European Commission unveiled omnibus proposals on digital and AI to streamline and simplify existing laws and protect EU competitiveness.<sup>2</sup> It also proposed delaying the implementation sections of the landmark 2024 AI Act that govern high-risk AI systems that were due to enter into force in August 2026. Many companies welcomed the additional time to resolve technical uncertainties, while others are concerned about the impact of the delay in having clear, finalized AI standards.

### Europe's dependence on U.S. digital infrastructure

Only four of the world's 50 largest tech companies are based in Europe.<sup>3</sup> And across the EU, 80% of digital technologies are imported from the United States and China.<sup>4</sup>

Only four of the world's 50 largest tech companies are based in Europe and across the EU, while 80% of digital technologies are imported from the United States and China

European firms rely heavily on U.S. cloud services, semiconductors, foundational AI models, and software platforms.<sup>5</sup>

In cloud computing, U.S. hyperscalers, such as Amazon Web Services, Microsoft Azure, and Google Cloud, account for 70% of the European market, while European providers account for just 15%.<sup>6</sup>

Semiconductors present an even clearer example of asymmetry. The EU produces less than 10% of global semiconductor output, while U.S. and

Asian firms dominate the production of advanced AI-relevant chips.<sup>7</sup> Despite initiatives such as the EU Chips Act, Europe remains dependent on foreign suppliers for high-performance computing, a prerequisite for training and deploying advanced AI models.

This dependency also extends to AI. European businesses overwhelmingly rely on U.S.-developed large language models and foundation models, which benefit from superior access to compute, proprietary datasets, and capital markets.<sup>8</sup> European alternatives exist, but they are typically under-resourced and constrained by limited scale. In 2024, U.S.-based institutions produced 40 notable AI models, and China had 15, while Europe had just three.<sup>9</sup> In addition, U.S. private investments in generative AI exceeded the combined EU and UK total by \$25.5 billion in 2024.<sup>10</sup>

**The EU depends far more on U.S. digital services than the U.S. depends on European providers**

**By establishing a regulated, rights-compliant digital environment, implementation of the AI Act would reduce long-term strategic dependence on U.S. technology providers, so long as it is paired with capital market reforms**

This underscores the asymmetry in exposure and risk: the EU depends far more on U.S. digital services than the United States depends on European providers. In most cases, American alternatives to European services exist, while the reverse is often not true.

### AI Act

The AI Act, as drafted, seeks to provide firms with clear implementation rules to accelerate the development and deployment of trustworthy AI and attract investment toward AI systems that meet high ethical and safety standards.<sup>11</sup> Prompt implementation of the regulation would also establish a stable, domestic market for EU startups to scale before foreign competitors fully adapt to European standards.

In the short term, the implementation of the AI Act may impose costs on firms, particularly on European small and medium-sized enterprises, as they tend to prioritize legal certainty over experimentation.<sup>12</sup> These compliance costs, particularly for high-risk AI, would likely slow some tech deployment to ensure quality. However, these costs are arguably a strategic down payment. By establishing a regulated, rights-compliant digital environment, the EU's efforts would reduce long-term strategic dependence on U.S. technology providers, so long as they are paired with capital market reforms.

Implementation is also expected to affect EU investment in the near term. The rollout of the GDPR led to a 13% reduction in venture capital investment deals in the EU by U.S. investors.<sup>13</sup> The pullback of U.S. investors from EU deals eventually moderated, suggesting the market partially adapted to the new regulatory environment.<sup>14</sup>

### Explaining and assessing the proposed delay

The Commission proposed a delay in implementing the AI Act to allow more time for the harmonized technical standards, guidelines, and support tools for high-risk AI systems to be finalized.<sup>15</sup> The proposal would likely lead to improved enforcement quality and legal certainty. It would give firms a clearer path to compliance, time to comply with new guidelines, and align AI with

technical requirements. This would be expected to ease implementation and foster innovation.

One of Europe's core strengths in digital policy has been the so-called "Brussels effect," whereby EU regulation sets *de facto* global standards. Postponing implementation of key sections of the AI Act, however, would weaken the EU's ability to shape global AI governance. By announcing a far-reaching framework and then delaying its application, it risks undermining this credibility. Other jurisdictions may move ahead with alternative approaches.

The proposed delay also likely reflects a deep anxiety among policymakers.<sup>16</sup> They probably fear that early and strict regulation, coupled with its dependence on U.S. digital infrastructure, could further disadvantage European firms relative to foreign competitors and heighten Europe's tech vulnerabilities.<sup>17</sup> Cloud concentration raises concerns about data sovereignty and resilience, while reliance on foreign AI systems has implications for cybersecurity and defense. In an era of heightened geopolitical tension, technological dependence constrains foreign policy options and exposes Europe to external shocks.

EU policymakers probably fear that early and strict regulation, coupled with its dependence on U.S. digital infrastructure, could further disadvantage European firms relative to foreign competitors and heighten the bloc's tech vulnerabilities

Recent tensions with the United States underscore these risks. In early December 2025, the Trump administration accused the EU and its Member States of pursuing "discriminatory and harassing lawsuits, taxes, fairness, and directives" against U.S. service providers.<sup>18</sup> Later in the month, the government imposed a travel ban on former EU Commissioner Thierry Breton, who led the drafting of the DSA, and four others, alleging that their efforts to regulate online content amounted to censorship.<sup>19</sup>

Europe's exposure to U.S. technology also carries financial risks. Valuations in U.S. tech remain historically high and very concentrated. If market conditions change abruptly, it could create spillovers for European firms and investors.

## Conclusion

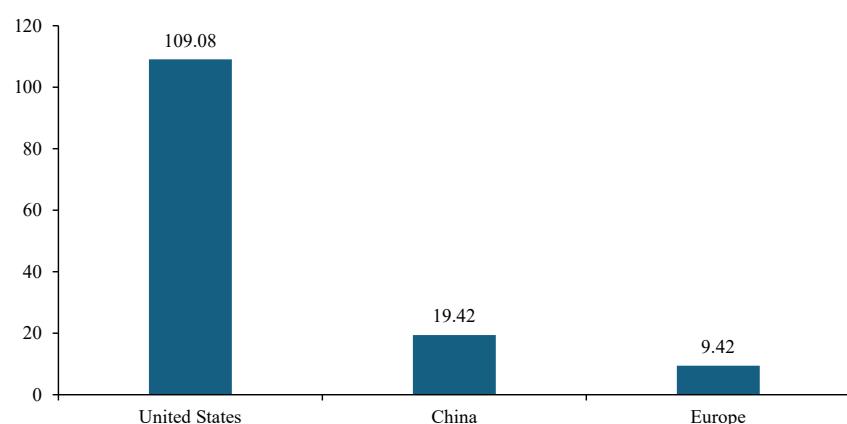
The Commission's proposal to delay some of the AI Act may allow more time for the harmonized technical standards, but it would not close Europe's tech gap. It is unlikely to attract investment in the near term, reduce U.S. dominance, or create meaningful space for European champions. On the contrary, it would likely generate uncertainty for firms, weaken the EU's credibility as a global rule-setter, and do little to narrow the widening technology gap with the United States and China.

The EU should resist the temptation to compensate for structural weaknesses by promoting national champions or relying heavily on sector-specific subsidies. Europe's core challenge is not a lack of regulation, but a lack of scale.

Instead, the EU should pursue policies that would enable firms to grow across borders, attract capital, and compete globally by deepening capital markets, harmonizing digital infrastructure standards, and reducing fragmentation.

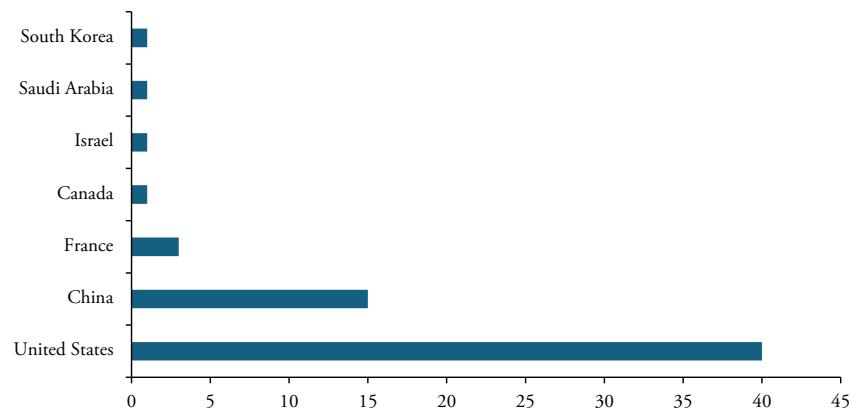
It should also leverage industrial policy measures that complement EU regulations to ensure the tech sector has the resources it needs to compete. Policymakers should use public procurement, which accounts for 14% of the bloc's GDP, to aggregate demand for European AI solutions, backed by the Commission's €1.3 billion commitment to AI-based public technologies.<sup>20</sup> Additionally, the EU should fast-track the 'AI Factories' initiative to provide startups with subsidized access to high-performance computer infrastructure.<sup>21</sup>

**EXHIBIT 1.0 – GLOBAL PRIVATE AI INVESTMENT BY GEOGRAPHIC AREA,  
BILLIONS OF DOLLARS, 2024**



Source: Quid.

**EXHIBIT 2.0 – NUMBER OF NOTABLE AI MODELS BY SELECT GEOGRAPHIC AREAS, 2024**



Source: Epoch AI.

## Notes

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- <sup>12</sup> <https://bipartisanpolicy.org/report/small-businesses-matter-navigating-the-ai-frontier/#:~:text=In%20roundtables%20BPC%20held%2C%20small,cost%20as%20the%20greatest%20concern.&text=Regarding%20barriers%20faced%20by%20small,employees%20lack%20of%20digital%20skills.>
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# Artificial Intelligence

The impact of artificial intelligence on employment, wages, and the structure of the labor market

- Artificial intelligence has not led to widespread unemployment, despite initial fears, but it is reshaping labor markets through task reallocation, skill-biased complementarity, and organizational change.
- The main economic risk lies in increased wage and employment polarization, making education, reskilling, and adaptive labor-market institutions critical to ensuring an inclusive AI-driven growth path.

## Introduction

Artificial intelligence (AI) is evolving at an extraordinary speed, driving profound changes across industries and fundamentally altering the nature of work. And unlike previous industrial revolutions, which primarily automated manual and routine tasks, the AI revolution targets domains typically associated with medium- and high-skilled workers.

AI is expected to boost productivity, accelerate global growth, and increase incomes. One study estimates that AI could boost global GDP by an additional 15% by 2035.<sup>1</sup> However, AI also threatens to displace workers and disrupt traditional career ladders, leading to widespread public anxiety that it could replace jobs and deepen economic and social inequalities.

The central questions will be how AI will change the composition of employment, wage structures, and career trajectories across sectors and workers, and how governments, firms, and individuals should respond.

## Impact on employment

Historically, major technological disruptions in labor markets unfold over decades rather than abruptly. And current evidence indicates that AI has not led to widespread unemployment, despite initial fears.

Estimates suggest that AI-related innovation could displace 6-7% of the U.S. workforce if AI is widely adopted, but these effects are likely to be transitory.<sup>2</sup> New job opportunities created by AI are expected to absorb displaced workers over time. However, the pace of technological change often outpaces the adaptive capacity of training systems, leading to sectoral and occupational reallocation.

Recent firm-level evidence indicates a decline in entry-level hiring following generative AI adoption

Recent firm-level evidence indicates a reduction in entry-level hiring following generative AI adoption, particularly for roles filled by junior staff performing

tasks that are easily automatable.<sup>3</sup> This adjustment appears to operate primarily through slower hiring rather than massive layoffs, as firms rely on natural attrition to realign their workforces. As AI adoption matures and task bundles stabilize, entry-level demand may recover in redesigned roles that emphasize complementary skills.

### Impact on wages

AI tends to amplify wage dispersion by increasing returns to skills that are complementary to advanced technologies. Workers with advanced skills that complement AI are experiencing wage growth, while many medium-skill workers face stagnation or wage pressure as AI automates core analytical tasks.<sup>4</sup>

The effects on low-wage workers are more ambiguous. In some service occupations, AI may raise productivity without fully substituting labor, supporting employment and wages; in others, it may increase monitoring and standardization, limiting wage growth.

Workers with advanced skills that complement AI are experiencing wage growth, while many medium-skill workers face stagnation or wage pressure as AI automates core analytical tasks

This pattern reinforces labor-market polarization. Occupations where AI lowers expertise thresholds may experience downward wage pressure due to increased competition. At the same time, roles that become more demanding as AI handles routine components may see higher wages but lower overall employment.

Overall, AI shifts the wage structure in favor of highly skilled labor and capital owners, raising concerns about income inequality if countervailing policies are not implemented.

### Impact by skill level and age

The distributional effects of AI differ by skill and age group, leading to a partial reversal of the traditional experience premium.

Historically, technological change disproportionately affected older workers. AI, by contrast, automates many entry-level cognitive tasks while empowering more experienced workers. Younger workers tend to adapt more quickly to new technologies, but they increasingly face competition from large language models that can perform cognitive work adequately at low cost. As a result, unemployment among 20- to 30-year-olds in tech-exposed occupations has risen by almost three percentage points since the start of 2025.<sup>5</sup> Evidence suggests that within two years of adoption at some firms, junior employment has declined significantly.<sup>6</sup>

Senior professionals with deep domain expertise and human-centric skills, such as judgment, negotiation, and complex problem-solving, are using AI to handle routine tasks, making them more productive. This dynamic risks creating a barrier to entry for the next generation, as the ladder from junior to senior becomes increasingly fragmented.

Highly skilled workers benefit most from AI adoption, while medium-skill workers are the most vulnerable, given their concentration in tasks that are technically feasible to automate but still central to many occupations.

Highly skilled workers benefit most from AI adoption, while medium-skill workers are the most vulnerable

## Theoretical framework

To understand AI's impact, one must move beyond the binary view of jobs being replaced. The dominant economic theory for understanding AI's labor-market effects is the task-based model of production. This model suggests that labor demand is determined by the allocation of tasks between humans and machines, rather than by indivisible units of labor.<sup>7</sup> In this framework, AI can act as either a substitute or a complement to human labor.

When AI complements labor, it enhances productivity in remaining tasks, allowing workers to specialize in higher-value activities, potentially raising output and wages

When AI is primarily substituted for labor in specific tasks, it reduces the demand for workers in these specific roles and may exert downward pressure on wages. When AI complements labor, it enhances productivity in remaining tasks, allowing workers to specialize in higher-value activities, potentially raising output and wages.

By reallocating tasks, AI can lower or raise entry barriers, depending on whether complex or routine activities are automated.

## Policy recommendations

Policymakers and firms should maximize the benefits of AI while mitigating the social and economic costs.

Continuous investment in professional retraining is critical. Educational systems should prioritize AI literacy and complementary skills, while governments should provide incentives for reskilling and upskilling. Expanding apprenticeships, modernizing workforce programs, and supporting portable skill credentials would also help workers adapt to changing tasks and an evolving labor market.<sup>8</sup>

Governments should also explore how to enhance social safety nets in the face of AI-driven disruptions, including unemployment insurance, wage supports, and targeted tax credits.

Firms should consider how to use AI to develop new possibilities, such as tackling complex problems or generating new ideas.<sup>9</sup> They should also allow teams to provide input on the versions and features the firm adopts and give employees a chance to try different AI tools.<sup>10</sup>

Finally, data and research capacity should be strengthened to better monitor AI's labor-market impacts and design evidence-based policy responses.<sup>11</sup>

## Conclusion

Managed effectively, AI can raise productivity, support wage growth, and create new forms of work. Managed poorly, it may deepen inequality and slow social mobility.

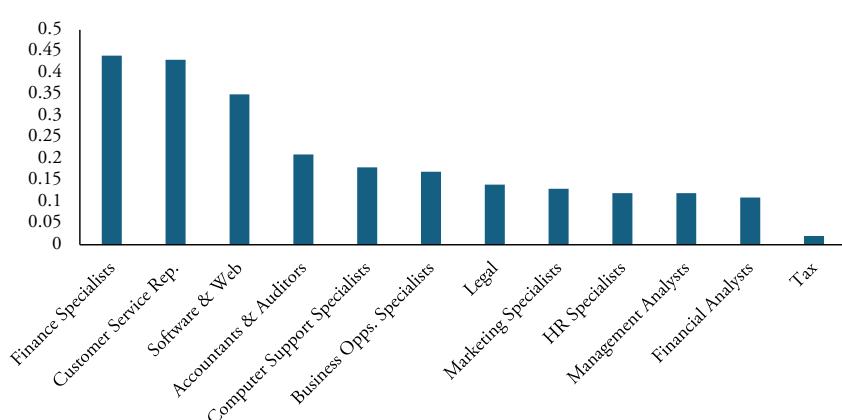
Task displacement is inevitable, though well-designed institutional and policy responses can accelerate the transition toward a labor market that harnesses AI as a complement to human labor, while limiting persistent wage and employment polarization.

## EXHIBIT 3.0 – ESTIMATED GLOBAL GDP GAINS

Source	Estimate	Details
Goldman Sachs	7% or \$7 trillion	Generative AI alone could raise global GDP by 7%, or an additional \$7 trillion, over a 10-year period
McKinsey	\$17.1 – \$25.6 trillion annually	AI could generate between \$17.1 and \$25.6 trillion annually in value across all sectors, or an increase of 1.2% in global GDP per year by 2030
PwC	Up to 14% or \$15.7 trillion	AI could boost global GDP growth by up to 14%, or the equivalent of \$15.7 trillion, by 2030
International Monetary Fund	0.5% annually	AI adoption could lift output by 0.5% annually through 2030, with the potential to affect almost 40% of jobs worldwide
World Trade Organization	12-13%	AI could lift global GDP by 12-13% by 2040 and boost global trade by around 40%

Sources: International Monetary Fund, World Trade Organization, Goldman Sachs, McKinsey & Company, PwC.

## EXHIBIT 4.0 – PERCENT OF TOTAL EMPLOYMENT AT RISK OF DISPLACEMENT DUE TO AI



Note: Early evidence from use cases where AI is driving productivity gains suggests that at most 2.5% of employment is at risk of automation today. Employment displacement implied by AI productivity anecdotes.

Source: Goldman Sachs.

## Notes

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# Argentina Bailout

## How the United States leveraged the IMF to save Argentina and counter China

- Argentina's latest rescue was less a technocratic bailout than a geopolitical intervention, with Washington using its influence to stabilize an allied government and curb China's growing foothold in the Americas.
- The episode exemplifies how multilateral finance is increasingly shaped by great-power rivalry, which poses risks to the IMF's credibility and signals a broader transformation in the global financial safety net.

### Introduction

In 2025, the United States deployed a range of financial tools and used its influence within the International Monetary Fund (IMF) and other multilateral institutions to bolster Argentina's currency, ease market concerns, and support President Javier Milei's economic reform plans. Argentina's precarious reserve position, significant external financing needs, and status as the IMF's largest debtor also posed risks to regional financial stability and the IMF.<sup>1</sup>

The United States has used its dominant influence within the IMF and other multilateral institutions to bolster Argentina's currency, ease market concerns, and support President Javier Milei's economic reform plans

The episode represents an unusual U.S. intervention to support a political ally. The United States' actions may also reflect a judgment that a crisis could have created spillovers through regional banking systems, commodity markets, and investor confidence.<sup>2</sup> The Argentina case also demonstrates how geopolitics, rather than strict technocratic criteria, increasingly shapes international finance.

### The bailout

Since taking office in December 2023, President Milei has pursued fiscal austerity, monetary tightening, deregulation, and privatization. Despite the progress, the country was still facing significant economic challenges, leading the government to request additional IMF support in March 2025.<sup>3</sup>

In April 2025, the IMF Executive Board approved a \$20 billion loan for Argentina, with an immediate disbursement of \$12 billion.<sup>4</sup>

This was the IMF's twenty-third loan to Argentina since 1956. It is the IMF's biggest debtor, owing approximately \$43 billion at the time of the IMF loan announcement.<sup>5</sup> The new IMF program is 1,000% of Argentina's IMF quota, a level considered exceptional as the normal limit is 200%.<sup>6</sup>

The Inter-American Development Bank (IDB) and the World Bank also announced parallel financing packages totaling \$22 billion.<sup>7</sup>

Although Argentina missed its June 2025 target for international net reserves, the IMF approved a waiver to allow the country to receive the second tranche of \$2 billion in IMF funds.<sup>8</sup> It also decreased the country's net international reserve accumulation target.<sup>9</sup>

However, by September 2025, President Milei was facing significant financial challenges and was concerned that losses in the upcoming legislative elections could weaken his mandate to pursue economic reforms. Following a meeting with President Trump, Washington publicly signaled its support for Argentina.<sup>10</sup> This endorsement reassured markets and reinforced Milei's domestic narrative of external backing to sustain his legislative momentum.<sup>11</sup>

The United States subsequently agreed to establish a \$20 billion swap via the Department of the Treasury's Exchange Stabilization Fund (ESF).<sup>12</sup> The United States also announced a parallel plan to secure an additional \$20 billion from private banks and sovereign wealth funds and make direct purchases of Argentine pesos.<sup>13</sup>

The ESF swap marked the United States' largest such intervention since the 1994-1995 tequila crisis in Mexico, but with fewer conditions, transparency requirements, and safeguards.<sup>14</sup>

The United States also provided nearly \$900 million in dollar liquidity support to Argentina through transactions in international reserves held at the IMF ahead of a major repayment deadline.<sup>15</sup>

These synchronized movements eased Argentina's immediate financing constraints.

**Behind the scenes, the U.S. government exerted pressure on the IMF, World Bank, and IDB to maintain support for Argentina despite its economic challenges**

The United States exerted pressure on the IMF to maintain support for Argentina as well. As the IMF's largest shareholder, with 17.4% of voting power, the United States retains influence over program design, waivers, and review timing.<sup>16</sup>

The IMF's disbursements were front-loaded, signaling Washington's endorsement of Milei's reforms and allowing the Argentine government to demonstrate early momentum.<sup>17</sup> This reflected both political calculations and a concern that a sudden program interruption could destabilize markets and force the IMF to recognize losses on its largest outstanding exposure.

### **U.S. motivations**

President Trump's return to the White House in 2025 added an ideological dimension to U.S. policy toward Argentina. Trump and Milei share a strong ideological affinity centered on market liberalization and anti-establishment rhetoric.

Treasury Secretary Scott Bessent framed the U.S. package as an "economic Monroe Doctrine," linking U.S. action to the goal of undercutting China's influence in the Western Hemisphere.

China is Argentina's second-largest trading partner and a key financier through renminbi swap lines, Belt and Road infrastructure projects, lithium mining, and energy investments.<sup>19</sup>

The U.S. actions in Argentina align with Trump's new National Security Strategy, which states the government will "reward and encourage the region's governments, political parties, and movements broadly aligned with our principles and strategy" in the Western Hemisphere.<sup>20</sup>

By ensuring U.S. financial backing and continued IMF support, Washington aimed to reduce Argentina's dependence on Chinese liquidity and limit Beijing's strategic foothold in the country and the region. Its support also helped to prevent a default, which could have triggered regional spillovers and undermined confidence in the IMF and its programs.

### Implications for Argentina

U.S. and IMF assistance have bought Argentina time, but structural vulnerabilities persist.

By ensuring U.S. financial backing and continued IMF support, Washington aimed to reduce Argentina's dependence on Chinese liquidity and limit Beijing's strategic foothold in the country and the region

The additional external support stabilized markets, reduced immediate financing needs, decreased default risk, and boosted investor sentiment. Inflation has begun to decelerate from triple-digit levels, fiscal balances have improved through sharp spending cuts, and market access has partially reopened.<sup>21</sup>

Looking ahead to 2026, many analysts estimate 3-4.5% growth, driven by investment and exports, a more business-friendly environment, less burdensome regulations, and a buoyant energy and mining sector.<sup>22</sup>

Milei's political standing has improved after his party secured notable gains in the legislature following the midterm elections. This has enhanced expectations about his ability to carry out his economic agenda, including the labor reforms planned early this year.<sup>23</sup>

Growth, however, has weakened recently, and exchange rate pressures have underscored the country's macroeconomic vulnerabilities.<sup>24</sup> The annual inflation rate remains high (31-35% in late 2025), reducing purchasing power for most workers and pensioners and hindering large-scale investment.<sup>25</sup>

The country also has significant external financing needs driven by IMF repayments, limited reserve buffers, and a narrow current account deficit.<sup>26</sup> It faces approximately \$20 billion in maturity in 2026.<sup>27</sup> Net international reserves also remain very negative.<sup>28</sup>

The current U.S. and IMF support may carry Argentina through 2026. Yet, unless it can secure reserve accumulation and credible monetary anchor reforms, it will likely require additional external financing to avoid renewed stress once IMF amortizations accelerate and political constraints tighten ahead of the 2027 presidential election.<sup>29</sup> Moreover, its fragile stabilization remains heavily dependent on continued U.S. political support within the IMF,

increasing vulnerability to future shifts in U.S. domestic politics or geopolitical priorities.<sup>30</sup>

### **Implications for the IMF and global governance**

The IMF's role in Argentina reflects its long-standing governance reality, as seen in cases involving the post-Soviet transition and the European sovereign debt crisis. In geopolitically salient cases, program design and review flexibility often adapts to U.S. strategic preferences.

Argentina's 2025 program underscores how political considerations can shape lending decisions, particularly when the IMF is already heavily exposed. And with IMF credit outstanding projected to exceed \$58 billion in 2026, Argentina has effectively become too large for the institution to disengage without risking financial and reputational damage.<sup>31</sup>

Perceptions of politicized lending weaken the IMF's role as a neutral arbiter and complicate efforts to rebuild trust among emerging and developing economies. It also represents a multilateralized geopolitical support arrangement in which the IMF provides financial support to governments aligned with U.S. preferences, especially those that help curb China's influence.

### **Conclusion**

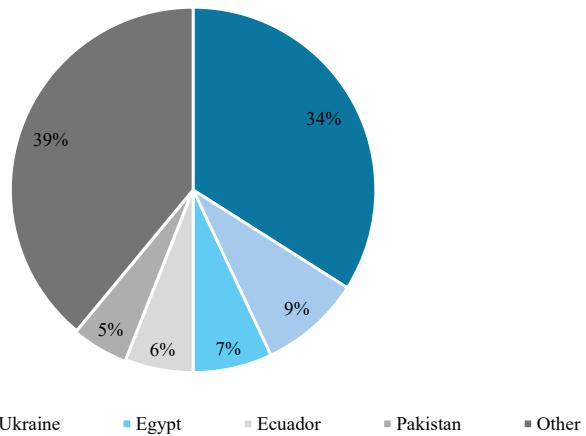
**The IMF's Argentina program should be understood as part of a wider transformation in the global financial safety net**

The IMF's Argentina program should be understood as part of a wider transformation in the global financial safety net. As trust in the neutrality of multilateral institutions erodes, crisis financing risks becoming more fragmented, more politicized, and less predictable.

The perceived politicization of IMF lending may accelerate the turn toward regional and alternative financial arrangements, bilateral swap lines, and non-Bretton Woods lenders. Such fragmentation risks weakening the global financial safety net, complicating coordination during systemic crises, and reducing the effectiveness of conditionality-based adjustment frameworks.

For the European Union, the risks are clear: without deeper engagement, the EU faces marginalization in regional financial diplomacy.

## EXHIBIT 5.0 – LARGEST IMF BORROWERS, 2025



Source: International Monetary Fund.

EXHIBIT 6.0 – ARGENTINA RESERVES<sup>1</sup> (USD BILLIONS)

	2023	2024	Latest
1. Gross international reserves	9.6	16.6	13.1
a. Gross liabilities	18.2	19.0	18.8
b. Central bank swaps <sup>2</sup>	7.2	4.8	4.8
c. Banks' RR FX deposits	9.1	12.2	11.9
d. Deposit insurance (Sedesa)	1.9	2.0	2.0
2. Net international reserves (=1 -a)	-8.5	-2.4	-5.6
e. gold	4.1	5.2	6.1

Source: IMF staff report, April 2025

<sup>1</sup> Includes variation effects. Data as of 7 March 2025.<sup>2</sup> Excluding the unactivated share of the PBOC swap (about \$ 13 bn) and BIS credit facility (about \$3 bn, unwound in April 2024)

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# U.S. Banking Sector

## What Europe can learn from the collapse of Silicon Valley Bank and Signature Bank

- The collapse of Silicon Valley Bank and Signature Bank in 2023 revealed how concentrated deposits, unhedged interest-rate risk, and commercial real estate exposure (CRE) rapidly destabilized these mid-sized institutions in a high-rate environment.
- While Europe is unlikely to face such episodes of bank failures due to the EU's stronger regulatory framework, the episode offers a clear warning to policymakers: strong frameworks must be continuously enforced to remain effective.

### Introduction

The collapse of Silicon Valley Bank (SVB) and Signature Bank in March 2023 sent shockwaves through global financial markets and exposed key weaknesses in their business models and risk management practices.

Although the European banking system avoided comparable stress and includes a much more rigorous regulatory and supervisory framework than the United States, this article analyzes the 2023 bank failures and explores possible similar vulnerabilities that could emerge in Europe and the lessons the episode may offer.

### A hierarchy of banking risks

Policymakers should be able to distinguish between the three layers of banking stress: triggers, amplifiers, and structural factors.

Triggers are abrupt shocks that initiate stress. In the U.S. case, these included a rapid monetary-tightening cycle and sudden confidence shocks that drove bank runs. Amplifiers are balance-sheet or funding characteristics that magnify the impact of these shocks. In 2023, the most important amplifiers in the United States were high concentrations of uninsured deposits, weak interest-rate hedging, and asset-liability mismatches. Lastly, structural factors are deeper characteristics that shape medium-term vulnerability and determine whether a bank can absorb shocks or whether stress becomes existential. In the U.S. case, these included bank size, business-model concentration, geographic exposure, and the degree of diversification in funding and assets.

While triggers like rapid rate hikes are global, amplifiers and structural factors vary significantly across European banking systems, making them potential targets for EU policy intervention.

The collapse of Silicon Valley Bank and Signature Bank in March 2023 sent shockwaves through global financial markets and exposed structural weaknesses in U.S. mid-sized institutions

While rapid rate hikes are global, other factors vary significantly across European banks, making them potential targets for policy intervention

## The collapse of SVB and Signature Bank

The U.S. banking sector came under severe strain beginning in 2023 when SVB and Signature Bank collapsed. These failures reflected vulnerabilities in balance-sheet structure, funding models, and risk management.

The banks had invested heavily in long-duration securities during the pandemic-era deposit surge and failed to hedge interest-rate risk adequately. As interest rates rose sharply, unrealized losses mounted, while high concentrations of uninsured deposits proved vulnerable to rapid withdrawal once confidence eroded — over 90% of deposits were uninsured.<sup>1</sup> When the Federal Reserve hiked rates, the market value of these assets plummeted by an estimated \$2.2 trillion.<sup>2</sup>

Rapid deposit outflows forced the sale of assets at a loss and raised solvency concerns within days. A fast and coordinated response by U.S. authorities helped to contain the broader systemic fallout.<sup>3</sup>

These dynamics highlight how mismatches in maturities, client concentration, and inadequate hedging of interest rate shocks can quickly destabilize banks

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## Europe's banking structure

Compared with their U.S. peers, European banks have more diversified funding and deposit bases.<sup>4</sup> European banks rely more heavily on retail deposits, which tend to be more stable than uninsured corporate deposits, which typified SVB. Higher insured deposit ratios across Europe also reduce run risk compared to U.S. banks.<sup>5</sup>

However, this should not be interpreted as structural immunity. Smaller and mid-sized EU banks remain exposed to localized shocks, supervisory heterogeneity, and delayed asset-quality deterioration, particularly outside core banking systems.

## CRE exposure

On the other hand, one of the most salient parallels across banking systems is the role of CRE in credit concentration risk.

In the United States, a large share of CRE loans is held by regional and community banks. From 2018 to 2022, CRE accounted for 44% of total loans at regional banks, compared to about 13% in larger banks.<sup>6</sup> As large volumes of CRE loans mature in a higher-rate environment, borrowers face higher debt-service costs and declining valuations. Significant refinancing challenges loom in the United States, with more than \$1 trillion in CRE loans maturing by the end of 2025.<sup>7</sup>

In Europe, CRE accounts for less than 10% of the assets of most large banks.<sup>8</sup> However, certain banks, notably Nordic and German lenders, have CRE concentrations of 13% of total loans, especially at mid-sized lenders.<sup>9</sup>

European CRE performance has so far held up better, defying declining property values since 2022 and structural challenges in the office and retail sectors.<sup>10</sup> Non-performing loans are rising only modestly and largely in localized pockets, though diversification and improved capital buffers help mitigate some threats.<sup>11</sup>

European CRE financing heavily involves bullet loans, which feature interest-only payments with no principal amortization during the life of the loan, followed by large principal payments at maturity.<sup>12</sup> These loans have come under increased scrutiny in recent years, given the rapid rise in interest rates and the structural changes affecting office buildings.<sup>13</sup> Traditional banks are the primary lenders, though non-bank financial institutions have grown in importance.

Risks also vary significantly by property type. Offices are most exposed to structural shifts in workplace habits and valuation declines. Retail is also heavily exposed due to the shift to e-commerce, though well-located stores continue to perform well. By contrast, the logistics and retail segments face more diverse pressures, including high costs, supply chain issues, and changing consumer behavior.<sup>14</sup>

### **Funding and currency risks**

These banks' failures also highlighted the importance of stable funding structures. Europe faces a different but related set of funding challenges.

European banks have increased reliance on U.S. dollar funding, posing potential vulnerabilities if dollar liquidity tightens.<sup>15</sup> This underscores the need for robust liquidity buffers and cross-currency risk management.

### **Conclusion: Lessons for Europe**

Although the European banking sector's regulatory framework is substantially more robust than that of its U.S. counterparts, several lessons remain relevant for EU policymakers:

*Liquidity risk is about intraday run dynamics, not the LCR.* Liquidity stress testing should focus on run velocity, depositor concentration, and operational capacity to mobilize liquidity under digitally driven confidence shocks.

*Concentrated and uninsured deposits can behave like wholesale funding.* Banks and supervisors should segment deposit "stickiness" and hard-wire monitoring of depositor concentration, sectoral correlation, and early-warning triggers.

*Manage interest-rate and liquidity risk jointly.* Unrealized losses can quickly turn into liquidity stress when assets must be sold, requiring conservative IRRBB assumptions, effective hedging, and tight links between market and liquidity stress scenarios.

*Pillar 2 supervision and governance are the confidence backstop.* The priority in Europe is consistent follow-through on ALM limits, hedge governance, escalation routines, and credible contingency and resolution capacity.

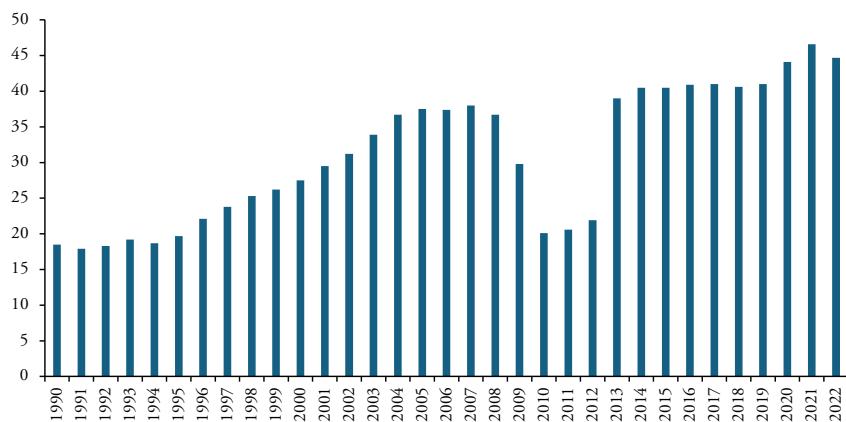
In Europe, CRE performance has so far held up better, with non-performing loans rising only modestly and largely in localized pockets

## EXHIBIT 7.0 – HIERARCHY OF RISKS

Risk Category	Elements in the 2023 Events
Triggers	Rapid Federal Reserve rate hikes and sudden shocks to depositor confidence
Amplifiers	High concentrations of uninsured deposits and the failure to effectively hedge interest-rate risks
Structural Factors	SME business models, lack of scale, and high exposure to long-duration assets during low-yield period

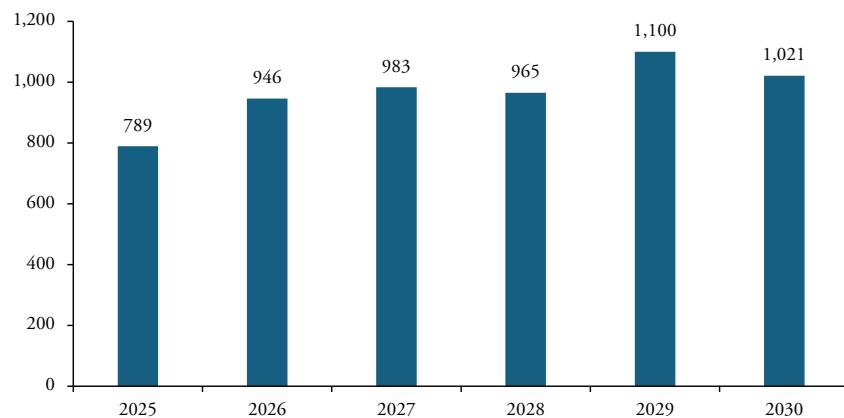
Source: Funcas.

## EXHIBIT 8.0 – UNINSURED DEPOSITS, UNITED STATES, 1990-2022 (PERCENTAGE)



Source: Federal Deposit Insurance Corporation.

EXHIBIT 9.0 – AMOUNT OF U.S. CRE MORTGAGES ESTIMATED TO MATURE, BASED ON AMOUNTS AT ORIGINATION, U.S. DOLLARS BILLIONS



Source: S&P Global.

## Notes

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## Notes

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