COVID-19 crisis: challenges and policy response of the Central Bank of Argentina

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Outline

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3 | Challenges: limited monetary and fiscal policy space
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1 | Monetary policy guidelines
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Central Bank objectives: promoting monetary stability, financial stability, employment and economic development with social equity.

Monetary policy guidelines

- **Interest rates**: real interest rate level must preserve financial and external stability and be compatible with the financing of production while favoring savings in domestic currency.

- **Monetary aggregates**: monetary policy must promote a prudent expansion of monetary aggregates, avoiding imbalances that affect the inflationary process.

- **Exchange rate**: managed floating exchange rate policy to avoid excessive exchange rate volatility and prudential accumulation of international reserves.

- **Inflation**: gradual process of disinflation based on coordinated monetary, fiscal and income policies.

- **Credit**: Central Bank policies will aim at stimulating credit to households and firms in local currency and at longer maturities.
2 | COVID-19 impact and policy response
COVID-19 new confirmed cases and deaths per million inhabitants
7-day moving average

New confirmed cases

Deaths

Source | Ministry of Health.
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...with an immediate supply impact

Mobility to workplaces
Daily data, up to Aug-25

Rest of the country
Buenos Aires city
Metropolitan Area of Buenos Aires

Source | BCRA based on data from Google - COVID-19 Community Mobility Report.
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We expect a “swoosh-shaped” recovery

Projected stages of economic activities

First stage
Mandatory closure restricting non-essential activities

Second stage
Easing restrictions on certain activities and regions

Third stage
"New normal"

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A highly challenging initial situation

The Argentine economy was in a two-year stagflation before the COVID-19 crisis

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*Dotted line refers to Nowcasts of EMAE from June and July
Source: BCRA based on INDEC and CAMMESA data.

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Source: BCRA.
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Monetary policy: new priorities and measures

New priorities: minimizing permanent effects of the health crisis. Preserving the payments chain and avoiding massive bankruptcies and job destruction. Sustaining households’ income.

1. Adapting the financial system to social distancing measures

2. Financial relief for households and enterprises:

   • New loans to the private sector with subsidized interest rates (specially for SMEs and independent workers)

   • Financial relief for already granted loans

3. Protection of savings in domestic currency
BCRA mainly used its already existing toolkit to both provide liquidity and foster credit to SMEs

- Lowering liquidity requirements to finance new credit lines (government guarantees were also reinforced).
- Direct emergency financing to Treasury (temporary advances and profit transfers).

- **New credit lines**
  - Loans to SMEs for working capital financing (including wages), with 24% interest rate.
  - Extension of this line to SMEs outside the banking system.
  - Extension of this line to all companies to finance capital goods produced by local SMEs.
  - Special credit line at 0% interest rate to independent workers in the lowest tax brackets.
  - Special credit line with 0% to 15% interest rate for SMEs receiving the paycheck protection program.

**New tool:** corporate bonds were allowed as collateral in CB repo operations.
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Fiscal and credit measures

SMEs working capital credit line (MiPyMES 24%):
New loans (31-Aug-20): 250,468
Participating companies (31-Jul-20): 122,340

SMEs without previous access to banking credit (MiPyME plus)
Participating companies (31-Aug-20): 5,583

Lines for independent workers (“Tasa cero”)
New loans: 529,147
Credit cards issued: 176,756
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Countercyclical credit dynamics

Argentina: commercial credit and the business cycle
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Higher savings in local currency

Argentina: private sector time deposits

Source: BCRA.
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Immediate transfers in domestic currency. Daily average

Cleared checks

Source | BCRA.
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3 | Challenges
Immediate challenges

1. **Managing liquidity expansion**
   - Transitory direct CB financing to Treasury (limited fiscal space due to debt restructuring process).
   - Monetization at record lows before the crisis.
   - CB has an adequate toolkit to manage excess liquidity.
   - Development of the local currency debt market to channel peso holdings.
   - International reserves: renewing currency swap with PBOC; FIMA repo with the Federal Reserve.

2. **Adapting interest rates to the emergency (low lending, high deposit rates)**
   - Measures to stimulate savings in local currency in a context of falling interest rates.
   - FX market intervention to reduce exchange rate volatility.
   - Capital flow management measures protected the level of international reserves.

3. **Reaching credit market segments with low bancarization (reinforcement of SME lending scheme)**
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Fiscal response and lower growth involved a higher deficit

Revenue and primary expenditure, National Public Sector

Primary result, National Public Sector

Source | BCRA based on INDEC and Ministry of Economy.
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with a transitory impact on money growth

Monetary base expansion factors

Private M2 and components

Source | BCRA.

Banco Central de la República Argentina
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Interest rates and yields in local currency

CB policy rate and deposit interest rates

Time deposits' yield and inflation

Source: BCRA.
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Real effective exchange rate

International reserves

Source | BCRA.
4 | Looking ahead
In the absence of an effective vaccine or treatment, high uncertainty about the economic outlook persists.

The main challenges for the CB will be related to:

- Gradually tempering the emergency financial measures;
- Normalizing the foreign exchange market;
- Consolidating credit growth while strengthening savings in local currency;
- Developing a deep domestic capital market in which firms can finance long-term investment.

Domestic policies are not enough, international cooperation is essential:

- Advanced economies’ central banks and international financial institutions should maintain countercyclical provision of liquidity;
- Further working on the regulation of non-banking financial intermediation is needed.
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Thank you!