Recent Adjustment of Central Bank of Argentina Policies in the Covid Era

Germán Feldman
Economic Research Deputy General Manager

XI Central Banking Operations (Digital) Meeting
CEMLA and Banco de México. July 2, 2021
Adjustment of CB of Argentina Policies in the Covid Era

Outline

1 | Central Bank of Argentina Policy Framework
2 | Review of Contingency Measures to Face COVID-19 Crisis
3 | Recent Adjustment of Policies in the Covid Era
4 | Next Challenges
Central Bank of Argentina Policy Framework
Central Bank of Argentina Policy Framework

Dual Mandate: Preserve price and financial stability, and promote employment and growth with social inclusion

Monetary policy: manage liquidity by policy interest rates of central banks liabilities and open market operations.

Managed floating: avoid excessive exchange rate volatility

FX intervention: prudent accumulation of international reserves and competitive real exchange rate

Capital account measures: introduced after BOP crisis (2018-2019); they allow monetary policy autonomy without excessive FX volatility

Specific supportive credit lines: seek to promote long-term real investment and support to SMEs

Prudential policy: keep the micro and macroprudential regulation updated and based on the best international recommendations
Adjustment of CB of Argentina Policies in the Covid Era

Review of Contingency Measures to Face COVID-19 crisis
Review of contingency measures to face COVID-19 crisis:

- Reduction of policy interest rates.
- Minimum floor for time deposit interest rates.
- Maximum loan interest rates for certain credit lines.
- Improvement of capital-flow management measures.
- Lower reserves requirements on bank lending to SMEs and independent workers.
- Limits to banks’ holdings of central bank liabilities to give space for SMEs lending.
- Temporary easing of bank provisioning needs and of bank loan classification rules (i.e. extra days to be classified as non-performing).
- Unpaid credit card financing maturities were automatically refinanced for a minimum term of 12 months, at a rate maximum interest rate.
- Assistance to the Treasury to finance the fiscal stimulus package.
Recent Adjustment of Policies in the Covid Era
As the pandemic situation improved, the central bank increased the reverse repo rate in mid-October 2020, in harmony with the policy interest rate.
The recalibration of interest rates, together with economic recovery, moderated credit growth after the sharp increase due to supportive (countercyclical) monetary policy during the worst part of the pandemic.
The improvement in fiscal position due to the economic recovery, the end of transitory fiscal stimulus and the reconstruction of the ARS debt market, produced a sharply reduction of monetary financing.
Amid lower financial assistance to the Treasury, the central bank reduced the excess liquidity through its central bank liabilities and open market operations.
Monetary aggregates fell in terms of GDP (and in real terms) showing the normalization of monetary conditions after the lockdown.
Economic activity strongly recovered in 20 H2.

As the second wave started in 21 Q1, economic growth showed signs of slowing down.
The second wave was higher than the first one. However, the government imposed less restrictive measures thanks to the knowledge acquired to contain the pandemic, the already existing protocols, and the vaccination campaign in progress. The impact on GDP growth will be softer and limited to the 21 2Q.
In 2020 inflation started to slow down. This process was temporarily interrupted in the last semester, because of the effects of the reopening of the economy, certain supply constraints and higher commodity prices.
At the end of 2020, amid better economy outlook, the central bank allowed REER appreciation to partially absorb the impact of higher commodity prices on inflation.
After the BOP crisis (2018-19) and the major impact of the pandemic (2020), the central bank restarted international reserves accumulation in the face of higher commodity prices and a calibration of capital flows measures.
The financial system remained robust due to sound macroprudential policies, with comfortable solvency levels.
Recent Adjustment of Policies

and high liquidity standards

Financial system liquidity in % of deposits

Domestic currency

Foreign currency

CR | Cash Reserves.
Source | BCRA.
Non-performing loans to the private sector are going back to normal levels.

Source: BCRA.
Next challenges
Adjustment of CB of Argentina Policies in the Covid Era

Next challenges

• Easing of strict capital controls accompanying a persistent rise of exports.
• Consolidating the gradual process of disinflation based on coordinated monetary, fiscal and income policies.
• Continue reducing the CB liabilities in terms of GDP.
• Reduction of financial dollarization.
• Consolidating credit growth.
• Contributing to the development of domestic capital market where firms can finance long-term investment.
Thank you