

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

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X Central Banking Operations Meeting  
CEMLA and Banco de México  
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## Outline

- 1 | Monetary policy guidelines**
- 2 | COVID-19 impact and policy response**
- 3 | Challenges: limited monetary and fiscal policy space**
- 4 | Looking ahead**

# 1 | Monetary policy guidelines

**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.

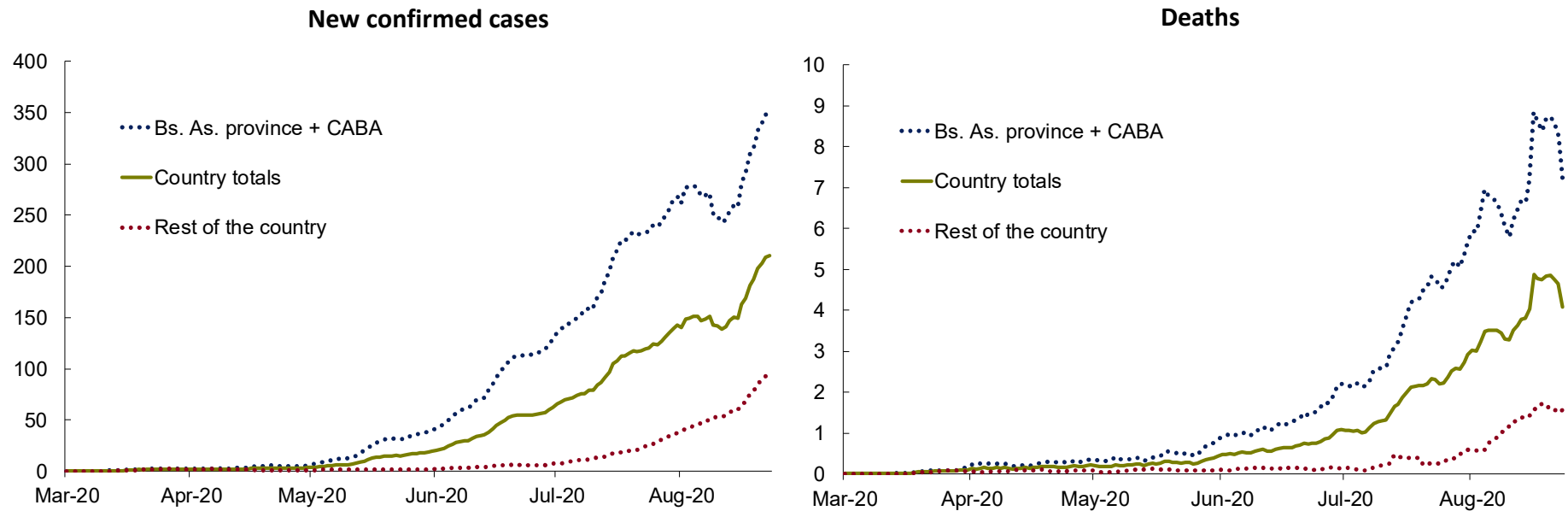
**Exchange rate:** managed floating exchange rate policy to avoid excessive exchange rate volatility and prudential accumulation of international reserves.

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

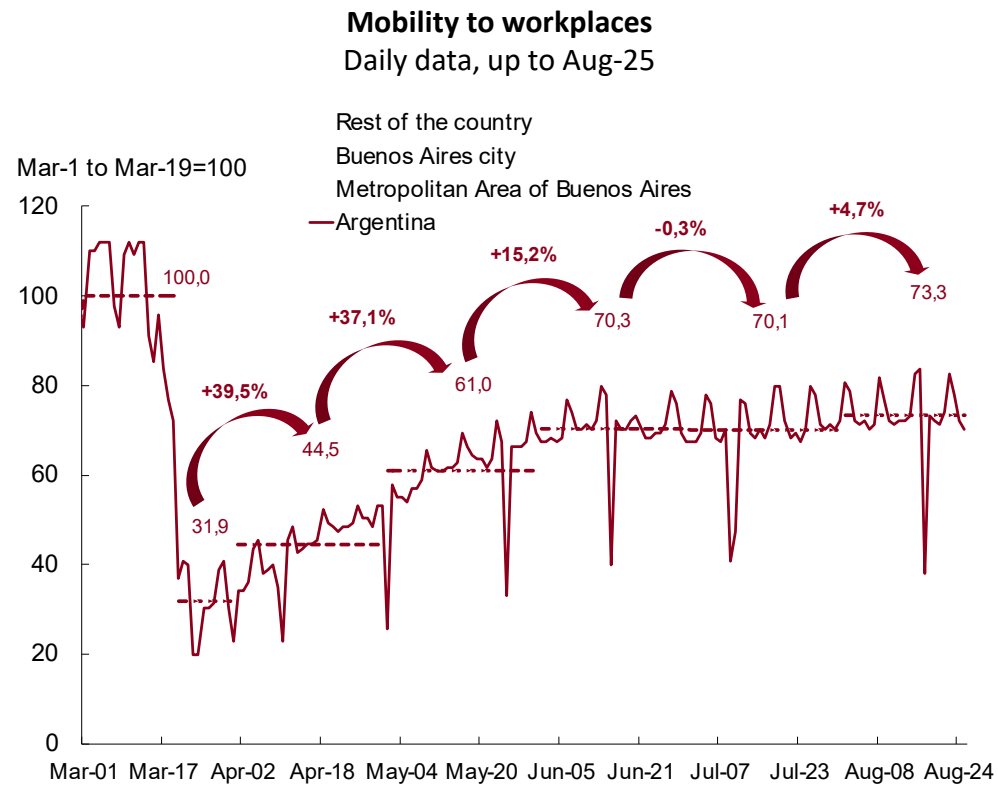
**Credit:** Central Bank policies will aim at stimulating credit to households and firms in local currency and at longer maturities.

## 2 | COVID-19 impact and policy response

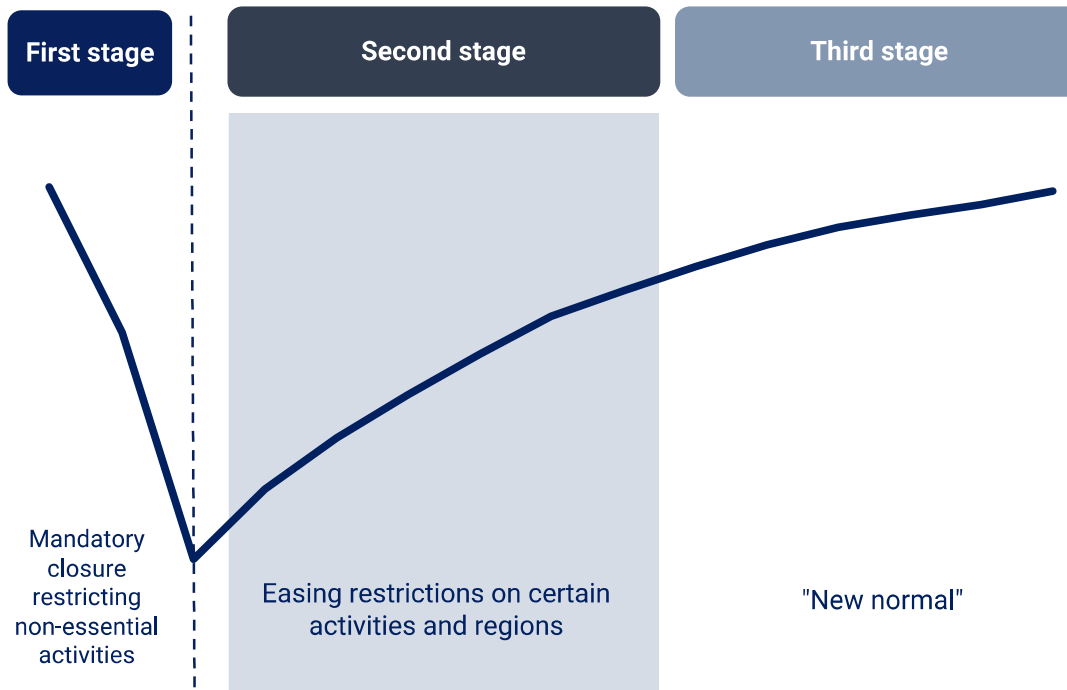
COVID-19 new confirmed cases and deaths per million inhabitants  
7-day moving average



Source | Ministry of Health.



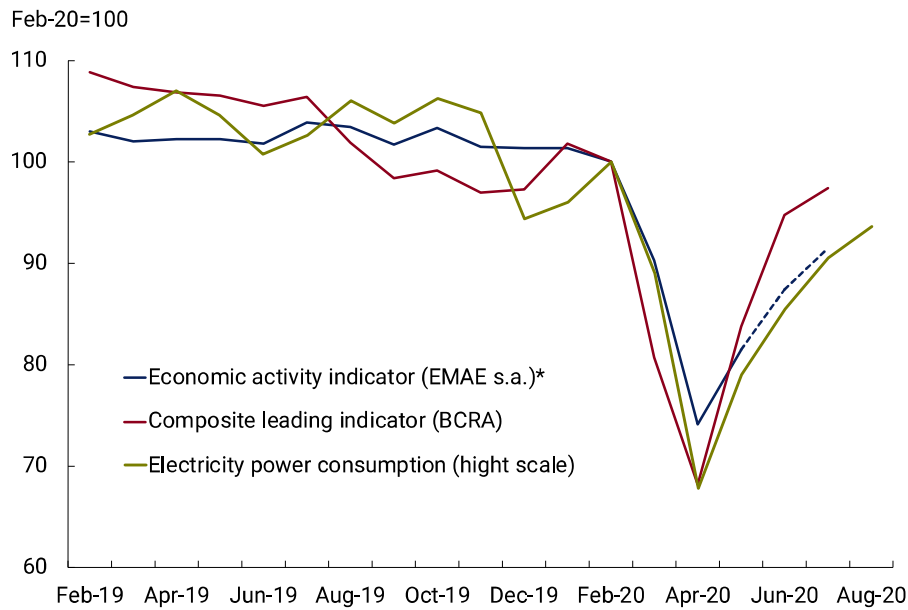
Projected stages of economic activities



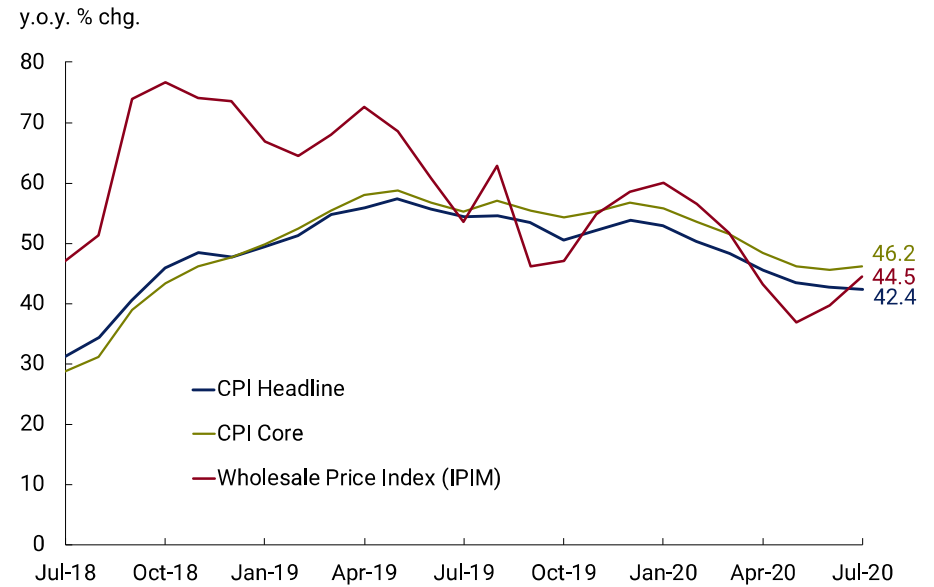
Source | Monetary Policy Report BCRA (May 2020).



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



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



Source | BCRA.

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

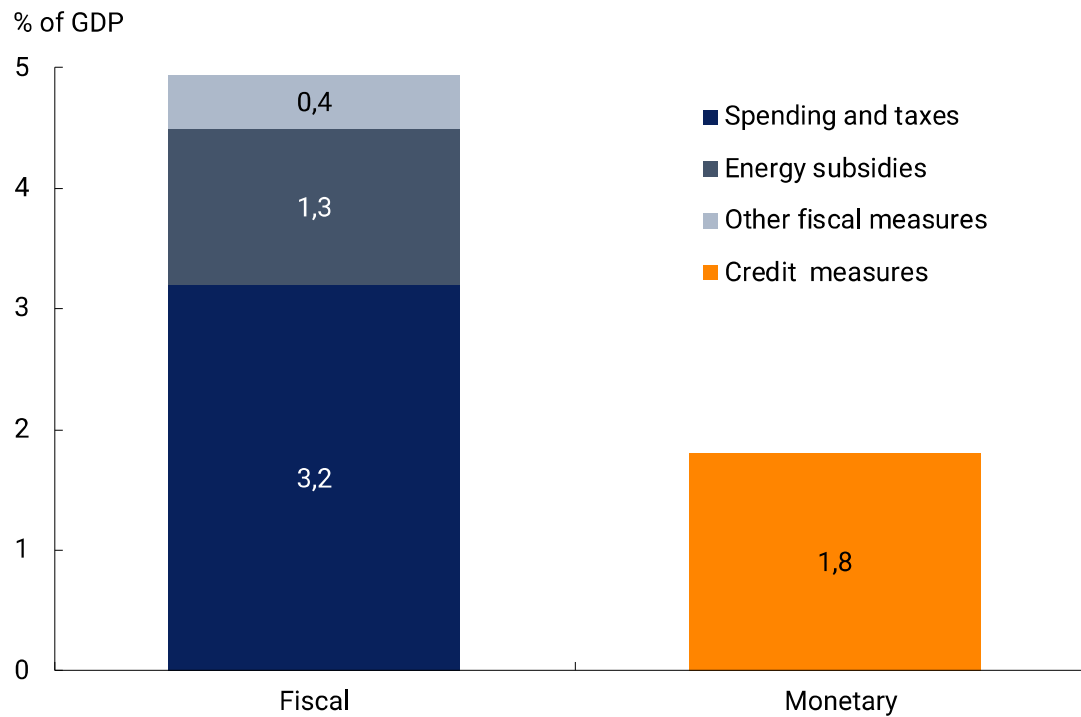
### **3. Protection of savings in domestic currency**

**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.

Fiscal and monetary 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

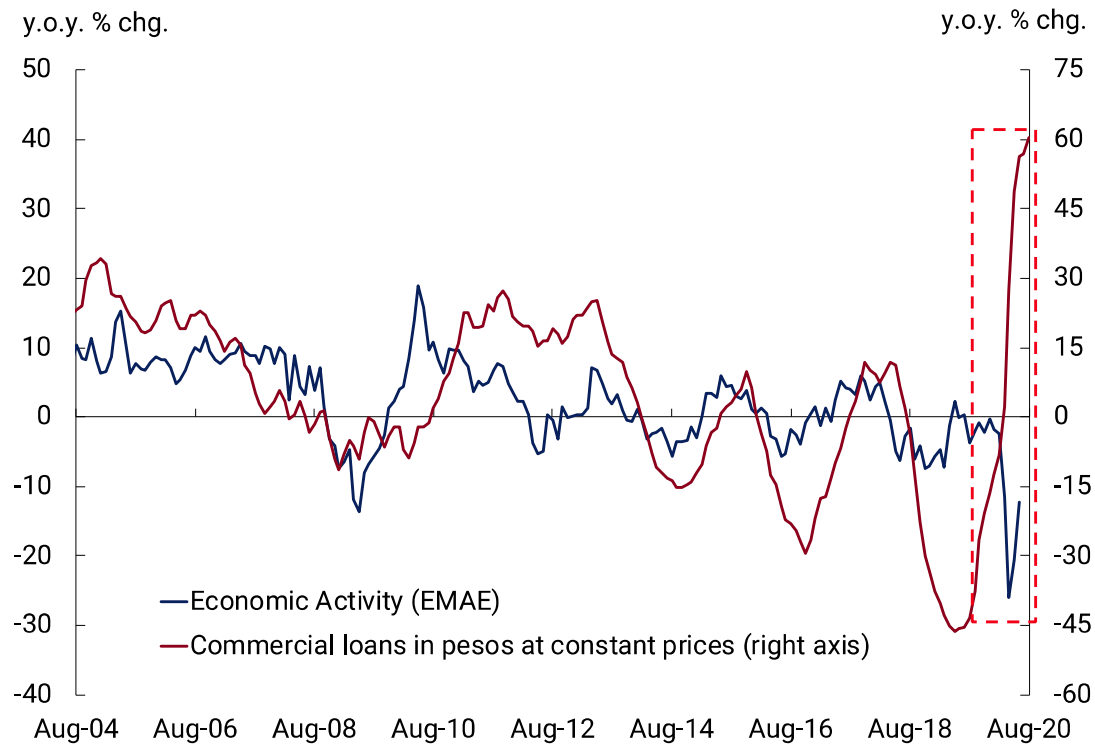
**Lines for independent workers (“Tasa cero”)**

New loans: 529.147

Credit cards issued: 176.756

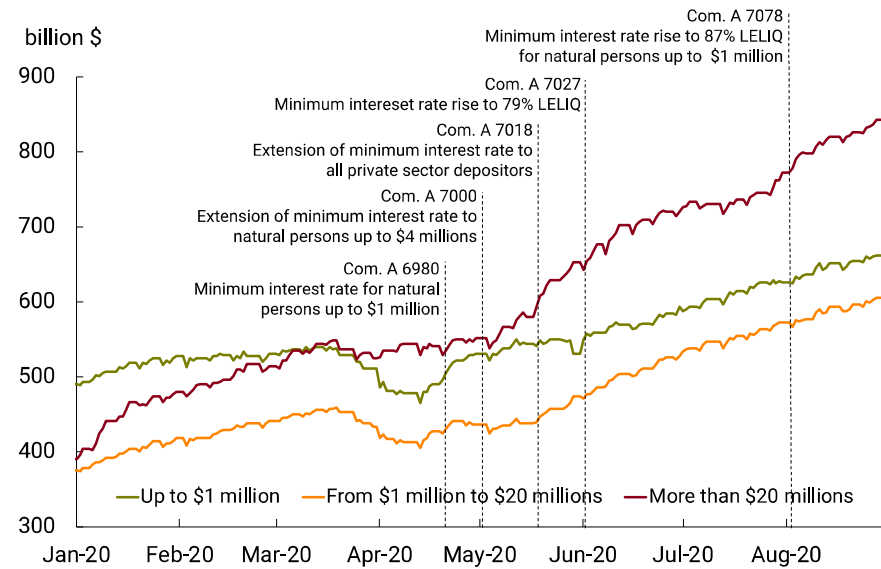
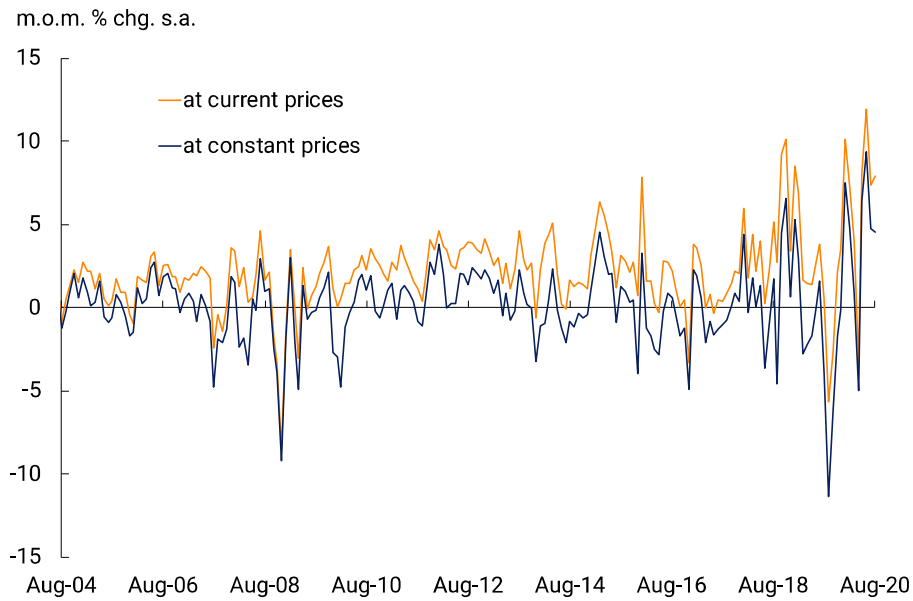
Source | BCRA based on MECON, INDEC

Argentina: commercial credit and the business cycle



Source | BCRA.

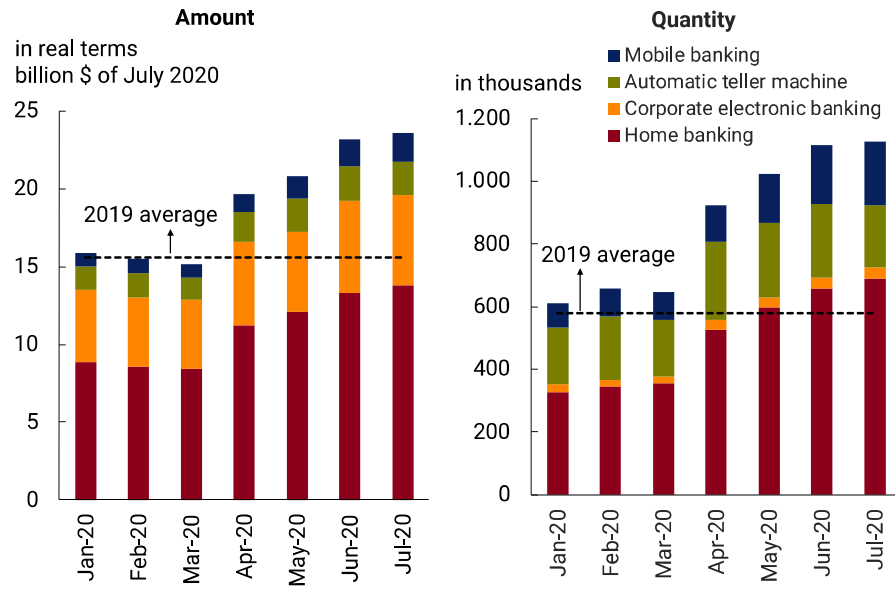
Argentina: private sector time deposits



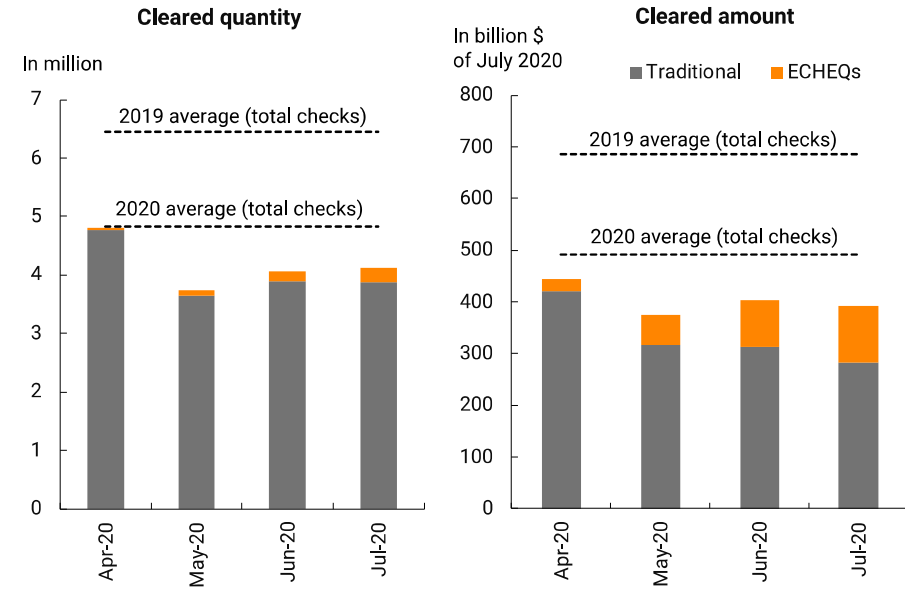
Source | BCRA.

# COVID-19 crisis: challenges and policy response

### Immediate transfers in domestic currency. Daily average



### Cleared checks



Source | BCRA.

# 3 | Challenges



## Immediate challenges

### 1. Managing liquidity expansion

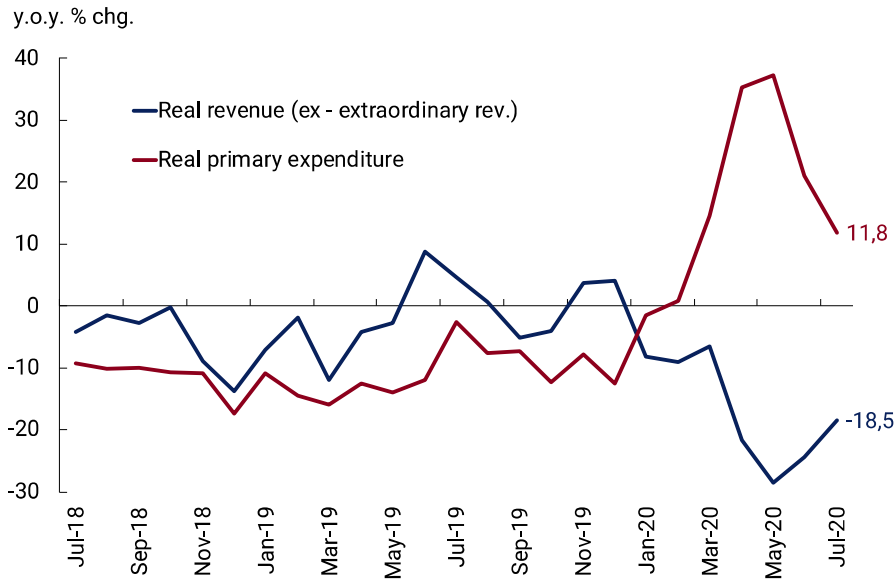
- Transitory direct CB financing to Treasury (limited fiscal space due to debt restructuring process).
- Monetization at record lows before the crisis.
- CB has an adequate toolkit to manage excess liquidity.
- Development of the local currency debt market to channel peso holdings.
- International reserves: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

### 2. Adapting interest rates to the emergency (low lending, high deposit rates)

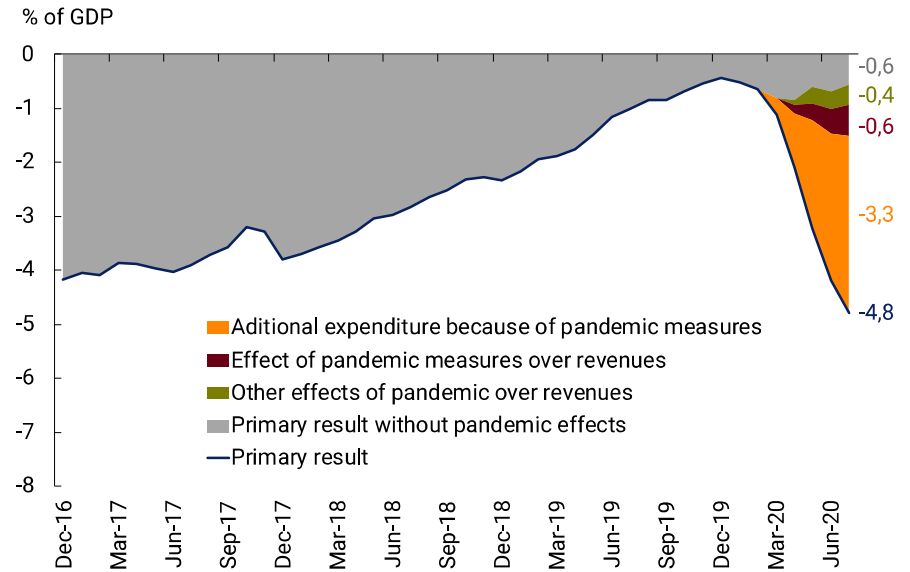
- Measures to stimulate savings in local currency in a context of falling interest rates.
- FX market intervention to reduce exchange rate volatility.
- Capital flow management measures protected the level of international reserves.

### 3. Reaching credit market segments with low bancarization (reinforcement of SME lending scheme)

Revenue and primary expenditure, National Public Sector

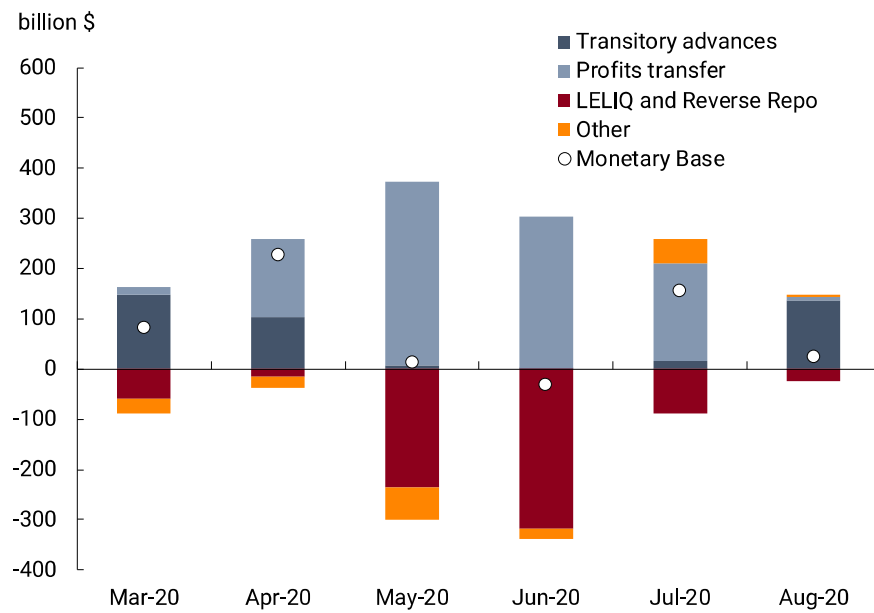


Primary result, National Public Sector

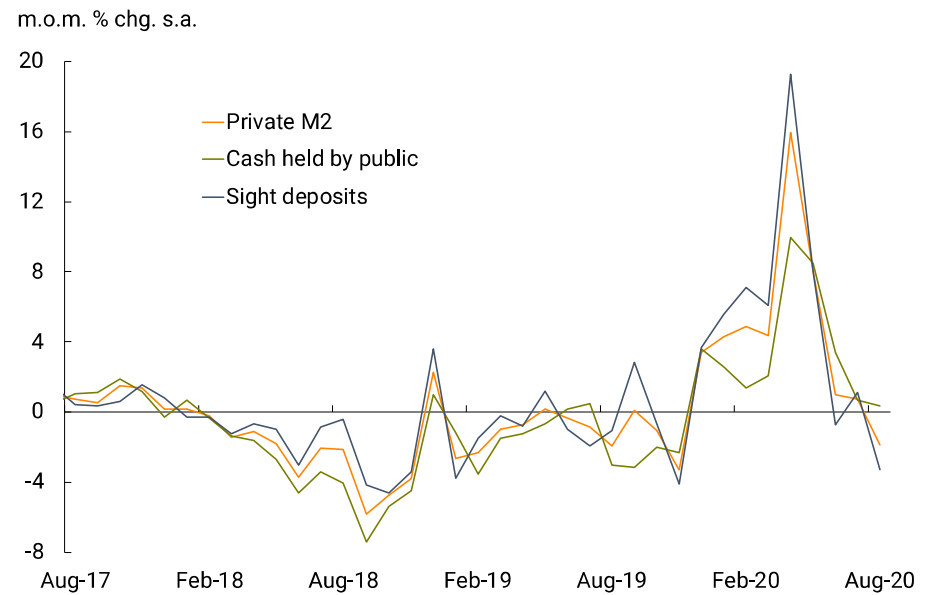


Source | BCRA based on INDEC and Ministry of Economy.

Monetary base expansion factors

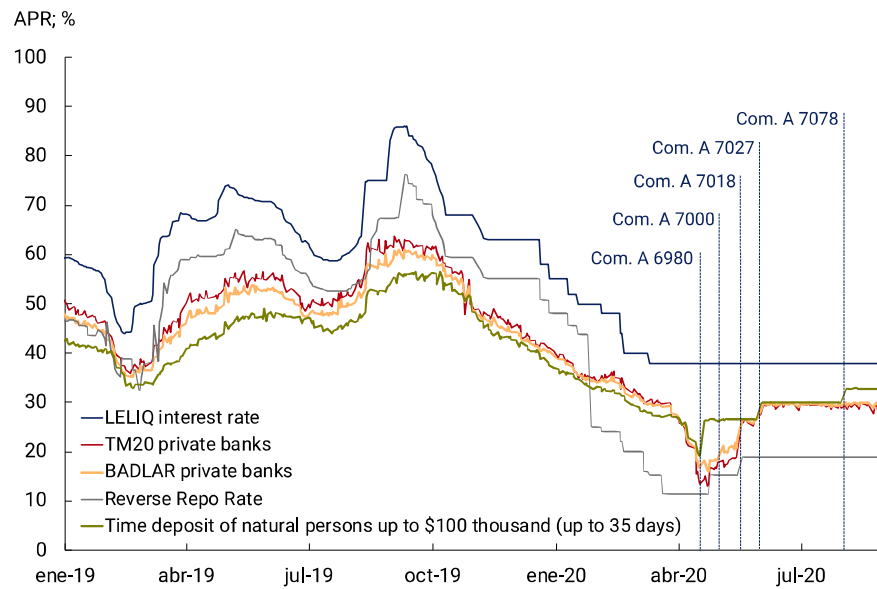


Private M2 and components



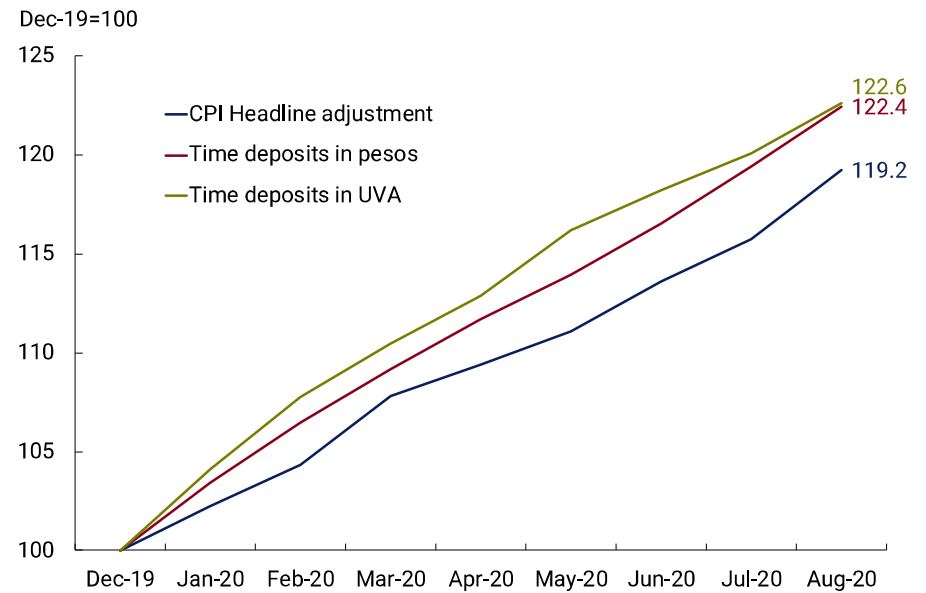
Source | BCRA.

CB policy rate and deposit interest rates



Source | BCRA.

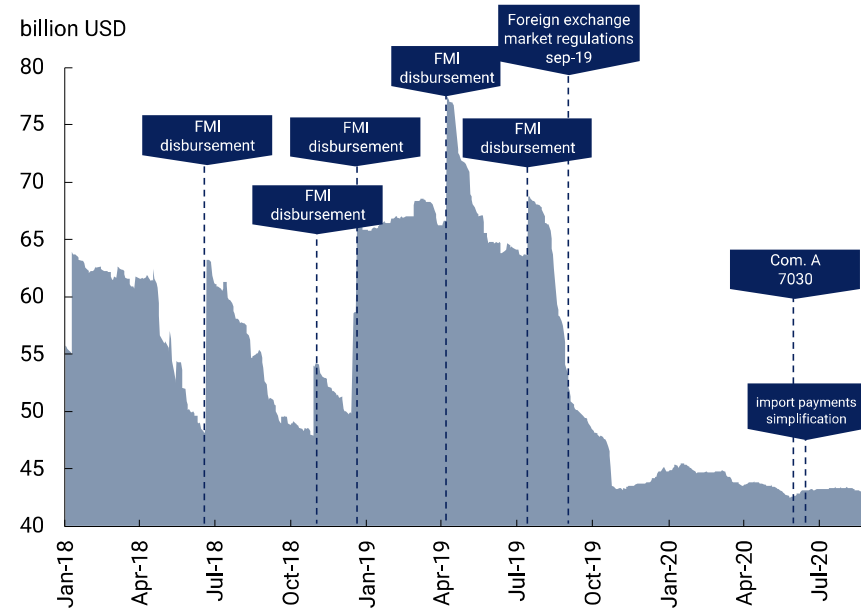
Time deposits' yield and inflation



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.

**Thank you!**