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CENTRAL BANK MONETARY POLICIES FOR 2020

The Central Bank of Argentina (CB) issued a communication establishing their monetary policy guidelines for 2020:

a) The Treasury will be exceptionally assisted for the payment of debt,
b) The CB will maintain positive interest rates to encourage savings, and
c) It will carry out an exchange policy to avoid pronounced fluctuations.

The institution warned that considering the present financial difficulties it is not possible to deploy a monetary policy strategy where specific objectives are set on the expansion of aggregates or inflation.

However, in the case of the interest rates it will prevent it from falling into real negative levels, although the returns must be compatible with the financing of production and the construction of a yield curve for a longer term, favoring savings in domestic currency.

As regards inflation, a gradual but sustainable reduction of the rate will be sought based on a prudent monetary policy approach, consistent and coordinated with the rest of the economic and income policy promoted by the National Government.

In this context, its deceleration is expected towards lower levels than in 2019 when it ended with 53.7% due to the concurrence of monetary, exchange and fiscal policy, price agreements and the coordination of investment strategies. short and long term, through different institutional spheres.

We copy herein the terms of the Central Bank Communication:

COMMUNICATION

Central Bank of the Argentine Republic monetary guidelines
Buenos Aires, January 27, 2020

The Argentine economy faces a critical macroeconomic picture characterized by the coexistence of very high inflationary records and an intense and persistent recessive process, which has resulted in marked levels of unemployment, precariousness and poverty. On the other hand, the shortage of currencies has generated a noticeable weakness of its external sector that severely conditions its aggregate performance.

To these limitations in the flows of commercial currencies, an undeniable external indebtedness process was added and, subsequently, a loss of access to voluntary credit and a renewed flight of domestic capital.

The inflation rate, which accelerated significantly in the last two years due to diagnostic and policy errors, tended to underestimate the difficulties in inducing a sustainable decline in an inflationary process based on structural factors and inertial components. This misguided conception entailed the intention to address the problem by appealing exclusively to tools of a monetary nature. At the same time, the hypothesis of an alleged continuity without a context characterized by the abundance of external financing led to the error of inducing a complete deregulation of the exchange market and an unrestricted financial opening.

Belatedly, at the end of its mandate, the previous National Government ordered a series of measures to restrict access to the exchange market, which are essential to mitigate the crisis and the deterioration of the balance of payments; He compulsively rescheduled local debt maturities, while the fiscal deficit (no longer able to be financed with external debt) began to be hedged with monetary issuance.

Against this backdrop, the new National Government adopted a series of social, productive, regulatory and fiscal consolidation measures aimed at addressing the most immediate manifestations of the crisis and stabilizing the macroeconomics and, from there, redefining policy priorities with The objective is to lay the foundations to initiate a process of sustainable economic development and create the conditions to ensure fiscal and public debt sustainability.

In the context of the economic and social emergency described, and of a critical situation in terms of access to the external voluntary credit market, the Central Bank of the Argentine Republic considers it necessary to assist the Treasury exceptionally in the eventuality of debt payments abroad as, if strictly necessary and under prudent limits that respect the balance in the money market, financing in local currency.

In such circumstances, and until such definitions can be advanced, it is not possible to deploy a monetary policy strategy where specific objectives are established on the expansion of aggregates or inflation.

Taking these limitations into account, but in line with its mission of "promoting, to the extent of its powers, and within the framework of the policies established by the National Government, monetary stability, financial stability, employment and economic development with social equity", the Central Bank finds it prudent to advance in the definition of a series of useful guidelines to help the formation of the expectations of the different economic actors in our country.

These guidelines refer to the following concepts:

Interest rate. Given the existence of inertial components in the current inflationary process and the low depth of the local credit market, the attempt to reduce inflation exclusively appealing to the validity of excessively high real interest rates has proved ineffective and eventually counterproductive. The level of real interest rate must preserve the financial and external stability of the economy, and must be compatible with the financing of production and the construction of a yield curve in the longer term, favoring savings in domestic currency. The latter implies an interest rate management where it will be prevented from falling into negative real levels.

Prices. It seeks to induce a gradual but sustainable reduction of the inflation rate based on a prudent monetary policy approach, consistent and coordinated with the rest of the economic policy and income policy promoted by the national government. In this framework, its deceleration is expected to levels markedly lower than the year 2019 due to the concurrence of monetary, exchange and fiscal policy, price agreements and the coordination of short and long-term strategies, through different institutional areas.

Monetary aggregates. These are at historically very low levels in terms of product. In a context of recovery of confidence and gradual reduction of interest rates, which allows an improvement in credit conditions and a stimulus to the level of activity, a gradual process of remonetization can be expected. Monetary policy should promote a prudent expansion of monetary aggregates, avoiding imbalances that directly or indirectly affect the inflationary process.

Exchange rate. A managed exchange rate flotation policy is a suitable instrument to avoid sharp fluctuations in the exchange rate that generate negative effects on competitiveness, internal prices and income distribution. The foreign exchange policy will also favor the preventive accumulation of international reserves, based on the genuine entry of foreign currency from the external sector.

Credit. Internal credit intermediation is also at very low relative levels, and must be expanded to meet the needs of households and production, with a strategic sense that allows to address not only the short but also the medium and long term.

Activity level and employment. The policies adopted so far will allow defining a new macroeconomic framework based on the recovery of the domestic market and the growth of exports, inducing increases in investment and productivity, which will allow the expansion of demand and employment to be combined with transformation production necessary to give continuity over time.

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