



BANCO CENTRAL  
DE LA REPÚBLICA ARGENTINA

# The Global Financial Crisis Central Bank Responses in the Western Hemisphere

## *Session II: Monetary and Exchange Rate Policy Responses*

**Pedro Rabasa**  
**Chief Economist**  
**Central Bank of Argentina**

Central Reserve Bank of Peru. March, 2009



- Latam Central Banks and the Crisis
- The Argentine Case



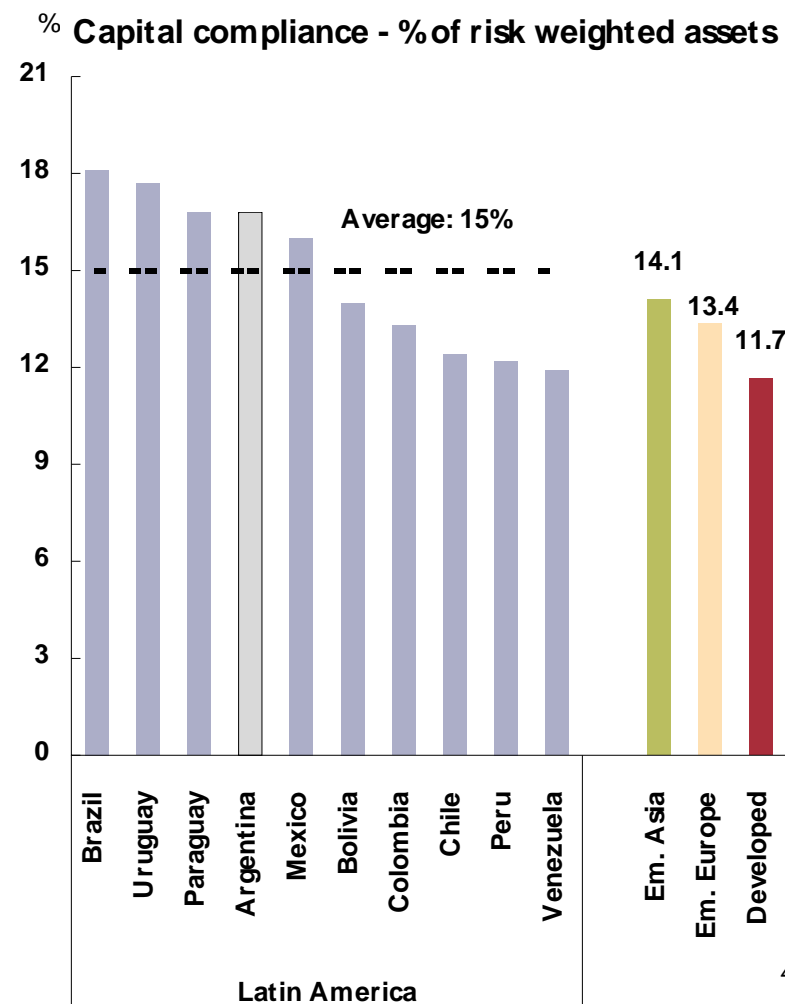
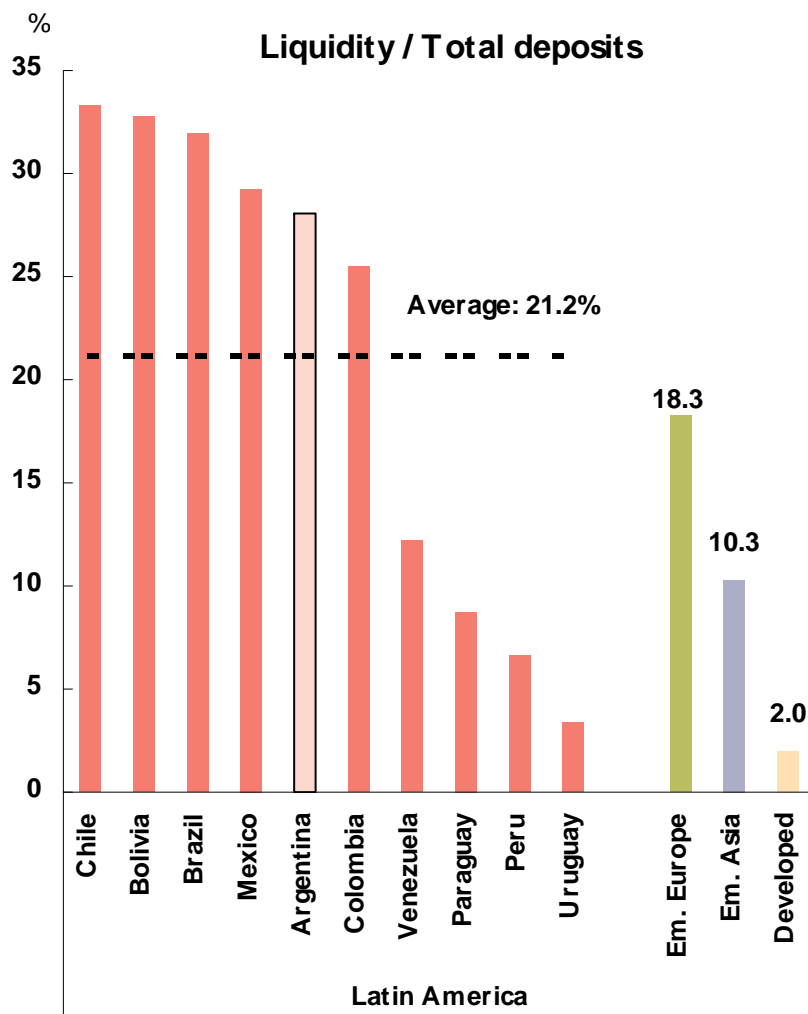
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*Latin American financial systems were better prepared to face the international financial crisis...*

## Liquidity and Solvency

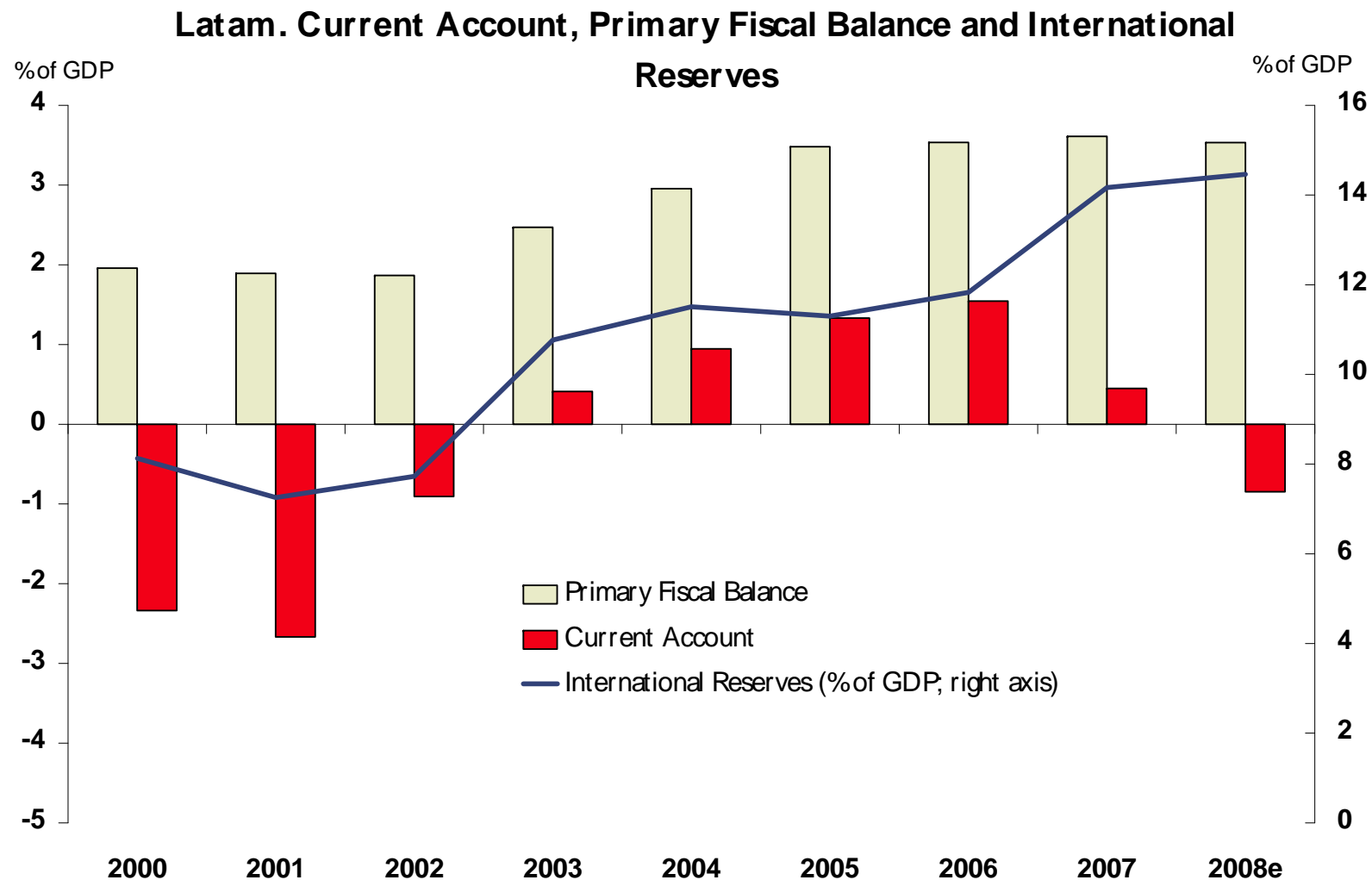
Last date available



Source: IMF



*...together with sound macroeconomic fundamentals*

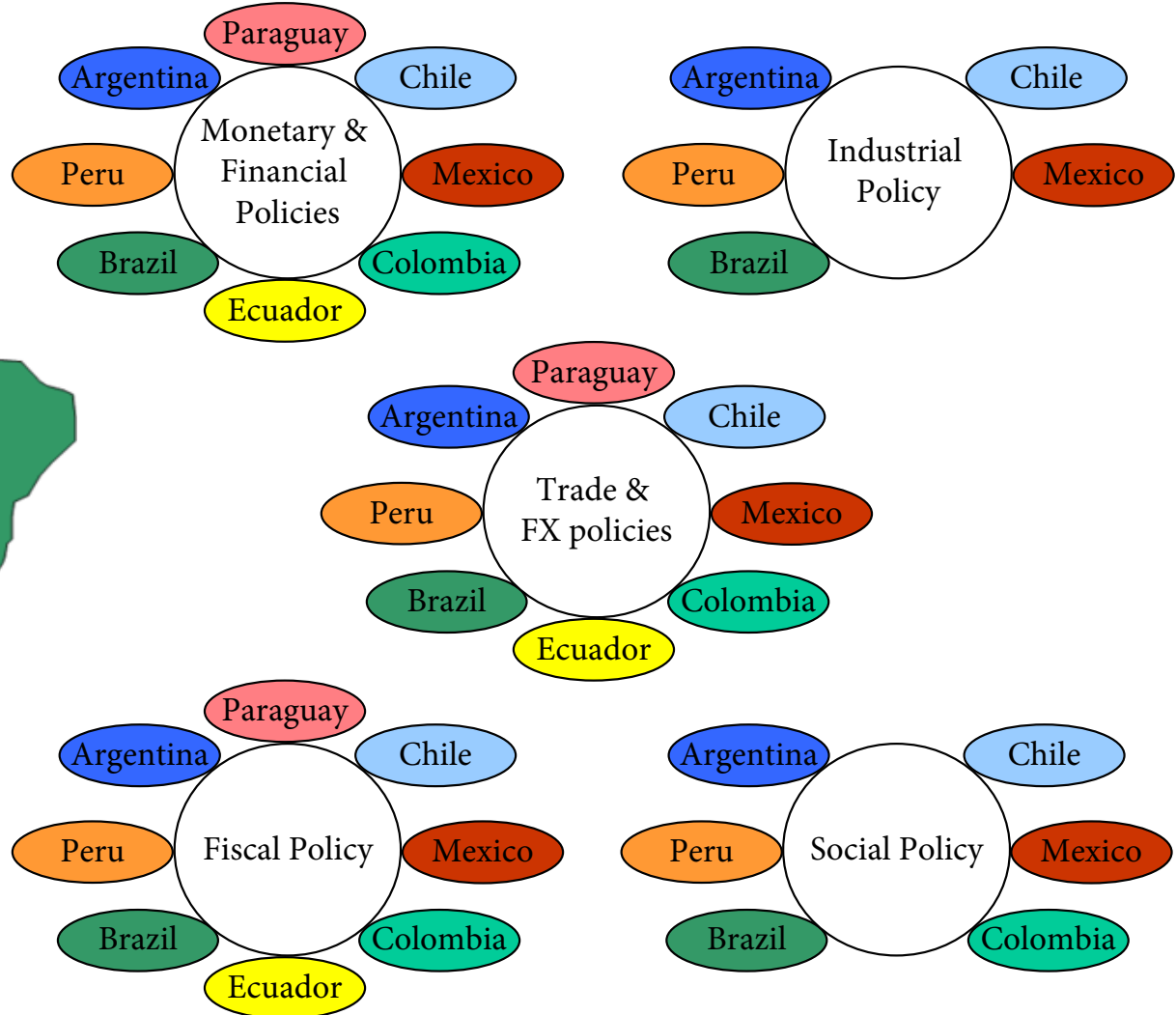


Source: JP Morgan and WEO

e: Estimated



*Countries of the region have implemented several policies to mitigate the effects of the international crisis.*





*In particular, Latam Central Banks adopted several common measures, among them:*

- *Reference interest rate cuts*
- *Liquidity provision mainly through open market operations, both in domestic and foreign currency. It was also broadened the spectrum of assets accepted as collateral of liquidity provision.*
- *Reserve requirement reduction / ease*
- *Managed depreciation of the regional currencies*

*Nevertheless, the impact on each country has been different, depending on its productive structure, its commercial relationships and its dependence on external financing*



*The Central Banks of the region were plenty  
active using different tools ...*

Countries (*)	Monetary Policy Instruments			
	Reference Interest Rate Cut	Reserve Requirement Reduction/ Ease	Open Market Operations	
			Liquidity provision in domestic currency	Liquidity provision in foreign currency
Brazil	X	X		X
Chile	X	X	X	X
Colombia	X	X	X	
Mexico	X		X	X
Paraguay	X	X	X	
Peru	X	X		
Uruguay			X	X

(\*) Selected countries

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Bloomberg

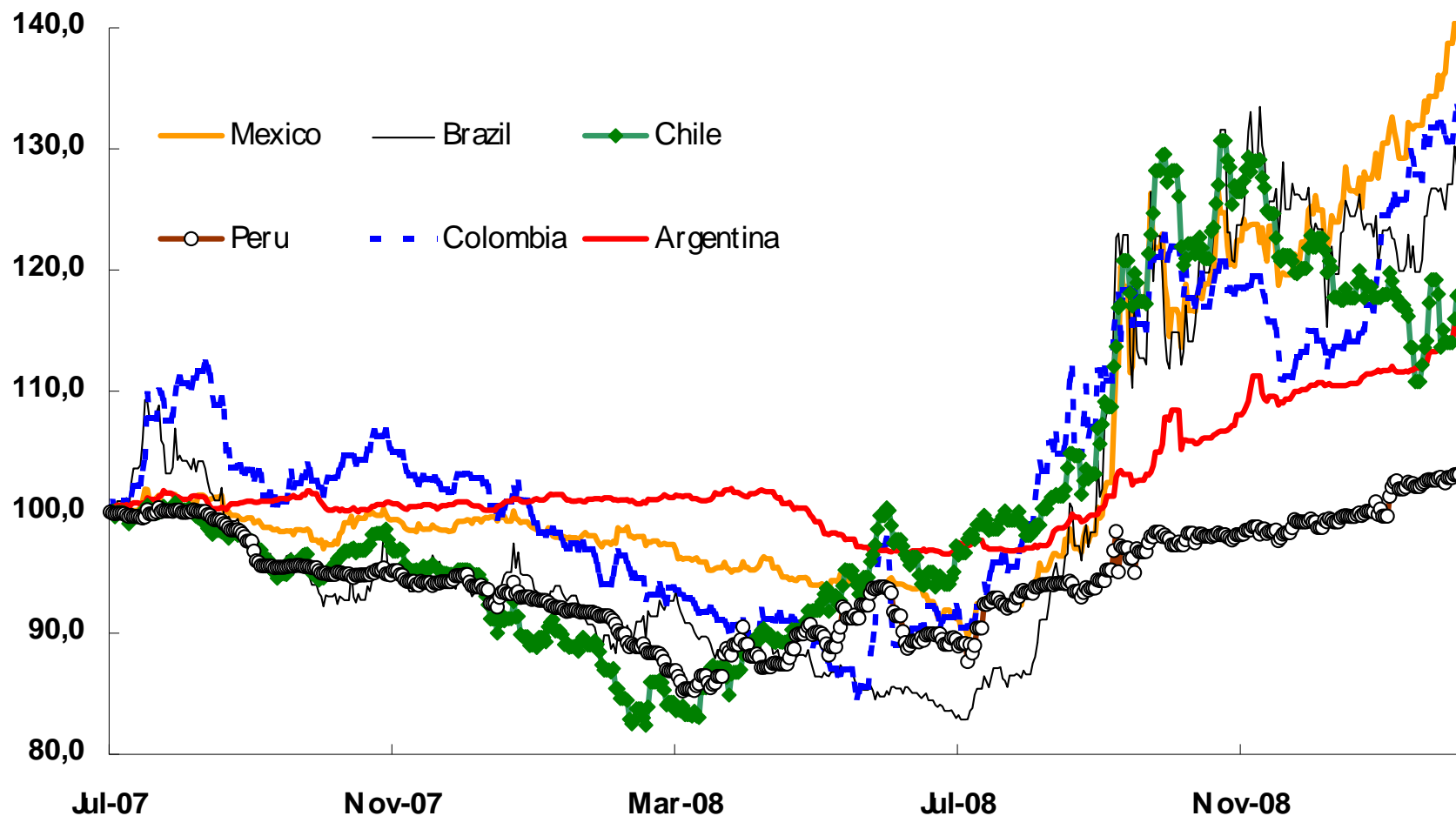




*...allowing a managed nominal depreciation of their currencies*

## Latam Nominal Bilateral Exchange Rates

(Index 07/31/07 = 100 local currency per US dollar)



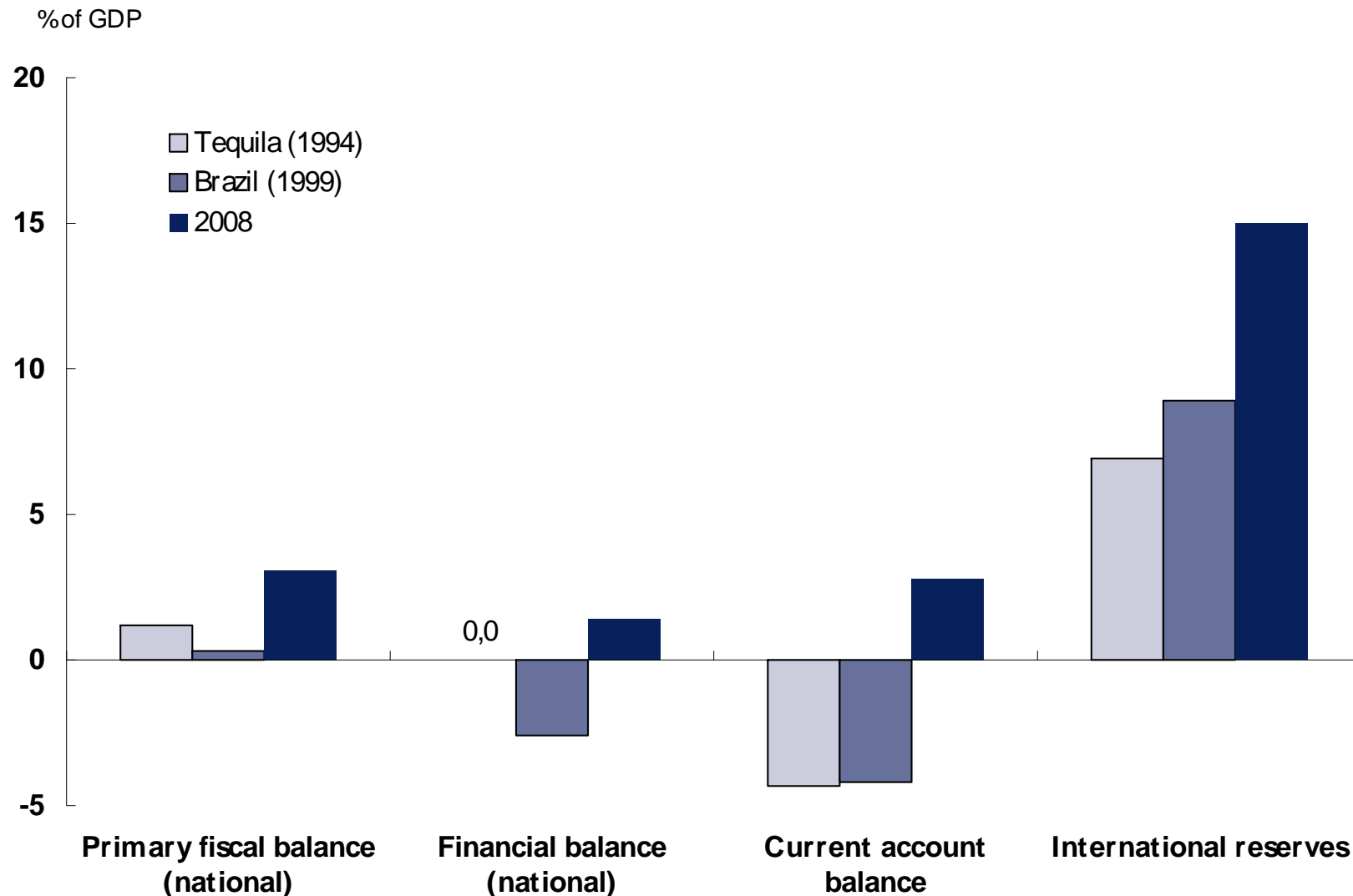


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## *Argentina: Facing financial turmoil in better shape than in the past*

### Argentina: fiscal and trade balance and international reserves





*The monetary framework in is based on a risk management approach  
and four pillars*

**BCRA designed a monetary and financial framework adapted to argentine  
idiosyncrasy.**

**THIS FRAMEWORK IS BASED ON THE INTERACTION OF THREE**

**PILLARS:**

- 1. ROBUST MONETARY POLICY (ENSURING THE EQUILIBRIUM BETWEEN SUPPLY AND DEMAND IN THE MONETARY MARKET).**
- 2. COUNTERCYCLICAL FINANCIAL POLICIES (BUILDING LIQUIDITY BUFFERS AND CUMULATING RESERVES).**
- 3. A MANAGED FLOATING EXCHANGE RATE REGIME.**
- 4. PRUDENTIAL REGULATION AND SUPERVISION**



## *The BCRA's objectives, intermediate targets and instruments*

### **Objectives**

- **Price stability**
- **Reducing external vulnerability**
- **Financial stability**

### **Intermediate targets**

- **Monetary program: M2**
- **Reserve accumulation  
(managed float)**
- **Strengthening prudential  
supervision and regulation**

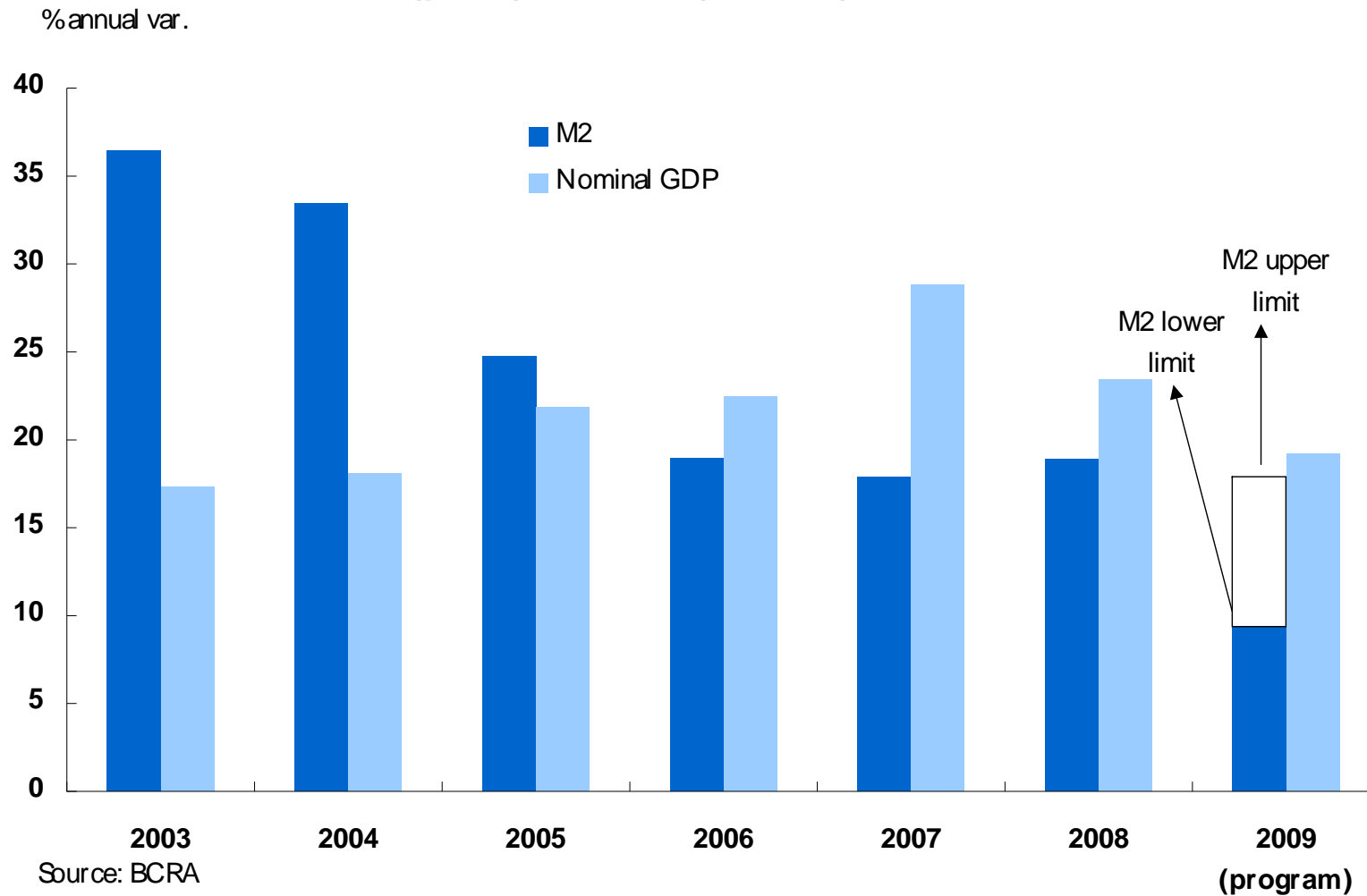
### **Instruments**

- **Repo interest rates and  
CB notes**
- **Fx intervention**
- **Lowering public sector  
exposure & currency  
mismatch**



## *Gradual monetary policy: change of stance*

**M2 (pesos) and GDP (nominal) Growth Rates**

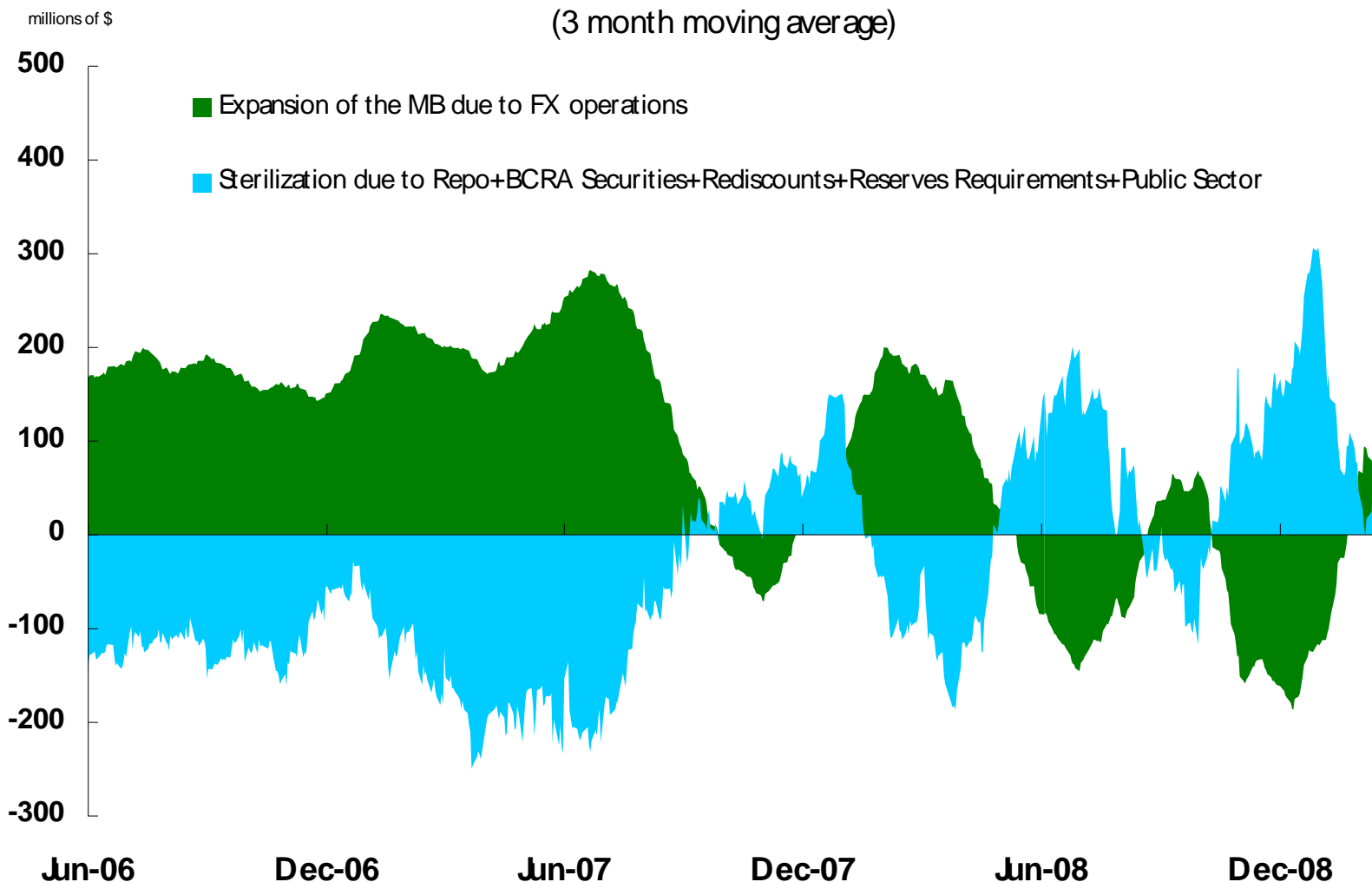




*Prudential international reserves accumulation was followed by a deep sterilization policy to guarantee money market equilibrium*

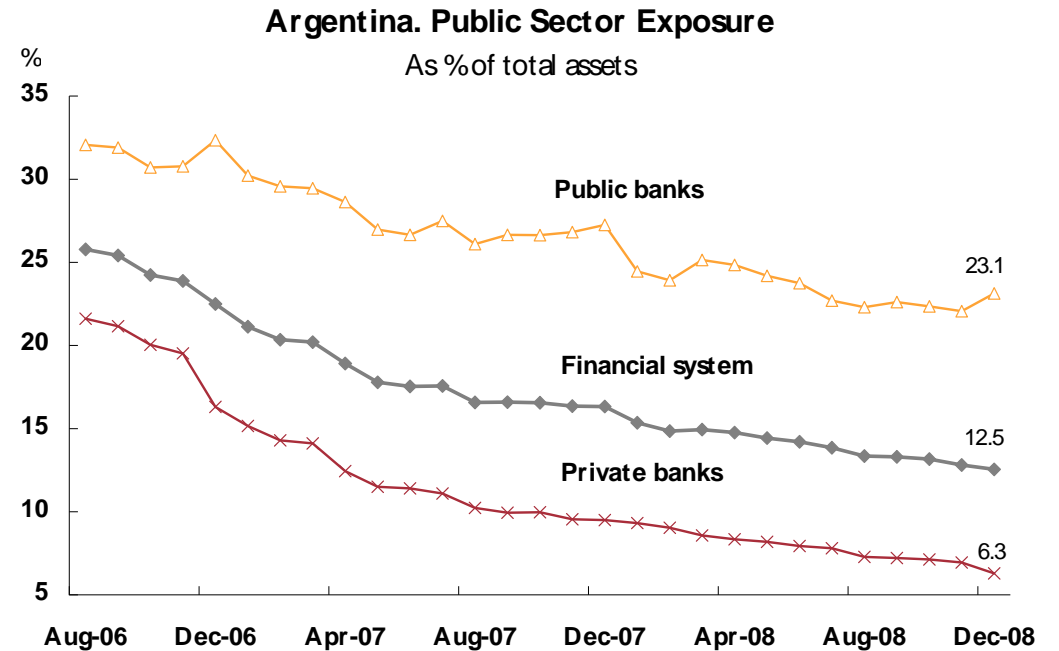
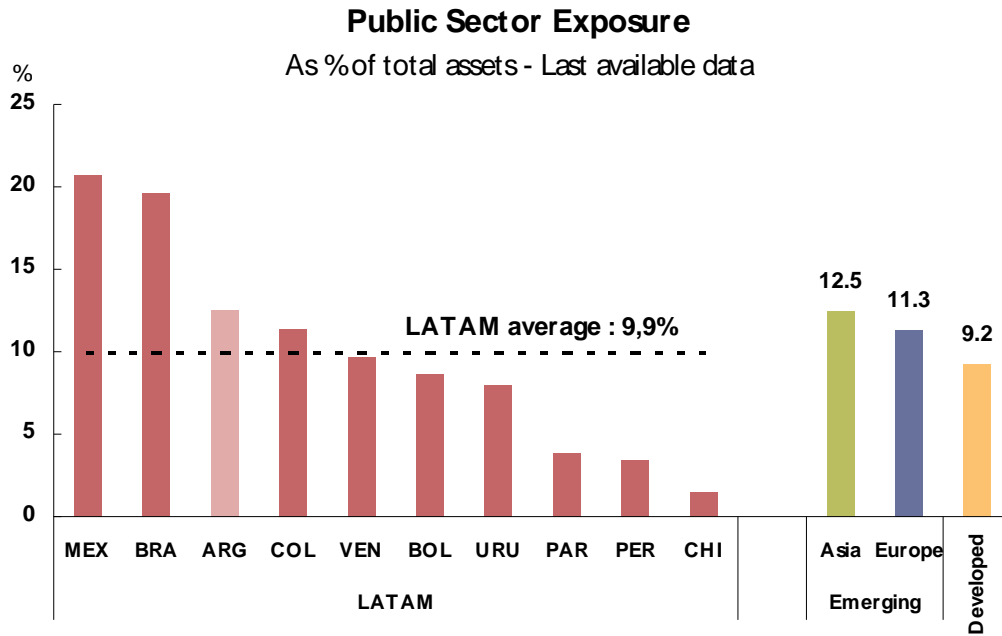
## Sterilization of FX Intervention

(3 month moving average)





*Improvements in the financial regulatory framework led to a reduction on the exposure to the public sector...*

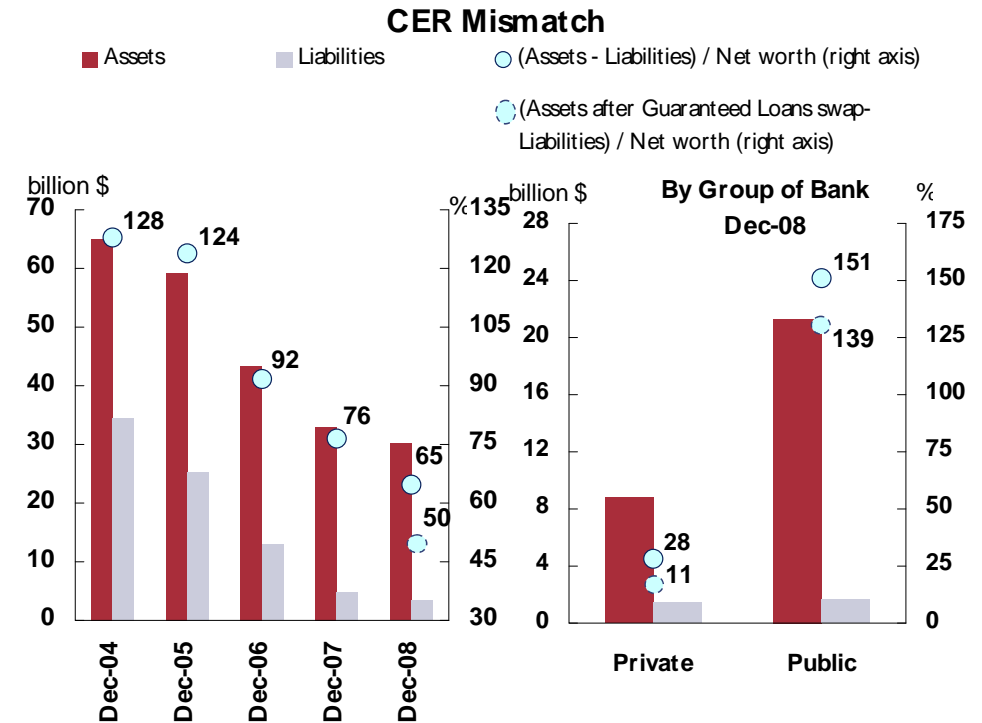
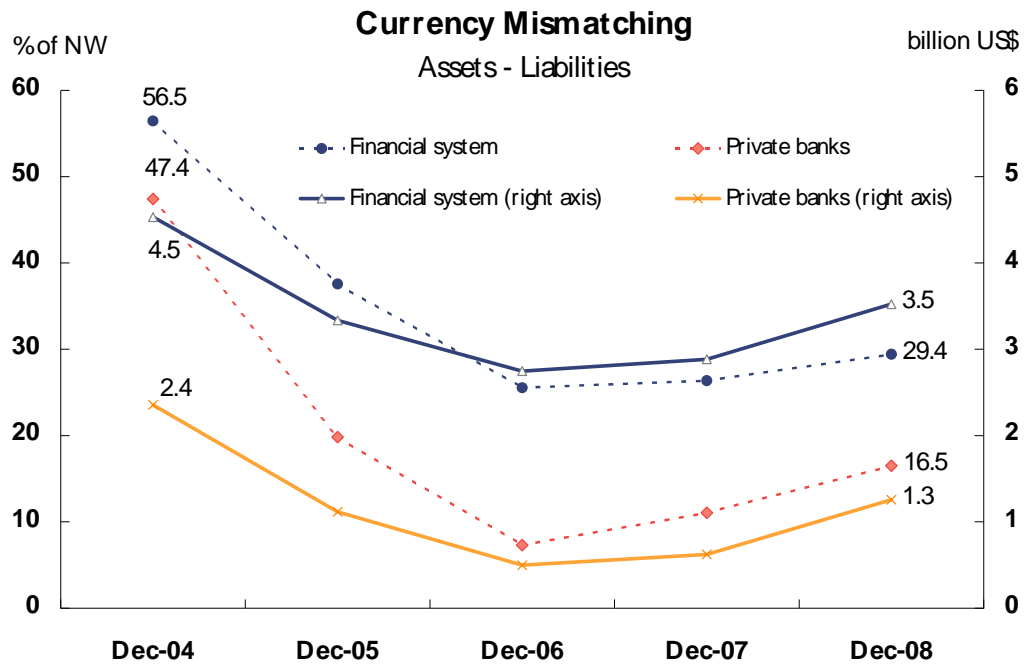


Source: Central Banks, Supervision Authorities and IMF





*...and lower mismatches (de-dollarization and inflation-adjusted instruments)*





## Successfully testing the framework

*The three episodes of stress and BCRA responses*

<i>Three episodes in the last 18 months</i>	<i>BCRA response: a sequential strategy</i>
<i>1. July - October 2007</i>	<i>• Stabilizing the forex market</i>
<i>2. April - July 2008</i>	<i>• Adjusting interest rates</i>
<i>3. September - December 2008</i>	<i>• Providing liquidity as needed.</i>



## *Managing turbulence: main measures*

### **Liquidity in AR pesos**

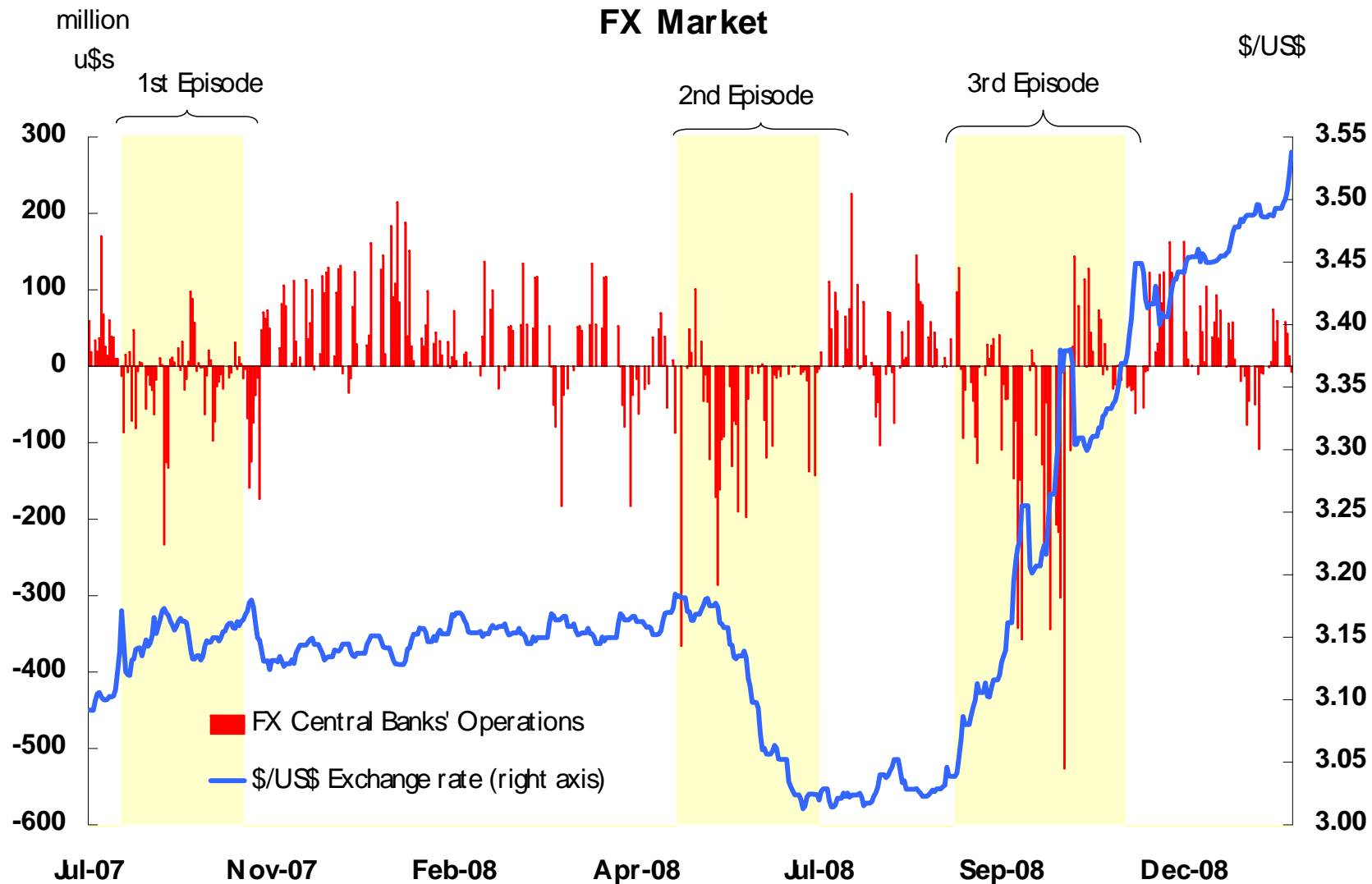
- New lines of repos (fixed and variable rates), and higher amounts
- Anticipated buyback of CB bills and notes: secondary market, automatic facility and put options
- Open market operations (government bonds)
- Liquidity window using non-traditional collateral (Bogar and PG)
- Rediscount window: pre-assessment of collateral, enhanced access to all funding sources (not only deposits)
- Currency in banks computed as liquidity reserve
- Bi-monthly positions for complying with minimum cash requirements

### **Liquidity in US dollars**

- Fx intervention
- USD repos
- Future market
- Lower cash requirements in USD



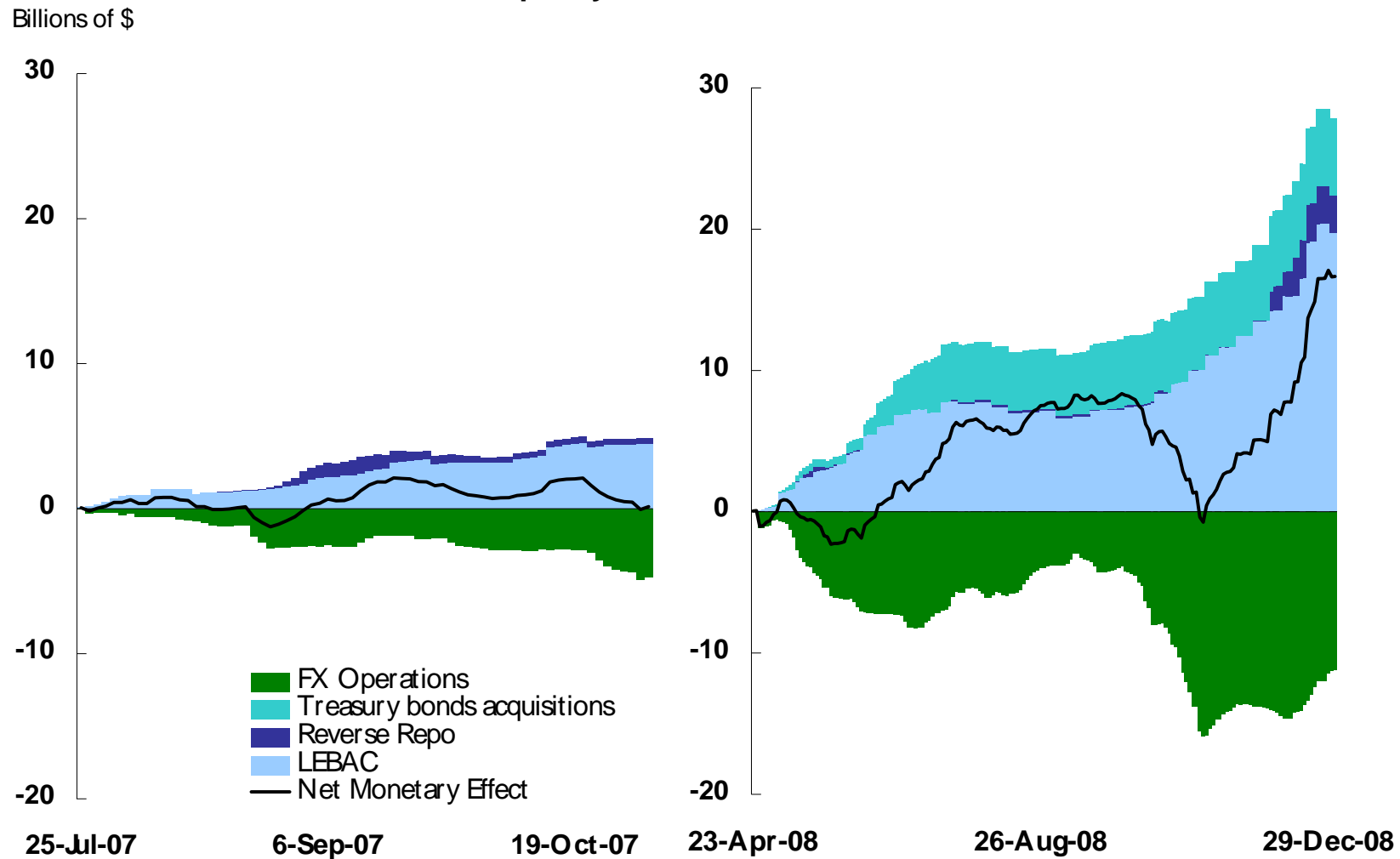
## *Managed floating: forex market operations*





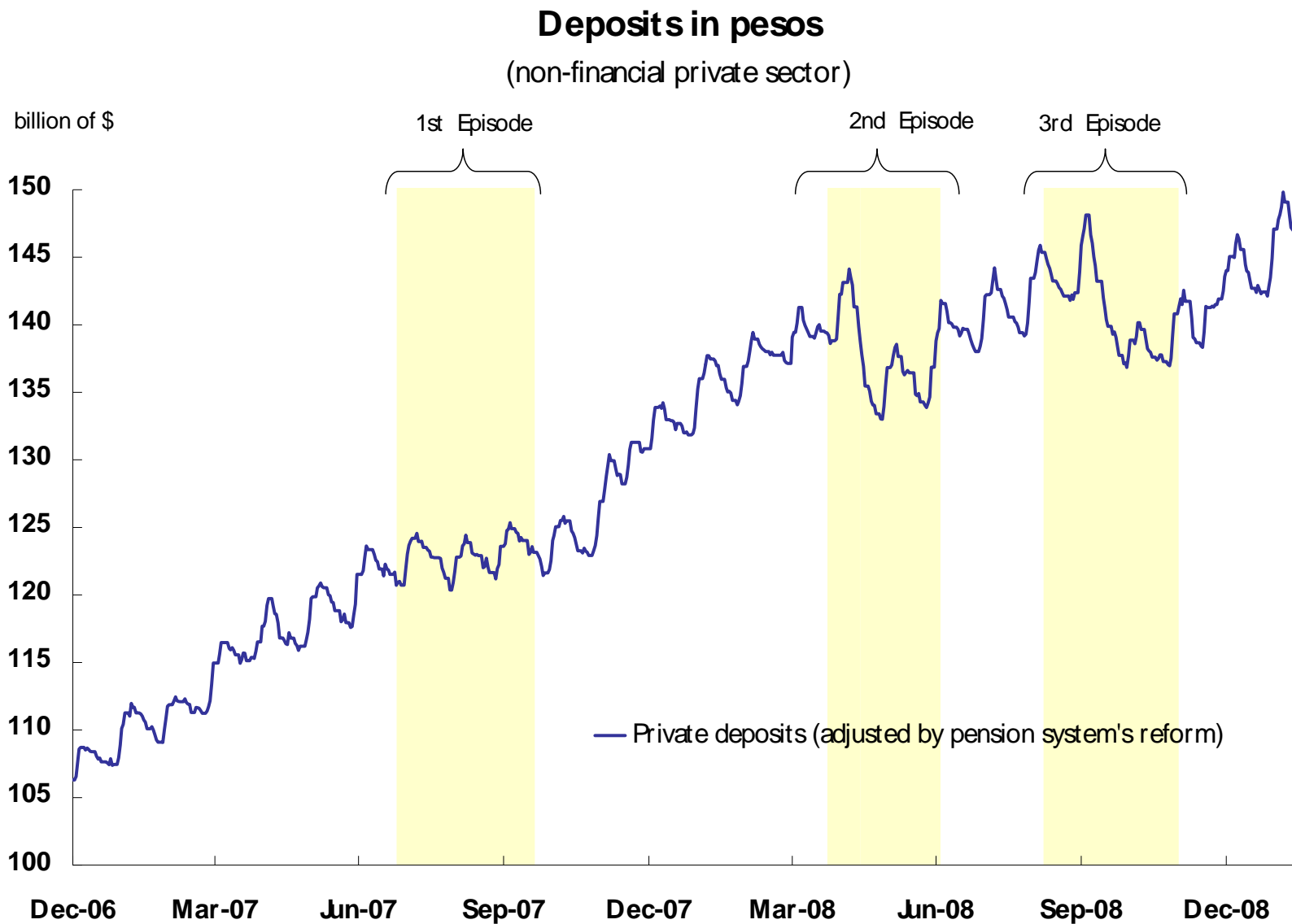
*In order to alleviate stress in the financial market, the Central Bank provided liquidity by several means*

Liquidity Provision Mechanisms





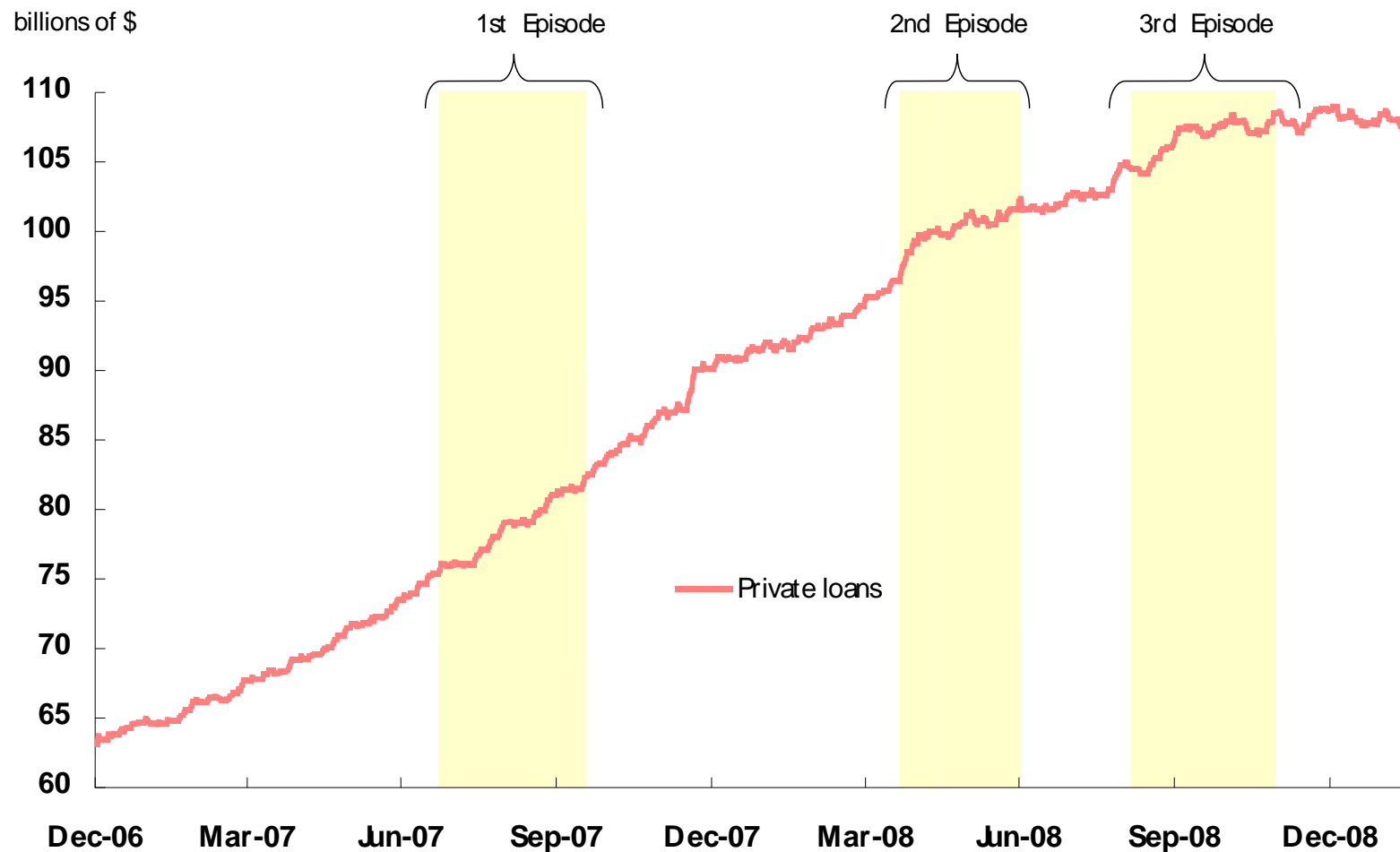
*Private sector deposits follow an upward trend...*





*...and so does credit, showing the effectiveness of policies aimed at avoiding disruptions in credit conditions*

## Loans in pesos (non-financial private sector)





## Concluding remarks

### Monetary policy and international crisis: we can weather the storm

- International reserves: liquidity buffer
- Foreign exchange rate: lowering volatility without providing implicit insurance
- Money demand: returns in AR pesos (interest rate) higher than in US dollars (expected depreciation)
- Sequential strategy: forex stability, interest rates, liquidity injection
- Lender of last resort: available on a broad basis, but not freely
- Systemic liquidity assured (in AR pesos and US dollars) to anticipated external events
- Financial system acts to mitigate shocks and not to propagate them





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