

Monitoring of the Monetary Base Target

August 31, 2019

The Monetary Base (MB) target for the July-August period was originally \$1,343.2 billion.¹ During August, the BCRA made sales of foreign currency in the foreign exchange market so as to mitigate exchange rate volatility. As a result, the target was corrected downwards.² The sales totaled US\$2.04 billion and implied a reduction of the MB target for the July-August period of \$15.3 billion to a level of \$1,328.0 billion.

As of August 31, the bimonthly average of the MB reached \$1,347.1 billion, i.e. \$19.1 billion (1.4%) above the target adjusted by foreign currency sales (See Chart 1). Consequently, for the first time since the implementation of the MB Control Scheme, the target was not complied with. This deviation partly resulted from the cautious attitude of banks which, in a context of uncertainty, led to compliance with minimum reserve requirements remarkably in excess of the regulatory requirements. As a result, after increasing their voluntary minimum reserve requirements for precautionary purposes, monetary conditions became more stringent since money remained frozen at the banks. This means a temporary increase of the MB demand rather than an expansion resulting from an increased supply. Another obstacle to compliance with the target was the existing mismatch between the adjustment of the target by foreign currency sales, which operates contemporaneously, and the minimum reserve requirements that the banks must keep in their current accounts with the BCRA, which are calculated on the basis of deposits of the previous period.

Within the framework of the monetary regime in place, the interest rate of Liquidity Bills (LELIQs) is determined endogenously in daily auctions. As from mid-August, within a context of an increasing financial volatility, the reference interest rate went up around 20 percentage points (p.p.) to an annual rate of 83.3% by the end of the month (see Chart 2).

Chart 1. Monetary base

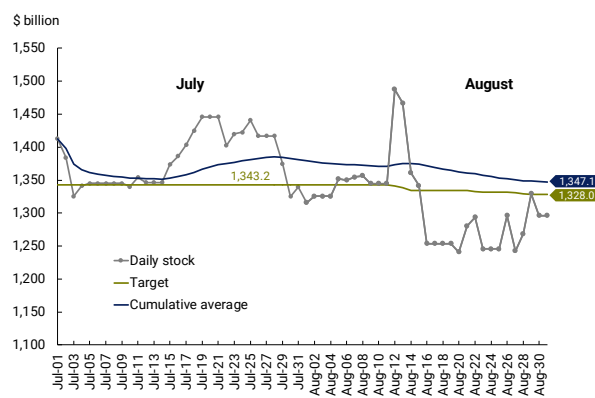
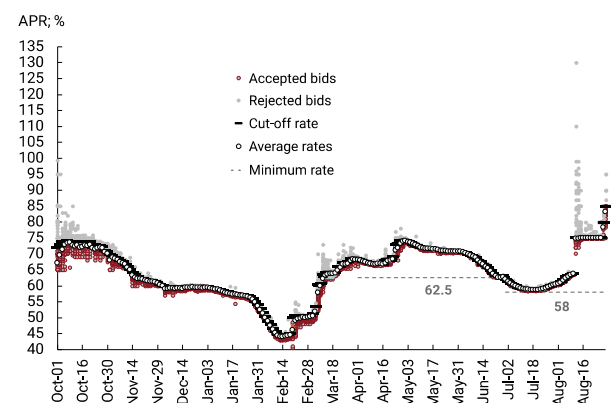


Chart 2. Interest Rates of LELIQ auctions



1 See Decisions of the Monetary Policy Committee (COPOM) of July 22, 2019 at <http://www.bcr.gov.ar/Noticias/Decisiones-del-Comite-de-Pol%C3%ADtica-Monetaria-220719.asp>.

2 As a result, in this type of situations, the monetary scheme becomes more contractionary, which contributes to stabilizing the pressures on the foreign exchange market.

