

Distributional Effects of Monetary Policy: Evidence of Large Benefits from Argentina's Stabilization Program

Meeting of BIS Emerging Market Deputy Governors
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Vladimir Werning, Deputy Governor of the BCRA



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

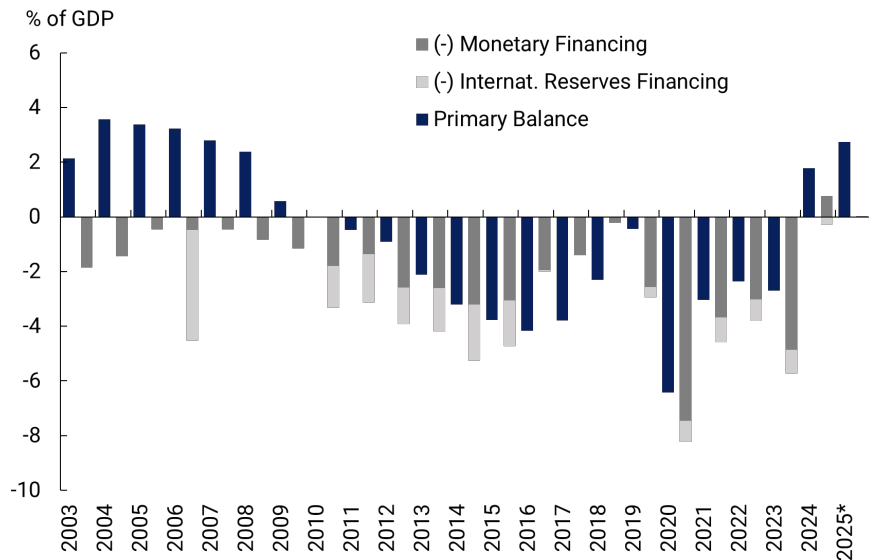
Distributional Effects of Monetary Policy

- I. | In a stabilization program monetary policy works alongside fiscal & FX policies to effectively eliminate excess money
- II. | **The initial monetary policy strategy is unconventional: Lowering interest rates & transferring BCRA liabilities to Treasury**
 - Monetary policy ended endogenous money supply (flow imbalance) & reduced monetary overhang (stock imbalance)
 - Treasury's warehousing of residual liquidity allows the path of re-monetization to be demand-driven
 - Monetary policy efforts delivered very rapid disinflation in 2024 and are anchoring inflation expectations in 2025
- III. | **Distributional effects of a rapid transition to lower inflation have been meaningful, widespread and beneficial**
 - Income channel: Decline in inflation-tax collected by government & banks is a benefit for households & corporates
 - Consumption channel: Poverty is declining sharply as low-income households benefit more from falling inflation
 - Credit channel: Deregulation & price discovery brings borrowers/banks together & boosts credit to private sector
 - Wealth channel: Price stability alongside fiscal austerity boosts asset prices (stocks & bonds)
- IV. | **Effects of monetary stabilization are intertwined with effects of government mandated relative price adjustments**
 - Lowering barriers to imports (tariff and non-tariffs) transfers income from importers/producers to consumers
 - Regulatory price adjustments (utility prices), and de-regulatory price adjustments (rents) create market-based transfers
 - Reduced multiple currency dispersion transfers resources from importers to exporters & consumers

I. Monetary Policy: Working alongside Fiscal & FX Policy

1. Fiscal policy & FX policy adjustments figured prominently alongside monetary policy adjustments

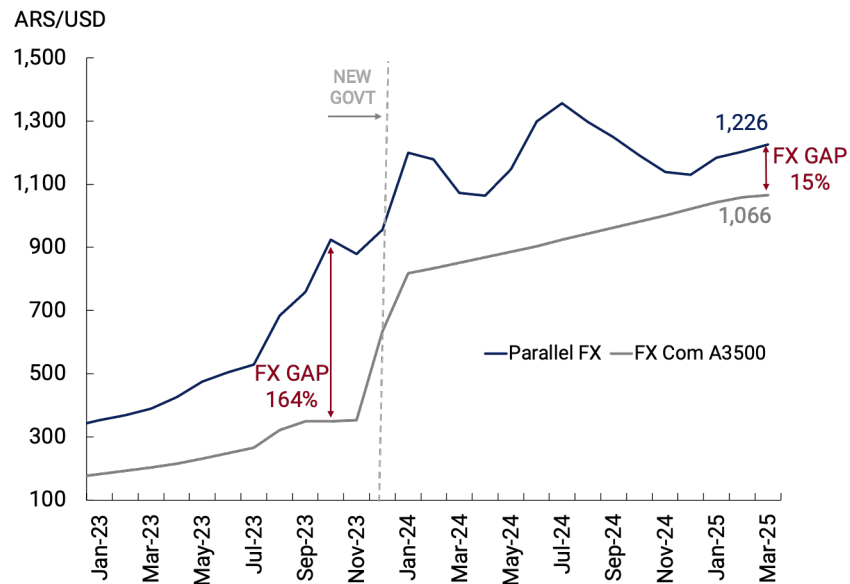
Primary Fiscal Balance & Total BCRA Financing of Treasury Monetary (ARS) and International Reserves (USD)



Note | For 2021 SDR Allocation of \$427.4 Billion is not Considered. For 2022 Excess Primary Income from Primary Debt Placement is not Included. 2024: Monetary (Temporary Loans + Dividend Payouts + PUTs and BIDs on Banks net of LECAPs backup at BCRA) and International Reserves Financing (IOUs Placement) since 10th Dec-23 until Dec-24. * Seasonally Adjusted Non-Financial National Public Sector primary balance up to Jan-25. Monetary and International Reserves financing up to Feb-25.

Source | BCRA from Ministry of Economy and INDEC data.

Official and Parallel Exchange Rates



Note | FX March levels are averages up to 14-Mar-2025.

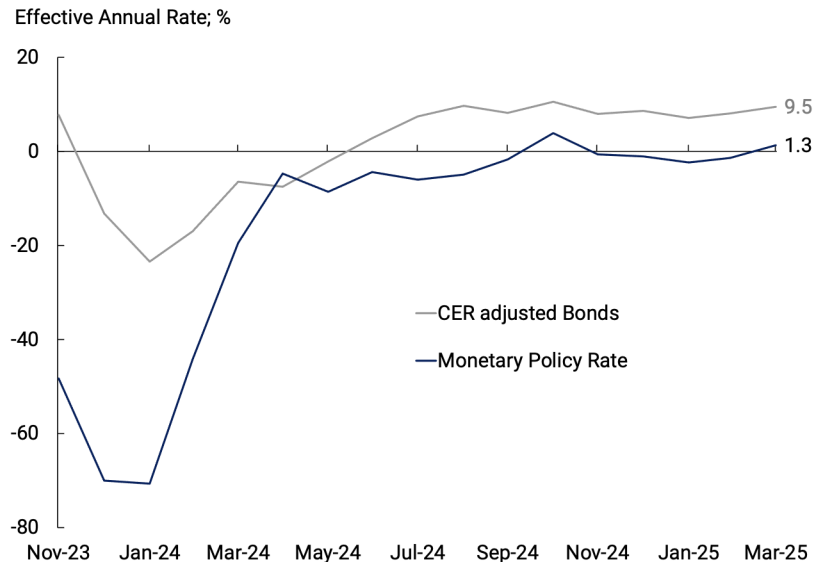
Source | BCRA and INDEC data.

II. Monetary Policy: Cutting Interest Rates

2. Monetary policy adjustments sought to eliminate money supply imbalances and money stock overhang

Real Interest Rates

Monetary Policy, Time Deposits and Public Bonds

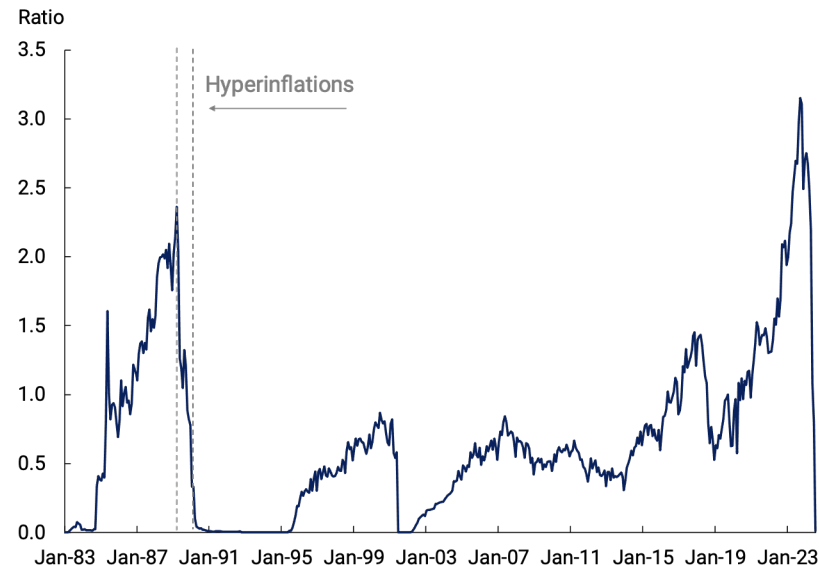


Note | The actual MPR and fixed-term rate are calculated using the 3-month centered moving average of the core CPI. The weighted bond rate is a residual-value-weighted average of T2X5, TX26, TZ25, TZ28, and TZXD6 bonds. CER adjusted Bonds from January (February and March preliminary data).

Source | BCRA.

BCRA Remunerated Liabilities

Relative to the Monetary Base

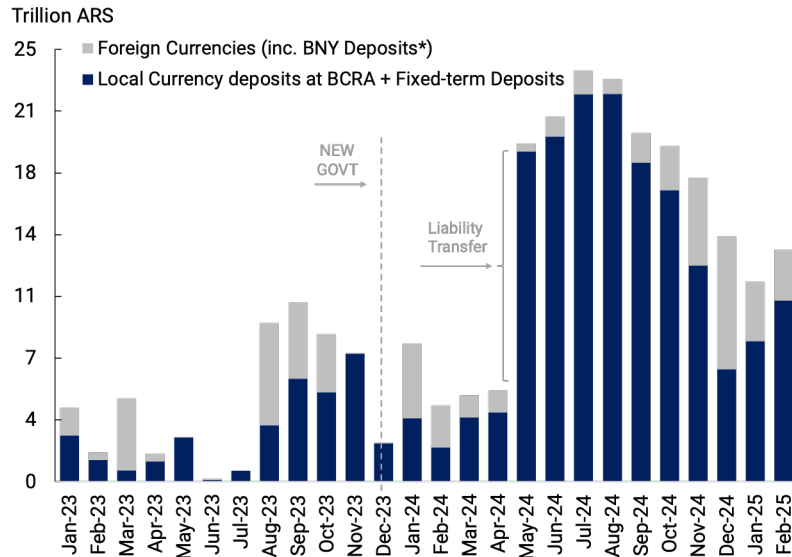


Source | BCRA.

II. Monetary Policy: Transfer of Residual Liquidity to Treasury

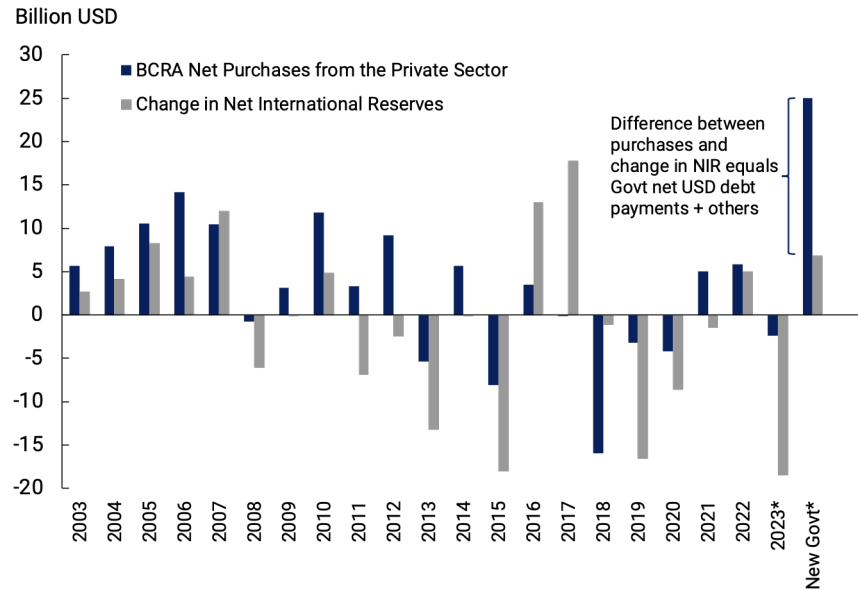
3. Treasury is warehousing ARS liquidity to allow remonetization at a demand-driven pace and BCRA is purchasing USD to secure external debt payments

National Treasury's Liquid Assets



*Bank of New York Mellon. Anticipated transfers for external bonds payment.
Source | BCRA and INDEC data.

BCRA's USD Net Purchases from the Private Sector and change in NIR

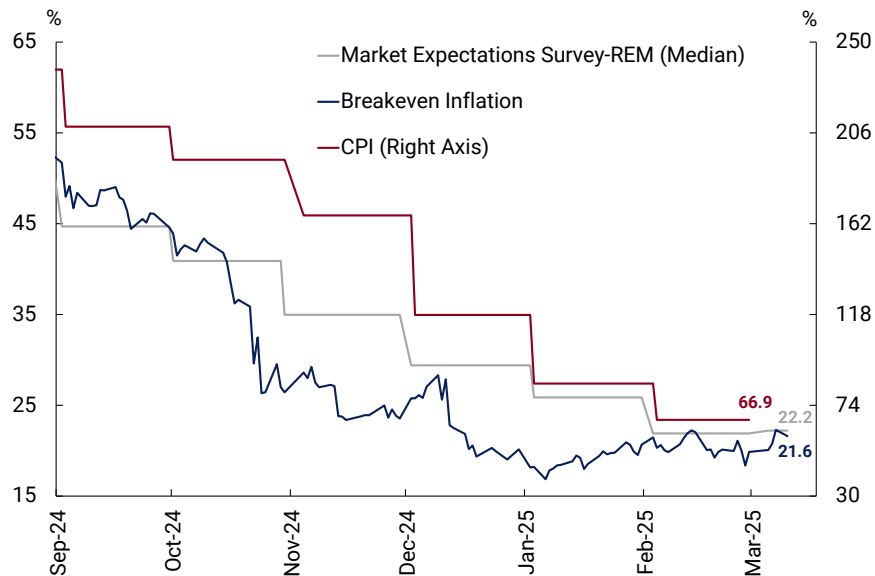


*2023 From Jan 1st to Dec 9th and New Govt from Dec 10th 2023 to Mar 11^h 2025.
Source | BCRA.

II. Monetary Policy: Rapid Disinflation

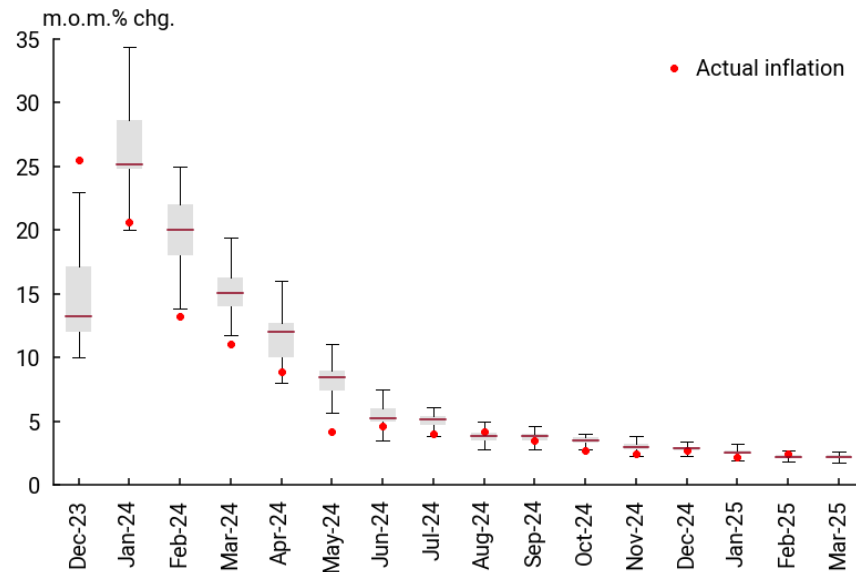
4. The policy mix is delivering a welcomed collapse of inflation alongside anchoring inflation expectations (average and dispersion)

CPI Inflation: Actual and 12-Month Forward B/E (Market) and Forecasts (Consensus)



Source | BCRA from INDEC data.

CPI Inflation Consensus Forecast (REM) and Actual CPI (INDEC)

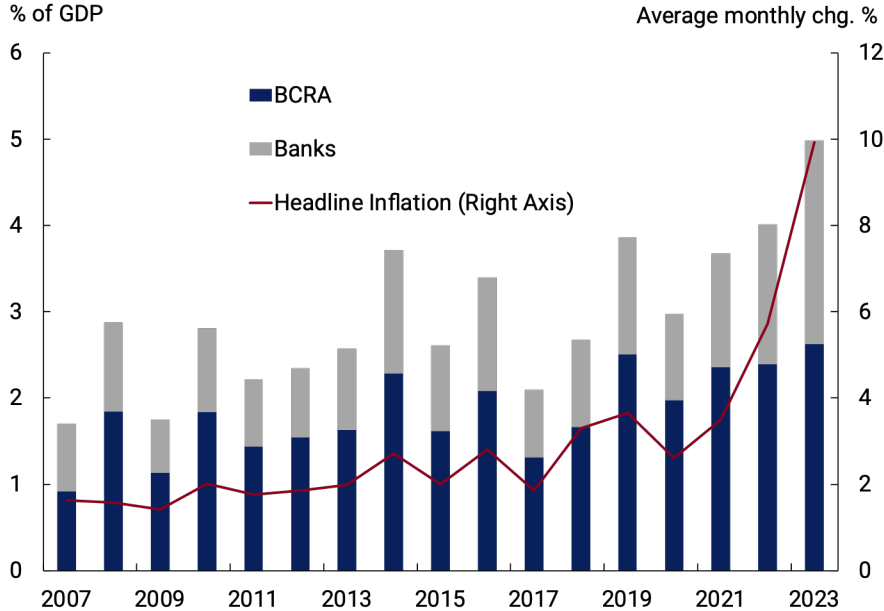


Source | Market Expectations Survey-BCRA and INDEC.

III. Distributional effects: Meaningful, Widespread and Beneficial

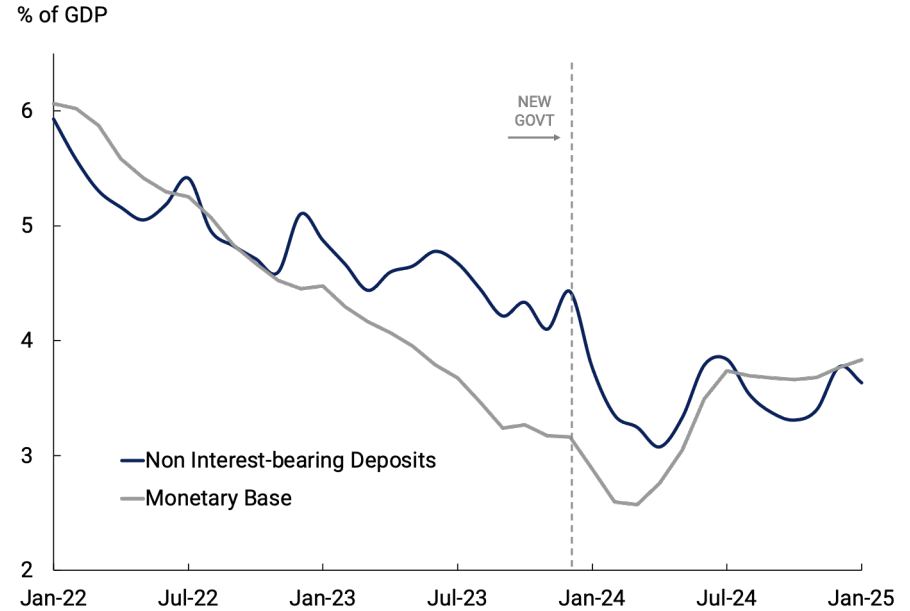
5. Income channel: Lower inflation-tax (previously captured by public sector & banks) is transferring income back to households & corporates

Inflation Tax
Estimated on M2 (Transactional Private)



Source | BCRA.

Monetary Base and M2 (Transactional Private)

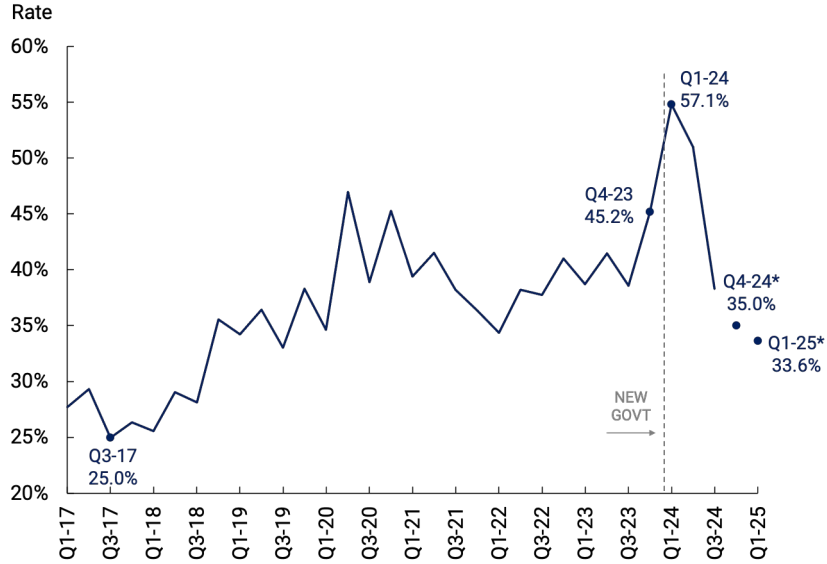


Source | BCRA.

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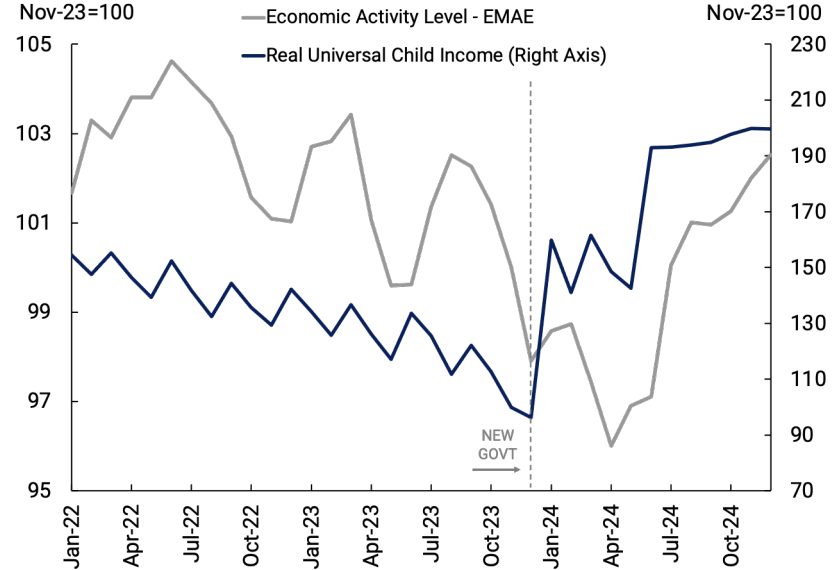
6. Consumption channel: Poverty falls due to lower inflation + activity recovery (non-neutrality of money) + broadening of social safety net

Poverty



Note | *Q4-24 and Q1-25 are projected by G. Rozada (UTDT). Q1-25 is an average of Jan-25/Feb25.
Source | BCRA from INDEC data and G. Rozada (UTDT).

Economic Activity and Social Transfers

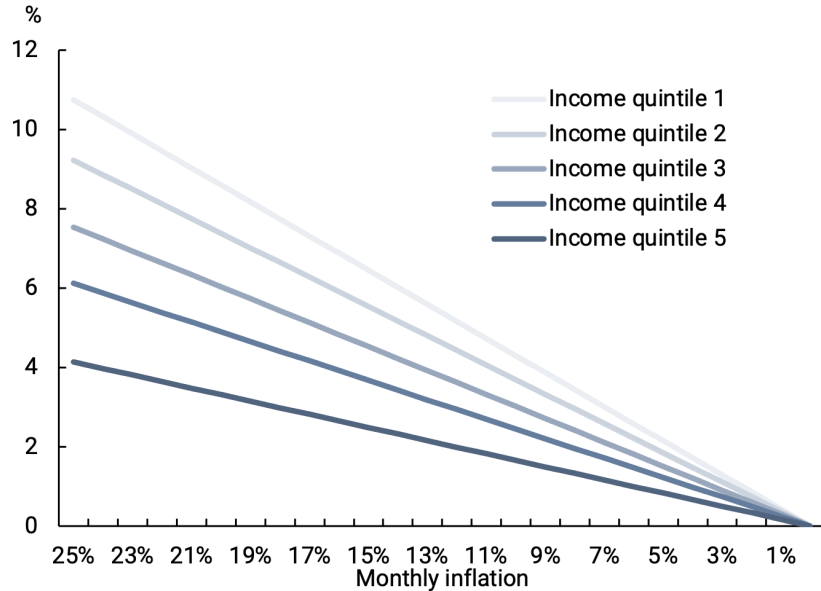


Source | BCRA from Ministry of Economy and INDEC data.

III. Distributional effects: Meaningful, Widespread and Beneficial

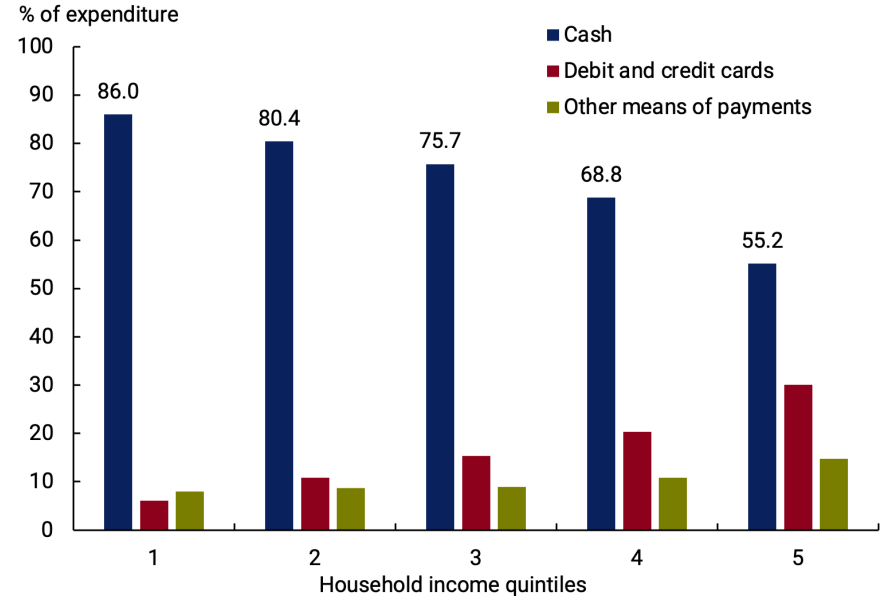
7. Consumption channel: Lower income households are benefiting relatively more from declining inflation than higher income households

Incidence of Inflationary Tax by Income Quintile
In % of Average Total Family Income



Source | BCRA based on Households Expenditure Survey 2017-18, INDEC.

Means of Payment by Income Quintiles



Source | BCRA based on Households Expenditure Survey 2017-18, INDEC.

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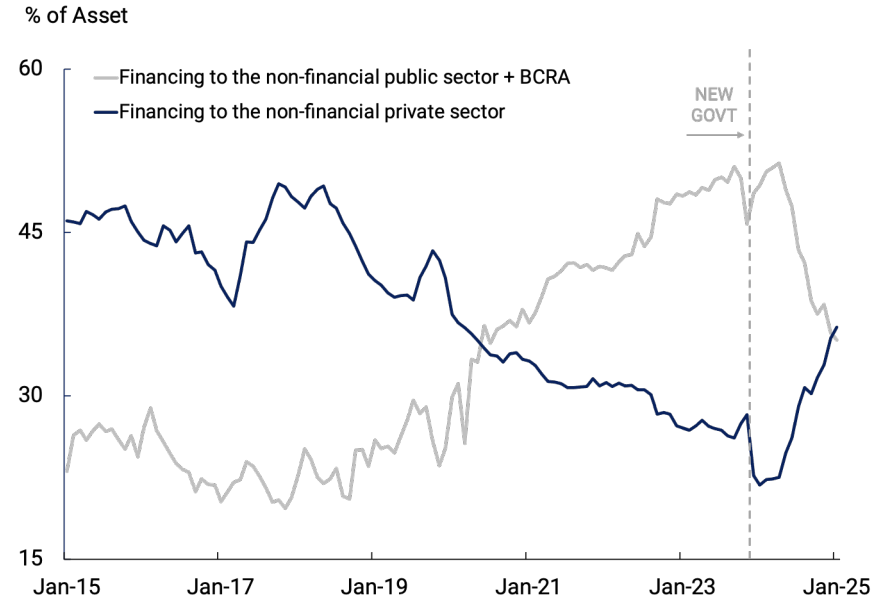
8. Credit channel: Deregulation + disinflation helps price discovery to bring borrowers/banks together while fiscal austerity directs credit to private sector

Bank Loans to the Private Sector



Source | BCRA.

Bank Financing to Public and Private Sector



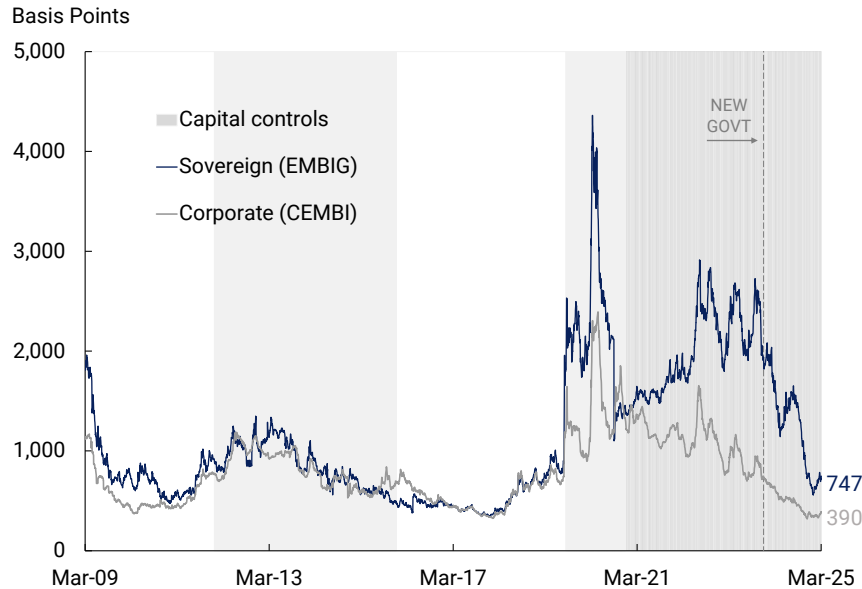
Financing to the non-financial public sector: Position in public securities + Loans to the public sector + LEFI. The public sector includes all jurisdictions.

Source | BCRA.

III. Distributional effects: Meaningful, Widespread and Beneficial

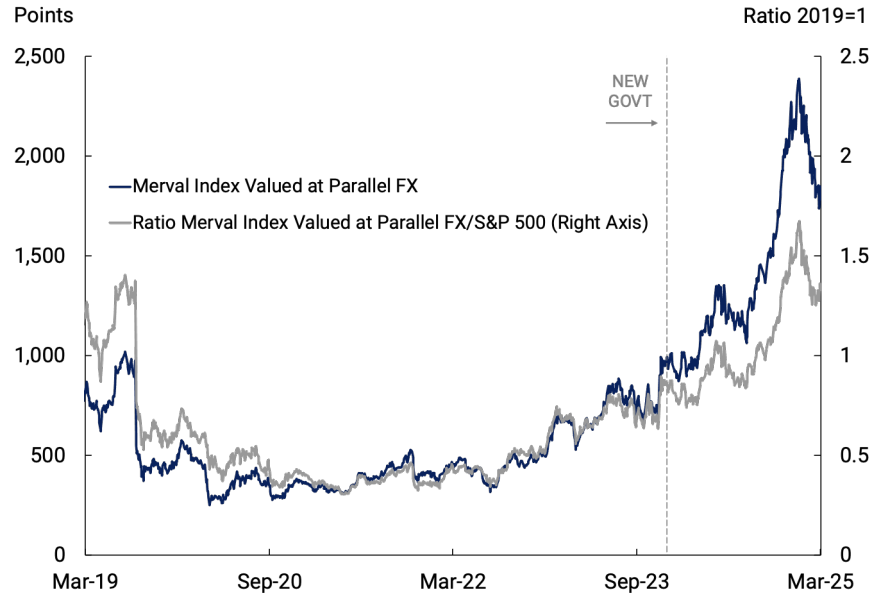
9. Wealth channel: Disinflation (monetary policy), USD purchases that secure debt payments (FX policy) + austerity (fiscal policy) boosts asset prices

Argentine Risk Premium: Sovereign and Corporates



Note | Last data 13-Mar-2025.
Source | Bloomberg.

Stock Market

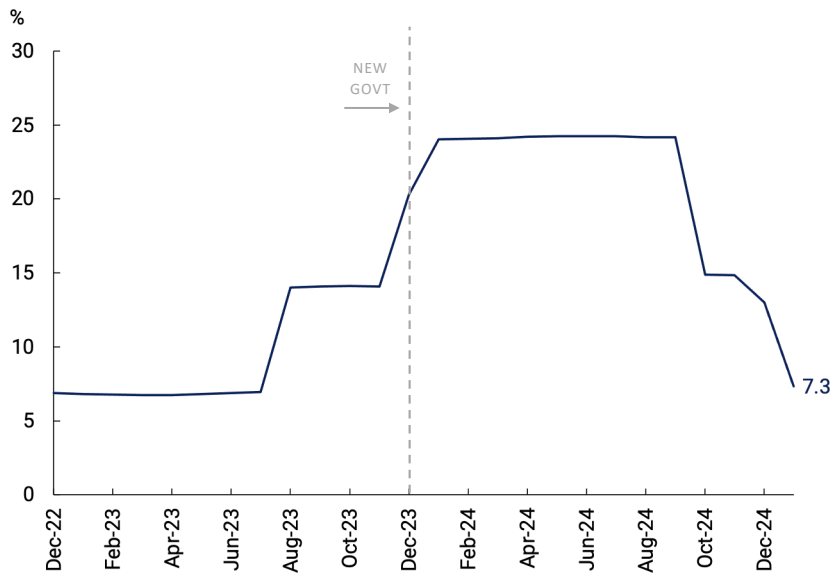


Note | Last data 14-Mar-2025.
Source | BCRA from Bloomberg data.

Distributional Effects: Disinflation Interacts with Sharp Relative Price Adjustments

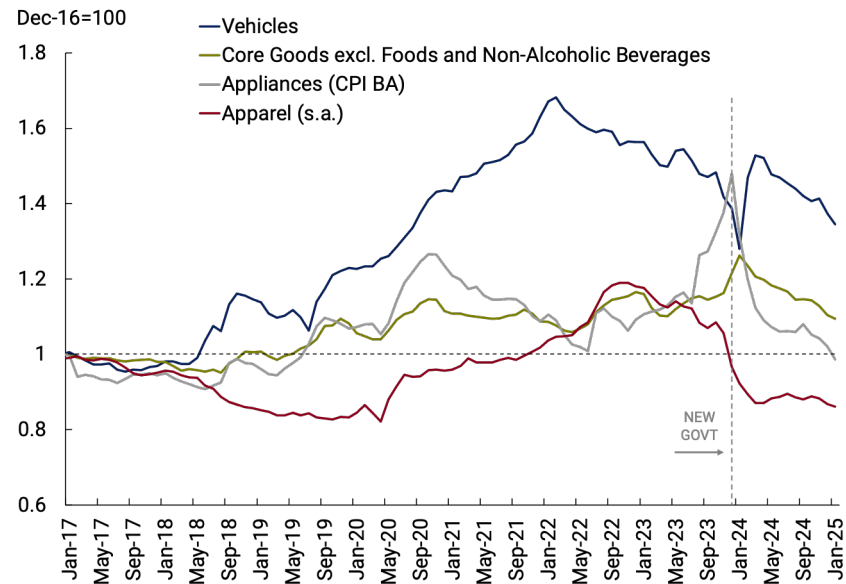
10. Lowering barriers to imports (tariff and non-tariffs) distributes income from importers/producers to consumers

Taxes on Imports of Goods. Implicit Rate*



*Includes average implicit tariff rate, statistic rate and PAIS tax rate.
Source | BCRA from INDEC and Ministry of Economy data.

Relative Prices* of Selected Import Items

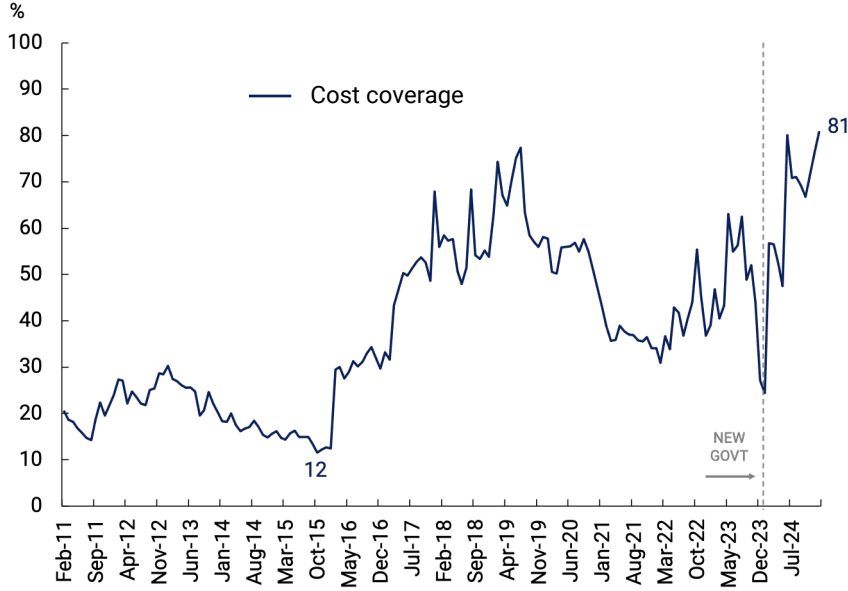


*Each aggregate relative to CPI Core (INDEC).
Source | BCRA and IDECBA.

Distributional Effects: Disinflation Interacts with Sharp Relative Price Adjustments

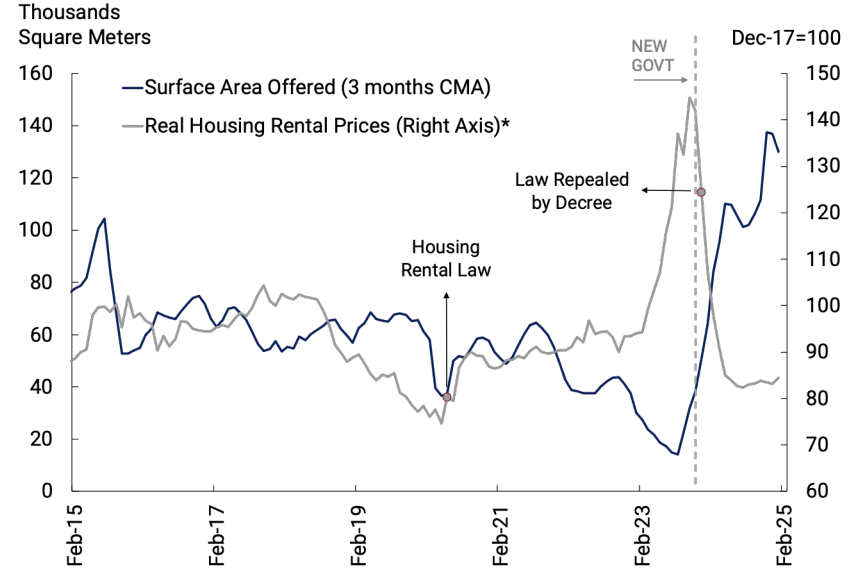
11. Regulated price adjustments (utility prices), & de-regulated price adjustments (rents) create market-based transfers

Electric Utility Tariffs



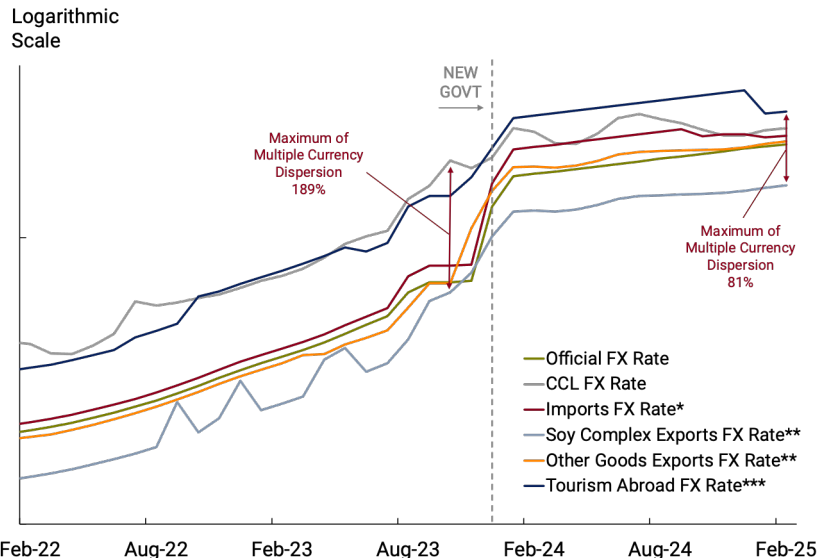
Source | BCRA.

Real Rental Prices and Housing Supply



*Deflated by CPI National.
Source | INDEC and IDECBA.

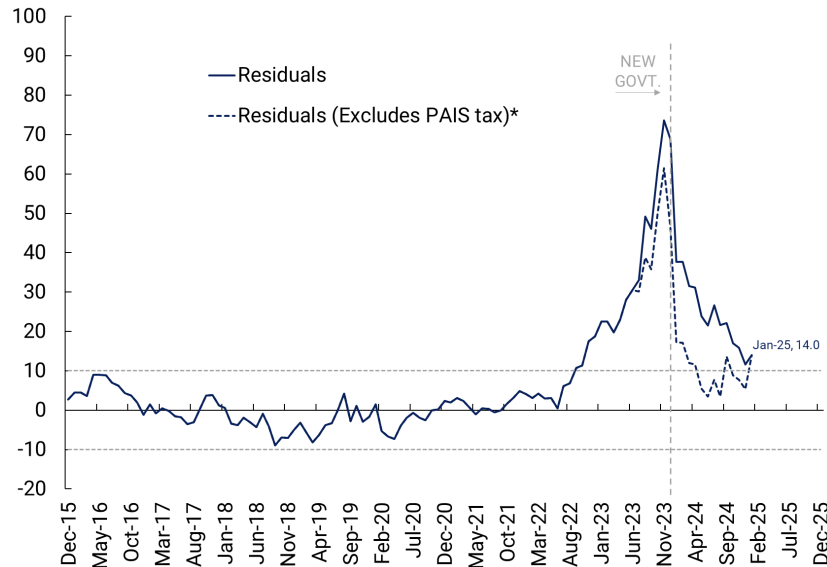
Nominal Exchange Rates



*Adjusted by implicit weighted average tariff rate, statistic rate and PAIS tax rate when applied.
 **Adjusted by a weighted average of multiple currency practices (PIE), current “blend scheme” and by implicit weighted average export duties rate.
 ***Adjusted by income, personal assets and PAIS taxes when applied.
 Source | BCRA from INDEC and Ministry of Economy data.

Import Price Gap

As % of the Estimated Cost Using Official FX



*The dotted line assumes that the effect of the PAIS tax is linear $Gap_t^M = \frac{Price_t}{Cost_t} = \frac{IPIM_t^M}{FX_t \times PM_t^{USD}}$
 Source | BCRA and INDEC.

Thank you