Report

2017 Targets and Programs for the Development of Monetary, Financial, Credit and Exchange Policy

December 2016

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

2017 Targets and Programs for the Development of Monetary, Financial, Credit and Exchange Policy

“The purpose of the Bank is to promote –within the framework of its powers and the policies set by the National Government– monetary and financial stability, employment, and economic development with social equality”.

Section 3 | **Charter of the Central Bank of Argentina**

Contents

1 | General guidelines

In accordance with Section 3 of the Central Bank´s Charter, the main target of the Central Bank is to look after monetary stability of Argentina's economy. This implies to continue giving priority to the reduction of the inflation rate to comply with inflation targets between 12% and 17% for 2017, of 12% for 2018 and 5% for 2019.

Secondly, the Central Bank is concerned with the financial sector's stability and growth as the best way to contribute to its ultimate target: economic development with social equality. The Central Bank will strive for the development of the domestic financial system and the promotion of such saving instruments in domestic currency that stimulate saving in pesos by Argentine people. These measures will cause the credit system to become more sound as this channel will lead to leveraging productive development and will pursue expanding mortgage credit supply at more affordable rates and more comfortable terms for the entire population.

The third pillar of the Central Bank is to promote bankarization in order to foster the use of electronic money as means of payment. In this regard, the Central Bank follows, as its priority agenda, the international trend towards electronic means of payment. It is important to foster the massive use of electronic means of payment and facilitate its access by the entire population in order to prevent organized crime, drug trafficking and money laundering. Financial inclusion also contributes towards formal labor markets, which allow a more even and moderate tax burden. In turn, electronic money as banks´ liabilities allows means of payment to be channeled, through the financial system, towards loans, a fundamental step for financial inclusion.

With these fundamental guidelines, the Central Bank announces the following targets and programs for the following year, in compliance with Section 42 of its Charter.

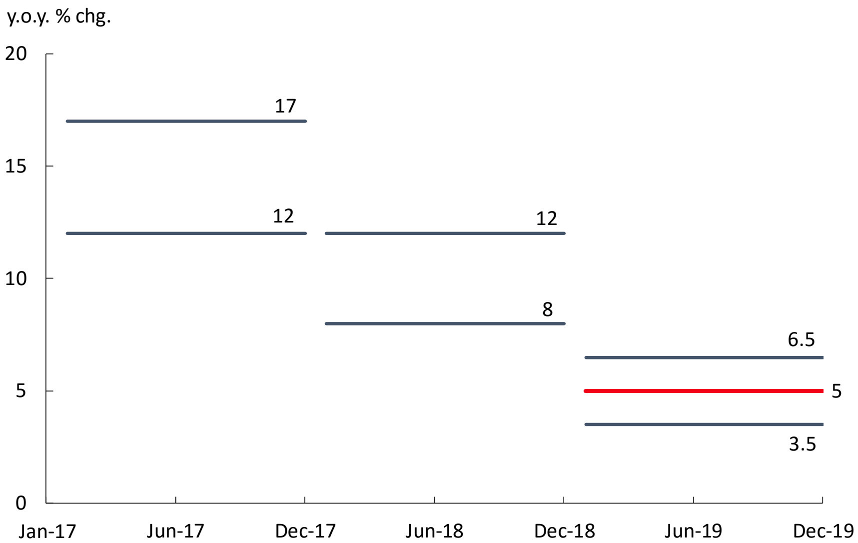
2 | Monetary policy and inflation targets

In accordance with Section 3 of the Central Bank´s Charter, the main target of the Central Bank is to look after monetary stability of Argentina's economy. In order to achieve such target the Central Bank has set up an inflation target regime; therefore the inflation target is between 12% and 17% annual for 2017converging to 5% by the end of 2019 (see Chart 1).

The Central Bank´s greatest contribution to economic development with social equality is to achieve low and stable inflation. An environment of low and stable inflation contributes to create prolific economic conditions for the economy growth, giving certainty on the currency value and predictability to companies, families and government plans.[1] With distributive effects in mind, reducing inflation contributes towards social equality as inflationary tax is highly regressive.[2]

Chart 1 | Inflation targets

(2017-2019)



Source | BCRA

Inflation evolution during 2016 leaves the society well positioned to achieve 2017 inflation target. During the second half of 2016, average monthly inflation stood slightly below 1.5%

[1] See the positive relation between growth and inflation reduction in Section 1, 'Inflation and long term growth' Monetary Policy Report, October 2016, available at: http://www.bcra.gob.ar/Pdfs/PoliticaMonetaria/IPOM_Octubre_2016_i.pdf

[2] This is described in Exhibit 4 of the Monetary Policy Report, October 2016, 'Regressive impact of the inflationary tax'.

monthly, equivalent to 19% annual. This is the lowest value recorded in the last decade, except for 2008.[3] According to the results surveyed by the Central Bank's economists at the beginning of December, inflation expectations for 2017 are still above the target of 20%. Nonetheless, the Central Bank hopes that inflation will converge to the target set as the monthly records of 2018 consolidate the decreasing trend recorded by the end of 2016.

The inflation target scheme is based on four pillars: the breakage of fiscal dominance, the use of the interest rate as the main monetary policy instrument, a floating exchange rate regime, and an active and transparent communication of monetary policy decisions. The main advantage of the monetary policy scheme is that it causes inflation to reduce and economic decisions to be more predictable, facilitating the coordination between economic players in terms of production and consumption as well as of pricing and salaries. In collective bargaining agreements, for example, players are provided with a guide on the nominal evolution of contracts, which allows them to focus their efforts on the negotiation of real salaries.

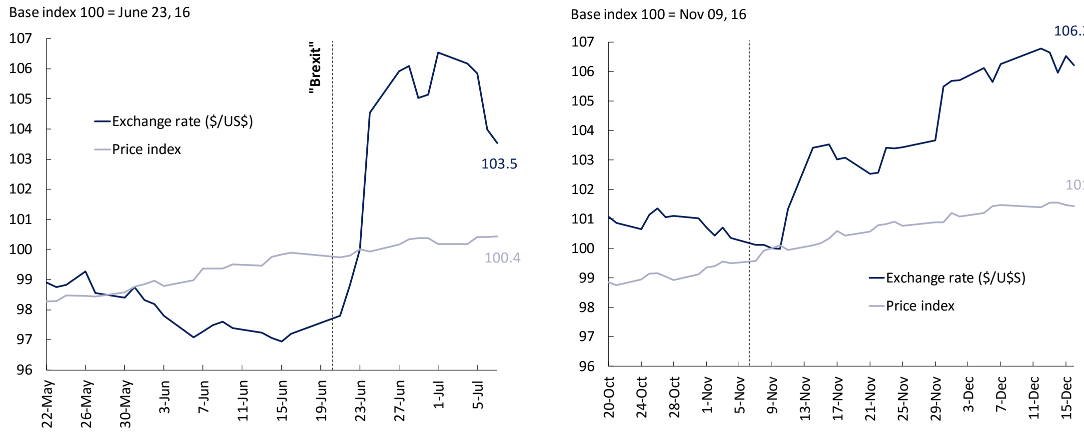
During years of transition to achieve the 5% annual Inflation target expected for 2019, the Central Bank shall maintain a positive real interest rate in order to convey to an anti-inflationary bias to the monetary policy. Nominal interest rates shall gradually decrease in symphony with expected inflation. If inflation expectations de-anchor, nominal interest rates shall increase to ensure a monetary policy anti-inflationary bias.

An inflation target scheme where interest rate is the main tool of monetary policy and exchange rate floats proves to be an advantage for it seeks to protect the economy from external shocks. Inflation expectations are then detached from exchange rate evolution since the former are anchored to the targets announced beforehand. In this context, the nominal exchange rate fluctuates in the face of real shocks, allowing the real exchange rate to accommodate to the economic context. Therefore, while inflation target policy leads to monetary stabilization, floating exchange rate may easily perform its role as a tool for real stabilization of the economy.

During 2016 Argentine economy benefited from this scheme. In the face of external events such as the Brexit vote or the result of USA elections, where US dollar appreciated against the currencies of our trading partners, the peso depreciated significantly in a few days, evidencing no significant pass-through to local prices (Chart 2). If Argentine peso had not depreciated against US dollar, our trading partners' multilateral real exchange rate would have misaligned.

[3] The calculation was based on the average of the period July to October 2015 and of July to November 2016. Sources: IPC Greater Buenos Aires of INDEC for 2001-2016; IPC average of 7 provinces for 2007-2012; IPC CABA for 2016, at INDEC, IPC Greater Buenos Aires of INDEC for 2016.

Chart 2 | Exchange rate and prices – evolution facing “Brexit” and result of USA elections - 2016



Source | BCRA

A regular and clear communication from the Central Bank to the public is a distinctive characteristic of inflation targets. During the transition period in 2016 the Central Bank widened its communication channels by releasing the Monetary Policy Report and Financial Stability Report in regular meetings with the press, live broadcast on the Central Bank´s web site. In turn, the Central Bank´s authorities took part in a number of meetings, seminars and forums, the contents of which were immediately made available to the public. Moreover, they increased the frequency and coverage of several statistics already prepared by economists from the Central Bank (including statistics on foreign exchange). In 2017, the Central Bank shall continue moving on the same direction. Communication and transparency of the monetary policy are a must for companies and households to form their expectations based on the Central Bank´s actions aimed at reaching inflation targets.

The Central Bank’s clear and transparent communication and reliable inflation targets are essential tools for overcoming the so-called inflationary inertia[4], frequently signaled as a hindrance to comply with inflation targets in 2017. Based on international experience inflation may drop rapidly within the framework of inflation target regimes, signaling slightly low persistence. Chart 1 shows that inflationary inertia in 2016 was very limited.

[4] See Section 6, In connection with disinflation speed, what does evidence say? (“*Sobre la velocidad de la desinflación ¿Qué dice la evidencia?*”), Monetary Policy Report, October 2016, available at: http://www.bcra.gob.ar/Pdfs/PoliticaMonetaria/IPOM_Octubre_2016_i.pdf

Table 1

	2015		2016	
	First half	Second half	First half	Second half
CABA	11.50	13.80	29.20	10.6*
San Luis	10.90	18.60	20.50	9.9*
Córdoba	11.50	14.90	23.00	8.8*
National CPI	11.40	15.30	25.10	9.4*

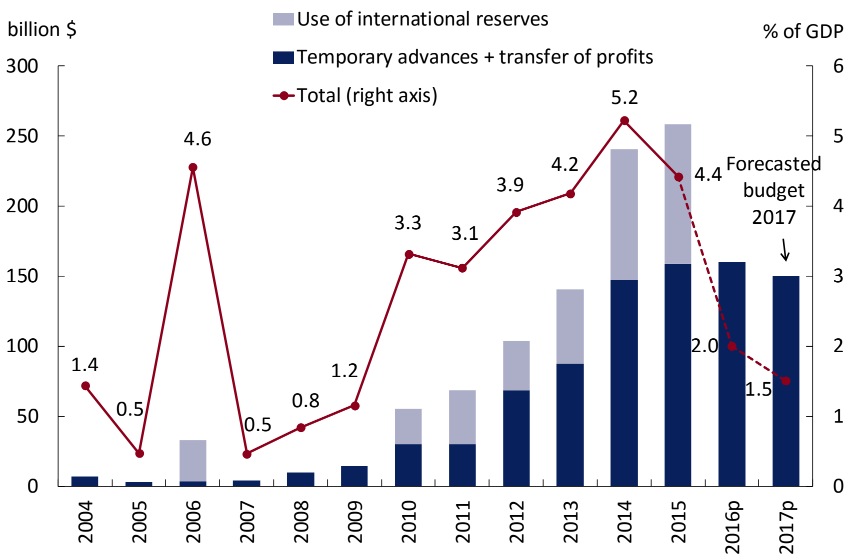
Note | *average change biannual 5 months National CPI is calculated by the BCRA with consumer index prices of the Autonomous City of Buenos Aires (44%), San Luis (22%) and Córdoba (35%). The relative share of each variable arises from the consumption distribution by region in accordance with the National Survey of Household Expenditure for the 2004-2005 period.

Even though inflation in the first half of 2016 exceeded the figures recorded in 2015, during the second half of 2016 it stood at the lowest half-yearly figures of the last decade. Therefore, the Central Bank succeeded in reaching its inflation target of 1.5% monthly in the last quarter of 2016.

Looking forward to 2017, the recent collective bargaining agreement in the Province of Buenos Aires illustrates how inflation targets may steer the decision making-process in the right direction and reduce the entailing social cost. Hence, by forecasting an 18% annual increase, a boost in real salaries is assured. The salaries agreed are below 2016 inflation, but are adjustable in case 2017 inflation deviates from the figures arranged through collective bargaining. This shows that agreements are based on prices future evolution and not on previous developments.

The fiscal dominance, that is to say the Central Bank transferring funds to the national treasury, is the main cause of inflation. Like in 2016, fiscal dominance has been broken through an agreement between the Central Bank and the Executive Power. Indeed, for 2017 the Central Bank agreed to transfer one hundred fifty thousand billion pesos (AR$150 billion) to the Executive Power. This amount stands for nearly a third, in real terms, of the amount recorded in 2014 (Chart 3). All this will go hand in hand with a closing path of the fiscal deficit forecasted at 0.3% of the GDP for 2019, thus consolidating the decreasing trend of inflation.

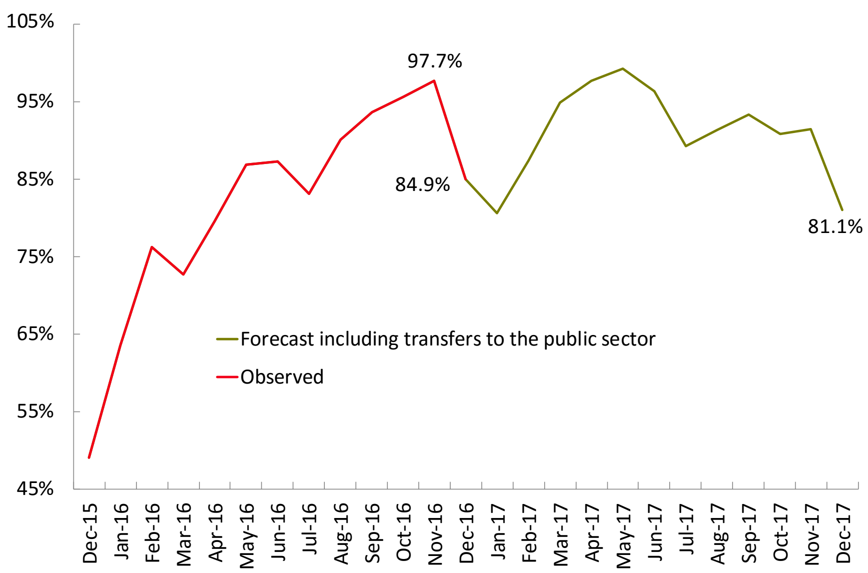
Chart 3 | BCRA´s financing to the National Treasury



Note | Forecast
Source | BCRA based on INDEC and Secretary of Treasury data.

Money demand estimates shows that this transfer to the Treasury is consistent with inflation targets for 2017. Considering the expected evolution of money demand and the transfers to be made to the Treasury, sterilization instruments shall allow the Central Bank to strike a balance in the money market. Consequently, indebtedness issued by the end of 2017 (measured as a share of the monetary base) will be lower compared to that issued by the end of 2016. In other words, monetary expansion resulting from transfers to the public sector shall be below the expected money demand increase. Therefore, the Central Bank's non-monetary liabilities (reverse repos, LEBACs and NOBACs) are likely to be reduced (measured as a share of the base) (Chart 4).

Chart 4 | Non-monetary liabilities in % of the monetary base



Source | BCRA

Notwithstanding the foregoing calculations, the Central Bank may conduct foreign exchange transactions to strengthen its foreign assets. In case of net purchases of foreign currency, the Central Bank should surely increase its non-monetary liabilities in order to set off the effect of the money supply issued for buying foreign exchange. If this occurs, it is worth bearing in mind two distinctive characteristics of this process. In the first place, international reserves back up the liabilities issued, and can be sold in a liquid and deep market, if needed. In the second place, international reserves produce a yield to the Central Bank that may compensate the financial cost of the liabilities issued for sterilization.

Table 2 shows the combined impact exerted as a result of LEBACs issuance to regulate liquidity and of the purchase of international reserves by the Central Bank.

Table 2[5]

	in million $	in % of GDP
LEBACs at the end of 2016 (1)	630,310	7.9%
Pesos used to acquire reserves in 2016 (2)	209,110	
Interests earned and value increase from international reserves (3	17,456	
LEBAC at the end of 2016 net of acquired reserves (4=1-2-3)	403,744	5.0%
LEBACs at the end of 2015 (5)	345,124	5.9%
Stock of LEBAC net of acquired reserves (4-5)	58,620	-0.9%

Source | BCRA

As shown in Table 2 above, in spite of the significant increase of the Central Bank´s debts arranged through LEBACs (2% of the GDP), its debts net of reserves (valued by the end of 2016) decreased by almost 1% of the GDP.

The purchase of net international reserves net of the financial cost of the LEBACs issued for sterilizing the effect of such purchase was -AR$4.668 billion. During 2016 (data as of December 29) the Central Bank made net purchases of foreign currency for US$14.392 billion. The sterilization of these transactions carried a gross financial cost of AR$22.124 billion. However, the net cost shrank to AR$4.668 billion as the interest accrued on the

[5] The pesos used to purchase international reserves come from the reference exchange rate at the time each operation was carried out. For profits/losses due to the exchange rate, which are added to accrued interests on reserves, such exchange rate is compared to that of the year end.

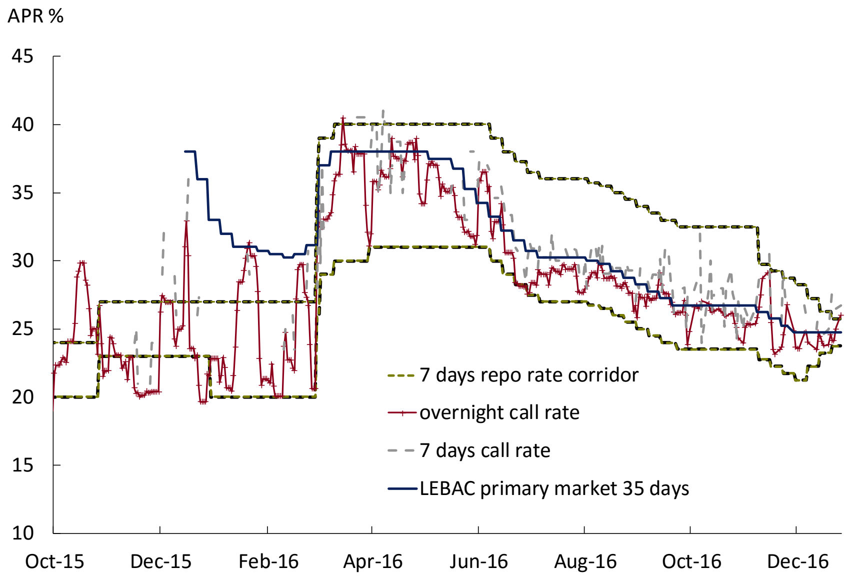
international reserves purchased and their increasing value in pesos caused by exchange rate changes climbed to AR$17.456 billion. This result is in line with the new economic theory discoveries. De la Torre and others (2013) found that by duly considering capital gains and losses “sterilized interventions in Latin America and Caribbean countries with inflation targets during the last decade entailed considerably low costs and even yielded gains in few cases”.[6]

[6] De la Torre, Augusto, Eduardo Levy-Yeyati y Samuel Pienknagura (2013), Deceleration in Latin America and exchange rate as shock absorber ("*La desaceleración en América Latina y el tipo de cambio como amortiguador*"), LAC Biannual Report (October), World Bank.

Exhibit / The Central Bank's monetary policy rate within its operational scheme as from January 2, 2017

The Central Bank will resort to the central interest rate of the 7 days repo "corridor" in pesos as the main instrument of monetary policy over 2017. The corridor ranges between its floor or minimum value set by the interest rate reverse repo (applied to 7 days financial institutions' deposits received by the Central Bank) and its cap or maximum value set by repo interest rates (applied to 7 day repo loans granted by the Central Bank to financial institutions). The central interest rate of the repo ´corridor´ shall be decided weekly by the Central Bank´s Monetary Policy Council composed of the Central Bank's Governor, Deputy Governor, Second Deputy Governor, General Manager, Deputy General Manager for Economic Research, and Bank Deputy General Manager for Operations.

Chart 5 | Interest rates of BCRA and call money market



Source | BCRA

A **repo loan** involves the sale of securities by a financial institution to the Central Bank in exchange for funds agreeing to repurchase them in a given period. In this particular case, the instruments are to be repurchased upon seven days at the same price plus interest (calculated on the basis of the monetary policy rate plus a spread). In practice, this type of transactions is a form of 7 day collateralized borrowing for financial institutions.[7]

[7] The eligible securities to carry out these transactions are available at: http://www.bcra.gob.ar/Pdfs/PoliticaMonetaria/Listado_de_Titulos_Publicos_elegibles_para_operaciones_de_pases.pdf

These securities serve as collateral of repo loans with a haircut that is the difference between the market value of the securities given as collateral and the maximum liquidity value set by the Central Bank as the counterparty, thus hedging the latter from any credit risk that a fall in the securities price may pose.

A **reverse repo** is a reverse transaction. In this case financial institutions purchase securities from the Central Bank and sell them back after seven days at the same price plus an interest (calculated on the basis of the monetary policy rate minus a spread). Reverse repo transactions are comparable to financial institutions' deposits with the Central Bank, whereby the former earn interest. Moreover, in accordance with Communication 'A' 6095, the Central Bank may conduct repo transactions regardless of their amount.

The repo corridor combined with Central Bank's liquidity management creates the conditions for interest rates on the call money market to revolve around monetary policy rate (Chart 5). The 7 day central rate of the repo corridor was adopted as the monetary policy rate in order to minimize short-term inter-financial rates volatility and streamline the performance of the financial system. Through this new monetary policy rate the Central Bank aims at forming the yield curve of the different financial assets at different terms.

Therefore, the interest rate of 35-day LEBACs in pesos shall no longer be the benchmark rate. However, this type of LEBACs will remain being used as an instrument to regulate liquidity within the framework of monthly auctions as from next February. Monetary policy shall at all times move in the direction of inflation targets.

3 | Credit and Financial Policy

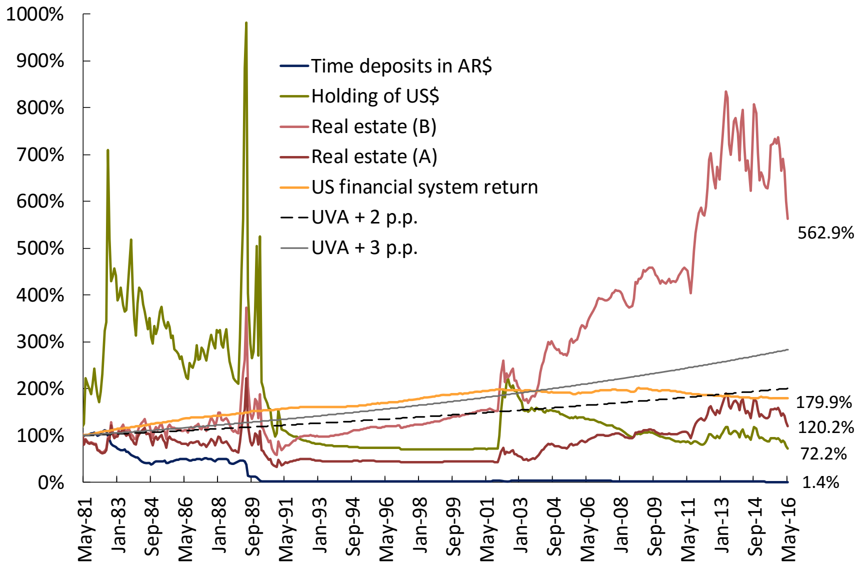
Within the framework of the objectives of financial stability, employment and economic development with social equality, the BCRA will continue promoting the growth of the national financial system. It will also keep on implementing regulatory and supervisory regulations applicable to financial and exchange institutions in line with the highest international standards to safeguard financial stability.

Argentina has a sound, though small, financial system that operates under an adequate supervision and regulation framework. This industry has thus considerable room to grow and to deepen financial inclusion in the coming years, providing companies and households with greater chances for equal access to financing, thereby boosting economic growth. For this scenario to unfold, the Central Bank will create favorable conditions so that financial institutions may offer positive real interest rates to depositors, within a context of stability, fostering saving through the Argentine financial system.

A developed financial system brings efficiency and equality. As far as liabilities are concerned, financial institutions provide means of payment and vehicles for saving, and create liquidity for companies and households, when necessary. Regarding assets, lending allows executing investment and consumption projects, letting consumption moderate in time. A developed credit market makes companies having low levels of capital or households with low income eligible to borrow money for projects, investments, housing or consumption, regardless of their current income.

The lack of a developed financial system in Argentina is far from being a coincidence. It is the result of a period of financial repression and macroeconomic volatility when yields from savings in domestic currency were consistently lower than those of other assets. This is a clear example that illustrates this idea (Chart 6): a person who deposited 100 pesos at a bank in April 1981 kept only 1.5 pesos in real terms after 35 years, i.e., in April 2016. In real terms, this person lost 98.5% of his/her investment. A significant part of such loss is explained by Argentina's hyperinflation experienced in the 80s. But even if we compute the last 25 years from April 1991, the result is still very negative for saving in our banking system: 77% of the initial investment in real terms.

Chart 6 | Capitalized total real return of stores of value (April 1981-May 2016)



Source | BCRA, based on Corso, Eduardo Ariel (2015), "Ambigüedad y decisiones de cartera"; Burdisso, Tamara, Corso, Eduardo Ariel and Sebastián Katz (2013), "Un efecto Tobin 'perverso': disrupciones monetarias y financieras y composición óptima del portafolio en Argentina"

The anti-inflationary bias of the BCRA monetary policy encourages asset holders to deposit their funds in the national financial system. Thus, the goal of a positive real interest rate is twofold: reducing inflation and contributing to development through the growth of the financial system and, consequently, lending.

The BCRA also promotes the deepening of the financial system by way of competitiveness and transparency. Indeed it has been encouraging increased competitiveness in the banking sector since December 2015. Lending and deposit rates, as well as fees have been deregulated.[8] In addition, the BCRA has pursued policies on cost transparency (rates and fees) to increase protection for financial service users, who have also benefited from an expanded deposit insurance coverage as from mid-2016.

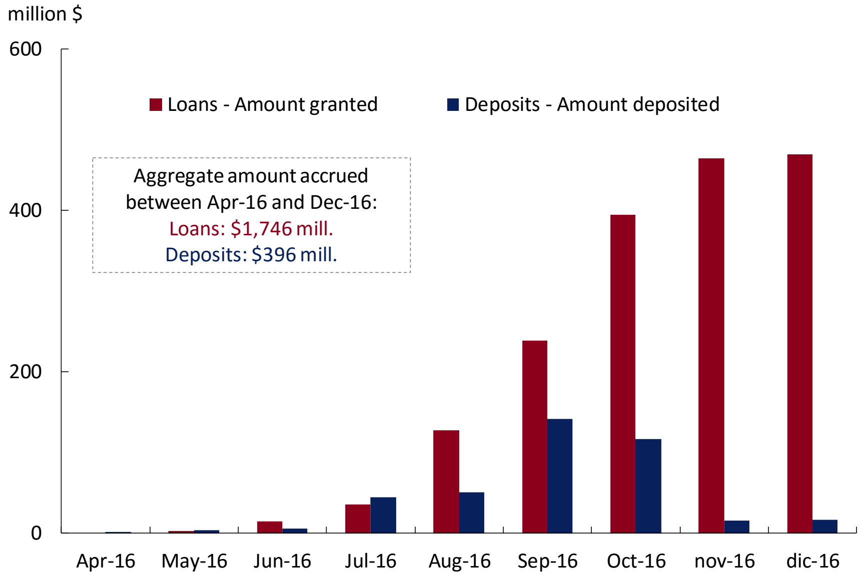
In 2017, the BCRA will also continue deepening long-term bank lending denominated in value units tied to inflation and lending in US dollars.

The lending and deposit system protected against inflation, called Units of Purchasing Power (*UVA* in Spanish), was launched in April 2016. These are the safest deposits in the financial system on account of the fact that a real return is ensured. *UVA*-adjusted mortgage lines offer initial installments that are significantly lower than those of a traditional loan in pesos, providing individuals with expanded access to housing. The BCRA expects this instrument will gradually develop in 2017, leading to loans protected against inflation for different activities (car loans, durable consumer goods, etc.). In 2017, the Central Bank will

[8] For further information on these measures, see "Measures Adopted. December 2015-December 2016", Financial Stability Report, First and Second Half 2016.

continue considering measures aimed at promoting increased longer-term adjusted funding. The first steps in this market have been positive.

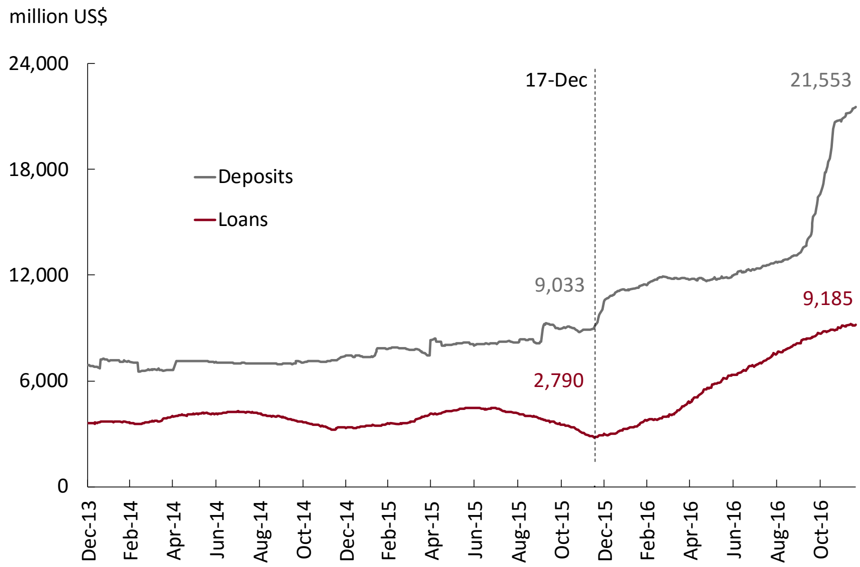
Chart 7 | UVA*- adjusted deposits and mortgage loans



*Units of Purchasing Power
Source | BCRA

The Central Bank will continue working towards its goal of increasing financing to the productive sector. To this end, deposits in foreign currency can now be used for a broader range of purposes in an attempt to reduce costs and to extend the terms of loans granted to companies. Likewise, the Central Bank did not neglect any potential mismatch of the income of this type of borrower. The change in the macroeconomic scheme by the end of 2015, along with the effects of the tax amnesty regime implemented by the national administration, resulted in a significant rise in funding from foreign currency deposits at banks. All these measures have made the stock of loans in foreign currency triple in the past twelve months within a context of historically low interest rates (e.g., the interest rate on signature loans is 3%, half the rate recorded a year earlier).

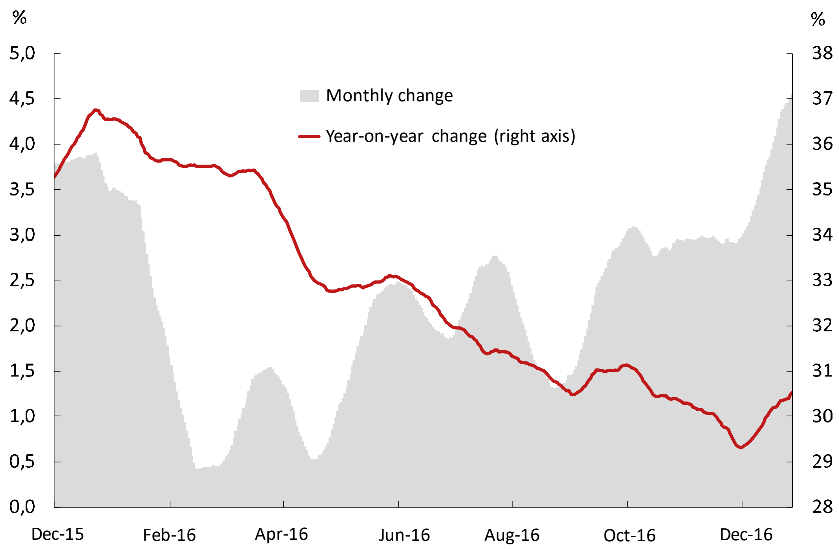
Chart 8 | Loans to and deposits from the private sector in foreign currency



Source | BCRA

This recovery in loans in dollars, along with an increase in loans in pesos, led to a significant rise in the growth rate of total loans granted to the private sector (Chart 9).

Chart 9 | Total loans to the private sector
(in nominal terms – 30-day moving average)



Source | BCRA

On another note, the BCRA will continue adopting measures seeking to expand the outreach of the financial system by promoting access of the underbanked population to financial services and products. Indeed, in 2016, the requirements for opening new branches were relaxed, adjusting building specifications so as to streamline financial services coverage in thinly populated areas, aiming at increasing financial infrastructure, bankarization and financial inclusion. Within this context, the number of branches stood at 4535, rising 1.8% year on year (y.o.y.) as of October. In turn, the number of ATMs and self-service terminals climbed to 19,745, 0.8% y.o.y.

The big picture of a lower inflation rate and a more competitive financial system—as that sought by the Central Bank—poses challenges to banks' business models developed in the past few years. Lower inflation plus positive real returns on some savings vehicles will push down bank profitability. Financial institutions partly fund their loans and securities out of sight deposits which have virtually no financial cost. Disinflation, lower lending rates and sustained positive real rates for depositors might thus lead to lower banks' margins in the coming periods. As inflation and nominal interest rates lowered in late 2016, a cut in banks' margin was observed.

Table 3 | Financial system profitability

Annualized % of netted assets	2015	Accum. – 11 months		2016			
		2015	2016	Q1	Q2	Q3	Q4*
Financial margin	**11.8**	**11.7**	**11.4**	**12.1**	**12.0**	**11.2**	**10.2**
Income from interest	12.8	12.8	12.9	13.1	13.8	13.1	11.4
Interest outflows	-7.4	-7.4	-8.3	-8.5	-9.2	-8.4	-6.6
CER and CVS adjustments	0.2	0.2	0.3	0.4	0.4	0.4	0.1
Exchange rate differences	0.8	0.5	0.9	1.4	0.7	0.7	0.9
Gains on securities	5.6	5.8	5.6	6.0	6.5	5.4	4.4
Other financial income	-0.2	-0.2	-0.1	-0.2	-0.1	0.0	-0.1
Service income	**4.2**	**4.2**	**3.8**	**3.6**	**3.9**	**4.0**	**3.6**
Loan losses	**-0.9**	**-0.9**	**-0.8**	**-0.7**	**-0.8**	**-0.9**	**-0.9**
Overhead expenses	**-7.7**	**-7.6**	**-7.6**	**-7.4**	**-8.0**	**-7.7**	**-7.4**
Taxes and others	**-3.3**	**-3.4**	**-3.1**	**-3.3**	**-3.2**	**-2.9**	**-2.9**
Income tax	-2.0	-2.1	-1.7	-2.0	-1.9	-1.6	-1.4
Total income (loss) (ROA)	**4.1**	**4.0**	**3.7**	**4.3**	**3.9**	**3.7**	**2.6**
Total income (loss)/Net worth (ROE) – In %	**32.4**	**31.4**	**29.7**	**35.4**	**30.8**	**29.0**	**22.3**

* As of Nov-16
Source | BCRA

Improved efficiency, increasing turnover along with new technologies will help maintain institutions' profitability. The role of the Central Bank in this scenario is to encourage savers' protection with the aim of fostering intermediation, and to continue adopting measures for banks to achieve higher levels of efficiency and productivity in the ordinary course of their business. In 2016, the Central Bank furthered the digitization of financial institutions' day-to-day paperwork, allowed checks to be electronically credited and encouraged electronic communication of banks and their clients. The conditions for the refilling of ATMs and opening bank vaults were loosened. Moreover, the Central Bank strongly discouraged the use of cash, while promoting savings accounts, electronic transactions, and bank customer mobility.

We will pursue this path of improved efficiency in 2017 by discussing ways of relaxing institutions' information requirements with a view to eliminating any redundant data. Increased digitization of transactions and communications with users will further be encouraged in order to improve customer service, reduce paperwork, and efficiently use banks' physical facilities.

With a view to developing bank intermediation and financial stability even further in 2017 we will keep on moving towards local convergence to international recommendations and standards on accounting and bank regulation and supervision (Basel III). Argentina will advance on the implementation of the new capital standard for securitization exposures held in the banking book, the net stable funding ratio (NSFR) and the leverage ratio. Based on the schedule arranged by the Basel Committee on Banking Supervision, these regulations must be in place by January 2018. We will also keep on working on the roadmap to the adoption of the International Financial Reporting Standards (IFRS). The convergence plan, to be completed in 2018, will allow for a more harmonious integration of institutions' balance sheets with Basel III.

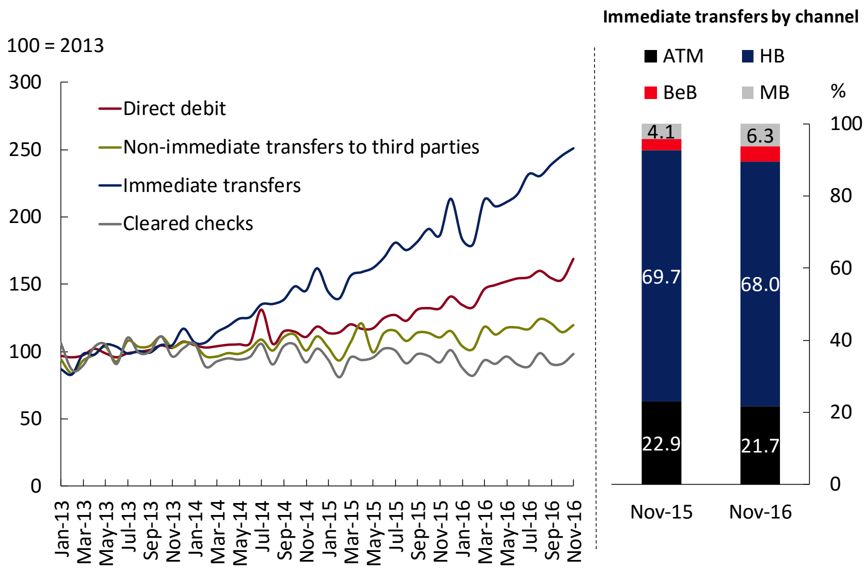
The assessment of the domestic adoption of capital standards (Basel II, 2.5 and III) and the liquidity coverage ratio, under the Regulatory Consistency Assessment Programme (RCAP) of the Basel Committee on Banking Supervision, was completed in the second half of 2016. In general terms, Argentina has been rated as "compliant"—the highest grade—, which evidences the considerable progress it made with respect to international banking recommendations. In turn, Argentina has taken part in a regular program of the Financial Stability Board (FSB) since the second half of 2016. This program reviews the level of implementation of macroprudential regulations and effectiveness of G20/FSB financial reforms. The results expected for the first half of 2017 will help consolidate the existing micro- and macroprudential regulatory framework.

4 | Bankarization and Means of Payment

The Central Bank's Charter sets out its mandate of economic development with social equality. In this sense, the BCRA pursues the goal of broadening access and use of bank services by the entire population, fostering the adoption of new payment technologies and reducing companies' and households' use of cash in everyday transactions. In addition, it seeks to streamline the financial and payment system, making the most of accessibility, cost reduction and modern technology advantages. Electronic means of payment help reduce informality in daily transactions, improve competitiveness, promote financial inclusion and create productive employment by providing customers with more dynamic and secure financial services.

Although cash is still widely used in Argentina's economy, the BCRA's efforts to modernize the payment system have started to yield fruit as shown by the extent to which electronic payment methods are being used. Immediate transfers have steadily grown lately, especially through online banking (Chart 10). Though still at low levels, mobile banking is also rising on a sustained basis.

Chart 10 | Development of means of payment



ATM: automated teller machine
BeB: business electronic banking
OB: online banking
MB: mobile banking
Source | BCRA

The Central Bank's actions taken in the past few months have helped achieve such progress. In particular, it determined that no fees be charged to savings accounts and electronic transfers, that opening bank accounts be subject to less requirements, and that existing services be significantly expanded. The Central Bank further provided that accounts may be opened on line and even by minors. In order to facilitate electronic transfers and payments, users may now replace their uniform bank code (*CBU* in Spanish) with an easy-to-remember "alias" of their choice which is portable across banks. This lets financial service users migrate to a more convenient institution keeping their codes.

A new channel for immediate transfers, called "immediate electronic payment" (*PEI* in Spanish), is also available now, as was anticipated in late 2015. The *PEI* allows for increased competitiveness and transparency in electronic payment instruments, reduces costs for users (businesses and consumers) and significantly raises the number of payment points. A new channel was created as a complement to the immediate electronic payment. It is called "immediate debit" (*DEBIN* in Spanish) and enables customers to make payments for goods or services by debiting their bank accounts—subject to their authorization—and crediting the recipient's bank account online. The scope of these initiatives is expected to grow in 2017.

The Central Bank has also adopted measures aimed at discouraging the use of cash and reducing the amount of banknotes handled by institutions, while cutting operating costs of issuing currency. As it has been planned, a new series of AR$200 and AR$500 banknotes were released over 2016, and are expected to be more extensively used along 2017. The AR$1000 banknote will soon be launched, and the current AR$20 banknote will be replaced with the new design featuring Argentina's fauna. The quality of banknotes is expected to improve in 2017, partly because the Central Bank's leading-edge technology allows for the quick replacement of damaged banknotes with the new series. Thus, the share of new series of banknotes and coins in the aggregate currency in circulation will rapidly increase. Also in line with the goal of a more efficient use of cash, conditions for the refill of ATMs and for the opening of vaults were relaxed in 2016. Likewise, the requirements applicable to cash-in-transit companies were changed.

A very important goal for 2017 is to create a market for banks' cash management through the *Mercado Abierto Electrónico* (*MAE*), seeking to facilitate the exchange of banknotes between cash collecting and cash dispensing institutions, without going through the BCRA vault. In particular, the Central Bank seeks to streamline cash handling among institutions, facilitating cash supply to the branches with are far from the BCRA regional agencies. Under a decentralized scheme, institutions will be able to fulfill their needs without incurring costs of transportation from/to the BCRA regional agencies. All along 2017, we will continue working with financial institutions, clearing houses and payment system providers to devise a method for conducting secure and transparent purchases/sales of real estate or vehicles with the least possible amount in cash.

In an attempt to maximize the use of checks, they can be deposited online as from 2016. Institutions may now offer this option to their clients. Hence, they will no longer be required to submit the paper check. The implementation of the electronic check is the next step for 2017, which will mean amending the Law on Checks.

In addition, the Central Bank will consider the need for regulating such transactions as are conducted by payment service providers (under Section 4 (g) of the BCRA Charter). This type of transactions is increasing in volume and becoming more sophisticated, among other reasons, thanks to technology. The Central Bank will thus be able to monitor any such legal persons rendering payment and/or collection services—including money remittances—through different means of payment, such as credit and debit cards, prepaid cards, mobile payment platforms and other e-payment methods.

In a context of increased use of smartphones, mobile money providers are expected to have a more prominent role in payment services, thereby improving the supply of products available to users. The incorporation of new players will both result in higher competitiveness in this industry, and represent significant challenges inherent to an appropriate rendering of services, in a secure and transparent manner.

Apart from promoting financial inclusion and reducing informal economy and crime, the measures that the BCRA will keep on adopting to spread more effective means of payment will continue saving resources for society. Savings will result from a decrease in both issuance needs and the costs of banknote storage and distribution. A decreasing use of cash will let all players benefit from the use of electronic means of payment, thus contributing to a more inclusive, secure and efficient society.

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