

1. Monetary Policy: Assessment and Outlook

Despite the significant progress made in the fight against COVID-19, the global pace of contagion and deaths intensified as from the publication of the previous Monetary Policy Report (IPOM). Against this backdrop, the economy continued to recover worldwide, even though at a mixed pace and with several uncertainty factors ahead in the near future. The outlook for the next few months is conditioned by the degree of progress in the vaccination campaign and by the impact of the monetary and fiscal stimulus policies adopted at world level, mainly in developed economies.

The epidemiological situation has worsened in Argentina as from mid-March. With the onset of the second wave of COVID-19, the National Government implemented new restrictions to circulation in order to reduce the speed of transmission of the virus. So far, these measures have been less intensive than those adopted one year ago and specific to each jurisdiction and adjusted on the basis of the vaccination pace and the strengthening of the health care system already achieved. In order to contain the economic and social impact of this second wave, the National Government has focused its aid programs on the most vulnerable groups of the population and on the assistance to companies of the hardest-hit jurisdictions.

In recent months, as stated in previous issues of the Monetary Policy Report, price setting has been impacted by several factors, such as the recovery of service relative prices, the improvement of retail trading margins in some sectors and the progress in collective bargaining agreements. In addition, there was a significant increase in the international prices of commodities and its subsequent pass-through to food domestic prices. As a result, the year-on-year (y.o.y) inflation rate accelerated by 10.2 percentage points (p.p.) to 46.3% during the first four months of the year. Given the temporary nature of some of these shocks, the inflation rate is expected to decelerate at a gradual and sustained pace in the next few months.

In this context, the Central Bank of Argentina (BCRA) continues to apply a managed exchange rate policy, so that the exchange momentum may contribute to consolidate a gradual process of reduction in the inflation rate. In fact, supported by a favorable external context characterized by the increase in commodity prices, the Argentine monetary authority is adjusting the pace of the exchange rate fluctuation in order to curb tradable goods' price increases and help to ease inflation expectations. Regarding the monetary policy, the BCRA continues to keep a prudent management of monetary aggregates, sterilizing any eventual surplus liquidity and ensuring the existence of saving instruments in pesos likely to provide positive returns against inflation and the exchange rate. Lastly, the BCRA has facilitated access to credit lines for production purposes at subsidized rates in order to foster a quick recovery of aggregate supply.

In turn, the National Government has intensified the efforts tending to break the inflation inertia and lessen the struggle over wealth distribution by fostering a dialogue between business chambers and trade unions within the framework of the Argentine Economic and Social Council.

Tax collection has continued to strengthen during the first four months of the year due to the contribution made by taxes on foreign trade —upon a context of increase in international commodity prices— and by a sustained improvement of taxes related to the domestic economic activity, favored by a faster than previously expected recovery. Likewise, the regulatory changes to taxes stated in the Social Solidarity and Productive Reactivation Act, enacted in late 2019, and in the National Budget Bill for 2021 continued to have a positive impact on public revenue. All of the above, added to the efforts made by the National Government to rebuild the debt market in pesos, helped reduce the financial aid of the Central Bank to the

National Treasury. Therefore, so far in 2021, there was a limited and balanced variation in the monetary base expansion factors. Specifically, in terms of GDP, the financial aid provided to the Treasury is currently in line with the figures recorded in previous years, excluding the first year of the pandemic.

Monetary aggregates have kept the moderation process started in the last four months of 2020. In year-to-date terms, the means of payment exhibited an ongoing decline in real terms, mainly explained by sight deposits and cash held by the public. In terms of GDP, these monetary aggregates stood at around their historical average. The demand for saving instruments in pesos was one of the reasons behind the low momentum of the means of payment. Time deposits grew at an average monthly pace of 1.9% seasonally-adjusted in real terms from January to April 2021. The so-called UVA deposits were especially remarkable since they increased at an average monthly rate of 14.2% in real terms, while deposits with an earlier termination date, which have a real guaranteed interest rate of 1%, expanded at a monthly average of 25.4% in real terms.

The improvement of the monetary and fiscal position, added to the increase in traditional time deposits and the existence of saving alternatives protected against inflation and exchange rate have helped the BCRA to face a new stage and keep the time deposit minimum interest rates and monetary policy rate unchanged, in line with the relevance of supporting the regularization of the economic activity.

The gradual pace of decline in the monthly depreciation of the Argentine peso occurred in a context where the real exchange rate stands above its historical average accompanied by a current account surplus. The BCRA continues to support its structural objective of international reserves accumulation by sustaining a competitive and stable real exchange rate. So far this year, the BCRA has managed to keep an increasing trend in the stock of International Reserves, which have gone up by US\$2.13 billion since the beginning of the year and stood at US\$41.52 billion on May 20.

The objective of the BCRA is to favor economic recovery and create the context for a sustained process of economic growth by promoting adequate credit conditions and financing levels for companies and households. At present, the credit policy intended for production operates through the Credit Line for Productive Investment (LFIP), with interest rates standing at levels consistent with the monetary policy rate. As from its implementation, and based on data updated as of April 30, the LFIP line has accumulated disbursements for a total amount of \$513.32 billion, resulting in an average monthly growth rate of 32.4% in nominal terms during the first four months of the year. As of the time of issue of this report, around 120,180 companies had received a loan granted under the LFIP.

In a context still dominated by the effects of the COVID-19 pandemic, the BCRA will implement a monetary policy that, in addition to preserving monetary and financial stability, may lay the foundations for an economic development path with social equity. To this effect, it will continue to sterilize any eventual monetary surplus and manage the exchange rate in order to curb inflationary pressures and preserve the external balance. Simultaneously, it will keep fostering productive development and a structural change through its financial and credit policies.