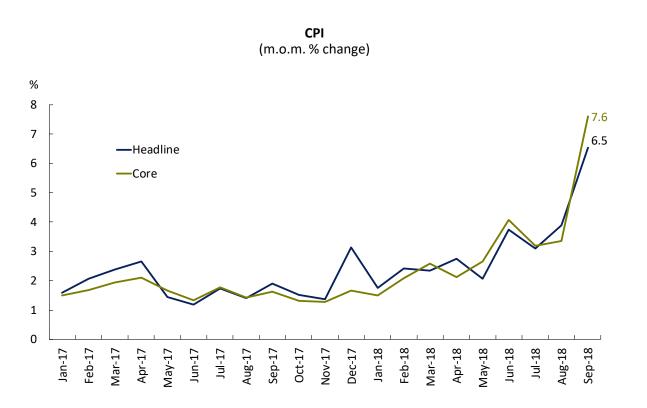




Agenda

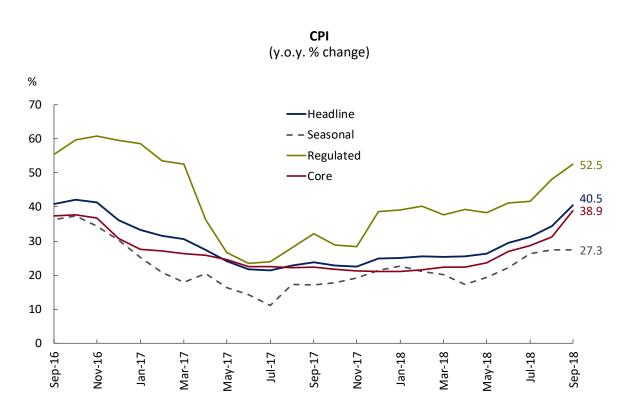
- 1 | Recent developments
- 2 | Monetary plan: framework and implementation
- 3 | Sustainability

1 | Recent developments



- Monthly inflation has accelerated since June, reaching a very high rate during September.
- Although lower than in September, we still expect a high inflation in October due to the pending pass through of the peso depreciation during August.

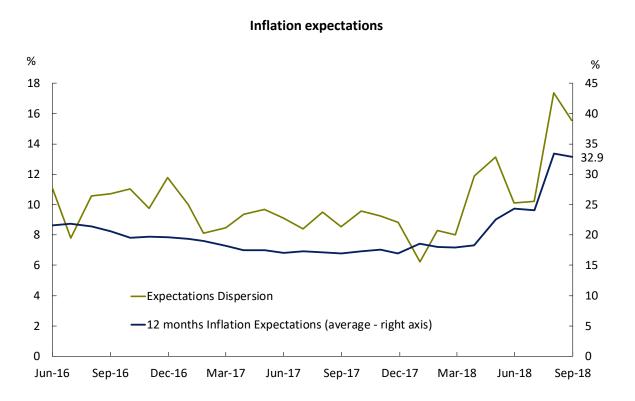
Source | INDEC.



- y.o.y. inflation is high.
- y.o.y. inflation will still be high in the months to come, though monthly inflation rates would start to decrease.
- The inflation rate of regulated prices is above the headline rate due to the adjustments in relative prices.

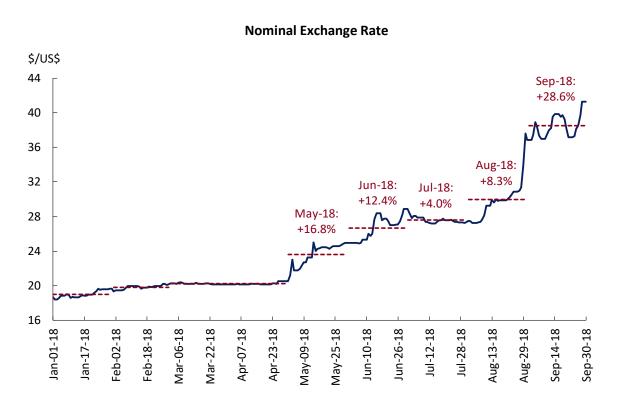
Note | National coverage CPI linked with the GBA-CPI and the CPI-NP calculated by the BCRA. **Source |** INDEC.

Recent developments



- At the end of August, inflation expectations rose sharply.
- The dispersion of inflation expectations also increased, reflecting the prevailing uncertainty.
- At the end of September, both series halted their rise after the announcement of the new plan, but are still at high levels.

Source | REM-BCRA.



- The sharp increases in inflation and inflation expectations were related to the increase of more than 100% of the US dollar against the peso since April.
- Need to introduce profound changes to reduce uncertainty.

2 | Monetary plan: framework and implementation

- Need to recover a nominal anchor.
- Loss of credibility in the BCRA's ability to meet inflation targets.
- Framework based on a tool under direct control of the BCRA.
- Facilitated by the zero primary fiscal deficit and the end of BCRA's transfers to the Treasury.
- Starting point with a competitive real exchange rate and treasury financial needs already covered.

Monetary aggregate target: 0% growth of the Monetary Base.

- Monetary base is a tool under direct control of the BCRA.
- Liquidity control limits inflationary acceleration or excessive depreciation.
- Very strict and easy to follow-up target to produce an expectation shock.

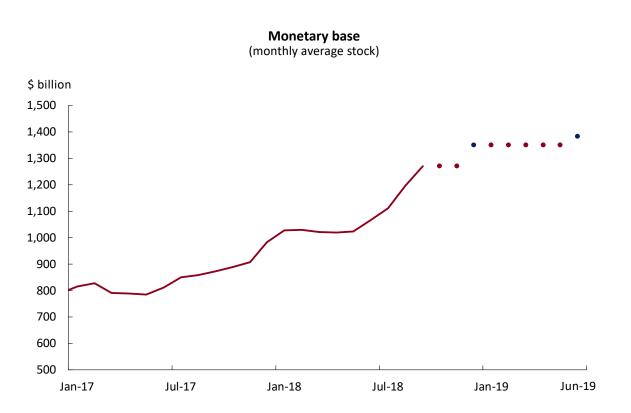
Complementary action in the case of excessive depreciation of the peso.

- Sign of decrease in the demand of peso assets.
- Capacity to implement a greater monetary contraction via intervention in the exchange rate market mopping up pesos (upper bound intervention zone).

Complementary action in the case of strong appreciation of the peso.

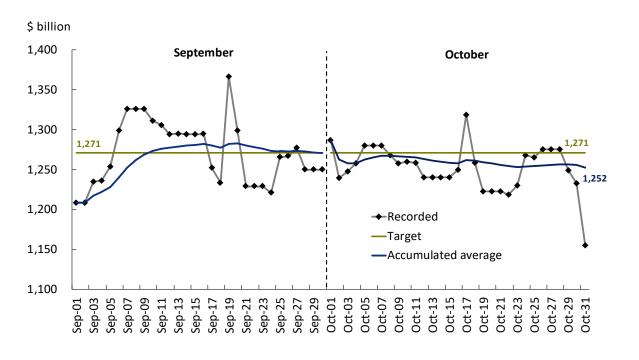
- Sign of confidence and higher demand of pesos.
- Capacity to increase monetary base backed with international reserves (lower bound intervention zone).

Framework

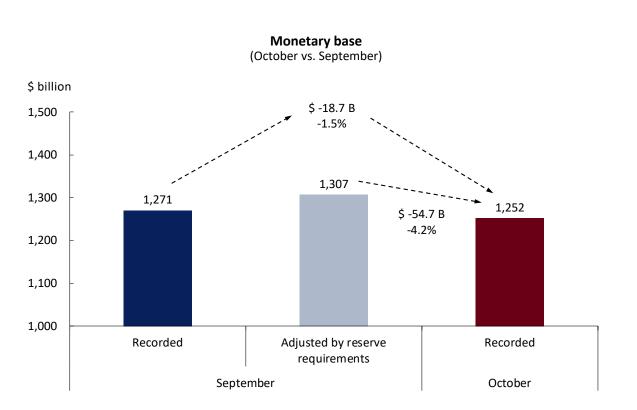


- Growth rate of the monthly average of the monetary base equal to 0% until June 2019.
- Seasonal adjustments of the monetary base in December and June, months with higher money demand.



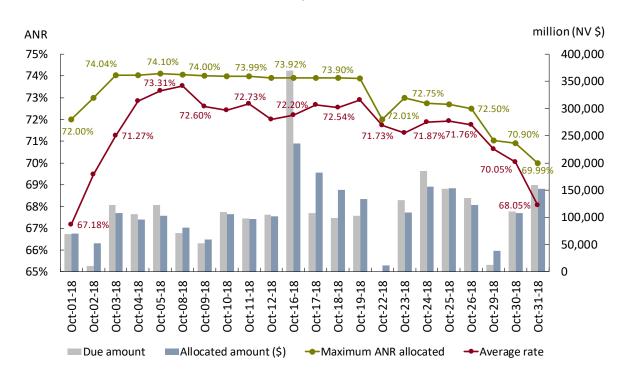


• The target was met in October (-1.5% m.o.m.)



- The challenge to keep an unchanged monetary base (on average) during October was more demanding due to the mid-September increase in reserve requirements.
- Considering this, the decrease was equivalent to one of \$54.7 billion.

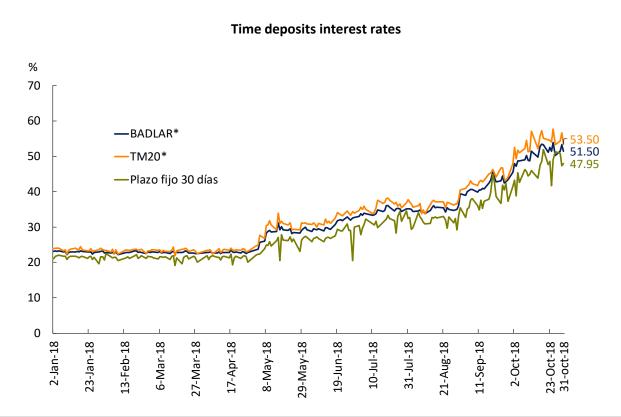
LELIQ Auctions



- LELIQ daily auctions to meet monetary base target.
- The interest rate is set by the market.

NV | Nominal value.

Note: *Includes the auction of LEBAC of 10/16/18 Source | BCRA.



- Time deposit interest rates increased due to catch up to LELIQ's interest rate and to regulatory incentives implemented at the beginning of October.
- Bank competition for time deposits was fostered by changing reserve requirements.

*Private Banks. Source | BCRA.



- The non-intervention zone began on October 1st between 34 and 44 pesos per dollar.
- It is updated on a daily basis, at a monthly growth rate of 3%.
- The peso appreciated in the first weeks of the new plan.

Emerging currencies

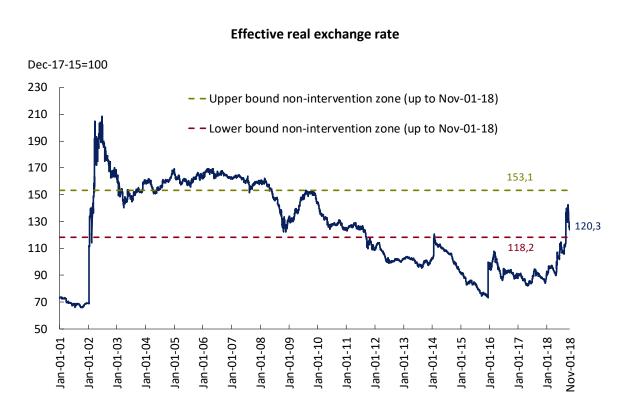
Implementation



• The peso performance has diverged from that of other emerging market currencies.

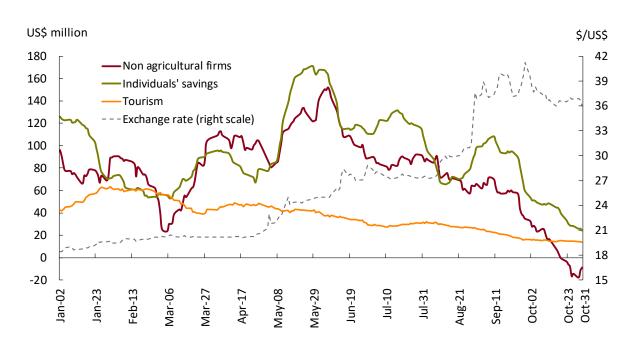
Source | Bloomberg.

- Competitive real exchange rate.
 - The design of the non-intervention zone is consistent with external competitiveness.
- Zero transfers from the BCRA to the Treasury.
 - The 2019 fiscal balance and the 2020 surplus guarantee zero transfers to the Treasury for the next years.
- Stronger balance sheet of the BCRA.
 - The path of BCRA's interest-bearing liabilities is consistent over time.

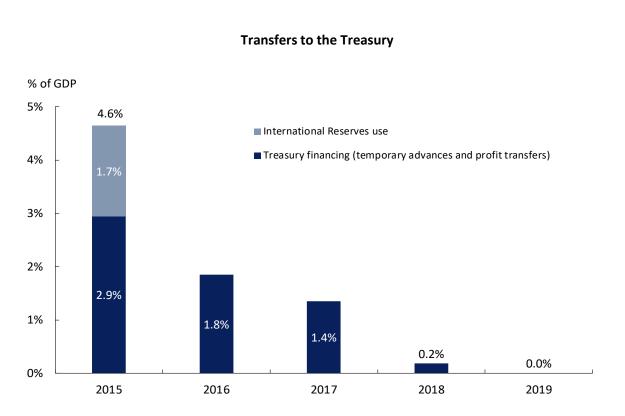


- The monetary plan begins with a competitive real exchange rate.
- It's at 2010 levels.

Net daily purchases in the fx market 2018. 20-day moving average.

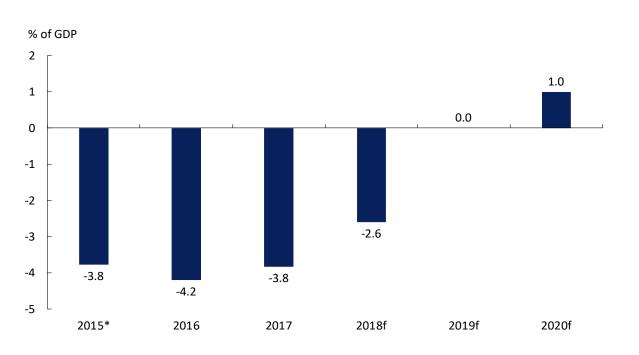


• A more competitive exchange rate reduced individuals and firms' FX demand.



- Monetary base zero growth rate permitted by end of transfers from the BCRA to the Treasury.
- These transfers contributed in the past to the LEBAC growth.

Non-Financial Nacional Public Sector Primary fiscal balance

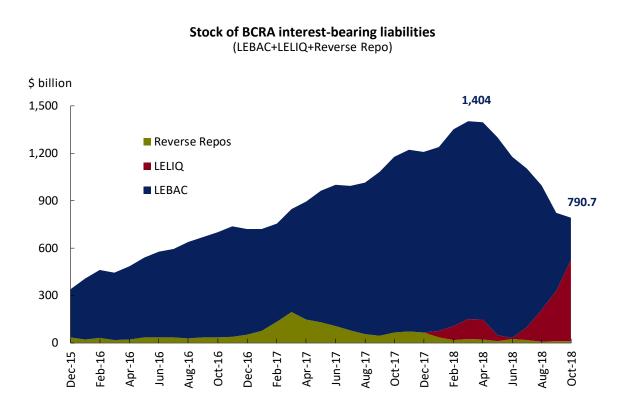


- Zero primary fiscal deficit target for next year is key for the consistency of the plan.
- It allows consistent targeting for a zero growth of the monetary base until June of next year.

Source | Treasury and INDEC.

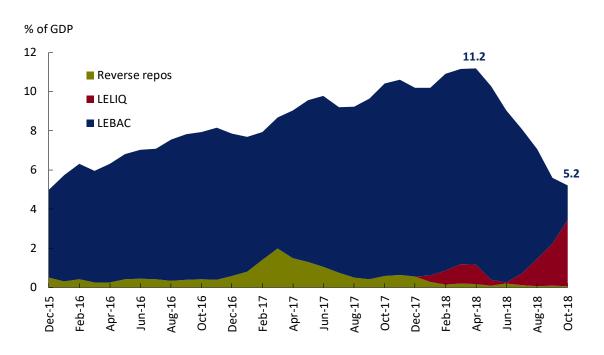
^{*}Does not include 2015 expenses, that were deferred to 2016.

f | Forecast.



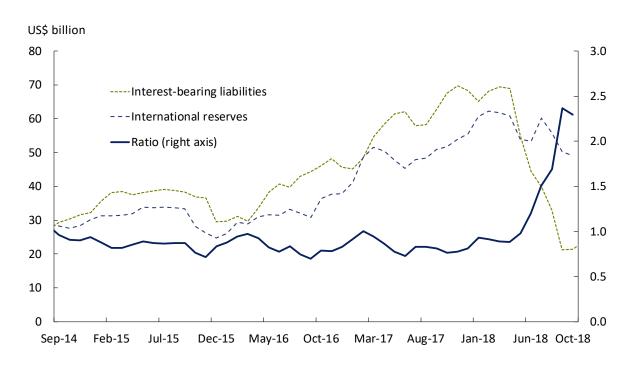
- Interest-bearing liabilities have been reduced even in nominal terms.
- This is a result of the BCRA selling of dollars between April and September.

Stock of interest-bearing liabilities of the BCRA (LEBAC+LELIQ+Reverse Repo)



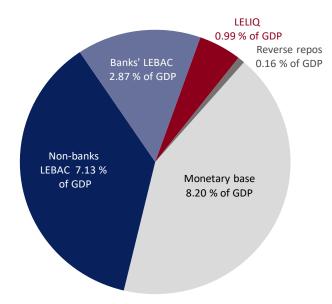
- In an economy with inflation it is even more relevant to compare the evolution of a nominal variable against another nominal variable to capture the real dynamics.
- The drop of interest-bearing liabilities is greater in terms of GDP.

International reserves vs interest-bearing liabilities



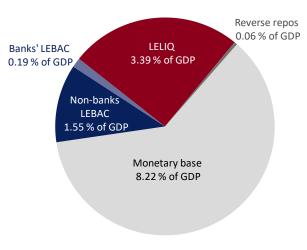
 The coverage ratio between interest-bearing liabilities and international reserves has more than doubled, as a result of the peso depreciation.

Total (April 2018 average) 19.4% of GDP



BCRA interest-bearing liabilities: 11.2% of GDP

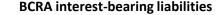
Total (October 2018 average) 13.4% of GDP

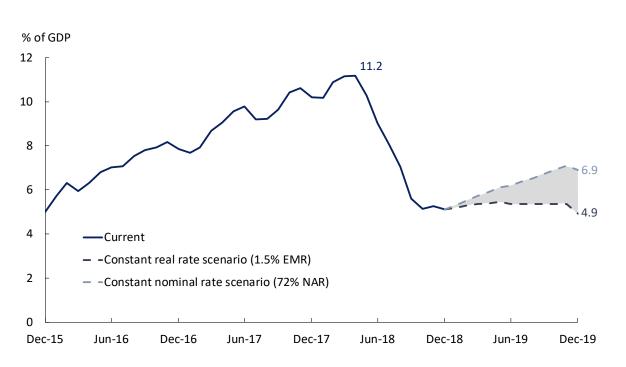


• BCRA liabilities were reduced (in comparison to April), and non interest-bearing liabilities increased its share (monetary base grows from 42% to 61%).

BCRA interest-bearing liabilities:

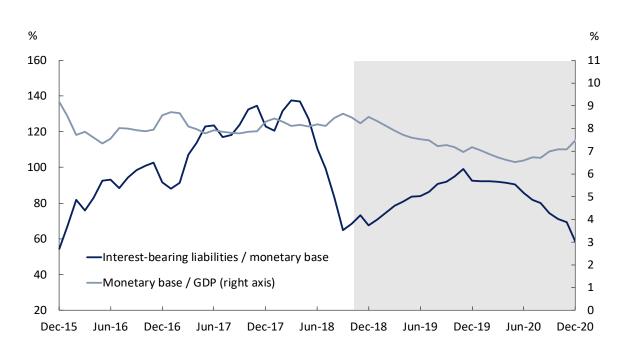
5.2% of GDP





- LELIQ path conditional on alternative assumptions: monthly real rate of 1.5% and an annual nominal rate of 72%.
- In June and December, the nominal monetary base increases due to seasonality, and it grows at 1% per month from July 2019.
- LELIQ/GDP remains significantly below recent levels, even in an extreme scenario.

Monetary base and interest-bearing liabilities



- Progress is made towards 2020 in a scenario that involves a decrease in the nominal interest rate accompanying the disinflation process.
- Conservative assumptions of the increase in the monetary base in 2020 (0.75% monthly, plus seasonality) allow a sharp decrease in the ratio of interest-bearing liabilities to the monetary base.
- In the absence of transfers to the Treasury, the increases in the monetary base must come from the reduction of interestbearing liabilities.

Thank you.









