Dedollarization of the financial sector: lessons from Argentina

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Argentines and the dollar: it is not love, but fear!
Dollarized savings are a big risk!

Dollar savings exposes the holders to the risks of long term real appreciation (in a successful scenario)
So... you want to bring the dollars back and de-dollarize ... yet....

- Dedollarization was not always an objective
- In fact in the 90s the objective was dollarization
- The experience with Convertibility moved the consensus in Argentina away from dollarization
  - Reduces the effectiveness of monetary policy
  - Adjustment of RER more difficult
  - Increases the vulnerabilities of the economy and the financial sector
  - *Requires institutional costs if RER needs to be changed*
After 2001, we developed a trauma with dollars in the financial sector.
A dilemma...

- We want to help dollarization of the financial sector to bring the money back
- We want to de-dollarize to have a better risk properties
- So our view was:
  - Let’s make it easier to use dollars for those for whom operating in dollars is not a risk
  - Let’s try to have better instruments for those that should not be exposed to dollar risk
A redefinition

• So we increased the players that could tap dollar deposits:

  • An agricultural or cattle producer that produces a commodity
  • A supplier to a firm that exports its product (if with a dollar contract)
  • Energy and infrastructure associated to exports (ports, irrigation).
So from a low base...
We saw substantial growth
But the real focus should be in having real positive returns in pesos...

- For this we copied the Chilean model as a shortcut
This balance has allowed to absorb exchange rate volatility
Some final thoughts

• We’ve learned to deal with dollarization in the financial sector
• No need to be black or white on the issue of dollarization in the financial sector
• Prudent behavior requires not allowing for large mismatches to occur
• Key to develop instruments with positive real returns
• If that is taken care of, the system should develop mostly balanced.