

An abstract painting with various colors and shapes, including green, blue, red, and yellow, with bold black outlines. The style is reminiscent of Cubism or Abstract Expressionism.

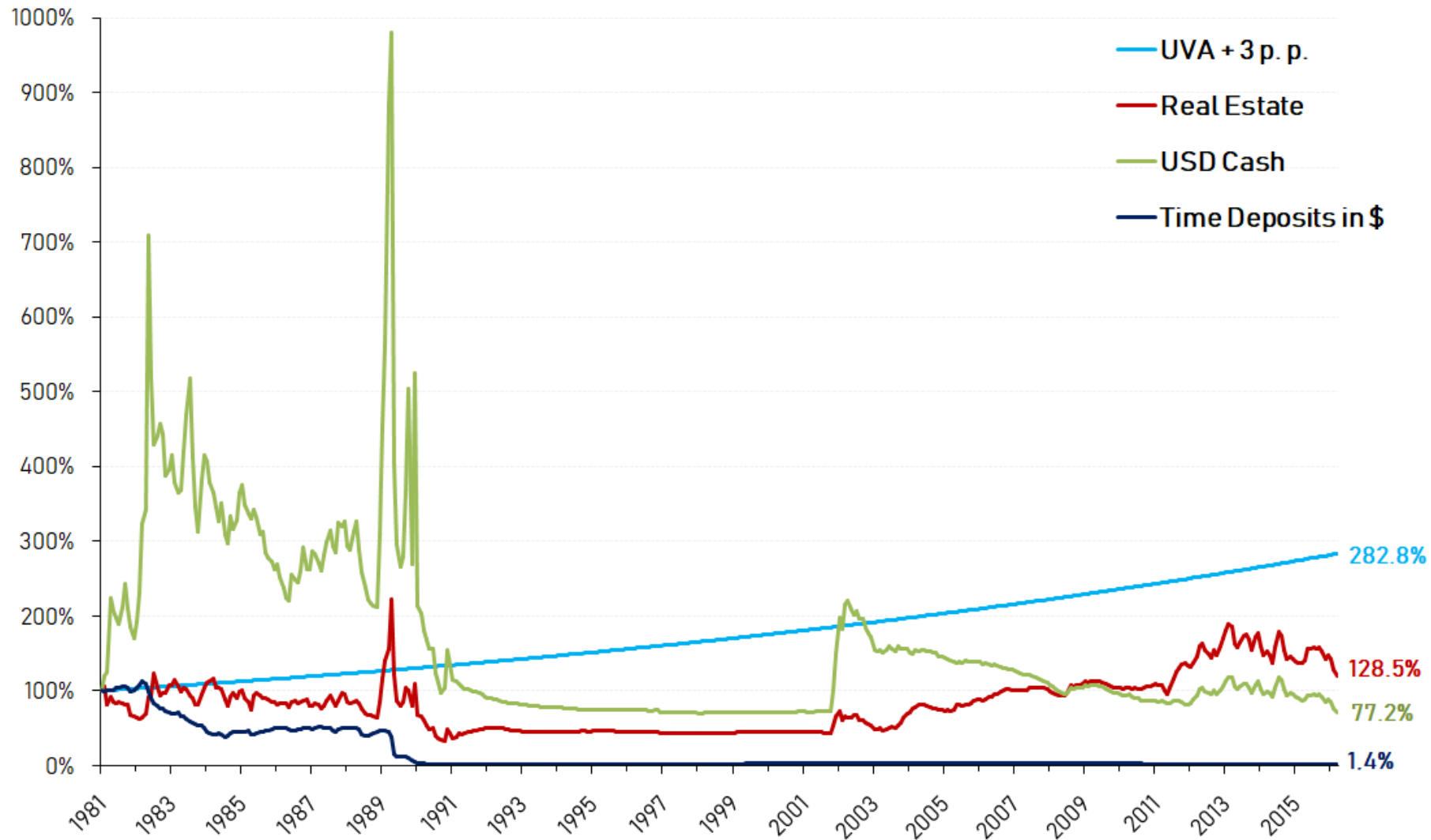
Dedollarization of the financial sector: lessons from Argentina

Cuzco - July 18, 2019



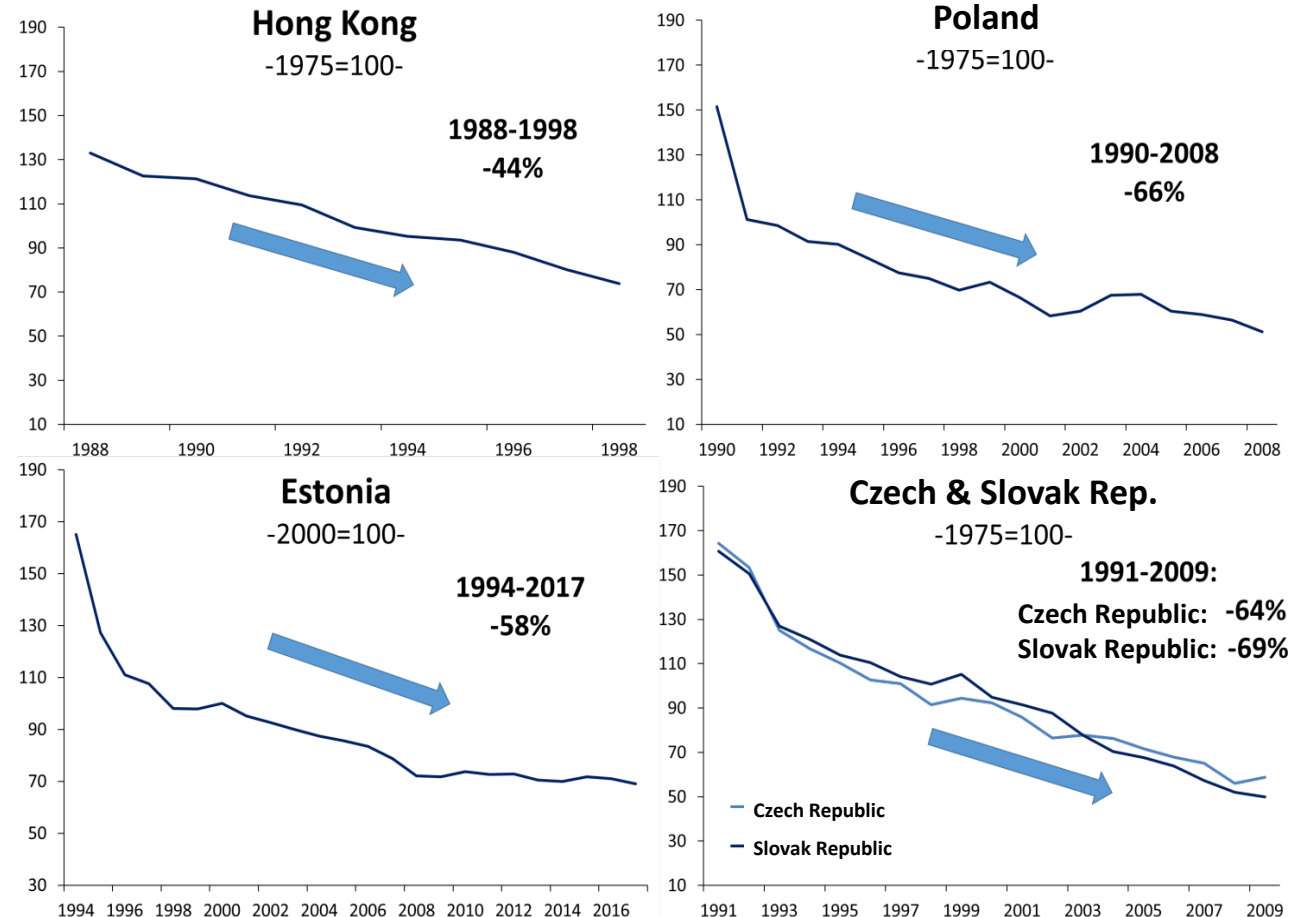
latus view

Argentines and the dollar: it is not love, but fear!



Dollarized savings are a big risk!

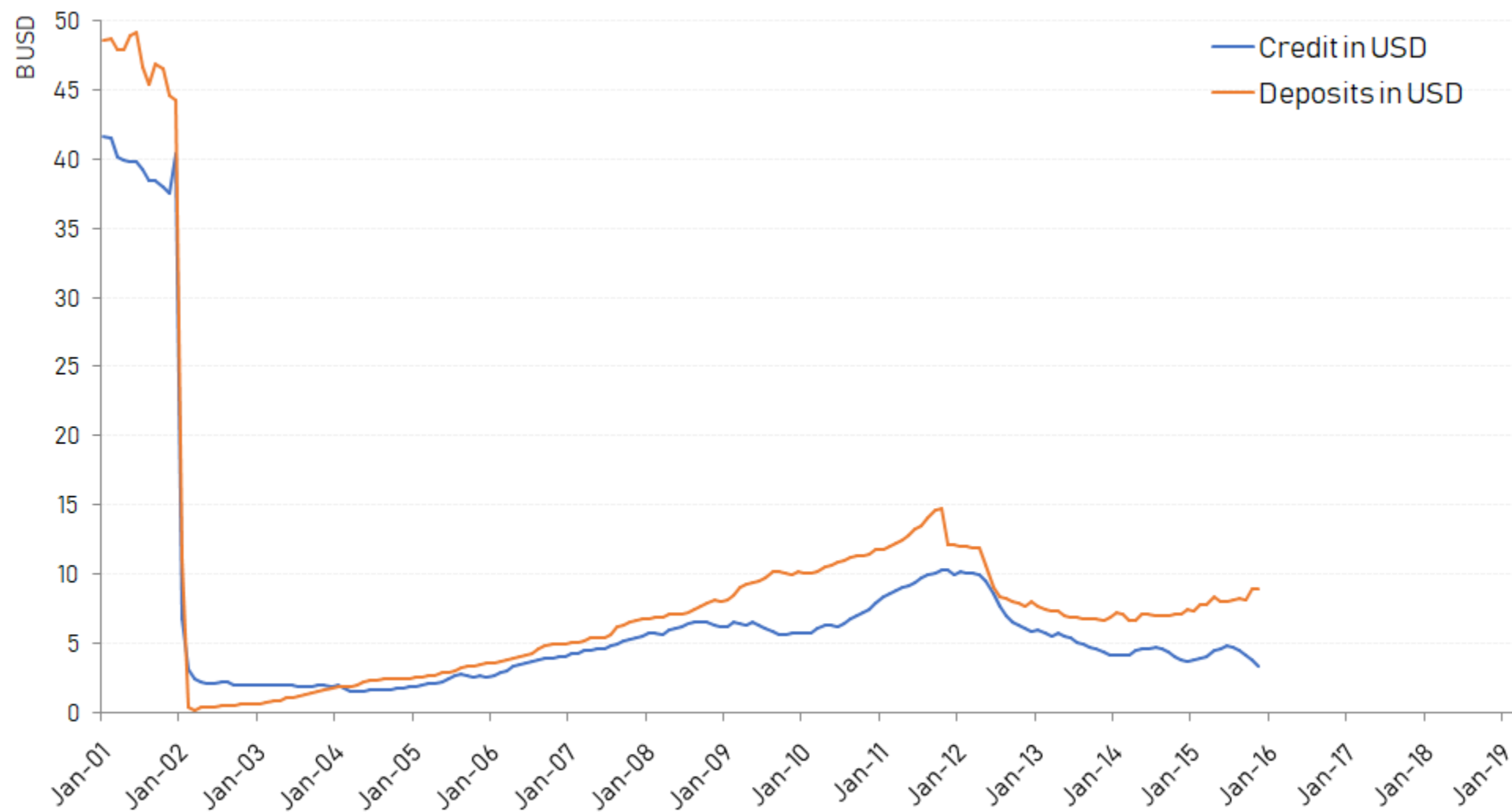
Dollar savings exposes the holders to the risks of long term real appreciation (in a successful scenario)



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



Source: BCRA



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

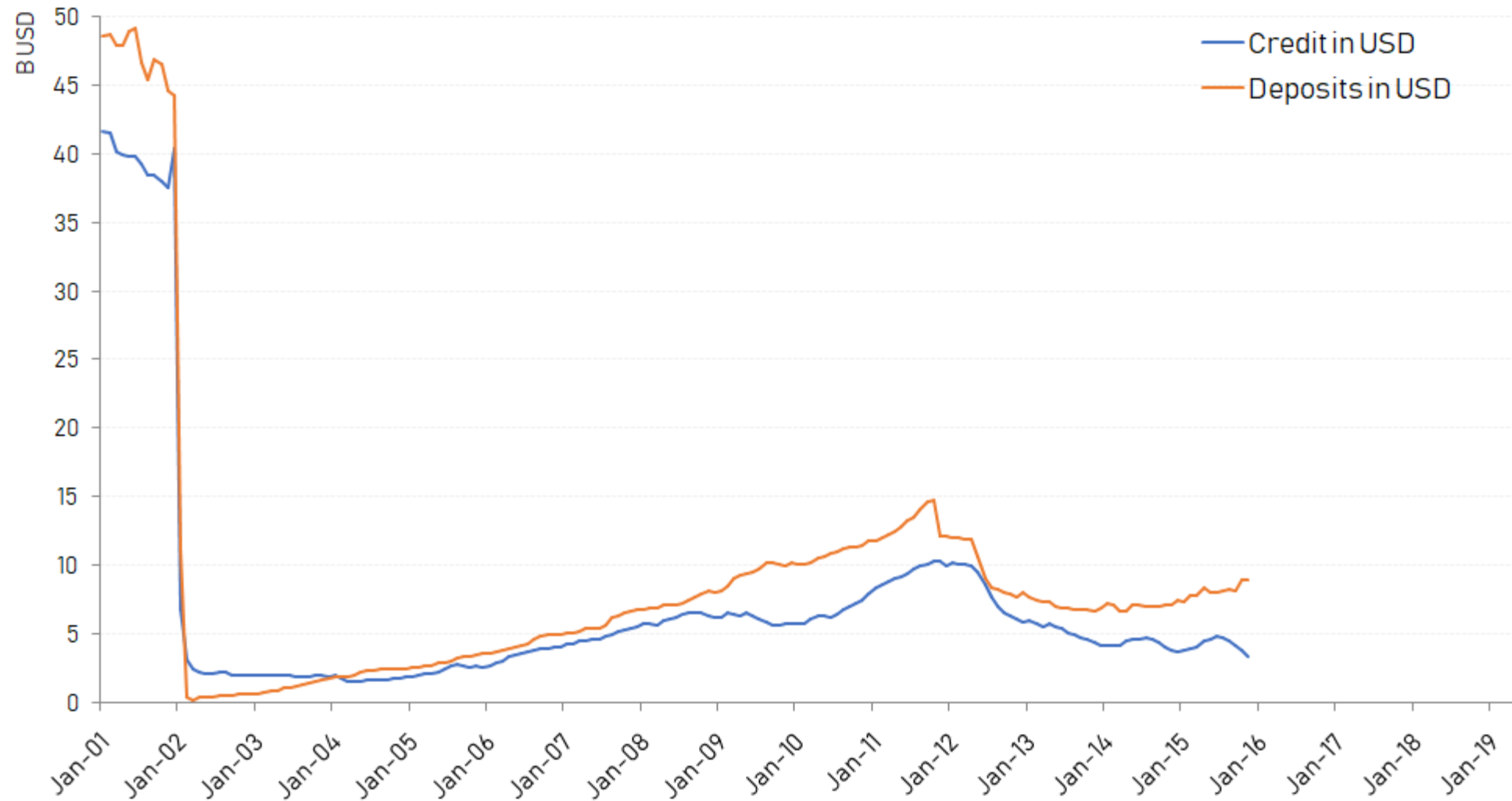


A redefinition

- 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).



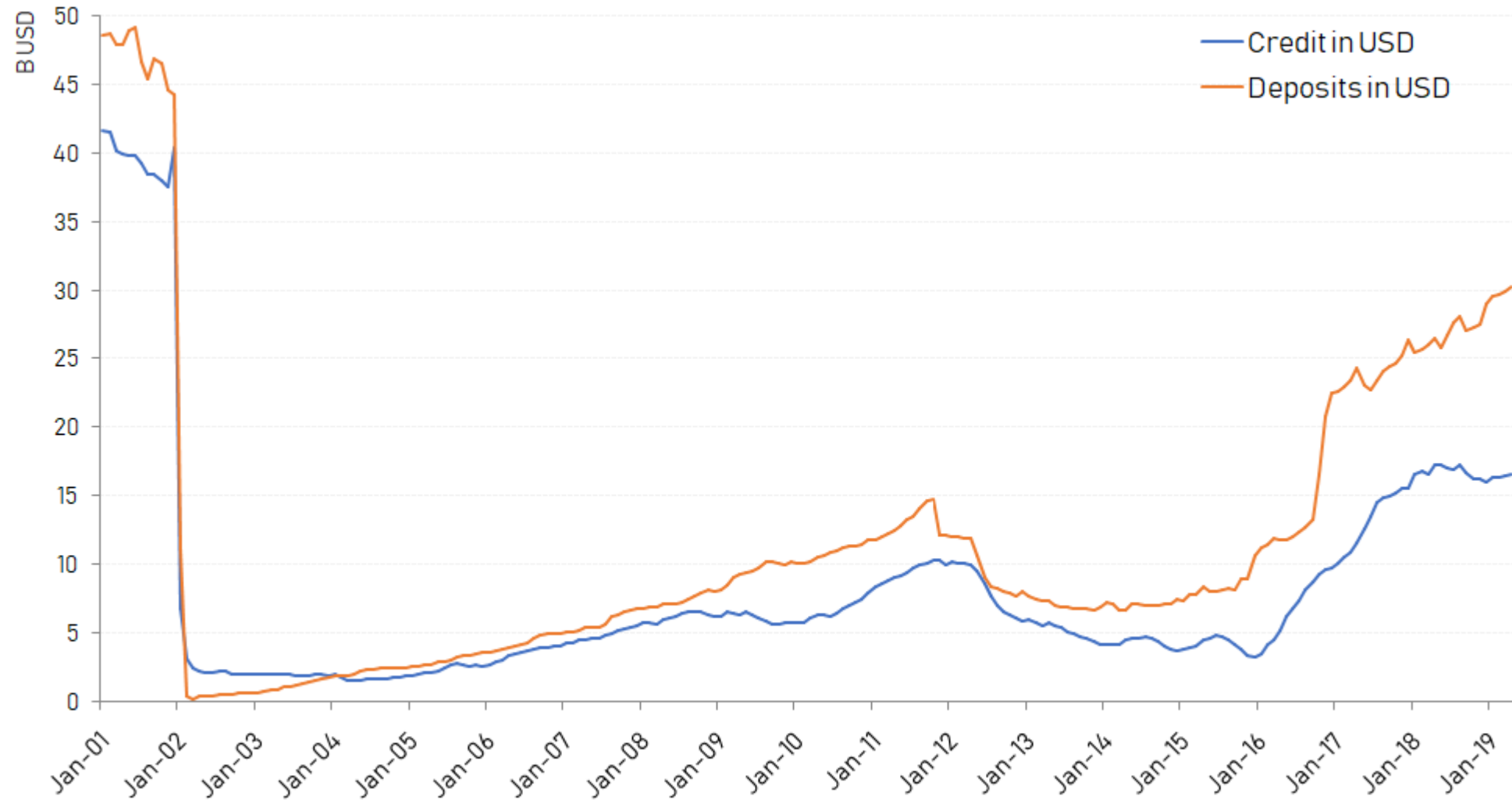
So from a low base...



Source: BCRA



We saw substantial growth

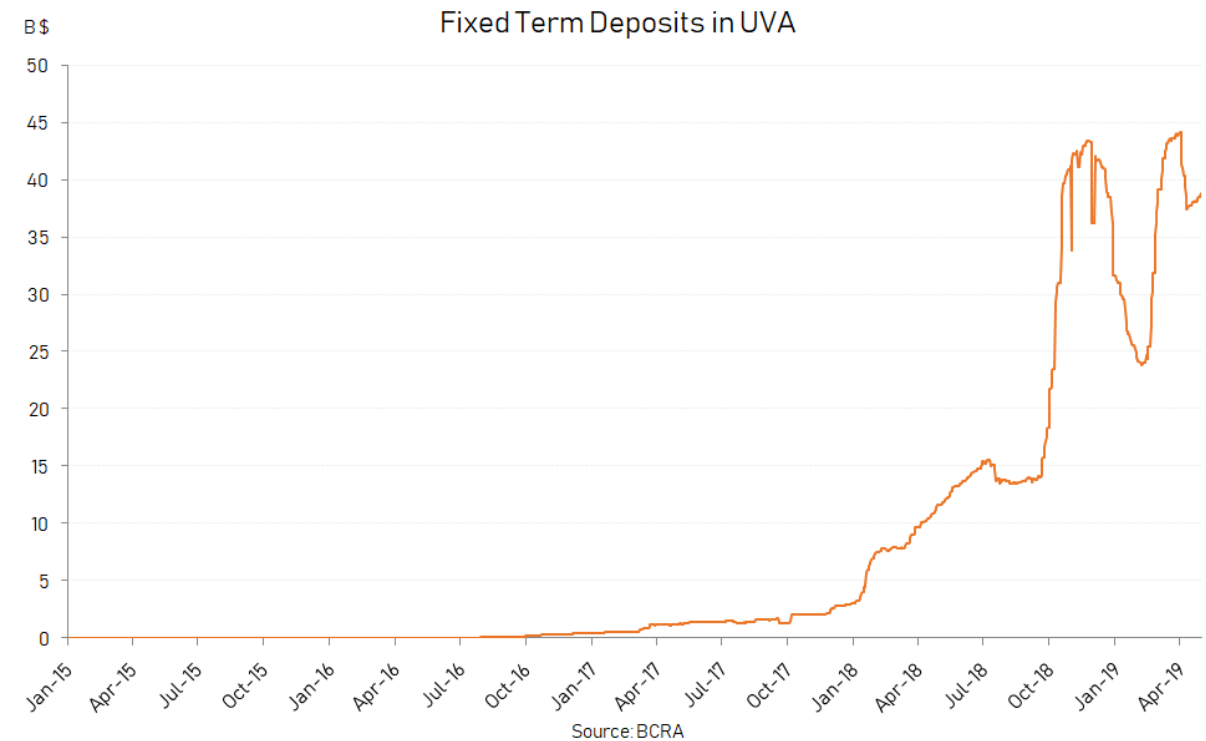
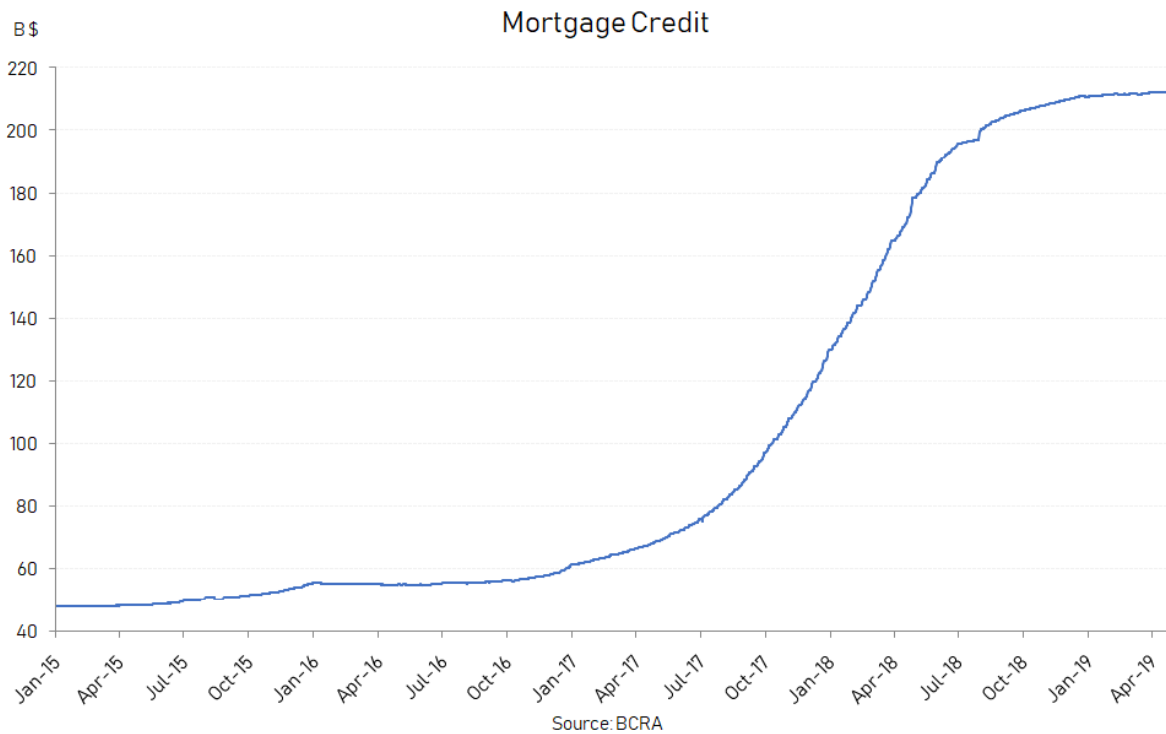


Source: BCRA

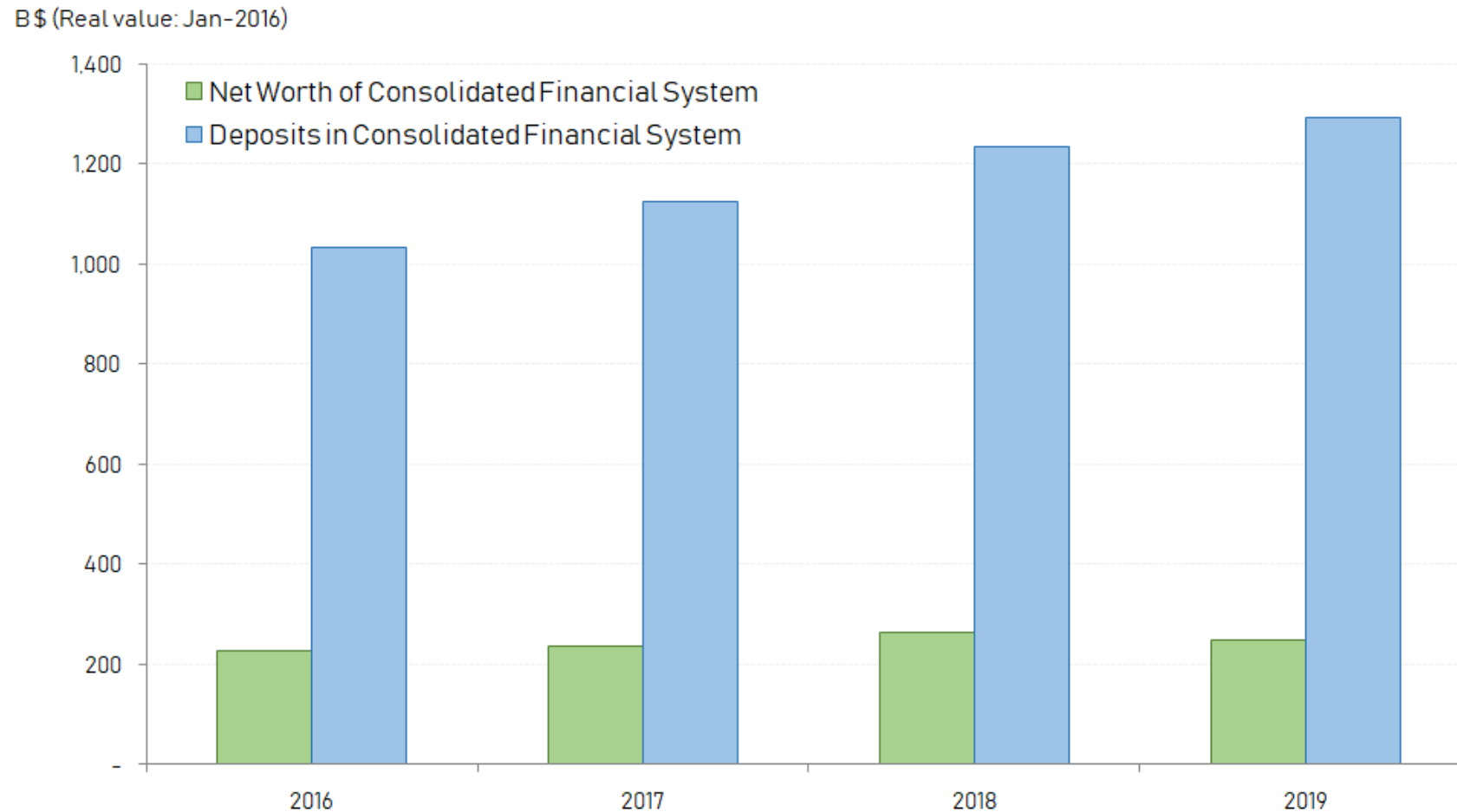


But the real focus should be in having real positive returns in pesos...

- For this we copied the Chilean model as a shortcut



This balance has allowed to absorb exchange rate volatility



Source: BCRA



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.

