



## OXFORD ANALYTICA

# ARGENTINA MONETARY TRANSPARENCY

**Country Report 2006**

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# ARGENTINA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2006	2005	2004	2003
Clarity of roles	●●●	●●●	●●●	●●●
Open decision process	●●●	●●●	●●●	●●●
Availability of information	●●●●	●●●●●	●●●●●	●●●●
Central bank accountability	●●●●	●●●●	●●●●	●●●●
<b>Score</b>	<b>3.50</b>	<b>3.75</b>	<b>3.75</b>	<b>3.50</b>

## OUTLOOK & COMMENTARY

The Central Bank of Argentina (BCRA) will continue to conduct monetary policy within a gradual and flexible framework -- currently based on quantitative targets for monetary aggregates -- in the near future. The introduction of an inflation-targeting mechanism remains unlikely for the time being, although it has not been ruled out. Accumulation of international reserves will continue in 2007, which reached 30 billion US dollars during the past year.

The return to an active monetary policy, after a number of years under a hard peg, has renewed the debate on the relationship between monetary growth and inflation. In this sense, potential inflationary trends due to the combination of a *de facto* semi-fixed exchange rate policy and the accumulation of international reserves should be closely maintained. Even though the banking system has made some progress in terms of capitalisation, the latter should reduce gradually in the next few years and further mergers are likely to occur.

## EXECUTIVE SUMMARY

### 3.50 Enacted

The Central Bank of Argentina (BCRA) regulates the amount of money in circulation, and the level of lending within the economic system, and issues monetary, financial and foreign exchange rules. The duties and objectives of the BCRA are legally established. The BCRA's charter imposes on the central bank the obligation to disclose, before the start of each fiscal year, a monetary programme which includes information on inflation targets and forecasts of total money supply variations. The BCRA is led by a Board of Directors composed of a president, a vice president and eight directors. Board meetings must be called at least once every 15 days, but neither an advance-meeting schedule nor records of the meetings are publicly available.

Even though the BCRA is legally independent from the central government, current monetary policy goals have recently been perceived as imposed by the government. In January this year, the government decided to make an early repayment to the IMF of the country's entire outstanding obligations using central bank reserves, and ten-year Treasury bonds -- with a market interest rate -- have been issued to compensate.

The central bank's main goal is to make significant purchases of US dollars in order to prevent the appreciation of the Argentine peso. The system of 'managed flotation' has allowed the BCRA to keep the exchange rate in line with the government's broad economic policy. However, the lack of information disclosure by the central bank to the markets, and the fact that the reference exchange rate can be changed without any required policy announcement, precludes the consolidation of a fully transparent system. Even though the central bank believes that the accumulation of reserves constitutes a suitable mechanism to reduce the country's external vulnerability, concerns have been raised regarding the inflationary pressures that this strategy could generate in the medium-term. Central bank authorities have indicated that a fully operational inflation targeting system is not the best monetary policy given the country's current position. BCRA's monetary policy is based on quantitative targets for monetary aggregates -- without any real interest rate goal.

The BCRA's system of communication is both efficient and reliable, with regular publications on inflation trends, monetary policy, and financial institutions. Additionally, information on interest rates, monetary aggregates and liquidity, loans, financial indicators, and foreign exchange and capital markets is regularly released. The central bank submits to Congress -- on a quarterly basis -- information on inflation expectations and a *Monetary Policy Progress Report*. The financial system has consolidated in the past year and timely information is publicly available through the BCRA. The BCRA board's efforts now are focused on expanding access to the financial system. Banks have returned to profitability, and credit in pesos from local financial institutions to the private sector grew by 56% between June 2003 and June 2006.

Argentina's overall score has been downgraded from 3.75 in 2005 to 3.50.

## 1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS

●●● Enacted

### The objectives and institutional framework of monetary policy

#### Central bank objectives and responsibilities

The objectives of the Central Bank of Argentina (BCRA) are set out in its charter, Law 24.144 of 1992. Article 3 charges it with preserving the value of legal tender. The BCRA is empowered to regulate the amount of circulating money and the level of lending within the economic system and to issue monetary, financial and exchange rules.<sup>1</sup>

The central bank monitors the performance of the financial market, acts as a financial agent for the state, and acts as depository and agent for the country in its obligations to international monetary and banking entities. The BCRA stores and manages Argentina's gold reserves, foreign exchange and other external assets; it fosters the development of capital markets; and implements the exchange rate policy. The 1991 Convertibility Plan had reformed the exchange rate system, and the central bank's charter. Under the exchange rate reforms, the peso was pegged to the US dollar, the stock of monetary liabilities was tied to central bank foreign exchange reserves, and full convertibility of the peso for both current and capital transactions was established. Prior to the economic crisis of 2001-02, the central bank acted in a similar way to a currency board, leaving monetary policy essentially passive.

In January 2002, after ten years of convertibility arrangements, the central bank regained an active role in monetary policymaking. The BCRA is involved in exchange rate policy as a market maker in determining rules and restrictions. Although predictability and transparency were impaired in 2002 (mainly owing to political circumstances), the disclosure of information on monetary policy has been improving since then.

Under the central bank's charter -- last amended in January 2002 -- BCRA must disclose a monetary programme before the start of the fiscal year, which should include information on inflation targets and forecasts of total money supply variations. This last objective was hampered both in 2002 and 2003 by the amount of provincial bonds in circulation, which undermined the BCRA's control over monetary liquidity. In September 2003, the BCRA charter was modified to reinforce its exclusive powers to issue legal tender. As a consequence, provincial governments can no longer issue bonds to act as quasi-currencies.<sup>2</sup> Quasi-currencies were converted into pesos, allowing the central bank to prepare more accurate forecasts on the country's money supply variations.

#### Operational autonomy

The central bank charter states that it is not subject to any order or instruction given by the country's president as regards the preparation and implementation of monetary and financial policy. Nevertheless, many believe that the central bank's autonomy has remained damaged since 2001, when the BCRA president was forced out and the Ministry of Economy nominated his replacement.<sup>3</sup>

In December 2002, Alfonso Prat-Gay was appointed as BCRA president. As an independent expert, he had a strong commitment to reinforce the BCRA's autonomy and to strengthen its ability to formulate monetary policy. However, in 2004, President Nestor Kirchner decided not to reappoint Prat-Gay, and nominated a former secretary of international economic relations -- Martín Redrado. Since the new BCRA president took office, a comprehensive restructuring of the central bank's executive level has taken place.

Prat-Gay was widely acknowledged for his handling of monetary policy, the gradual introduction of inflation targeting and his efforts to stabilise the banking sector, so the decision to replace him and four other BCRA directors with officials closer to the government raised concern over the central bank's operational autonomy.<sup>4</sup> Since then, there has been unease about the independence of monetary policy goals which are aimed at preventing the appreciation of the Argentine peso against the US dollar.<sup>5</sup>

## **Institutional relationship between monetary and fiscal operations**

### **Lending to government**

During the convertibility years, the BCRA's charter was rewritten to prevent it from financing the non-financial private sector and to limit its scope for providing credit to either the public sector or state-owned banks.

As a general principle, the central bank must not extend loans to the national government, banks, provinces and municipalities. However, following the amendments to its charter in early 2002 and September 2003, there are now exceptions to this principle. The BCRA is now empowered to grant temporary advances to the national government as long as they do not exceed 12% of the monetary base -- which consists of money in circulation plus the financial institutions's demand deposits with the central bank held in current or special accounts. These advances must be reimbursed within twelve months and the only ones that can exceed the 12% monetary base limit are those that are exclusively allocated for payment of obligations to multilateral credit agencies. In addition, the BCRA is allowed to grant advances as long as they do not exceed 10% of the funds obtained by the government in the last 12 months. If they are not repaid, the BCRA is barred from using this facility until reimbursement occurs. Information on the BCRA's loans to the government is publicly available.

In January this year -- earlier than expected -- Argentina paid its entire outstanding obligations to the IMF, amounting to 9.6 billion US dollars. The payment to the IMF was made through BCRA reserves, as the central bank was requested to lend the money to the government. However, in order to avoid breaching its lending limits, the BCRA received in exchange ten-year bonds from the Treasury, with biannual interest payments at an annual rate equivalent to the yield obtained by the BCRA for the placing of its reserves. Some commentators have suggested that the government's disposal of central bank reserves does not exactly reinforce the idea of an independent institution.<sup>6</sup> The government's delay in paying the first instalment has highlighted these sentiments, although no information is available from the government on this issue.<sup>7</sup> Since paying the IMF, the government has been pursuing a strategy of debt repayment without compromising BCRA reserves -- mainly through the issue of new bonds.

### **Central bank involvement in the rest of the economy**

The central bank's involvement in the rest of the economy is minimal. The BCRA is involved only with the banking system -- the Banking Supervisor operates under the BCRA. Most provincial banks have either been privatised or had their size and scope reduced during the 1990s. The *Banco de la Provincia de Buenos Aires* (Bapro), a major non-privatised provincial bank, does not recognise the central bank's authority, claiming that Bapro predates the BCRA and is not subject to its norms.

In line with IMF recommendations, the government has strategically reviewed operations of both Bapro and *Banco Nación* (BN), the two major non-privatised public banks, with the objective of strengthening their roles and functions.<sup>8</sup> The auditing firm for Bapro delivered its report during 2005. The assessment identified several areas to be strengthened to improve Bapro's performance: better risk-assessment and monitoring systems, more efficient loan collection mechanisms, and improvements in governance practices. The *Strengthening and Efficiency Plan for*

*Banco Nación* was conducted and final results were delivered in April this year. This comprehensive review of BN's operations (including its business profile, human resources capabilities, and assessing its insurance, capital markets and pension areas) praised the recovery of the bank's financial position after the crisis.<sup>9</sup> The profile of BN loans to small and medium-size enterprises has been commended. Shortcomings noted in the report include management procedures and client relations.

In the past year, former Bapro directors have been indicted for granting loans to several companies whose executives were arguably linked to the political power base -- loans that could not have been obtained from private banks and that in some cases were not repaid. Controls have been strengthened in order to avoid the recurrence of such 'string-pulling', yet institutionalising these management procedures would be desirable, especially since public banks are increasing their profit margins.<sup>10</sup>

In June 2003, the government introduced a system to control inflows of speculative capital, which is regulated by the BCRA. The measure is designed to curb sharp short-term increases in the quantity of dollars in the market, which have contributed to exchange rate volatility. Decree 285/03 requires that foreign portfolio investments be registered with the BCRA, and remain in the country for a minimum of 180 days. Foreign trade operations, foreign direct investment, and capital repatriated by residents are exempt. The BCRA must establish and apply sanctions in cases of non-compliance. In 2005, Decree 616/05 has further strengthened control of speculative capital, with the aim of limiting speculative capital inflows and averting a further strengthening of the exchange rate.<sup>11</sup> The measure, which does not apply to foreign direct investment, trade finance or investment in primary bond issues, requires 30% of foreign short-term inflows to be held in non-interest-bearing deposits for twelve months. This requirement acts as a tax, deterring short-term capital inflows. Additionally, the BCRA has implemented a system to increase reporting and registration of inward foreign investment -- both of companies and individuals. Information is updated every six months, including movements of capital, revenues and expenditures.

### **Central bank profit allocation**

BCRA's profits (that are not used to increase its capital) must be allocated to the general and special reserve funds, for up to 50% of the BCRA's capital. Once this limit is reached, the profit that has not been capitalised or allocated to reserve funds can be freely transferred to the National Government Account. Losses borne by the central bank during a fiscal year have to be deducted from the reserves made in previous years and, if this is not possible, they must be deducted from BCRA capital. In such cases, the Board of Directors may assign any profits that arise from subsequent fiscal years to restore the capital and reserve levels recorded prior to the original loss.

Detailed information on the Financial System International Reserves and Central Bank Financial Liabilities are publicly disclosed on a daily basis on the central bank's website.<sup>12</sup>

### **Agency roles performed by the central bank on behalf of the government**

Under the terms of its charter, the BCRA charges the National Government Account for the amount of domestic and foreign debt servicing that it carries out, together with any expenses incurred. The central bank assists the Ministry of Economy in placing official borrowings and provides the ministry with detailed information about its performance as the fiscal agent of the state.

There is no legal provision establishing the duties of the BCRA as an advisor to the national government on its relations with international organisations. There is, however, an informal committee of the national government that discusses relations with international organisations, and the president of the BCRA is usually part of this committee.

In the past year, the anti-money laundering legal framework has been strengthened -- including the removal of secrecy without judicial authorization for some investigations conducted by the Financial Information Unit (FIU). However, concerns have been raised over the revision of the FIU legal framework aimed at pursuing money laundering offences. According to Law 26.119, a single director appointed by the President will now head the FIU, and the established council will only have 'consultative status'. Following these legal modifications, investigations could be politically biased.<sup>13</sup>

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



### The framework, instruments and targets of monetary policy

#### Framework and monetary targets

The BCRA must disclose its monetary programme for each fiscal year.<sup>14</sup> The official monetary policy goal during Prat-Gay's central bank presidency was to implement an inflation-targeting mechanism, but this approach has gradually been abandoned. Central bank authorities have indicated that a fully operational inflation-targeting system is not the best suited mechanism for the country's current position -- where a consolidated fiscal policy and a solid financial system are still developing. They have stressed, however, that inflation control is one of the prime objectives of the central bank, whether or not formal inflation targeting is adopted. In addition, the BCRA's president has assured the public that monetary policy is based on quantitative targets for monetary aggregates -- without any real interest rate goal. Monetary policy is conducted within a gradual and flexible framework, in order to encourage saving without affecting the investment environment and avoiding speculative inflows.<sup>15</sup> The BCRA remains committed to establishing an inflation target at the beginning of each fiscal year, in order to foster price stability. However, the Ministry of Economy tightly controls inflation through price controls, diminishing the central bank's role in this area.<sup>16</sup> There is an increasing perception that monetary policy is only structured to defend the government's economic model.<sup>17</sup>

Until 2005, the monetary programme was based on targeting monetary aggregates, but monitoring was focused on the monetary base -- due to the small size of the banking system and scarce credit activity. Means of payment as a share of GDP are in line with other Latin American economies, but are lower than in several emerging economies in Asia and Eastern Europe. Starting this year, the BCRA has decided to change the target for the programme to the means of payment included in the definition of M2 (cash held by the public, current accounts held by the public and private sector in pesos, and savings accounts in pesos of the private and public sector) and this variable has been guiding monetary policy decisions throughout the year.

According to the IMF, monetary policy, while being tightened, remains accommodative. The administrative measures adopted to dampen inflation provide only temporary benefits. Suppressing prices in regulated industries, selective price agreements, and export restraints would ultimately exacerbate capacity constraints in key sectors and undermine the business climate. The Fund has cautioned that delaying the policy response to these issues could significantly increase the economic costs of reducing inflation and may risk leaving the economy vulnerable to shocks.<sup>18</sup>

The current goal of BCRA officials is to build expertise in order to achieve internal consistency. The bank is taking different measures to achieve this, including the training of central bank employees. As of December 2005, the BCRA had a headcount of 2,322 people (including the Superintendence of Financial Institutions and Exchange Bureaus), of whom 60 % were university graduates -- a much higher rate than other public sector officials.<sup>19</sup>

The *Annual Monetary Programmes* are posted on the BCRA's website as soon as they are approved, and are submitted with a detailed assessment of the central bank's performance in the previous period. A monetary programme monitoring system has been established, with periodic reports being published on the BCRA website. The targets of the annual Monetary Programme are followed and updated through quarterly reports. Monetary

programmes are submitted with detailed assessments and comparative tables on the macroeconomic scenario, inflation forecasts, and monetary projections.<sup>20</sup>

### **Monetary instruments**

The current BCRA monetary policy is based on low interest rates, a competitive exchange rate and controlled inflation. The accumulation of international reserves -- currently at around 30 billion US dollars -- is a key element of the economic policy.<sup>21</sup> The accumulation of reserves constitute a suitable mechanism to reduce the country's external vulnerability -- especially since multilateral organisations have lost some credibility as lenders of last resort -- creating an anti-cyclical mechanism and reducing exchange rate volatility. BCRA officials support the current policy, highlighting that it is complemented by the current account surplus, which precludes the accumulation of public debt.<sup>22</sup> The central bank makes use of different monetary instruments for sterilisation purposes.

The BCRA president, in consultation with his advisers and technical staff takes decisions on the exchange rate targets. Even though this is the BCRA official policy, some analysts maintain that the Ministry of Economy has strong influence in these decisions.<sup>23</sup> From a government perspective, maintaining a competitive exchange rate could help to sustain the current trade surplus and stimulate local production and job creation.

The monetary base -- growing since 2004 -- has continued to be the monetary anchor in the past year, within the framework of a 'managed floatation'. According to some analysts, the combination of a *de facto* semi-fixed exchange rate policy -- within a range suggested by the government -- and the accumulation of international reserves is incompatible with plans to keep inflation targets under control and could in the medium term generate inflationary trends.<sup>24</sup> BCRA officials have tried to temper arguments against the current exchange rate policy as a source of inflation, owing to the expansion of the monetary base.<sup>25</sup> Some commentators have suggested that in the future, an administered floatation could be implemented, which would be more coherent than the current policy of intervening in the market to increase reserves and maintain the exchange rate within the government's unofficial target.<sup>26</sup>

Transparency practices in central bank operations play an important role, as annual inflation targets are an important part of the monetary policy framework. The disclosure of goals and indicators is transparent and efficient, and the BCRA website provides high quality and reliable information.

## **The monetary policy-making body**

### **Monetary board**

The BCRA is headed by a Board of Directors composed of a president, a vice president and eight directors, all of whom are appointed by the national president in agreement with the Senate. The composition, structure and functions of this board are clearly specified in the central bank's charter.<sup>27</sup> The minister of economy, or a designated deputy, is permitted to attend and speak at board meetings, although he/she has no voting rights.

The new BCRA board received Senate approval in October 2004. All board members received Senate agreement for the legal period, constituting an improvement from past practices. However, its lack of monetary policy specialists has been a source of criticism. In addition, most of the members are linked to the government in some way or another.

In August 2005, the government, following recommendations from Congress, removed BCRA Director Ricardo Branda from the board. The move was fostered by a judicial ruling accusing nine former government officials and senators -- including Branda -- of giving and receiving bribes. Luis Corsiglia, whose nomination has been approved by Congress, has taken over Branda's position on the Board of Directors until the end of 2007.

The 'Inflation Targeting Committee' (ITC) -- originally established in 2003 to develop inflation targets and forecasting models for inflation-targeting -- is now limited to producing inflation forecasts.

### **Advance meeting schedule**

The president of the BCRA is obliged to call for board meetings at least once every 15 days. Board members typically hold weekly meetings, usually on Thursdays. Neither an advance-meeting schedule nor records of the meetings are publicly available. Moreover, there is no established practice of issuing press releases on decisions taken by the board, although these can be obtained on request through the central bank's offices. Important decisions are reported in the press.

### **Public statements on monetary policy**

The central bank prepares its own macroeconomic forecasts -- placing particular emphasis on monetary projections -- and sometimes seeks to achieve consistency with the forecasts prepared by the Ministry of Economy. Coordination between these two institutions on the most important economic indicators has increased in the past few years. Developments in the main macroeconomic indicators, including time series for prices, output and employment, the external sector, public finance, and monetary and financial variables, are updated on a monthly basis and posted on the central bank's website.

### **Periodic publications**

The BCRA has an efficient and reliable communication strategy, with information publicly available in both Spanish and English. The central bank discloses its *Annual Monetary Programme* report in December each year, which is then monitored through the *Inflation Report*. In addition, the BCRA publishes a monthly *Monetary Report* with information on monetary policy developments and detailed figures regarding its financial position. This report outlines the core objectives of the central bank's monetary policy. Analysis available in the *Monetary Report* provides detail on interest rates, monetary aggregates and liquidity, loans, financial indicators, and foreign exchange and capital markets.<sup>28</sup> Additionally, the *Weekly Monetary Report* provides timely information on the monetary base, international reserves, inflationary trends, and lending activities. Daily figures of the main monetary variables (monetary base, international reserves, deposits, loans and interest rates) are also publicly available.

The *Inflation Report* shows the aggregate supply and demand analysis performed daily by the central bank in order to anticipate inflation trends. The Spanish version of the report is published quarterly on the BCRA website in the third week of January, April, July and October, and is followed by a summary in English. The full-length report is published in English a month later.

### **Public hearings**

The central bank is required to report to parliament on its operations and policies every three months. In addition, the BCRA's press office holds regular meetings with the media to keep the public informed about new policies. The BCRA website also contains information regarding the outcome of the 2005 sovereign debt restructuring programme.

## Regulations on data reporting by financial institutions to the central bank

The BCRA's Superintendence of Financial Institutions and Exchange Bureaus is responsible for maintaining the stability of the financial system and inspecting financial institutions. The monthly *Financial Institutions Report* includes information on financial system profitability, the net worth of private banks, and foreign liabilities. Information on non-performing portfolios and banks' liquid assets level is also publicly available. In the past year, the quality and timeliness of this report improved, allowing for better monitoring of the financial system overall. The comprehensive auditing process of financial institutions undertaken following the 2001-2002 crisis has enabled a better understanding of the strengths and vulnerabilities of the financial sector.

Publicly available information on financial institutions includes assets and liabilities, accumulated income, memorandum accounts, and audit observations. Information on individual financial institutions -- including their balance sheets -- is also available and updated on the central bank's website. Commentators agree that this information is reliable.<sup>29</sup> The financial system portfolio continues to improve. Even though exposure has decreased, judicial claims filed against financial entities after the abandonment of convertibility still represent a source of concern. The Supreme Court has still not issued a conclusive resolution, although a ruling declaring the issue 'abstracted' could be released in the near future, reducing legal insecurity on this issue.<sup>30</sup>

The introduction of Basel II has been informally discussed in the past year, but little progress is expected in the near future. However, efforts are being made to strengthen current operations under the Basel I framework.

The central bank has drawn guidelines setting specific limits on the financial system's exposure to the national, provincial, and municipal public sector. Ceilings have been established according to the financial institution's capital and the relevant public sector jurisdiction. Moreover, a maximum ceiling of 40% of the bank's total assets was enforced since the beginning of this year. Nevertheless, this reduction has been partially offset by increased holdings of BCRA Letters and Notes (LEBACs and NOBACs), issued in order to absorb increases in the monetary base. Banks' stock of LEBACs reflects efforts to sterilise the expansion of the money supply resulting from central bank interventions in the foreign exchange market to prevent further appreciation of the peso. Capital requirements for financial institutions have been gradually increased. Additionally, banks have reduced their foreign exchange exposure by operating almost completely in Argentine pesos. Efforts are currently directed at increasing access to long-term credits and some progress has been made in the past year.

After the 2001-2002 financial crisis, the government's approach has focused on a gradual recovery of the financial system, avoiding comprehensive reforms. Opinions diverge on whether a sustainable recovery is feasible without any in-depth banking reform. To date, banking reform has been mainly market driven, with some banks themselves reforming by reducing their branch networks, or through mergers and acquisitions.<sup>31</sup> Rigidities in the legal framework have complicated this process, and the lack of exit mechanisms for banks remains a problem. However, there is widespread agreement that the banking system -- despite some advances in its capitalisation -- would be consolidated in the next few years, and that further mergers are likely to occur. In order to avoid systemic risks, public banks should be redefined either as commercial banks or should offer specific services with clearer guidelines.<sup>32</sup> In order to allow a steady recovery, banking recapitalisation will be ongoing until 2009.<sup>33</sup> Banks have returned to profitability, and credit in pesos from local financial institutions to the private sector grew a real 56% between June 2003 and June 2006.

Starting in September 2004, the central bank has implemented a compulsory *Transparency Information System* through which financial entities have to publicly disclose information about their products and services. Transaction costs for current accounts, credit cards issuing, electronic transfers, legal specifications to open bank accounts, rates and lending requirements are among the issues that should be publicly disclosed. The rationale behind this system is not only to bring clarity to a previously obscure and complex system, but also to provide comparative data and to

prevent customers from being misinformed about banking charges.<sup>34</sup> About 350 variables are publicly disclosed on a monthly basis through the central bank website. In addition, the BCRA can apply sanctions in case of omission or defective information. This system has increased competence and reduced the costs of banking transactions. All four banking associations have welcomed the central bank initiative, and have prepared a non-mandatory *Best Practice Code* in order to establish clear regulatory procedures for financial institutions. In addition, a self-regulating council has been established.<sup>35</sup>

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●● Compliance in progress

#### Release of central bank data

Argentina subscribes to the IMF Special Data Dissemination Standard (SDDS), and meets its requirements for the release of a range of monetary and fiscal information. Data on the analytical accounts of the central bank are compiled and published. The BCRA website discloses timely information on international reserves, liquidity facilities, monetary base, cash deposits in financial institutions, financial institutions' loans to the private sector, and reference exchange rate. In the past year, the statistical section of the central bank's website has improved, now including information on BCRA's LEBACs, reference stabilisation coefficient (CER), and salary variation coefficient (CVS). In addition, data on monetary, financial, and foreign exchange variables has also improved.

#### The central bank balance sheet

The BCRA is required to publish annual balance sheets and income statements. In addition, it also publishes a weekly summary statement of its assets and liabilities, with a one-week delay. These data are released simultaneously to all interested parties through a *Summary Statement of Assets and Liabilities (Estado Resumido de Activos y Pasivos)* and are available online in both Spanish and English.

The central bank regularly provides information on emergency financial support, international reserves and liquidity, which also is analysed in its annual balance sheets. The central bank's *Annual Report* includes information on loans made to the financial system, contributions to international agencies made on behalf of the national government, temporary advance funds to the national government, and management of international reserves. It also has detailed information on monetary instruments, current accounts in foreign currencies, payments system, and government securities. Publication of the *Annual Report* is a legal requirement, and the report must be submitted to parliament for consideration.

The BCRA accounting records are prepared in accordance with the general principles established by the Superintendence of Financial Institutions and Exchange Bureaus for all financial institutions. The financial statements are comparatively presented with those of the previous fiscal year. Basic financial statements are stated in Argentine pesos.

#### Lender of last resort

Following the 2003 amendments to the central bank's charter, the BCRA has re-established its powers as lender of last resort. The central bank can now finance the government and banking sector, although there are some restrictions and reporting requirements for both roles. In the past year, lender of last resort operations have been exercised within the limits established by the BCRA's charter.

## Public information services

The BCRA's website contains information on diverse matters including the regulatory framework for the financial system; the central bank's *Annual Reports*; descriptions of its operating framework; targets and data on monetary policy, including a daily and monthly *Monetary Report*; economic indicators; regulations; financial and payments systems; text of speeches of past and present officials; economic research papers; seminars and conferences organised by the central bank; financial statements; and an index of available publications.

The user-friendliness of the BCRA website and data reliability are key characteristics of the central bank communication strategy. The website has a 'Latest News' section, allowing timely access to central bank information, including BCRA communications and press releases. The central bank's website includes an advance schedule reporting the dates when the different publications will be available. Most of the central bank's regular reports are now available in both Spanish and English.

The BCRA's monthly and weekly reports contain information on international reserves; the monetary base; foreign currency deposits of financial entities; temporary advances to the government; financial indicators; and interests rates. Information on loans granted to the non-financial sector, public and private sector deposits and foreign lines of credit is also publicly available.<sup>36</sup> Information on banks is provided through the monthly *Financial Institutions Report*. The *Financial Stability Bulletin* available twice a year contains a medium-term outlook of the financial system and an overall assessment of financial stability.

During the past year, the central bank's activity has focused on making significant purchases of US dollars to prevent the appreciation of the Argentine peso, maintaining the exchange rate at around 3.08 pesos per US dollar (up from last year, when the exchange rate was around three pesos per dollar). The system of 'managed flotation' has allowed the BCRA to keep the exchange rate in line with the government's broad economic policy.<sup>37</sup> However, the asymmetry of information between the central bank and the market within this framework, and the fact that the reference exchange rate could be changed without any policy announcement precludes the consolidation of a fully transparent system.<sup>38</sup> The *2006 Monetary Programme* shows the accumulation of US dollars in order to rebuild BCRA's reserves following the early repayment to the IMF. Exchange rates variations are recorded in the monthly *Foreign Exchange Balance Report*.

The BCRA conducts a *Market Expectations Survey* (REM). The REM -- publicly available on a monthly basis -- is based on the main short and medium-term macroeconomic forecasts prepared by independent analysts and consulting firms for the country's economy. The REM acts as a tool to communicate with economic analysts and to keep the public informed about market expectations. Participation in the REM is voluntary and open to all relevant organisations. Approximately 50 organisations currently participate, including universities, research institutions, private consulting firms and investment banks. Around 20 variables have been selected, aiming to reflect price evolution, the level of economic activity, employment trends, external sector forecasts, public finances, and key monetary aggregates. Its participants can update REM's forecasts on a weekly basis through an online system.

An advance release schedule for the REM is publicly available on the central bank website. Information on the REM system has improved, and now includes its methodology, list of participants, and overall results.

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

### Accountability before a designated public authority

Pursuant to the central bank's charter and the Financial Institutions Law, the BCRA president must submit a report to Congress at least once a year. Each report describes the evolution of the economy and the financial system, as well as the main activities performed by the central bank during the period reported. Two reports are usually prepared, one for the first semester and another for the entire calendar year. Annual reports are publicly available on the BCRA's website, but several months after their submission. As of December this year, the 2004 report was the latest available on the BCRA website.

The central bank also submits to Congress quarterly reports on inflation expectations and a *Monetary Policy Progress Report*. On at least one occasion during the parliamentary term, the president of the BCRA is obliged to attend public sessions of the Budget and Treasury Committees of both chambers. In addition, these committees may ask the president to brief them on monetary policy implementation, and foreign exchange and financial policies.<sup>39</sup>

### Financial statement

#### Audited financial statement

The BCRA's financial statements, detailing its revenues and expenses, are published as part of the annual balance sheet. As published on the central bank's website, these sheets meet the auditing requirements set out in the central bank's charter.

#### External and internal audit

Financial statements produced by the central bank are audited by a trustee appointed by the country's president in consultation with the Senate. Moreover, the central bank's charter requires financial statements to be externally audited. Both the internal and the external audit reports are publicly available online.

In addition, the National Audit Office (AGN), a technical advisory body of Congress with functional autonomy, also carries out external audits of the central bank.<sup>40</sup> Annual audits conducted by the AGN are publicly available.

### Conduct of officials

The BCRA has an internal code of conduct that establishes the rights and obligations of its staff. This code is distributed to employees but is not publicly available. In addition, the central bank's charter sets out regulations for members of the Board of Directors in order to prevent conflicts of interest.<sup>41</sup> Officials at managerial level or above must report yearly to the Anti-Corruption Office about their income and expenses.

According to BCRA officials, the lack of legal protection for central bank directors has adversely affected their legitimate performance. This has always been a politically sensitive issue, as protection is generally perceived as impunity. Under the terms of the Financial Institutions Law, central bank officials have a certain degree of legal

protection, even though their decisions can still be challenged in court.<sup>42</sup> However, the provision does not grant complete legal immunity.<sup>43</sup>

## **INTERVIEWS**

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Argentina between 13 and 17 November 2006:

### **Central Bank of Argentina**

#### **17 November 2006**

George McCandless	Deputy Manager	Economic and Financial Research Department
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### **Ministry of Economy (MEcon)**

#### **13 November 2006**

Mario Saccone	Senior Analyst	National Budget Office
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### **ADDITIONAL INTERVIEWS**

#### **13 November 2006**

Ernesto Ramirez Rigo	Resident Representative	International Monetary Fund
Luciana Diaz Frers	Fiscal Policy Department Director	Centre for the Implementation of Public Policies Promoting Equity and Growth
Paula Gosis	Research Fellow	Latin American Faculty of Social Sciences (FLACSO)

#### **15 November 2006**

Sergio Berensztein	Professor	University Torcuato Di Tella
Tom Scheetz	Independent Consultant	UNDP/Oxford Analytica
Martín Kanenguiser	Journalist	<i>La Nación</i> Newspaper

#### **16 November 2006**

Laura Alonso	Executive Director	Citizen Power Foundation - Argentine Chapter of Transparency International
Daniel Oks	Consultant	World Bank Regional Delegation

#### **17 November 2006**

Adrián Pérez	Deputy	National Congress
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## NOTES

<sup>1</sup> Central Bank Charter, Chapter I, available at: [www.bcra.gov.ar](http://www.bcra.gov.ar)

<sup>2</sup> Central Bank Charter, Article 30, modified by Law 25.780.

<sup>3</sup> Interviews in Argentina, 13-17 November 2006.

<sup>4</sup> It should be noted that Prat-Gay was only appointed to complete a six-year period started in 1998. Consequently, his mandate legally finished in September 2004. In this sense, the decision not to re-appoint him was not in violation of BCRA autonomy, with Prat-Gay's successor nominated under the established procedures. However, given Prat-Gay's competence in handling monetary policy in a particularly difficult period, BCRA changes appeared motivated by political rather than technical reasons. Prat-Gay had some public disputes with Kirchner over exchange rate policy, and a series of disagreements with the Ministry of Economy.

<sup>5</sup> In the present scenario of fiscal surplus, the government can rely on various different sources of financing. However, in times of fiscal shortfalls or deficits, the central bank's autonomy and its policy towards financing the government becomes highly sensitive.

<sup>6</sup> Interviews in Argentina, 13-17 November 2006.

<sup>7</sup> The payment of these instalments will be closely followed by the country's creditors because if they are cancelled outside the established deadlines, it could be inferred that they belong to the Treasury rather than to the central bank. If an interpretation of this kind is allowed -- thus concluding that reserves do not exactly belong to the BCRA because the government can make a free disposal of them -- the money could eventually be confiscated through judicial challenge.

<sup>8</sup> Due diligence procedures have been established for both Bapro and BN.

<sup>9</sup> The increased reserves of BN could be use by the government in case of financial emergency or serious liquidity problems.

<sup>10</sup> Interviews in Argentina, 13-17 November 2006.

<sup>11</sup> Economic recovery and the completion of the debt restructuring process during 2005 have encouraged a sharp rise in capital inflows, rendering it increasingly difficult to maintain a competitive exchange rate to sustain recovery.

<sup>12</sup> Central Bank of Argentina website, available at: [www.bcra.gov.ar](http://www.bcra.gov.ar)

<sup>13</sup> Interviews in Argentina, 13-17 November 2006.

<sup>14</sup> From 1991 until 2002, Argentina's institutional arrangements curtailed the central bank's monetary policy role. However, following the 2001-2002 economic crisis, several changes in the central bank's charter have been introduced, granting the BCRA broader monetary policy powers.

<sup>15</sup> The BCRA uses monetary aggregates as monetary policy instruments' -- rather than signalling the bias of monetary policy through the interest rate -- because the choice between prices (interest rate) or quantities (monetary aggregates) is based on the relationship between the velocity of money and the volatility of the real interest rate. If the demand for money is very unstable (that is, if velocity is very volatile), exercising control over the demand for money produces too much interest rate volatility. 'Money and Banking Seminar-Concluding remarks by Martin Redrado (President of the BCRA)', June 2006, available at: [www.bcra.gov.ar/eventos/ev160200\\_i.asp](http://www.bcra.gov.ar/eventos/ev160200_i.asp)

<sup>16</sup> Official inflation figures are calculated exclusively on the basis of a limited basket of goods and services subject to government-imposed price controls. Inflation outside this basket is substantially higher.

<sup>17</sup> Interviews in Argentina, 13-17 November 2006.

<sup>18</sup> 'IMF Executive Board Concludes Article IV Consultation with Argentina', IMF Public Information Notice 06/93, July 2006, available at: [www.imf.org](http://www.imf.org)

<sup>19</sup> Still, concerns have been raised regarding the increase of high ranking BCRA officials in the past years, without a competitive recruitment process.

<sup>20</sup> Recent monetary programmes have been aimed at sustaining the currency competitiveness, increasing central bank's international reserves, the strengthening of the financial system and the re-establishment of long-term credit. Monetary policy remains committed to the continuous consolidation of the financial system, promoting both financial stability and the increase of long-term credit.

<sup>21</sup> Some analysts have suggested that 30 billion US dollars is the recommended figure of reserves, given the size of the Argentinean economy. International reserves have recovered the January's early repurchase of amounts outstanding to the Fund. However, an important amount of bonds have been issued to achieve this goal -- in some cases at an interest rate of 9.0%, about twice the rate applicable to the IMF loan paid off in January.

<sup>22</sup> The BCRA study '*The economic policy of accumulation of reserves: new international evidence*' (La política económica de la acumulación de reservas: nueva evidencia internacional), released in August this year supports these ideas, and is publicly available at the central bank website.

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<sup>23</sup> Interviews in Argentina, 13-17 November 2006.

<sup>24</sup> Interviews in Argentina, 13-17 November 2006.

<sup>25</sup> In the last three years, the monetary base has expanded at an average annual rate of 23%. The expansionary monetary policy (reflected in negative real interest rates) is widely considered to be behind the surge in inflation, which rose from 3.7% in 2003 to 12.3% in 2005. This viewpoint is not shared by the government, which believes that recent inflation rates are largely accounted for by the recovery of non-tradable goods prices (now rising owing to the recovery of domestic consumption), and by firm international commodities prices (which affect the price of some basic goods such as food).

<sup>26</sup> Interviews in Argentina, 13-17 November 2006.

<sup>27</sup> Article 7 of the Central Bank Charter allows the reappointment of the president, vice-president and directors.

<sup>28</sup> *Monthly Monetary Reports*, available at: [www.bcra.gov.ar/polmon/pm020000\\_i.asp](http://www.bcra.gov.ar/polmon/pm020000_i.asp)

<sup>29</sup> Interviews in Argentina, 13-17 November 2006.

<sup>30</sup> Lawsuits presented by savers whose dollar deposits were forcibly converted to pesos at a rate of 1.40 to the dollar in 2002 allowed many to recover their deposits at the market exchange rate. Banks were forced to assume the losses arising from the difference between the official exchange rate of 1.40 and the market rate. Legal security has not been strengthened following October's 2004 Supreme Court decision that the 'pesoisation' of dollar deposits in 2002 was constitutional.

<sup>31</sup> There were around 200 banks in the late 1980s. In contrast, there are 90 banks currently operating.

<sup>32</sup> Interviews in Argentina, 13-17 November 2006.

<sup>33</sup> The Financial System Restructuring Unit -- created in 2002 in order to determine which banks could be granted up to ten years to pay their debts to the BCRA arising from rediscounts or advances received during the 2001-02 crisis - - could never start operating owing to the lack of agreement between the central bank and the Ministry of Economy. Instead, informal talks on the strategy for restructuring the financial system have been preferred.

<sup>34</sup> Financial analysts have praised the availability of comprehensive and clear information through the *Transparency Information System* as an important tool from a consumer perspective.

<sup>35</sup> Information on the self-Regulating council and *Best Practice Code*, available at: [www.cacpb.org](http://www.cacpb.org)

<sup>36</sup> Daily figures information, available at: [www.bcra.gov.ar/polmon/pm020100\\_i.asp](http://www.bcra.gov.ar/polmon/pm020100_i.asp)

<sup>37</sup> The government's economic policy is based on high exchange rates in order to boost the country's exports and keep the economy competitive within an international framework. In line with this, a lower exchange rate would increase imports that in turn could affect national production.

<sup>38</sup> Interviews in Argentina, 13-17 November 2006. In its 2005 Article IV report, the IMF also called for a greater degree of nominal exchange rate flexibility, while noting that the government's foreign exchange market intervention policy should be transparent.

<sup>39</sup> Central Bank Charter, Article 10.

<sup>40</sup> Central Bank Charter, Article 40, modified by Law 25.780.

<sup>41</sup> Central Bank Charter, Article 8.

<sup>42</sup> Financial Institutions Law, Article 35, as amended by Law 25.780 of September 2003.

<sup>43</sup> Some legal specialists believe that its ambiguity could enable future judicial prosecutions of central bank officials for the legitimate performance of duties. No banks have been closed by the BCRA since the economic crisis, as bank closure could lead to lawsuits against directors as individuals.