

## Chapter 10

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# ARGENTINA'S COUNTERCYCLICAL CREDIT POLICY RESPONSE: MACROPRUDENTIAL REGULATION AND PUBLIC BANK CREDIT DURING COVID-19

**T**his chapter analyzes the countercyclical credit policy response in Argentina due to the Covid-19 pandemic. Specifically, the macroprudential regulations implemented by the Central Bank of Argentina (BCRA) to stimulate bank credits to micro-, small- and medium-sized enterprises (MSMEs) is examined. In addition, the specific credit response of the state-owned commercial bank, the Banco de la Nación Argentina (BNA), the biggest commercial bank in Argentina, is also scrutinized.

## INTRODUCTION

In this chapter, I analyze the countercyclical credit policy response in Argentina due to the Covid-19 pandemic. Specifically, I focus on studying the new credit lines to micro-, small- and medium-sized enterprises (MSMEs) that were put in place in Argentina in March 2020. The end date of this analysis is August 2020. Several other credit pro-

grammes and financial supports are being granted to individuals and enterprises in Argentina, but these are not analyzed here.<sup>1</sup>

I first examine the macroprudential regulations implemented by the Central Bank of Argentina (BCRA) to stimulate bank credits to MSMEs. I then present some figures for these credits for the entire banking system. Finally, I analyze some of the specific conditions and requirements for these new credit lines offered by the state-owned commercial bank, the Banco de la Nación Argentina (BNA), the biggest commercial bank in Argentina.

The reaction of the Argentinean authorities to the Covid-19 pandemic has been swift. There was a substantial disbursement of new credit lines to MSMEs until August 2020 of around US\$5.25 billion, equivalent to 1.45% of Argentina's Gross Domestic Product (GDP) in 2019. This countercyclical credit policy response has been possible thanks to the macroprudential regulations of the BCRA and the cooperation of both public and private banks, in particular the state-owned commercial bank BNA, given its large size in the banking sector (19%). Evidently, the credit needs from the Covid-19 pandemic by MSMEs are very large and the public banking sector is not large enough to face these credit needs on its own.

## MACROPRUDENTIAL REGULATION BY THE BCRA

Early in the Covid-19 pandemic outbreak, Argentina's monetary authority – the BCRA – put in place several macroprudential regulations to increase the credit supply to MSMEs. Specifically, in March 2020, the macroprudential regulations ruled that commercial banks would obtain several benefits, in terms of their reserve requirements and

<sup>1</sup> Besides the MSMEs' credits, the most important financial support programmes are the Ingreso Familiar de Emergencia (IFE), which focus on the unemployed and low wage earners, and the Programa de Asistencia de Emergencia al Trabajo y la Producción (ATP), which provides financial assistance to companies for paying salaries and zero interest credits to self-employed workers. For a list of additional financial support for MSMEs see MPD (2020).

other liquidity regulations, if they granted bank credits to MSMEs at a nominal annual interest rate of 24% (BCRA 2020a). Note that the nominal interest rate of 24% is negative in real terms because current annual inflation is 42.4% and the expected annual inflation rate by the end of the year is 31%. The MSMEs can use these funds for working capital, paying salaries and paying deferred checks.

Regarding the benefits to public and private commercial banks, it was ruled that there would be a reduction in the reserve requirements by an amount equal to 40% of the granted MSMEs credits. Because most of the reserve requirements in Argentina involve central bank deposits that pay no interest rate, the reduction in the reserve requirements means that banks can hold a higher proportion of interest paying assets. Thus, this macroprudential regulation stimulates MSMEs' credits.

Regarding the other liquidity regulations, it was ruled that the central bank bill holdings by banks would be reduced if they did not increase the granting of MSME credits. Note that, in Argentina, there are limits to banks' holdings of central bank bills (Leliqs), which are bills with a maturity of 28 days, issued by the BCRA and that pay a nominal annual interest rate of 38% (BCRA 2020b). The alternative for banks that want to hold highly liquid and short-term assets is to hold one day repos with the BCRA that pay a nominal annual interest rate of 19%, which is clearly a negative interest rate. In addition, they could also hold treasury bills with an annual interest rate of between 26% and 29%. Thus, this interest rate differential for the assets holdings of banks stimulated MSME credits.

The macroprudential regulations were further strengthened in June 2020, when it was ruled that it was mandatory for both private and public banks to lend to MSMEs that had received a special guarantee by the Ministry of Productive Development, through the Fondo de Garantía Argentino (FOGAR) (BCRA 2020c). In addition, banks were not only allowed to lend to MSMEs but also to both private and public hospitals, clinics and other health providers, which

used the credit to buy health supplies and equipment, and to other large private companies that used the credit to buy machinery and equipment produced by MSMEs.

The total number of MSME credits granted by the whole banking sector up to the third week of August 2020 was 241,000 and the total disbursements were AR\$390 billion (Argentine pesos) (equivalent to around US\$5.25 billion), equivalent to 1.45% of Argentina's 2019 GDP (BCRA 2020d). A total of 13% of those disbursements were made to MSME credits that had a FOGAR guarantee. In addition, the usage of the total disbursements was distributed as follows: 47% for working capital; 30% to cover deferred checks; 17% for salary payments; 2% health supplies and equipment; and 4% for other needs. In addition, 40% of the total disbursements were granted by private domestic-owned banks, 32% by foreign-owned banks and 28% by state-owned banks.

## **CONDITIONS AND REQUIREMENTS OF MSME CREDIT LINES BY THE BANCO DE LA NACIÓN ARGENTINA**

The Banco de la Nación Argentina (BNA) is Argentina's largest commercial bank, with total assets of US\$22 billion, which represent 19% of the entire banking system. It has 639 bank branches across the country and is owned by the national government. Its total loans participation in the banking system is 17.7% and its total deposits participation is 22%.

BNA implemented five different credit lines related to the MSMEs' credits mandated by the macroprudential regulation of the BCRA, analyzed above (BNA 2020).<sup>2</sup> All of these credit lines offer a fixed nominal interest rate of 24% and are AR\$ (Argentine pesos)

<sup>2</sup> Note that these five different credit lines follow what was specified by the macroprudential regulation of the BCRA. There is no official information on whether the other banks in Argentina offered all these five credit lines or only a subset of them. As discussed below, from visiting the webpages of several banks, the BNA was the only one that had clear and thorough information on the different credit lines.

denominated. However, they have different conditions and requirements, which are analyzed below. The five credit lines are:

**1. Credit line for MSMEs (Línea de asistencia a MiPyMES para Capital de Trabajo – Gastos de Evolución):**

This credit line is for MSMEs from all economic sectors. The usage of the funds is for working capital. The maximum amount of the credit is up to two and a half months of sales. The term of the credit is 18 months with the German amortization system,<sup>3</sup> with monthly, quarterly or biannual payments of capital and interests. In the case of a guarantee from a Mutual Guarantee Society, the term of the credit is 24 months. This credit line requires sufficient guarantees accepted by the bank.

**2. Credit line for homeworking (Teletrabajo):**

This credit line is for MSMEs from all economic sectors. The usage of the funds is for buying goods and installation services, that are necessary, for both the enterprise and its workers, for homeworking and home offices. The maximum amount of the credit is up to AR\$3,000,000 (US\$40,500). The term of the credit is 36 months with the German amortization system, with biannual payments of capital and interests. This credit line requires sufficient guarantees accepted by the bank.

**3. Credit line for salary payments with guarantee by FOGAR (Pago de Haberes con aval de FOGAR):**

This credit line is for MSMEs from all economic sectors that are clients of BNA with a salary payment agreement. The usage of the funds is for salary payments. The maximum amount of the credit is one payroll. The term of the credit is 12 months with the German

<sup>3</sup> The German amortization system is characterized by constant instalments in each period of time, except for the first installment, which is related to the interest paid in advance. The interest decreases as loan periods pass and the amortized capital increases over the life of the loan.

amortization system, with quarterly payments of capital and interests. This credit line has the guarantee of FOGAR.

#### **4. Credit line for work cooperatives (Asistencia a Cooperativas de trabajo):**

This credit line is specially orientated to work cooperatives that are registered in the National Institute of Social Economy (INAES) or have a MSME certification. The usage of the funds is for working capital. The maximum amount of the credit is established for each cooperative by the INAES. The term of the credit is 15 months. This credit line has the guarantee by FOGAR.

#### **5. Credit line SMEs plus (Pyme Plus):**

This credit line is for all micro- and small-sized enterprises that have no credit with the banking system. The usage of the funds is for working capital. The maximum amount of the credit is AR\$250,000 (US\$3,380) for micro enterprises and AR\$500,000 (US\$6,760) for small enterprises. The term of the credit is 12 months with the German amortization system, with quarterly payments of capital and interest. This credit line has the guarantee by FOGAR.

Although there are no official figures yet about the total disbursements of the new credit lines to MSMEs by the BNA, the Asociación de Bancos de la Argentina (Adeba) estimated that, by April 2020, the total disbursements by the BNA were AR\$21,828 million. This represented 15.5% of the total disbursements by all banks at that time. The BNA was the second bank, after Banco Galicia (18.4%), that disbursed the most at the time.<sup>4</sup> Moreover, the BNA has been

<sup>4</sup> Of the biggest banks in Argentina, the ones that under-performed relative to their importance in the banking system were several foreign-owned banks, such as HSBC, ICBC and Banco Patagonia, and the state-owned banks Banco de la Provincia de Buenos Aires and Banco Ciudad de Buenos Aires. Among the ones that over-performed were several private domestic-owned banks, such as Banco Galicia, Banco Macro, Banco Supervielle and Banco Comafi, and the cooperative bank Banco Credicoop. Note, however, that these are estimates made in April 2020 and the relative performances have improved through time. See the Adeba estimations in Telam (2020).

actively promoting the new credit lines to MSMEs to its customers and non-customers. The information about the five different credit lines to MSMEs available on its web page is the most complete and detailed in comparison to other banks.<sup>5</sup> Thus, it is clear that the BNA has led the implementation of the new credit lines to MSMEs and the countercyclical credit policy response in Argentina.

## CONCLUSION

The reaction of the Argentinean authorities to the Covid-19 pandemic has been swift. The new credit lines to MSMEs, which were put in place in March 2020, have been very helpful in terms of dealing with the consequences of the Covid-19 pandemic for MSMEs. In particular, they have provided MSMEs with working capital. There has been a substantial disbursement of the new credit lines to MSMEs up to August 2020 of around US\$5.25 billion, equivalent to 1.45% of Argentina's GDP in 2019.

In terms of total credit to the private sector, including the new credit lines to MSMEs, the annual real growth rate was 5.6% in June 2020, registering the second consecutive month with a positive annual real growth rate, after 20 months without positive growth rates (Argentina has been suffering several currency crises since April 2018 and has been in recession since then).

At first, until April 2020, state-owned commercial banks – in particular the BNA – and private domestic-owned banks were faster in their credit response with new credit lines to MSMEs. However, foreign-owned banks picked up their lending in the following months. Up until August 2020, 40% of the total disbursements were granted by private domestic-owned banks, 32% by foreign-owned

<sup>5</sup> Web pages were visited for the following banks: BNA, Banco Galicia, Banco Santander, Banco de la Provincia de Buenos Aires, Banco Macro, BBVA, Banco Ciudad de Buenos Aires, HSBC, ICBC, Banco Supervielle, Banco de la Provincia de Córdoba and Banco Credicoop.

banks and 28% by state-owned banks. These shares are slightly different if compared to the distribution of total outstanding credit by February 2020, when 31.3% of total outstanding credit corresponded to private domestic-owned banks, 31.5% to foreign-owned banks and 37.2% to state-owned banks. Still, we are at an early point in the Covid-19 pandemic and probably more credit will be needed by MSMEs.

It is too early to reach any conclusions about whether the credit response by these three types of banks have over- or under-performed relative to their importance in the banking system. Moreover, as the Covid-19 pandemic has progressed, and its economic consequences have become more evident, many public banks – including the BNA and the BICE (Banco de Inversión y Comercio Exterior, a public development bank) – have started offering additional credit lines related to the Covid-19 pandemic. This means that, in order to assess the credit response of these three types of banks in future, we not only have to take into account the new credit lines to MSMEs analyzed in this chapter, but also these other credit lines related to the Covid-19 pandemic.

The main conclusion of this analysis is that the swift counter-cyclical credit policy response has been possible thanks to the macroprudential regulations of the BCRA and the cooperation of both public and private banks, in particular the state-owned commercial bank BNA, given its large size in the banking sector. The macroprudential regulations put in place by the BCRA generated a broad credit response by the whole banking sector, including all the three types of banks, that reached an extensive segment of MSMEs in Argentina. What is clear is that the credit needs from the Covid-19 pandemic by MSMEs are very large and the public banking sector alone is not big enough to face these credit needs by itself. However, it is also true that there is a need to strengthen further the public banking sector in Argentina, especially its development bank, BICE.



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