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Natalie Leonard
Yale School of Management

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Argentina: Reserve Requirements, 1994–1995[1]

Natalie Leonard[2]

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Abstract

The devaluation of the Mexican peso in December 1994 sparked concerns about the quality and safety of government debt across Latin American countries, including Argentina. In late 1994 and 1995, Banco Central de la Republica Argentina (BCRA) implemented three changes in reserve requirement policy to restore liquidity throughout the financial system and defend the currency peg to the US dollar. First, it lowered the existing minimum reserve requirement, which required banks to hold reserves entirely in cash (pesos or US dollars). This released more than ARS 4 billion (USD 4 billion) in resources into the banking system, according to the Argentine government. Second, it imposed a "safety net" reserve requirement in US dollars (USD) to expand liquidity to banks that needed it. Third, it replaced the cash requirement with a Minimum Liquidity Requirement (MLR) that banks could satisfy with a range of highly liquid assets. Some conclude that the adoption of the MLR helped to strengthen the financial system's resilience to volatility in the market.

Keywords: Argentina, Banco Central de la Republica Argentina, reserve requirements, reserve ratio, liquidity rules

[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project cases considering the adjustment of reserve requirements. Cases are available from the *Journal of Financial Crises* at
https://elischolar.library.yale.edu/journal-of-financial-crises/.

[2] Research Associate, YPFS, Yale School of Management.

Overview

The Mexican peso devaluation in December 1994 spurred a broader crisis across Latin America. Rumors about systemic risks to Argentine wholesale banks due to their high exposure to government bonds led large and institutional depositors to withdraw their deposits from those banks. Although wholesale banks were, for the most part, small institutions insulated from foreign capital markets, the interbank lending market collapsed and trading levels fell 50% over concerns about systemic risk.

In the first quarter of 1995, total Argentine bank deposits fell by 18% (Guidotti and Nicolini 2016). Wholesale bank deposits fell by about 60%.

The BCRA implemented a number of emergency measures to respond to the crisis. The BCRA implemented two changes to reserve requirement policy to inject liquidity into the financial system during the acute phase of the crises and one change during the recovery phase of the crisis.

First, in December 1994, the BCRA lowered its minimum cash requirement, which was the main reserve requirement tool authorized by its charter, from 43% to 30% on demand and savings deposits and from 3% to 1% on time deposits (BCRA 1994). The government said the cuts lowered the average reserve requirement on deposits from 21% at the end of December 1994, to 14% in mid-March 1995 (IMF 1995b). The minimum cash requirement was unremunerated (Guidotti and Nicolini 2016).

Second, in January 1995, the BCRA introduced a "safety net" requirement. The BCRA funded the safety net with an additional reserve requirement that banks deposited in the public Bank of the Argentine Nation, which in turn extended credit to liquidity-constrained banks (BCRA 1995a; Guidotti and Nicolini 2016). The BCRA set this requirement at 2% of a bank's deposit base on January 12, 1995. The requirement was lifted in June 1996 (BCRA 1996b).

Key Terms

Purpose of Adjusting Reserve Requirement (RR): To "inject additional liquidity" and "facilitate the movement of funds between banks" (Reuters 1995)	
Range of RR Ratio (RRR) Peak-to-Trough	Average RR for all deposits from 21% to 14% (from the cut of minimum cash requirement of 43% to 30% for demand and savings deposits and 3% to 1% for time deposits)
RRR Increase Period	Not applicable
RRR Decrease Period	Dec. 28, 1994–June 3, 1996
Legal Authority	BCRA Charter
Interest/ Remuneration on Reserves	Not on minimum cash requirement; yes on the MLR (5.65% on Bank Liquidity Certificates issued by the Treasury, which was one option for satisfying the MLR)
Notable Features	Three policies: minimum cash requirement, "safety net" requirement, minimum liquidity requirement
Outcomes	Released ARS 4 billion (USD 4 billion) into the banking system

Third, in July 1995, the BCRA introduced a minimum liquidity requirement, replacing the cash reserve requirement (BCRA 1995g). Banks could fulfill this requirement by holding a wide range of liquid assets; it was remunerated.

Summary Evaluation

The Argentine government said that the initial cuts in reserve requirements had released more than ARS 4 billion (USD 4 billion)[3] in resources into the banking system by March 1995, compared to ARS 1.3 billion in swaps and loans that it made to banks in the same time period (IMF 1995b). The government said in August that capital flows had reversed, and half of the deposits that had left the country in the first half of 1995 had returned by early that month (IMF 1995c).

Guidotti and Nicolini (2016, 38) conclude that "the banking crisis was virulent but short lived and its successful resolution translated into renewed public confidence in the system." They also conclude that "the adoption of MLR and the contingent repo line constituted a central feature [of] the central bank's strategy in strengthening the financial system's resilience to face volatility" (Guidotti and Nicolini 2016, 18).

Ganapolsky and Schmukler (1998, 30) find that lowered "reserve requirements increased bond prices (perhaps because they provided a stimulus to the economy) and reduced the interest rate. However, they seem to have increased the volatility of the interest rate."

[3] Argentina pegged the Argentine peso to the US dollar at a rate of 1 USD = 1 ARS and maintained this peg until 2002.

Context: Argentina 1994–1995		
GDP (SAAR, nominal GDP in LCU converted to USD)		$257.4 billion in 1994
		$258.0 billion in 1995
GDP per capita (SAAR, nominal GDP in LCU converted to USD)		$7,483 in 1994
		$7,409 in 1995
Sovereign credit rating (five-year senior debt)	1994	Moody's: Data not available
		S&P: BBB-
		Fitch: Data not available
	1995	Moody's: Data not available
		S&P: BBB-
		Fitch: Data not available
Size of banking system		$62.5 billion in 1994
		$66.3 billion in 1995
Size of banking system as a % of GDP		24.3% in 1994
		25.7% in 1995
Size of banking system as a % of financial system		98.6% in 1994
		98.9% in 1995
Five-bank concentration of banking system		Data not available in 1994
		Data not available in 1995
Foreign involvement in banking system		Data not available in 1994
		Data not available in 1995
Existence of deposit insurance		No in 1994
		Yes in 1995
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.		

Key Design Decisions

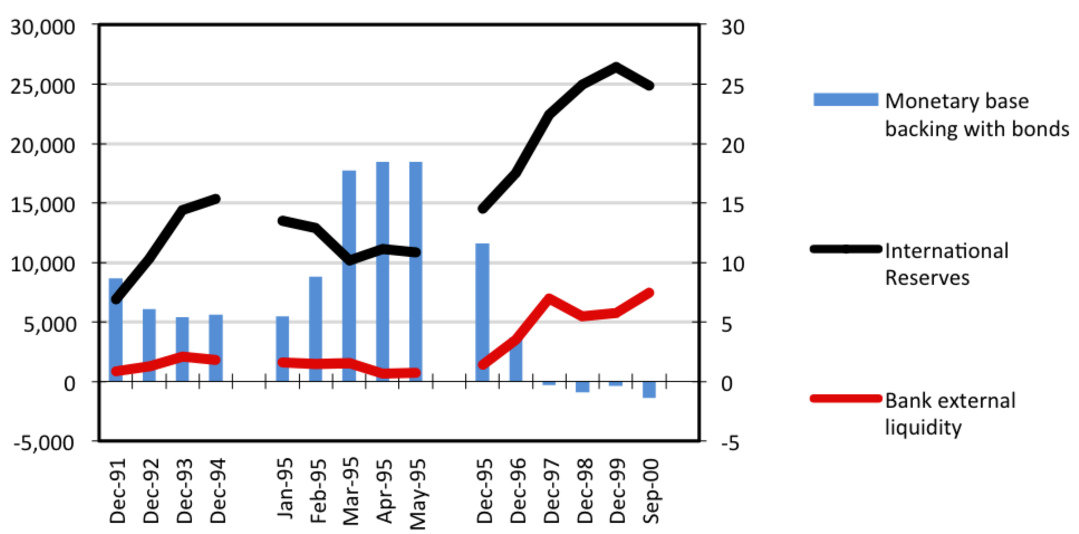
1. **Purpose: The BCRA lowered reserve requirements to add liquidity to the system.**

BCRA President Roque Fernandez stated on January 11, 1995: "By reducing the reserve level, we hope to inject additional liquidity. [Lowered reserve requirements] should facilitate the movement of funds between banks" (Reuters 1995).

2. **Part of a Package: The BCRA also lent to banks via its discount window and established contingent repo lines with banks; however, Argentina's currency-board arrangement limited the amount of foreign exchange credit that the BCRA could offer through these facilities, and in March 1995, the government sought further support from the IMF and other international sources.**

Argentina pegged its currency to the US dollar in 1991 under a currency-board arrangement. This arrangement required the BCRA to fully back its monetary base with dollar-denominated assets. Twenty percent of those assets could be US dollar-denominated domestic debt, according to the BCRA charter, codified in Ley No 24.144 of 1992 (Pou 2000). The currency board therefore constrained the BCRA's emergency lending to no more than 20% of the monetary base. The bank very nearly exceeded that level during the crisis, reaching 18.5% in April and May 1995 (see Figure 1). At this point, the government sought further support from the IMF by extension of credit under the Extended Fund Facility for the fourth year (IMF 1995d). The IMF approved the extension in April 1995 (IMF 1995a).

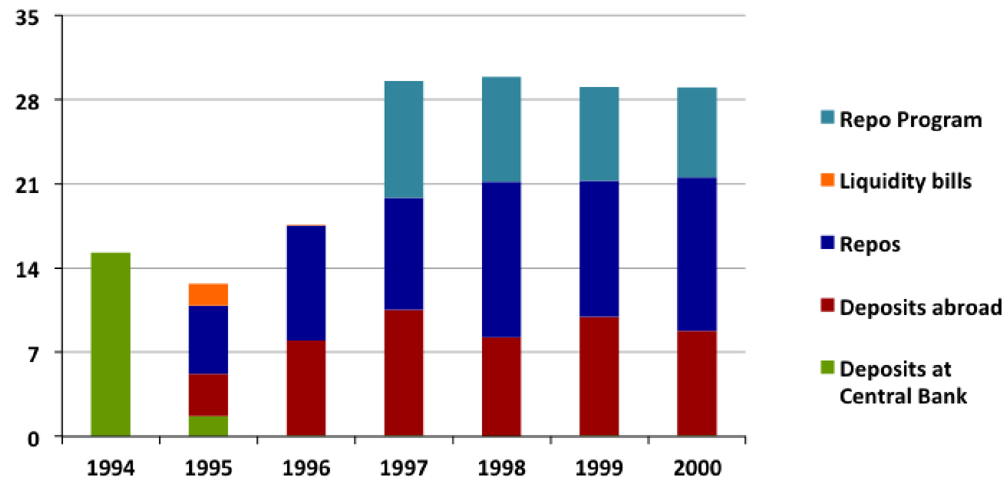
Figure 1: International Reserves and Bank External Liquidity (left axis, USD millions) and Monetary Base Backing with Bonds (right axis, %)



Source: Guidotti and Nicolini 2016.

Concurrent with the implementation of a Minimum Liquidity Requirement in July 1995, the BCRA established contingent repurchase agreement (repo) lines that large international banks could hold to meet the MLR (Guidotti and Nicolini 2016, 18). These interventions, as well as others, shifted the banking system's liquidity away from deposits at the central bank and toward repos, liquidity bills,[4] and foreign deposits (see Figure 2).

Figure 2: Banking System Liquidity (as % of total deposits)



Source: Guidotti and Nicolini 2016.

In February 1995, as the crisis deepened and the deposit run continued, the BCRA formally revised its 1992 charter to introduce a deposit insurance scheme; however, the scheme was funded privately, and its impact was limited at the time it was introduced. The government also created a mechanism for resolving troubled financial institutions, backed by a USD 500 million loan from the World Bank (Guidotti and Nicolini 2016).

The BCRA substantially expanded the regulatory authority of the Superintendence of Financial and Exchange Institutions (SEFyC). The government created two trust funds, to privatize provincial banks and to restructure troubled private banks. An amendment to the Financial institutions Law expanded the BCRA's authority to restructure troubled banks, including the power to extract nonperforming assets by creating "bad" banks (Pou 2000).

3. Legal Authority: The BCRA drew its authority from its 1992 charter, which was later amended.

The BCRA charter authorized the board of directors of the BCRA to set reserve requirements, subject to limitations laid out in Article 28. These limitations were: the reserve requirement could be only constituted in cash or demand deposits held at the BCRA, or in foreign currency held in a foreign currency account, denominated in either local or foreign currency; and reserve requirements could not be remunerated (Congreso 1992).

[4] According to the U.S. Securities and Exchange Commission, liquidity bills (or *leliqs*) in Argentina were "offered on a daily basis and [could] only be purchased by banking entities for their own portfolio." BCRA issued liquidity bills in pesos with a seven-day maturity (SEC 2019).

On July 14, 1995, the BCRA announced a new Minimum Liquidity Requirement, which could be held in a range of noncash assets and was remunerated[5] (BCRA 1995g). It was thought the nonremunerated reserves and minimum cash requirements prevented sound banking regulations. High RRs on demand and savings deposits had discouraged financial institutions from promoting the use of checking accounts and had encouraged the use of volatile term deposits. Therefore, MLR replaced the old RR regime to address these concerns.

In 2001, Decree 439/2001 amended Article 28, allowing the BCRA to remunerate reserves. The decree mentions that the BCRA had circumvented the ban on remunerating reserves by replacing the reserve requirement with a remunerated MLR (Congreso 2001). However, it also noted that banks could only use foreign currency assets to meet the MLR. Banks could meet reserve requirements with domestic or foreign currency assets (IMF 1995d).

4. Administration: The Board of Directors of the BCRA set reserve requirements.

The Board of Directors of the BCRA set reserve requirements, per Article 14 of the BCRA charter (Congreso 1992).

The minimum cash requirement was to be deposited in a sight (demand deposit) account at the BCRA or at the BCRA's account at the Bank of the Argentine Nation's New York Branch (BCRA 1992a; BCRA 1991). The safety net requirement was held in the BCRA's account at the public Bank of the Argentine Nation (BCRA 1995a).

The BCRA used a foreign bank, the New York branch of Deutsche Bank, as the custodian of MLR assets, to make sure MLR assets were unencumbered and to avoid back-to-back loans;[6] the BCRA monitored its performance of that role (Guidotti and Nicolini 2016).

5. Governance: The BCRA reported annually on its operations to the Congress.

Pursuant to Article 10(i) of the BCRA charter, the president of the BCRA was required to report annually on operations of the bank to the Congress, including reports on the scope of monetary, exchange, and financial policies in execution. Article 39 of the BCRA charter additionally established an external auditor, appointed by the board of directors, whose report was submitted both to the board and to the Congress (Congreso 1992).

The BCRA Charter of 1992 specified that the primary mission of the BCRA was to support the peg of the peso to the US dollar. Starting in 1991, Argentina fixed the peso through a currency

[5] Pedro Pou (2000), governor of the BCRA, indicated in an IMF article:

> [T]raditional reserve requirements have been replaced to be remunerated liquidity requirements . . . The requirements have a decreasing rate that starts at 20 percent for liabilities less than 90 days . . . Only 20 percent of these requirements need to be channeled through the central bank. The rest can be invested in a wide range of very safe and liquid international assets.

[6] This is an arrangement between two parties to lend each other equal amounts of money in different currencies to hedge currency risk, similar to a currency swap.

board that required the monetary base to be backed one-for-one with US dollar assets.[7] The BCRA also took up a supervisory role through the Superintendence of Financial and Exchange Institutions (BCRA n.d.b; Congreso 1992).

6. **Communication: Argentine officials said that "temporary" changes to reserve requirements would boost liquidity.**

The BCRA published circulars that communicated changes to the reserve requirement policy (BCRA n.d.a). Officials and spokespeople consistently characterized reserve requirement changes as "temporary" in contemporaneous statements to the press (Dow Jones 1994; Reuters 1995).

In January 1993, Argentine Economy Minister Domingo Cavallo announced reserve requirement changes to inject liquidity in financial markets (Reuters 1993). On December 28, 1994, BCRA President Roque Fernandez said (Reuters 1994):

> It was considered necessary to relax liquidity restrictions a little, but maintaining the fundamental spirit of Convertibility, so pesos will continue to be scarce. This frees up about 800 million [pesos], which will allow banks to move more freely in terms of liquidity but we are giving them liquidity in dollars and keeping the restriction on pesos.

Both Cavallo and Fernandez emphasized that the one-for-one-peso-dollar parity should reassure market participants that Argentina would not devalue. Their aim was to avoid Mexico's fate (Reuters 1995).

7. **Assets Qualifying as Reserves: The minimum cash requirement could only be satisfied with cash in foreign or local currency held at the BCRA. However, the Dollarization Requirement and the Minimum Liquidity Requirement imposed different asset holding requirements.**

Article 28 of the BCRA charter specified that the minimum cash requirement could only be satisfied with foreign or local currency held at the BCRA (Congreso 1992). However, the two additional reserve requirements that the BCRA added throughout the crisis had different holding requirements.

"Safety Net" Requirement

Effective January 16, 1995, the BCRA required that all financial institutions hold an additional 2% of total deposits and other obligations in US dollars, to be held in the BCRA's account at the Bank of the Argentine Nation (BCRA 1995a).

[7] The currency board regime lasted from April 1, 1991, until January 2, 2002. The currency board allowed the monetary base to be partially backed by domestic-currency assets, including Argentinian government bonds. Foreign reserves had to make up at least 66.6% of the monetary base (Spiegel 2002).

Minimum Liquidity Requirement

As of August 1, 1995, the BCRA required that all financial institutions comply with the MLR by holding repos on government bonds; OECD members' government bonds with ratings of A or higher; bank liquidity certificates issued by national government; or standby one-year letters of credit with foreign financial institutions rated at least AA, up to 20 percent of MLR (BCRA 1995g; Guidotti and Nicolini 2016; IMF 1995d).

8. Reservable Liabilities: Reserve requirements applied to checking accounts, overnight savings accounts, and time deposits.

Reserve requirements covered checking accounts, overnight savings accounts, and time deposits. Reserve requirements were relatively high on checking and overnight savings accounts and much lower on time deposits. Guidotti and Nicolini found that this difference generated an unequal distribution of liquidity in the system, noting that time deposits were more likely to run than overnight accounts.

9. Computation: Reserve requirements were calculated using the rolling monthly average of the deposit base.

The reserve requirements were calculated on a contemporaneous basis and applied to the rolling monthly average of the deposit base (Montoro and Moreno 2011). The BCRA indicated in December 1993 that pesos deposited in excess of the minimum cash requirement were automatically converted into US dollars using the purchasing exchange rate, though it is unclear whether this applied in 1995 as well (BCRA 1993b).

10. Eligible Institutions: The Financial Entities Law defines that commercial banks, investment banks, mortgage banks, finance companies, savings and loan companies for housing, and credit unions are subject to the BCRA's reserve requirements.

Ley 21.526 of 1977 ("Financial Entities Law") defines the powers of the BCRA to regulate financial entities (Congreso 1977). Article 2 recognizes six categories of financial institutions that are regulated by the BCRA and the SEFyC: commercial banks, investment banks, mortgage banks, finance companies, savings and loan companies for housing, and credit unions. Article 31 specifies that these entities must meet the cash reserve requirements established by the BCRA (Congreso 1977).

Generally, circulars updating reserve requirements did not disaggregate reserve requirements by type of financial institution but rather by account type (e.g., BCRA 1994). However, a December 29, 1992, circular, which created a reserve requirement for current accounts in US dollars, specified that banking entities transacting in foreign currency were subject to the additional reserve requirement (BCRA 1992a). A circular from August 1988 enumerates these banking entities (BCRA 1988).

11. Timing: The BCRA lowered and revised reserve requirements to expand available liquidity following the devaluation of the Mexican peso in December 1994.

The Mexican peso devalued sharply in December 1994, triggering a run on deposits of wholesale banks in Argentina in the first three months of 1995. We focus on three measures that the BCRA took in response:

- On December 28, 1994, the BCRA lowered the minimum cash requirement from 43% to 30% on demand and savings deposits and from 3% to 1% on time deposits (IMF 1995d).

- On January 12, 1995, the BCRA added an additional requirement that 2% of all deposits be held in US dollars at the BCRA account in the public Bank of the Argentine Nation (BCRA 1995a). These funds were used as a "safety net" to make lending available to wholesale banks, experiencing the worst of the run on deposits (Guidotti and Nicolini 2016, 11).

- In March 1995, half of cash-in-vault and resources used to purchase assets from banks in difficulty were both included in satisfying RR.

- On July 14, 1995 the BCRA replaced reserve requirements with a Minimum Liquidity Requirement (BCRA 1995g). The MLR could be satisfied with a broader range of assets (Guidotti and Nicolini 2016).

12. Changes in Reserve Requirements: The BCRA implemented three distinct reserve requirements and lowered reserve requirements throughout 1995.

The BCRA implemented three types of reserve requirements between 1994 and 1996. Each is discussed below. See Figure 3 for a full list of assets and timeline of changes.

Figure 3: Timeline of Reserve Requirement Changes

DATE	RESERVE REQUIREMENT CHANGE	CIRCULAR NUMBER
Jan. 12, 1992	Minimum cash requirement for US dollar accounts of 71% (held in US dollars in BCRA sight [demand] accounts)	A2026
Dec. 29, 1992	Increase minimum cash requirement for US dollars checking accounts from 30% to 60% by March 1993	A2042
Aug. 16, 1993	Minimum cash requirement: • Current, sight, term: 43% • 30-59-day obligations: 3% • Deposits in savings banks (foreign): 43% • Current accounts in US dollars: 43%	A2132
Dec. 28, 1994	**Temporary reduction of the minimum cash requirement:** • Current accounts: 30% • Sight deposits: 35% • 30-59-day obligations: 1% • Current accounts in US dollars: 30%	A2293
Jan. 12, 1995	Full dollarization/convertibility as of January 12, 1995 Expiration of transitory reduction on February 28, 1995 Establishes additional 2% “safety net” requirement in US dollars	A2298
Jan. 26, 1995	Encourages entities that have difficulties meeting the requirement to present their case to SEFyC	A2304
Jan. 31, 1995	Minimum cash requirement • Current accounts: 32% • Sight deposits: 32% • 30-59-day obligations: 1% • Current accounts in US dollars: 32%	A2307
Feb. 28, 1995	Minimum cash requirement • Current account: 33% • Sight deposits: 33% • 30-59-day obligations: 2% • Current accounts in US dollars: 33%	A2315
Mar. 10, 1995	Exclude from calculation base (minimum cash): advances and rediscounts of the central bank; loans granted by Bank of the Argentine Nation	A2317
Apr. 27, 1995	Extended A2317 through May 31, 1995	A2331

Date	Reserve Requirement change	Circular number
Jul. 14, 1995	Minimum Liquidity Requirement introduced: • Current, savings, demand accounts (pesos and USD): 0% • Obligations up to 59 days: 6% • Obligations 60-179 days: 2% • Current accounts in US dollars: 30% MLR held in: repo operations, OECD government bonds with A rating or higher, securities with significant listings on foreign markets Minimum cash requirement: • Current accounts (pesos and USD): 30% • Savings accounts (pesos): 30% • Sight deposits, term deposits: 30% Savings (foreign currency): 30%	A2350
Mar. 21, 1996	Minimum Liquidity Requirement: • Checking accounts (pesos and USD): 15% • Savings accounts (pesos and foreign): 15% • Time deposits (foreign) up to 89 days: 15% • Time deposits (foreign) 89-179 days: 10% • Time deposits (foreign) 180-365 days: 5% • Time deposits (foreign) over 365 days: 0% MLR held in: repo operations, OECD government bonds with A rating or higher, securities with significant listings on foreign markets, bank liquidity bills with national government, domestic public and private securities with A rating or higher, home equity loans, and mortgage loans *with put option to foreign bank,* OECD company bonds with A rating or higher	A2422
Jun. 3, 1996	Repeal “safety net” reserve requirement, increase Minimum Liquidity Requirement by 1%	A2444

Sources: BCRA 1991; BCRA 1992a; BCRA 1992b; BCRA 1993a; BCRA 1994; BCRA 1995a; BCRA 1995b; BCRA 1995g; BCRA 1996a; BCRA 1996b; BCRA 1995c; BCRA 1995d; BCRA 1995e; BCRA 1995f.

Minimum Cash Requirement

The minimum cash requirement was the standard reserve requirement, consistent with Article 28 of the BCRA charter (Congreso 1992). The minimum cash requirement distinguished between types of accounts. Before the crisis, current (savings) and sight (demand) accounts were subject to a 43% requirement, while transferable and nontransferable fixed-term obligations faced requirements between 3% (for 30-59-day terms) and 0% (for terms greater than 60 days) (BCRA 1993a). To meet the requirement, financial institutions deposited either pesos or US dollars at the BCRA’s account at the Bank of the Argentine Nation’s New York Branch (BCRA 1991).

The minimum cash requirement applied contemporaneously (that is, without lagging) and applied to the rolling monthly average of the day-end deposit base (BCRA 1995g; Montoro and Moreno 2011). The minimum cash requirement was not remunerated (Congreso 1992).

On December 28, 1994, the BCRA announced a temporary reduction in the minimum cash requirement to 30%. On January 12, 1995, the BCRA indicated that the reduction would expire on February 28, 1995 (BCRA 1994; BCRA 1995a). As of July 14, 1995, the minimum cash requirement was permanently lowered to 30% (BCRA 1995g). See Figure 3 for a full timeline of changes to the minimum cash requirement.

On January 12, 1995, the BCRA announced that the minimum cash requirement had to be held in US dollars (BCRA 1995a). Ganapolsky and Schmukler (1998) find that this mandatory dollarization of reserves had a positive impact by restoring confidence in the currency board.

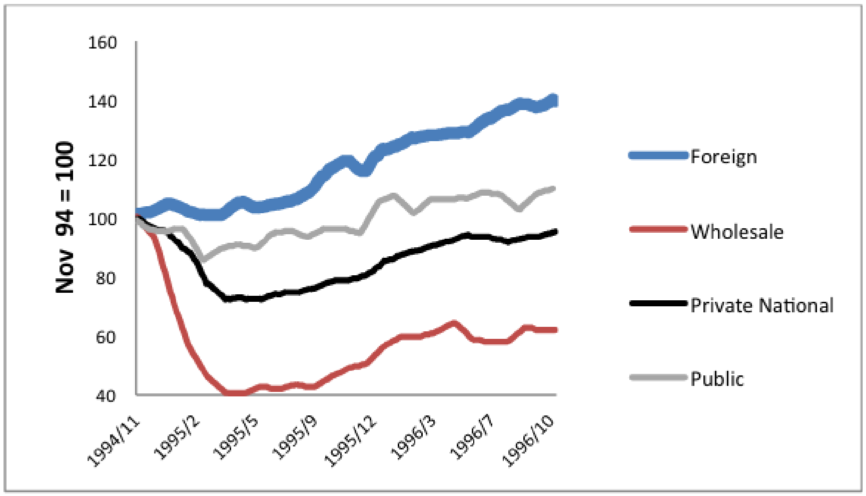
On March 10, 1995, the BCRA announced that it would exclude advances and rediscounts of the central bank and loans granted by the Bank of the Argentine Nation from the deposit base for purposes of the minimum cash requirement calculation (BCRA 1995e).

"Safety Net" Requirement

On January 12, 1995, the BCRA announced an additional requirement of 2% of the entire deposit base in both pesos and foreign currency to be held in US dollars. The additional net requirement came into effect on January 16, 1995, and was to be held in the BCRA's account at the Bank of the Argentine Nation (BCRA 1995a). If a financial institution was found deficient in this additional reserve requirement, it faced a 48% nominal annual charge on the total deficiency (BCRA 1992b). Financial institutions that could not meet the requirement had to meet with the SEFyC (BCRA 1995b).

According to Guidotti and Nicolini, the additional "safety net" reserve requirement was implemented for all banks to make "lending available to the banks that required liquidity assistance through the interbank market" (Guidotti and Nicolini 2016, 11). This was likely because the run on deposits was especially sharp for smaller, wholesale banks (See Figure 4). By increasing the reserve requirements, the BCRA was able to provide liquidity to these wholesale banks.

Figure 4: Evolution of Deposits



Source: Guidotti and Nicolini 2016.

Minimum Liquidity Requirement

On July 14, 1995, the BCRA announced that it would implement a new MLR, starting in September 1995 (IMF 1995d). This liquidity requirement could be met by holding a range of liquid assets, initially including: repo operations with the BCRA, OECD government bonds with A rating or higher, and securities with significant listings on foreign markets.

The maintenance period for the MLR was comparable to the minimum cash requirement: calculated on a continual basis using the monthly average of the deposit base (BCRA 1995h). The MLR was initially set at 0% for current, savings, and demand accounts, and 2% to 6% for term obligations of up to 180 days. The requirement was held at Deutsche Bank's New York Branch in an account monitored by the BCRA (BCRA 1995g). The MLR was remunerated (Congreso 2001); see "Changes in Interest/Remuneration on Reserves."

On March 21, 1996, the BCRA increased the MLR substantially but also expanded the types of assets that could qualify for the requirement (BCRA 1996a).

13. Changes in Interest/Remuneration: The cash requirement was not remunerated; the new MLR was remunerated.

Statutorily, the BCRA could not remunerate the cash reserve requirement (Congreso 1992).

On July 14, 1995, the BCRA announced a new Minimum Liquidity Requirement, which could be held in a range of noncash assets and was remunerated (BCRA 1995g). The MLR could be satisfied through the purchase of bank liquidity certificates issued by the Treasury, which then paid 5.65% interest, and the proceeds of these certificates were placed in international reserves of the BCRA. Banks also could place part of the liquidity requirements in a special account abroad or in the form of reverse repurchase agreements with the BCRA. The Congress found that the nonremunerated reserves and minimum cash requirements prevented sound banking regulations (Congreso 2001). High RRs on demand and savings deposits had discouraged financial institutions from promoting the use of checking accounts and had encouraged the use of volatile term deposits. Therefore, the MLR replaced the old RR regime to address these concerns.

In 2001, Decree 439/2001 amended Article 28, allowing the BCRA to remunerate reserves. The decree mentioned that the BCRA had circumvented the ban on remunerating reserves by replacing the reserve requirement with a remunerated MLR. However, it also noted that banks could only use foreign currency assets to meet the MLR. Banks could meet reserve requirements with domestic or foreign currency assets (IMF 1995d).

14. Other Restrictions: Entities that could not meet the requirement were subject to charges for noncompliance and could present their case to the Superintendence of Financial and Exchange Institutions for individual adjudication.

The BCRA set charges for noncompliance with the reserve requirement regime, as a percentage of reserve deficiencies. These penalties were frequently changed, through circulars.

Financial institutions that could not meet the reserve requirement were required to present their situations to the Superintendence of Financial and Exchange Institutions (BCRA 1995b).

15. Impact on Monetary Policy Transmission: There is no evidence of sterilization of liquidity released through RR adjustments.

There is no evidence that the authorities sterilized any amount of liquidity released through the adjustment of RR.

16. Duration: The RR adjustment in the minimum cash requirement was temporary, and the BCRA communicated the end date of that change.

On December 28, 1994, the BCRA implemented a temporary reduction of the minimum cash requirement (BCRA 1994). In the first circular, the BCRA did not list a specific end date; on January 12, 1995, a circular specified that the reduction would expire on February 28, 1995 (BCRA 1995a).

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