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The influence of the return to the standard monetary policy on the economies of developing countries – the case of Argentina

Introduction

The correlations and the influence of the monetary policy pursued by the central banks of developed countries, primarily by the Federal Reserve System (the central bank of the United States), on the economies of developing countries is a subject of research, especially since the outbreak of the last financial crisis. Decisions concerning shifts in attitudes in the monetary policy taken by the monetary authorities of the largest economies, influence investors' behaviour. Due to globalization and financialization, short-term capital flows occur very quickly and on a significant scale. Foreign portfolio investments become quite sizeable in the economies of developed countries and can have a destabilizing effect on the domestic financial market. Facing the threat of an abrupt outflow of foreign speculative capital, the central banks of developing countries are forced to take decisions about the level of interest rates, out of concern for the macroeconomic, especially financial, stability. These decisions often entail substantial risk because they can adversely affect the real economy. Therefore, it is important to examine the scale of reactions of local financial markets to the decisions of the US monetary authorities and to indicate the elements which could limit the negative effects of the discussed phenomenon.

The aim of the article is to present the effects of the shifts in attitudes in the monetary policy of the Federal Reserve System (FRS) on the financial markets of developing countries. The analysis is based on the example of Argentina's economy, which seems highly interesting owing to the long-standing experience of this country in combating the effects of financial crises. The article consists of three parts. The first part presents the history of financial crises and ways of coping with their consequences in Argentina since the 1990s. The second part discusses the FRS monetary policy since the outbreak of the financial crisis, with a special emphasis on the effects of quantitative easing and the issue of a return to the standard monetary policy. The third part of the article gives an analysis of the reactions of the financial markets in developing countries to FRS actions, as exemplified by Argentina. The summary contains the conclusions from the research and an attempt to refer them to the situation in Poland.

The article is based on available literature on the subject and statistical data.

1. Argentina – history of the crises

At the beginning of the 20th century Argentina was one of the ten richest countries in the world (Tanzi, 2007). In 1913 GDP per capita was higher in Argentina than in France, Italy and the Austro-Hungarian empire and accounted for over 71% of GDP in the United States (Skodlarski, 2003). Argentina owed its economic power to the export of agricultural produce and natural resources. After the end of the World War II, Juan Peron was elected President of Argentina in 1946. He started implementing the welfare state model with high (at that time) social expenditure and significantly nationalized the economy. Consecutive changes of governments (frequently through coups d'état) and the implemented ideas for economic change led to the destabilization of the country's economic status. Moreover, Argentina was faced with a debt crisis which affected the majority of the Latin American countries in the 1980s. After the initial stabilization connected with the introduction of reforms and the restoration of access to foreign credit, the crisis caused high inflation (Morawski, 2003). Table 1 demonstrates the basic macroeconomic indicators describing Argentina's economy in the years 1970–1990.

Hyperinflation became the major economic problem of the country. In order to combat it, the Convertibility Plan prepared by Domingo Caballo was introduced in 1991 (Żuławska, 2003). Its crucial element was the introduction of the currency board arrangement and the strict pegging of the peso – the Argentinean currency – to the US dollar in a 1:1 relation. Furthermore, the amount of money supply was conditioned by a duty to keep full coverage in foreign currency reserves. Moreover, the central bank was deprived of the opportunity to grant refinancing loans, which meant that it could not fulfil the function of the lender of last resort in the case of commercial banks' problems with liquidity. Facing the challenges connected with lack of funds for the payment of maturing obligations, the government carried out their forced conversion to 10-year debt securities denominated in US dollars (the public debt in the national currency accounted for only a few percent of total obligations). The restrictive financial and fiscal policy (an announced rise in taxes and their improved collectability) was supposed to be accompanied by structural reforms. Initially, the implemented plan brought about positive effects. Table 2 presents data concerning the inflation level, unemployment rate and GDP dynamics in the years 1992–1994.

Table 1.
Selected macroeconomic indicators describing Argentina's economy in 1970–1990

Years	Inflation (%)	GDP dynamics (%)	Balance of payments (% GDP)	Budget deficit (% GDP)
1970–74	38.30	1.96	–0.35	4.93
1975–79	227.58	–0.10	0.44	6.84
1980–82	123.34	–4.85	–3.47	5.54
1983	343.82	1.46	–3.77	10.71
1984	626.72	1.06	–3.21	7.65
1985	672.15	–5.68	–1.46	2.16
1986	90.10	4.20	–3.63	2.89
1987	131.33	1.20	–5.16	4.99
1988	342.96	–3.73	–1.75	5.80
1989	3 079.81	–5.65	–2.16	3.79
1990	2 313.97	–0.79	1.80	2.00

Source: compiled by the author on the basis of: Kiguel, Liviatan (1995), 380.

Table 2.
Selected macroeconomic indicators describing Argentina's economy in 1992–1994

Years	Inflation (%)	GDP dynamics (%)	Unemployment rate (%)	Balance of payments (current account) (% GDP)
1992	17.5	9.6	7.0	–5.5
1993	7.4	5.7	9.6	–8.0
1994	3.9	5.8	11.5	–10.9

Source: compiled by the author on the basis of: Żuławska (2003), 40–41.

Maintaining a fixed exchange rate at a low productivity of the economy led to a real appreciation of the exchange rate and a decrease in export competitiveness. There was a lasting negative trade balance. The positive evaluation of the stabilization programme effects attracted foreign investors to Argentina. The annual average inflow of capital was over 10 bln USD, of which more than 3 bln was assigned to short-term portfolio investments (Żuławska, 2003). At the same time, foreign debt was growing.

In 1995, Argentina's economy was hit by the Tequila crisis which began a year before in Mexico. The reasons for the crisis included (Piech, 2001–2002):

- the real appreciation of the Mexican peso exchange rate,
- the current account deficit in balance of payment account,

- the inflow of foreign capital, more than a half of which had the character of portfolio investments,
- the conversion of bonds to securities denominated in USD.

The rise in interest rates in the United States and investors' concerns about the economic development of Mexico, coupled with political destabilization, caused an outflow of foreign capital. In connection with the policy of a fixed exchange rate, this resulted in a decrease in foreign exchange reserves and the need to take radical action. The government decided to devalue the peso.

The Tequila effect also caused an outflow of investors from the Argentinean market. The central bank carried out a currency intervention by selling a considerable part of the reserves held. The banking system was also affected by the crisis. There was an outflow of deposits and a wave of problems with liquidity in local banks. As it could not fulfil the function of the lender of last resort, the central bank got involved in the creation of relief funds within the financial sector (stronger banks supported the weaker ones) (Żuławska, 2003). In view of the implementation of the Convertibility Plan by the Argentinean government (cuts in public expenditure to stabilize the budget), both the International Monetary Fund and the World Bank decided to grant loans to Argentina. This allayed investors' concerns and curbed the outflow of financial means (Machura, 2017). However, the effects of the crisis were: a lasting negative current account balance, a rise in the unemployment rate and the progressing dependence of the Argentinean economy, especially the government sector, on foreign financing. The selected indicators describing the economic situation in the years 1995–2001 are presented in Table 3.

Table 3.

Selected macroeconomic indicators describing Argentina's economy in 1995–2001

Years	Inflation (%)	GDP dynamics (%)	Unemployment rate (%)	Balance of payments (current account) (% GDP)	Foreign debt (bln USD)
1995	1.6	–2.8	17.5	–4.9	89.5
1996	0.1	5.5	17.2	–6.9	109.6
1997	0.3	8.1	14.9	–12.4	124.7
1998	0.7	3.9	12.9	–14.7	140.5
1999	–1.8	–3.4	14.4	–12.4	145.3
2000	–0.7	–0.8	15.1	–8.8	146.2
2001	–1.5	–4.4	17.4	–4.4	139.8

Source: compiled by the author on the basis of: Żuławska (2003), 40–41.

The growing internal imbalance become one of the causes of another crisis which arose at the turn of the 20th and 21st cent. The factors aggravating the economic and financial situation of Argentina included:

- the drop in prices of major export goods (food and natural resources) as a result of Asian currency crises,
- the economic recession in Brazil: a very important trade partner, coupled with currency devaluation,
- the decrease in investors' trust due to the Russian crisis.

The real economy was affected by the crisis. Collectability of taxes became worse (due to decreased economic activity), budgetary imbalances were growing, the costs of foreign debt management were going up: reaching 15% GDP (Machura, 2017). The government prepared a reform plan which was not implemented. Owing to the deepening crisis, the rules of the foreign exchange policy were relaxed and the peso exchange rate was based on the dollar and euro basket (which was equivalent to partial devaluation) (Żuławska, 2003). However, despite the actions taken, Argentina lost an opportunity for foreign financing (eventually, in November 2001 the International Monetary Fund also ceased to grant loans). The obligatory conversion of the government's debt securities into long-term bonds with a low interest rate undermined the banking system and triggered another abrupt outflow of deposits (especially in USD). In response, the government introduced limitations on the withdrawal of deposits by people and the control of capital flow. This sparked social protests and led to political transformation (the change of the President) (Lisińska, 2013). Foreign debt management was stopped which was equal to bankruptcy of the state and the severance of Argentina from sources of financing. At the same time, the peso exchange rate was liberalised and devalued which improved the competitiveness of the economy. However, it was only in 2005 and 2010 that Argentina concluded an agreement with the creditors (the parties to the agreement were the creditors holding 92% of the state's debt) on a 70% reduction in liabilities. This enabled the issuance of new debt securities. Nevertheless, due to low ratings and the continuing poor economic situation, Argentina was deprived of financing opportunities on the international markets. A loan of 100 mln USD, granted by the World Bank in 2003, was an exception.

During the first years after the crisis, Argentina's economy was growing. After the devaluation of the peso, the country experienced a period of a strong growth owing to the favourable terms of trade and the high demand for agricultural produce. However, this was accompanied by the deep intervention of the state in the economy. This consisted, on the one hand, in a social equity policy which generated high government spending (increased employment in the public sector, adjustment of remunerations and pensions, subsidizing of prices) and, on the other hand, in the introduction of the mechanisms preventing inflation growth (price control, limitation of food exports) (Hornbeck, 2013). Nevertheless, inflation was at a two-digit level all the time and the unemployment rate also remained high. The GDP dynamics improved in the first years after the crisis as a result of the peso devaluation, but it started to decrease again at the end of the first decade of the 21st cent. The tendencies described are illustrated by data presented in Table 4.

Table 4.
Selected macroeconomic indicators describing Argentina's economy in 2002–2016

Years	Inflation GDP deflator (%)	GDP dynamics (%)	Unemployment rate (%)
2002	30.56	–10.90	19.61
2003	10.50	8.84	15.40
2004	18.36	9.03	13.52
2005	10.32	8.85	11.51
2006	13.74	8.05	10.08
2007	14.94	9.00	8.47
2008	23.17	4.06	7.84
2009	15.38	–5.92	8.65
2010	20.92	10.13	7.38
2011	23.70	6.00	7.05
2012	22.32	–1.03	7.34
2013	23.95	2.41	6.61
2014	40.28	–2.51	7.02
2015	24.55	2.65	6.88
2016	40.68	–2.25	8.40

Source: compiled by the author on the basis of: Retrieved May 19, 2018, from: https://data.worldbank.org/indicator.

The central bank and the government of Argentina took steps aimed at curbing the outflow of USD from the domestic market and enabling the restoration of foreign exchange reserves. In view of the lack of possibility for financing the current account deficit with external debt, this was the only source of funds necessary to cover the foreign liabilities of the country. The main instruments used were the control of capital flow and the purchase of USD by the central bank on the banking market (Central Bank of Argentina, 2010).

In 2015 Mauricio Marci became the President of Argentina. His goal was to carry out economic reforms which consisted in deregulation and a return to the market economy, the abandonment of capital flow control and ceasing intervention on the currency market aimed at the appreciation of the peso. The central bank began to implement the strategy of direct inflation targeting. In 2016 the President succeeded in concluding an agreement with the creditors (American hedge funds which did not accede to the agreement on a 70% reduction in debt). As a consequence, at the beginning of 2017 Argentina issued 5- and 10-year bonds and placed them on the international market (Rudowski, 2017). Moreover, the improved economic situation contributed to a change of attitude of the rating agencies and a gradual inflow of portfolio investments to the country.

2. Nonstandard monetary policy of the Federal Reserve System

After the outbreak of the financial crisis in 2008[1] the Federal Reserve System quickly switched from pursuing a conventional monetary policy, based on changes in short-term interest rates, to an unconventional policy taking the form of both qualitative and quantitative easing (QE). The first type of the instrument affected primarily the domestic market. It consisted in easing the conditions of access to liquidity offered by the central bank and accepting securities of lower quality than before the crisis, as a guarantee of the transactions carried out. On the other hand, quantitative easing consisted in programmes of purchase of various types of financial assets – debt securities and equity securities – from market participants by the central bank. The application of the quantitative easing instruments causes changes in the balance amount and, typically, an increased risk for the central bank. Quantitative easing influenced not only the financial system and economy of the United States but also the economies of other states, particularly the economies of developing countries (Chari, Stedman, Lundlbland, 2017).

The first programme of asset purchase as part of QE1 was launched by the FRS in December 2008 and continued until March 2010. Furthermore, QE2 was implemented from November 2010 to June 2011, and QE3 from September 2012 to October 2014 (Dutkiewicz, Przybylska-Kapuścińska, 2017). Moreover, the FRS conducted the Twist operation in mid-2011. This consisted in the simultaneous selling of short-term debt securities to market participants by the FRS from its portfolio in exchange for long-term securities held by them. As part of the consecutive sessions of quantitative easing, the FRS purchased securities of various types and quality to its portfolio. They included mortgage-backed securities and asset-backed securities, as well as treasury bonds. As a result of the operations carried out, the bank's balance sheet total grew from 900 billion USD to 4.5 trillion USD (Mester, 2015). Data concerning the total value of the QE programmes are presented in Table 5.

Table 5.
Total value of the QE programmes launched by the Federal Reserve System in 2008–2014

Programme	Value in bln USD	Value as a share of GDP (%)
QE1	1 725	12.0
QE2	600	4.2
Twist	667	4.7
QE3	85*	0.6
Total	**3 077**	**21.5**

* per month; the programme was gradually reduced in January 2014 to 75 bln and in February to 65 bln per month

Source: compiled by the author on the basis of: Williamson (2014), 111–122.

[1] Assuming the Lehman Brothers bank's collapse to be the arbitrary date of the crisis outbreak.

The aim of the non-standard actions taken within the monetary policy was to improve the liquidity of the financial sector, ease tensions which emerged within the sector after the crisis, reduce market interest rates, and then to influence the real economy and stimulate economic growth. A side effect of the pursued policy was the intensification of portfolio capital flows from the economies of developed countries (the United States) affected by the crisis to the economies of developing countries. Investors withdrew from the markets with low interest rates to the markets with higher rates of return. The inflow of capital had an impact on the appreciation of national currencies, an increase in foreign exchange reserves and asset price. This weakened the international competitiveness of the economies of the host countries. International flows of portfolio capital became a significant manifestation of the existence of a global financial cycle whose steering element is the monetary policy of the FRS (Anaya, Hachula, Offermanns, 2017).

The programmes of asset purchase were ultimately ended by the FRS in 2014. Since then, the central bank has implemented a reinvestment policy which consisted in the rollover of maturing debt securities owing to which the FRS balance sheet total was not reduced. From the perspective of the investors, the central bank still performed the role of an active participant of the capital market by conducting transactions and fulfilling the function of a kind of investor of last resort (Ihrig, Klee, Li, Schulte, Wei, 2012). Thus, from the market perspective, no significant changes occurred in the FRS monetary policy.

A change in attitude in the FRS monetary policy took place from December 2015 when the FRS decided to raise the short-term interest rate for the first time in seven years. Table 6 presents data concerning the federal funds rate, the basic interest rate of the FRS.

Table 6.

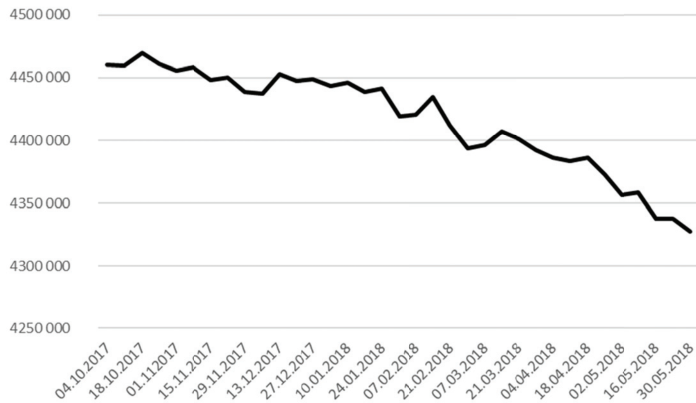
The federal funds rate in 2008 – May 2018

Date of decision about change in rate	Federal funds rate
16.12.2008	0.00–0.25
17.12.2015	0.25–0.50
15.12.2016	0.50–0.75
16.03.2017	0.75–1.00
15.06.2017	1.00–1.25
14.12.2017	1.25–1.50
22.03.2018	1.50–1.75

Source: compiled by the author on the basis of: Retrieved June 2, 2018, from: https://www.federalreserve.gov/monetarypolicy/openmarket.htm.

Another stage in the monetary policy tapering in the United States was the abandonment (since October 2017) of the reinvestment of securities purchased during quantitative easing (Board of Governors of the Federal Reserve System, 2018). Changes in the FRS balance sheet total from October 2017 to May 2018 are presented in Figure 1.

Figure 1.
Balance sheet total of the Federal Reserve System from October 2017 to May 2018



Source: compiled by the author on the basis of: Retrieved June 2, 2018, from: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends_accessible.htm.

The presented data point to the very cautious return by the FRS to the pre-crisis monetary policy. This is an effect of the debate taking place in literature, concerning the possible consequences of the monetary policy normalization (Mester, 2015; Blinder, Jordan, Kohn, Mishkin, 2013; Nocoń 2015). Numerous potential threats to the US economy have been indicated in the debate, including: destabilization of the financial system, an increase in long-term interest rates, a rise in public debt management costs, and emergence of inflation. However, these are not the only threats. A change in attitude in the FRS monetary policy, or even only the signalling of such a possibility, influenced the economies of developing countries, as a result of the spillover effect.

3. The reaction of the rising economies to the return to a standard monetary policy by the FRS – the case of Argentina

The debate about the reaction of the financial markets (and economies) of developing countries to the changes in the FRS monetary policy began in 2013. In May of that year, Ben Bernanke – the then President of the US Central Bank – signalled the possibility of gradual monetary policy tapering in his speech before the Congress (Walker, Eddings, 2013). The discussion about the influence of FRS decisions on the rising economies touches upon many issues. Two of them seem to be the most significant from the perspective of the subject matter of the article. The first one concerns the factors influencing the force of an economy's reaction to the shock from the American monetary policy. The other one explores the problem of transmission channels of monetary impulses on the international scale.

As was already noticed in 2013, the reactions to the signalled possible tapering varied between economies. Many local markets reacted very abruptly. The outflow of capital was so huge that it caused concerns that the currency crisis of the 1990s could be repeated (Eichengreen, Gupta, 2015). Some representatives of the central banks from developing countries described the situation on the financial markets as a 'monetary tsunami' triggered by the United States (Developed countries..., 2012). A sudden outflow of short-term capital from emerging economies caused a sharp depreciation of domestic currencies, accompanied by the outflow of foreign exchange reserves, plunges on the stock exchange and a rise in interest rates on government debt securities (Ahmed, Coulibaly, Zlate, 2017). In order to curb this process, potentially dangerous to the financial and economic stability, the central banks were forced to raise interest rates, that is to taper the monetary policy. This was certainly felt by the entities from the real economy. In connection with the restrictive monetary policy, the economic growth was hampered.

Analysing the variables influencing the size and directions of global capital flows, the following factors can be indicated, in general (Chari, Stedman, Lundlbland, 2017):

- global factors, connected with external shocks to the economy, pushing the capital,
- factors specific to a country's economy, associated with attractiveness of investment, pulling the capital,
- factors related to the contagion effect and international connections between financial markets.

The most significant factors among those specific to particular economies are:

- the size and structure of the financial market,
- macroeconomic stability regarded as the healthy foundation of the economy.

A large, varied and liquid financial market attracts investors and guarantees the possibility of a quick and easy withdrawal from an investment. Due to this, economies with a developed financial system are more prone to abrupt capital flows.

The following measures of macroeconomic stability are indicated: low budget deficit, low level of public debt, high level of foreign exchange reserves and high GDP dynamics (Ahmed, Coulibaly, Zlate, 2017). The stronger the economic foundations, the less susceptible a country is to the effects of short-term capital flows, and the calmer the reactions of the central bank and the financial market.

The international influence channels of an unconventional monetary policy are the new research areas. The issues of the monetary policy internationalization were not analysed prior to the outbreak of the 2008 crisis. However, the effects of the crisis and the steps taken in reaction to them by the largest central banks, as well as their spread to other countries, pointed to the need to discuss this matter. The literature mentions the following four major global channels of monetary impulse transmission (Chari, Stedman, Lundlbland, 2017):

1. The portfolio channel connected with the influence of the quantitative easing policy on the long-term financial asset market. Since the central bank purchases securities of this kind, contributing to a lower margin, it pushes private investors out of the market. Searching for securities which offer a higher rate of return, they reach the financial markets of the developing countries.
2. The signalling channel connected with the influence of quantitative easing on short-term interest rates. The purchase of securities by the central bank provides information for investors that interest rates shall remain low for a longer time. This encourages them to take risk and bear the costs connected with searching for securities offering higher rates of return in developing economies.
3. A trust-based channel is closely associated with a signalling channel. This has an impact on investors' decisions by influencing their 'appetite for risk'. Monetary policy easing can be interpreted as an expression of pessimism of the monetary authorities about the future economic prospects.
4. The channel connected with premium for liquidity and efficiency of the market. An increase in liquid reserves of commercial banks has an influence on asset prices on 'lower quality' markets by reducing liquidity premium. However, it is significant primarily on domestic markets and influences foreign financial markets to a considerably lesser extent.

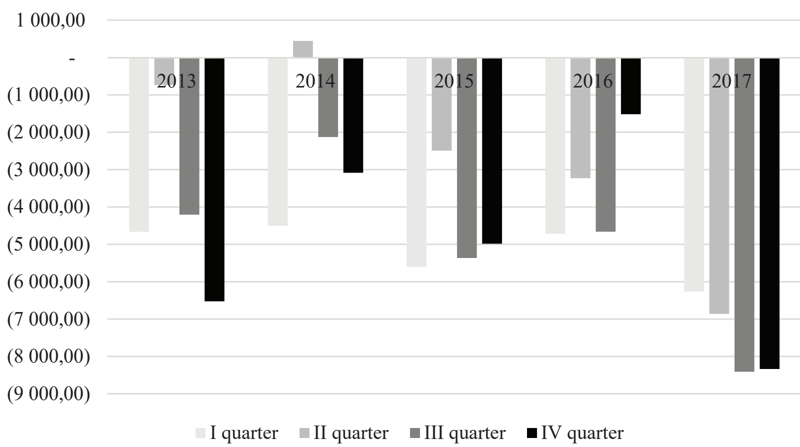
The impact of monetary impulses flowing through the above-mentioned channels is varied and sometimes multidirectional. If we juxtapose information about the factors influencing the susceptibility of developing countries' economies to volatility of capital flows with information about the channels of influence of quantitative easing policy, we shall obtain a complicated and ambiguous picture which is difficult to interpret clearly. The description of the situation on Argentina's financial market under the influence of changes in the FRS monetary policy is an attempt at presenting the ambiguity of the occurring processes.

Argentina's economy reacted in a special way to the monetary policy tapering by the FRS. The first announcements about the tapering in May 2013 did not influence the situation on the country's financial market. At that time, Argentina was still cut off from the foreign financial markets and there was no inflow of capital due to its low assessment by the credit rating agencies. This specific (but abnormal) situation, caused by the previous deep crisis and lack of actions offering prospects for an improvement of the situation, enabled Argentina to go through the first period of shocks painlessly after the announcement of a change in the

FRS' attitude. No abrupt outflow of portfolio capital ensued because there were no investors on that market.

The situation was completely different after 2015. At that time, the economic reforms announced by President Macri commenced (return to the market economy, openness to foreign investors, implementation of direct inflation targeting by the central bank). The key step was the conclusion of the agreements concerning debt payment by Argentina to the American creditors (who did not join the agreements on debt reduction from the first decade of the 21st cent.). Consequently, Moody's changed the prospect to a positive one for investment in Argentina. This was a signal for foreign investors. In spite of that, capital flows remained negative in connection with the need to pay foreign debt – this is demonstrated by the data in Figure 2.

Figure 2.
Capital flows in 2013–2017 (in mln USD)

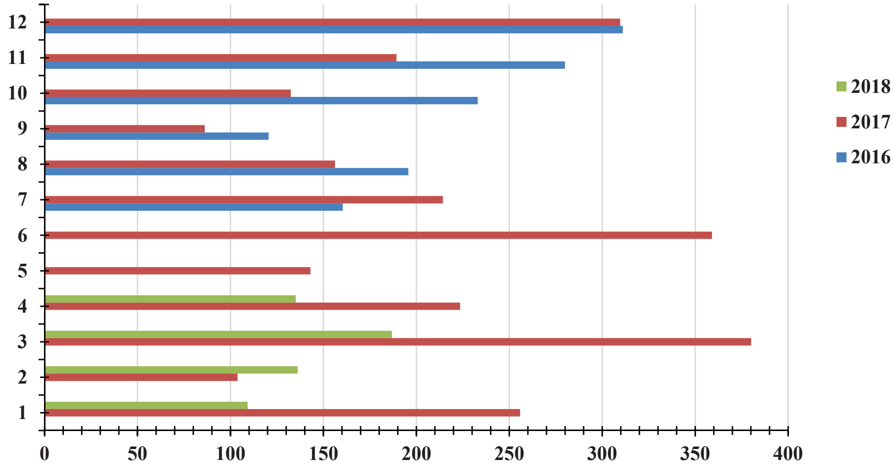


Source: compiled by the author on the basis of: Retrieved June 10, 2018, from: https://tradingeconomics.com/argentina/capital-flows.

Starting from 2016, direct investments were flowing into Argentina's economy on a larger scale. Figure 3 presents data concerning the amount of direct foreign investment in the period from July 2016 to April 2018.

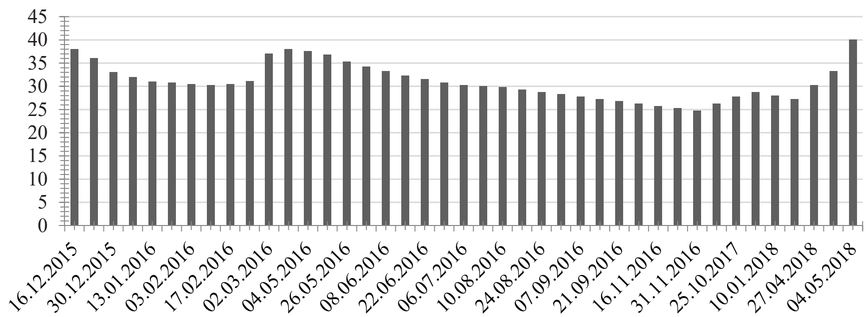
This was a positive signal arousing hope that the Argentinean economy shall regain balance. The country was still struggling with high inflation but the direct inflation targeting strategy, implemented since September 2016, made it possible to stabilize the situation on the financial market. Figure 4 shows information concerning the interest rate of the central bank from December 2015 to May 2018.

Figure 3.
Direct foreign investment: July 2016 – April 2018 (in mln USD)



Source: compiled by the author on the basis of: Retrieved June 10, 2018, from: https://tradingeconomics.com/argentina/foreign-direct-investment.

Figure 4.
Basic interest rate of the Central Bank of Argentina from December 2015 to May 2018



Source: compiled by the author on the basis of: Retrieved June 10, 2018, from: http://www.bcra.gov.ar/Institucional/Tasa_de_politica_monetaria_i.asp.

The Argentinian economy started the process of establishing solid foundations which should protect it in the future against the destabilizing effects of a short-term capital inflow. In May 2018 the monetary policy tapering by the FRS caused an abrupt reaction of investors on the markets of developing countries. The effects of capital outflow were also felt by Argentina. In the conditions of free capital movement and a floating exchange rate, there was a depreciation of the peso reaching almost 20% and a decline in foreign exchange reserves (Kowalewski, 2018). Figure 5 presents data concerning the exchange rate of the peso in relation to the USD in the period from January to June 2018.

Figure 5.
The peso exchange rate in relation to the USD from January to June 2018

Source: Retrieved June 20, 2018, from: https://www.exchange-rates.org/history/ARS/USD/G/180.

The central bank reacted with an increase in the interest rate to the level of 40% (from 30.25% at the end of April). This step slowed down the capital outflow and at the same time affected the real economy which was at a very early stage of economic recovery. The investors' reaction makes it possible to assume that two channels of international influence of the unconventional monetary policy were opened: the portfolio channel and the signalling channel. The monetary impulses, launched in the United States, were transferred to Argentina's financial market, causing the effect of an investor outflow.

In order to alleviate the consequences of tapering, the country's authorities held talks with the International Monetary Fund (IMF) about a loan of 50 bln USD. On June 7th an agreement was signed on launching a flexible credit line for Argentina (IMF Reaches…, 2018). A guarantee in the form of access to funds from the pool granted by the IMF is supposed to be a source of payment of foreign liabilities but also to give a signal to investors about the positive assessment of the reforms implemented by the Fund. The effects of this agreement shall be revealed in the future.

Conclusions

Globalization, financialization and technological progress have contributed to a growth in the scale and rate of international capital flows. This phenomenon can be dangerous to the economies of developing countries. An inflow of short-term portfolio capital is subject to fluctuation and produces effects for the real economy of the host country as well. It also gives rise to discussion about the internationalization of the monetary policy and the effects of decisions of the US monetary authorities for developing countries.

The unconventional monetary policy of the FRS in reaction to the financial crisis caused a decline in long-term interest rates on the US market. Quantitative easing influenced the financial markets of the developing countries through the international channels of monetary impulse transmission. An inflow of investors resulted in currency appreciation, an increase in foreign exchange reserves and a decline in interest rates. The withdrawal from the unconventional monetary policy led to the opposite phenomena which are very dangerous to fragile and unstable financial systems and can become a source of a financial crisis.

Argentina is an illustration of the consequences of monetary policy tapering by the FRS for the economy of a developing country. After less than two years of implementing market reforms and building solid economic foundations, Argentina was at the threshold of a deep financial crisis which, if materialized, could spread to other countries of the region. The concern about the contagion effect is justified by experiences from the past (e.g. the Tequila crisis) and by the scale of the economic relations among the countries in the region. Argentina was supported during the period of disturbances by the International Monetary Fund. Nevertheless, it seems that this solution is insufficient in view of the globalization of the effects of the monetary policy pursued by the economically strongest countries. The IMF assumes the role of extinguishing fires caused by the unconventional monetary policy (and withdrawal from it). Thus, other solutions should be debated. The first one is connected with the application of mechanisms limiting the scale of capital flows (e.g. through the return to the Tobin tax concept). The other solution should be aimed at remodelling the contemporary monetary system towards the internationalization of the monetary policy.

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The influence of the return to the standard monetary policy on the economies of developing countries – the case of Argentina

Summary

The correlations and the influence of the monetary policy pursued by the central banks of developed countries, primarily by the Federal Reserve System (the central bank of the United States), on the economies of developing countries is a subject of research, especially since the outbreak of the last financial crisis. Decisions concerning shifts in attitudes in the monetary policy taken by the monetary authorities of the largest economies, influence investors' behaviour. Due to globalization and financialization, short-term capital flows occur very quickly and on a significant scale. Argentina is an illustration of the consequences of monetary policy tapering by the FRS for the economy of a developing country. Argentina was supported during the period of disturbances by the International Monetary Fund. Nevertheless, it seems that this solution is insufficient in view of the globalization of the effects of the monetary policy pursued by the economically strongest countries.

Key words: central bank, monetary policy, Argentina, financial crisis, unconventional monetary policy