Report on Banks

January 2023

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Table of Contents

Page 3 | Executive Summary

Page 4 | I. Financial Intermediation Activity

Page 6 | II. Aggregate Balance Sheet Evolution and Composition

Page 6 | III. Portfolio Quality

Page 7 | IV. Liquidity and Solvency

Page 9 | V. Payment System

About the use of inclusive language in the Spanish version of this report

The Central Bank of Argentina is committed to encouraging the use of a non-discriminatory language that promotes the acceptance of all gender identities. It should be noted that all those who have contributed to this report acknowledge that language influences on ideas, feelings, ways of thinking, as well as principles and core values.

Published on March, 15, 2023.
The data reported are provisional and subject to changes. Information corresponds to end-of-month data.
Data of charts and Latest Regulations of this issue. Statistics Annexes for the financial system and the ensemble of financial institutions. Glossary of abbreviations and acronyms.

Electronic subscription | Opinion Poll | Previous issues.

For comments and inquiries: analisis.financiero@bcra.gob.ar

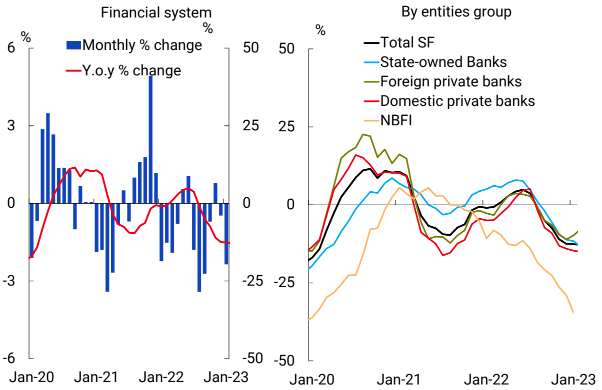
Executive Summary

- The financial system started 2023 keeping its level of soundness: moderate risk exposure in aggregate terms added to a limited delinquency ratio and high liquidity and solvency ratios.
- In early 2023, electronic means of payment have kept a remarkable year-on-year (y.o.y.) momentum, even though some reduction was observed in January due to seasonal factors. Instant transfers went up 118.8% year-on-year (y.o.y.) and 26.6% y.o.y. in number and in amount in real terms in January, respectively. The use of electronic checks (ECHEQs) accounted for 34.3% of the number of cleared checks (+9.6 percentage points (p.p.) y.o.y.) and for 59% of the amounts (+9.5 p.p. y.o.y.) over the month.
- The stock of loans in pesos to the private sector went down 2.4% in real terms in January, mainly impacted by seasonal factors. In turn, the estimated stock of the "Credit Line for Productive Investment (LFIP) of Micro, Small and Medium-Sized Enterprises (MSMSs)" reached ARS1.3 trillion at the beginning of 2023, going up 2.9% y.o.y. in real terms. The estimated stock of the LFIP accounted for 14.1% of the total stock of loans to the private sector, up 2.2 p.p. against the level recorded one year ago and up nearly 4 p.p. against the figure recorded in 2021. Recently, the BCRA extended the LFIP until September 30, 2023.
- In the first month of the year, the non-performing ratio of loans to the private sector stood at 3.2%, slightly over the record of 2022 year-end but down 1.1 p.p. in year-on-year terms. The evolution of this ratio —in both month-on-month (m.o.m.) and year-on-year terms— was widespread across all groups of financial institutions and both credit segments (households and companies). In early 2023, the ensemble of financial institutions kept a sizable provisioning level, equivalent to 4.1% of the total stock of loans to the private sector and to 127.9% of the non-performing portfolio of loans to the private sector.
- The stock of private sector deposits in pesos shrank 1.6% in real terms in January, mainly impacted by the typical seasonal factors of the month and affecting both sight accounts and time deposits. Within the latter segment, traditional time deposits (without adjustment clause) grew over the month (+1.3% in real terms), and have accumulated six consecutive months of growth. In year-on-year terms, the stock of private sector deposits in pesos went up 1.7% in real terms, mainly driven by the performance of time deposits.
- The financial system's liquid assets in a broad sense amounted to 75.6% of deposits in January, up 1.2 p.p. against 2022 year-end and 7.4 p.p. y.o.y.
- At the beginning of the year, the aggregate financial system's solvency ratios were on the rise. In January, the Regulatory Capital (RC) of the ensemble of financial institutions stood at 30.4% of risk-weighted assets (RWAs), up 0.7 p.p. against the value of December 2022 (+4.2 p.p. y.o.y.). The capital position totaled 279.5% of the regulatory requirement at systemic level, up 11 p.p. against December 2022 (+54 p.p. y.o.y.).
- The financial system's total comprehensive income in homogeneous currency for the aggregate of the last 12 months up to January was equivalent to 2% of assets (ROA) and to 11.7% of equity (ROE). These ratios have gone up slightly in a year-on-year comparison, mainly due to a higher financial margin.

I. Financial Intermediation Activity

The financial intermediation activities of the ensemble of financial institutions with the private sector dropped in January 2023, due, in part, to seasonal factors. Taking into account the most relevant movements of the financial system's balance sheet for the items in pesos (in homogenous currency), there was a decrease in the stock of financing to both the private and the public sectors, accompanied by a drop in broad liquidity. In turn, there was also a fall in the stock of deposits in homogeneous currency. On the other hand, regarding the items in foreign currency, the increases observed in public sector deposits and financing —of both the public and the private sectors— were the main changes in terms of origin and use of funds by the institutions, respectively.

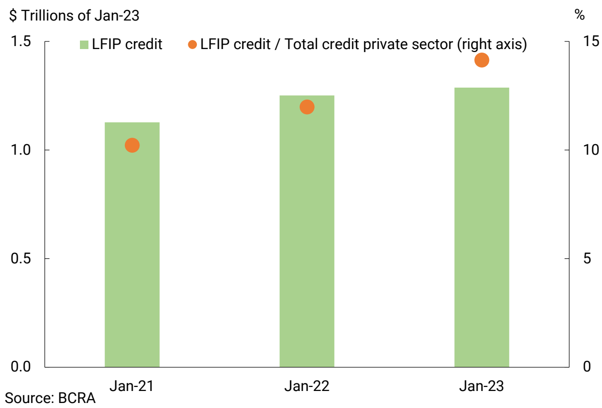
Chart 1 | Stock of loans to the private sector in pesos
In real terms*



*Not seasonally adjusted. Total includes adjustments of principal and interest accrued. Source BCRA.

In January, the stock of loans in pesos to the private sector shrank 2.4% in real terms against December 2022 (+3.5% in nominal terms, see Chart 1), [1] and this performance was widespread across all groups of financial institutions and credit lines (except for overdrafts). In a year-on-year comparison, the stock of financing in domestic currency has accumulated a decrease of 12.6% in real terms (+73.6% y.o.y. in nominal terms).

Chart 2 | Credit Line for Productive Investment (LFIP) of MSMEs –
Estimated stock in the financial system



Source: BCRA

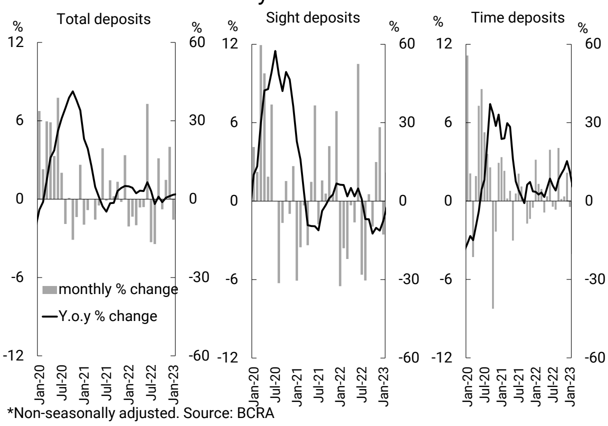
Within the framework of the credit policy promoted by the BCRA to encourage production, the monetary authority has recently extended the "Credit Line for Productive Investment (LFIP) of MSMEs" until September 30, 2023.[2] From October 2020 (when it was first launched) to February 2023, ARS4.4 trillion have been disbursed, benefitting over 379,000 companies. The estimated stock of loans under the LFIP stood at around ARS1.3 trillion in early 2023, up 2.9% in real terms in a year-on-year comparison. Thus, the stock of loans under the LFIP accounted for 14.1% of the total stock of lending to the private sector, up 2.2 p.p. against the level recorded one year ago and up almost 4 p.p. against the level recorded in 2021 (see Chart 2).

1 Including capital adjustments and accrued interest.
2 The financial institutions involved must keep a LFIP stock equivalent to, at least, 7.5% of their deposits from the non-financial private sector in pesos, calculated on the basis of the monthly average of daily stocks as of March 2023. For further detail, see the Press Release and Communication "A" 7720.

The stock of financing to the private sector in foreign currency went up 6.4% between ends of months,[3] mainly due to the seasonal performance of cards. In this context, the total stock of loans (in domestic and foreign currency) to the private sector went down 1.7% in real terms over the month (+4.2% in nominal terms), accumulating a 12.8% y.o.y. drop in real terms (+73.2 % y.o.y. in nominal terms).[4]

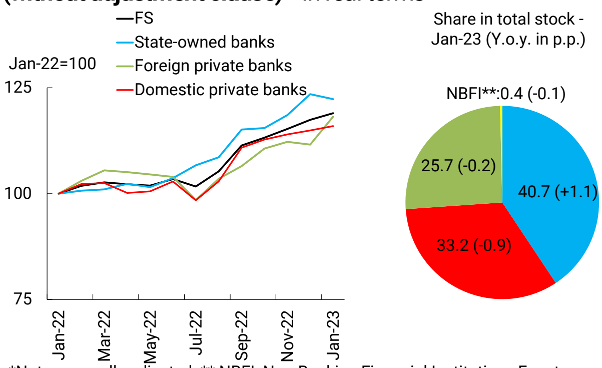
Regarding the aggregate financial system's funding, the stock of private sector deposits in pesos contracted 1.6% in real terms (+4.3% in nominal terms, see Chart 3) over the month, due, in part, to seasonal factors. Sight accounts dropped 2.5% in real terms (+3.3% in nominal terms), while time deposits contracted 0.5% in real terms (+5.5% in nominal terms). Within this latter segment, time investments and deposits denominated in UVA dropped in real terms during January,[5] and were offset in part by an increase in traditional time deposits (without adjustment clause) (+1.3% in real terms or 7.4% in nominal terms, see Chart 4). Therefore, this segment of private sector deposits has kept its upward trend and has accumulated six consecutive months of growth in real terms. This performance occurred in the context of the minimum guaranteed interest rates policy for time deposits implemented by the BCRA.

Chart 3 | Stock of private sector deposits in pesos
In real terms* - Financial System



*Non-seasonally adjusted. Source: BCRA

Chart 4 | Stock of private sector time deposits in pesos (without adjustment clause) - In real terms*



*Not seasonally adjusted. ** NBFI: Non-Banking Financial Institutions Fuente: BCRA

Regarding the segment in foreign currency, the stock of private sector deposits posted no significant changes between ends of month (-0.2% in currency of origin). The total stock of private sector deposits (in domestic and foreign currency) shrank 1.4% in January (+4.5% in nominal terms).

In year-on-year terms, the stock of private sector deposits in pesos increased 1.7% in real terms in January (+102% in nominal terms). In turn, public sector deposits in pesos shrank in real terms in a year-on-year comparison. Consequently, the total stock of deposits (considering all currencies and both sectors) has dropped 1.8% y.o.y. in real terms (+95.1% y.o.y. in nominal terms).

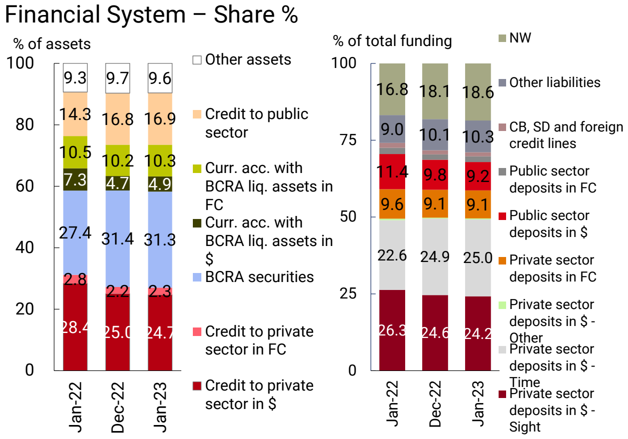
---

3 Expressed in currency of origin.
4 Recently, the BCRA has decided to extend until the end of the year the minimum interest rate that financial institutions must apply to finance debtors involved in agricultural activities, now making this exception available to producers whose total financing amount in the financial system does not exceed ARS3 million (the previous figure was ARS2 million) or to producers having a storage of soybean production not exceeding 5% of their annual harvest capacity. For further detail, see Communication "A" 7720.
5 Over the month, time investments in pesos went down 15.4% in real terms, while UVA-denominated deposits fell 14.5% in real terms.

II. Aggregate Balance Sheet Evolution and Composition

In January, the financial system's total assets contracted 1% in real terms (+4.9% in nominal terms), and the drop was widespread across all groups of financial institutions. In a year-on-year comparison, the sector's total assets went up slightly in real terms.

Chart 5 | Composition of assets and total funding
Financial System – Share %



FC: Foreign currency. Source: BCRA

Regarding the main components of the sector's total stock of assets, there was a decrease in the relative share of loans in pesos to the private sector at the beginning of the year. In turn, there was an increase in the relative share of the balances of current accounts held by the institutions at the BCRA in domestic currency (see Chart 5). In relation with the total funding of the ensemble of institutions, there was a decline in the relative share of the public sector sight accounts and deposits in domestic currency. In turn, the relative share of net worth in total funding went up over the period (see Chart 5).

In the first month of the year, the estimated differential between assets and liabilities in foreign currency stood at 31.2% of the regulatory capital at systemic level, up 1.1 p.p. against the value recorded in December 2022 (+18.9 p.p. y.o.y.).[6] The estimated positive differential between assets and liabilities with capital adjustment by CER (or denominated in UVA) totaled 43% of the Regulatory Capital (RC) for the aggregate financial system in January, dropping 9.3 p.p. over the month (-27 p.p. y.o.y.).[7]

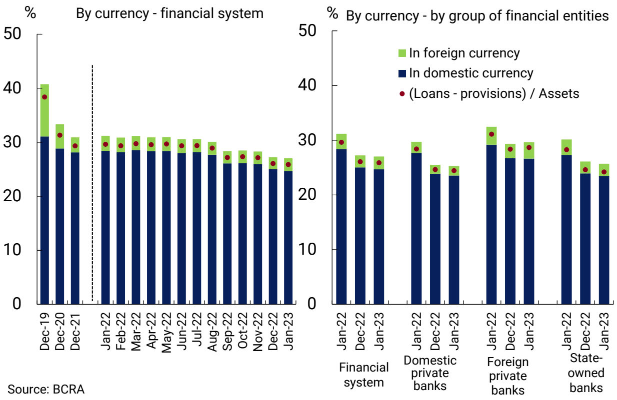
III. Portfolio Quality

In January, the financial system's gross exposure to the private sector (in domestic and foreign currency) stood at 27% of total assets, slightly below the figure recorded by the end of 2022 and 4.2 p.p. below the figure recorded in January 2022 (see Chart 6). This ratio totaled 24.7% when considering lending to the private sector in pesos only (-3.7 p.p. y.o.y.). In turn, loans to the private sector in foreign currency stood at 2.3% of the financial system's total assets in early 2023 (-0.4 p.p. y.o.y.). The stock of financing to the private sector net of provisions for the ensemble of financial institutions accounted for 25.9% of total assets over the period (-3.7 p.p. y.o.y.).

6 Including purchase and sale forward transactions in foreign currency, classified as off-balance. The deposits from the agricultural sector subject to a variable return based on the evolution of the exchange rate are included in liabilities.
7 Within the framework of the exchange of instruments with CER-adjustment clause for instruments mainly denominated in domestic currency at a fixed interest rate carried out in January.

In January 2023, the non-performing ratio of loans to the private sector stood at 3.2%, slightly above the figure recorded by 2022 year-end but 1.1 p.p. below the value recorded in January 2022. The month-on-month and year-on-year evolution of this ratio was widespread across all groups of banking financial institutions and all credit segments (see Chart 7). The non-performing ratio of loans to households stood at 3.1% in January (-0.9 p.p. y.o.y.), while the non-performing ratio of loans to companies totaled 3.4% over the period (-1.3 p.p. y.o.y.).

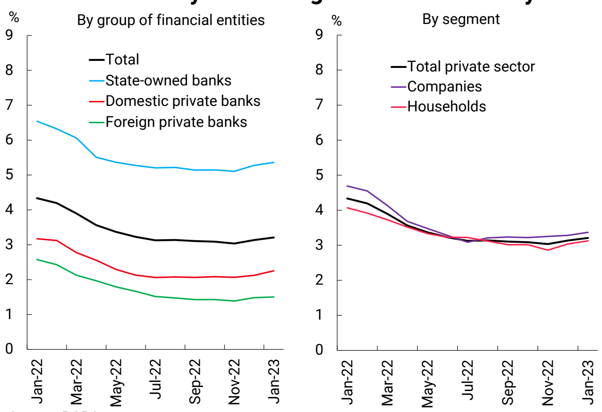
Chart 6 | Stock of loans to the private sector / Assets



Source: BCRA

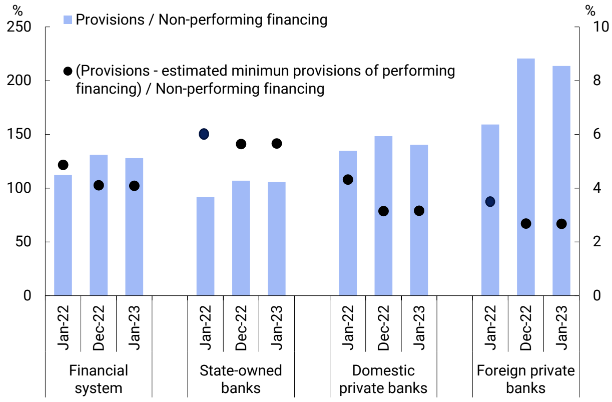
At the beginning of the year, the financial institutions have kept sizable provisioning levels. Total provisions accounted for 4.1% of the total stock of loans to the private sector in January, and posted no significant changes against the values recorded in December 2022 (-0.9 p.p. y.o.y.). The stock of provisions totaled 127.9% of the non-performing portfolio of loans to the private sector, and exceeded 100% in all groups of banking financial institutions (see Chart 8). The stock of provisions attributable to the non-performing portfolio[8] has continued to cover nearly the entire portfolio (97.2% in January).

Chart 7 | Non-performing ratio of loans by group of institutions and by debtor segment – Financial System



Source: BCRA

Chart 8 | Stock of loans and provisions (private sector) – By group of banking financial institutions



Source: BCRA

IV. Liquidity and Solvency

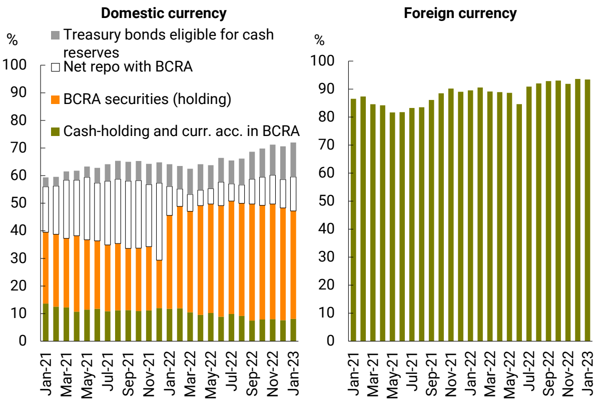
In January, liquid assets in a broad sense[9] of the aggregate financial system totaled 75.6% of deposits, up 1.2 p.p. against 2022 year-end. A breakdown by currency shows that the ratio for the

8 Total provisions net of the minimum regulatory provisions for debtors' categories 1 and 2, according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure.
9 It considers liquid assets, BCRA instruments in domestic and foreign currency and all sovereign bonds admitted for compliance with the minimum cash requirement.

items in pesos stood at 72% and at 95.3% for the items in foreign currency (+1.4 p.p. and -0.7 p.p. m.o.m., respectively, see Chart 9). In terms of the composition of liquidity in domestic currency, between ends of month, there was an increase in the share of net repo transactions with the BCRA, accompanied by a decrease in the relative share of BCRA's instrument holdings. In a year-on-year comparison, broad liquidity (in domestic currency and in foreign currency) went up 7.4 p.p. of total deposits.[10]

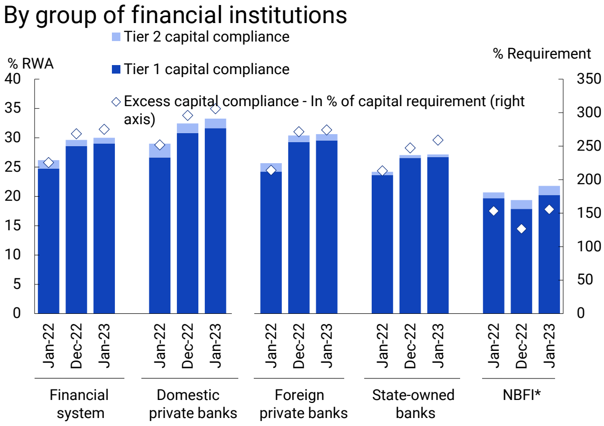
At the beginning of the year, the financial sector's solvency ratios went up slightly. The Regulatory Capital (RC) of the ensemble of financial institutions accounted for 30.4% of risk-weighted assets (RWAs), up 0.7 p.p. against the figure recorded in December 2022 (+4.2 p.p. y.o.y., see Chart 10). In turn, 96.7% of RC was accounted for by Tier 1 capital, with a greater capacity to absorb potential losses. The capital position —the excess of RC minus the minimum regulatory requirement— totaled 279.5% of the requirement at systemic level (up 11 p.p. against December 2022 and +54 p.p. y.o.y.) and 44.9% of the stock of loans to the private sector net of provisions, well above the average of the last 10 years (17.9%).[11]

Chart 9 | Financial system's liquidity
In % of deposits



Source: BCRA

Chart 10 | Compliance with regulatory capital
By group of financial institutions

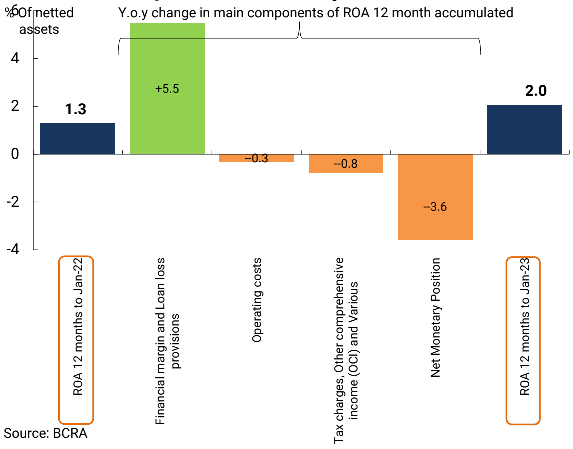


*NBFI: Non-Banking Financial Institutions. Source: BCRA

Regarding the sector's internal generation of capital, the financial system has kept positive profitability ratios at the beginning of the year. The financial system accrued a total comprehensive income in homogeneous currency equivalent to 2% of assets (ROA) and to 11.7%. of equity (ROE) in the aggregate of the last twelve months up to January. These ratios have increased in year-on-year terms (see Chart 11), mainly due to a higher financial margin. This effect was partially offset by an increase in losses due to exposure to monetary items, tax burdens and administrative expenses.

10 The BCRA has recently introduced changes to some of the mechanisms for exercising "liquidity options" available for financial institutions. The changes are intended to improve the performance of the instrument after having been available for eight months, within the context of the Federal Government's debt swap. This option is a tool (financial derivative) for the financial institutions to manage their mismatch of terms and liquidity risk. With the adjustment introduced to the regulation, securities maturing in 2024 and 2025 will be considered. In addition, the selection of the market has also been changed, giving priority to deeper markets (volume traded). Changes were introduced to settlement terms as well. For further detail, see the Press Release. In addition, as from March 9, financial institutions are authorized to satisfy part of the minimum cash requirement in domestic currency which, according to the provisions, may be carried out with sovereign bonds in pesos —including bonds adjusted by CER and with a dual currency yield (BONO DUAL) and excluding those linked to the evolution of the US dollar—, with instruments received at the swap implemented by the Federal Government. Simultaneously, the quotas for the net position of LELIQs and NOTALIQs that may be held by the institutions were also adjusted. See Communication "A" 7717.
11 In this context, the BCRA adopted some changes to macroprudential regulations and has allowed financial institutions to distribute up to 40% of the stock of their distributable profits in 6 equal, monthly and consecutive installments as from April 1, 2023 and until December 31, 2023, provided they have been authorized by the BCRA. See Communication "A" 7719.

Chart 11 | Financial system's total comprehensive income in homogeneous currency

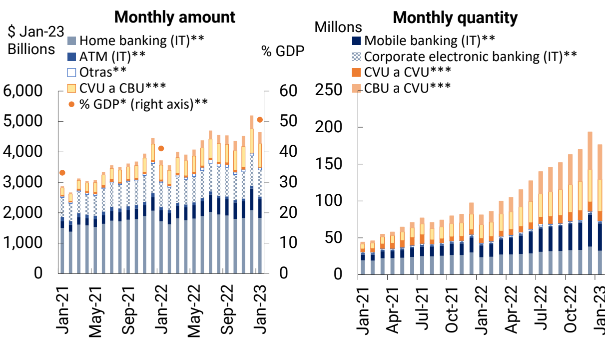


Source: BCRA

V. Payment System

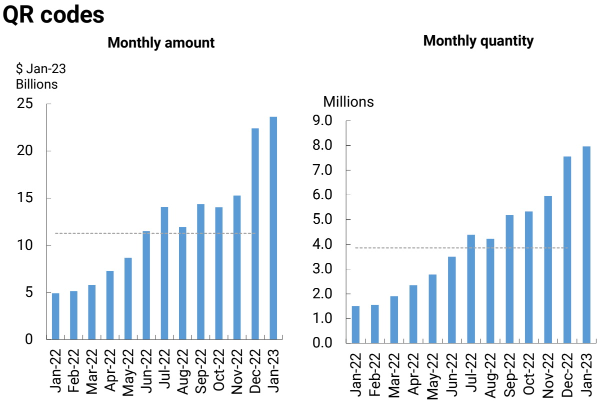
In a context characterized by seasonal factors, transactions via instant transfers went down in January against December 2022 (-8.9% and -10.5%, in number and amount in real terms, respectively). However, in a year-on-year comparison, instant transfers have kept their upward trend, posting increases of 118.8% and 26.6% in number and amount in real terms, respectively. Within the instant transfers made using Uniform Banking Codes (CBUs), especially remarkable was the momentum observed in transactions via Mobile Banking. Regarding instant transfers involving Payment Service Providers —PSPs—, transactions made from Financial Institutions to PSPs (CBU to Uniform Virtual Code (CVU)) recorded the strongest relative momentum. In January, transactions involving one CVU accounted for 58.8% in number (+11.7 p.p. y.o.y.) and 26.7% in amount (+8 p.p. y.o.y.) of total instant transfers. It is estimated that the amount of instant transfers traded in the last three months (annualized) accounted for 50.6% of GDP (+9.4 p.p. against the same month of 2022, see Chart 12).[12]

Chart 12 | Instant transfers



Source: BCRA. *Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted. **IT between accounts open at financial entities (from and to a CBU) ***Transfers where accounts are opened at PSP (from and/or to CVU: CBU to CVU, CVU to CBU and CVU to CVU). Note: high value transfers and batch transfers are not included.

Chart 13 | Payments by transfer (PCTs) via interoperable QR codes



Source: BCRA.

12 In January 2023, the average value of transfers via channels between Financial Institutions (from CBUs to CBUs) was ARS47,100, while the value of transactions involving PSPs averaged ARS12,000.

In January, payments by transfer (PCTs) initiated via interoperable QR codes increased against December 2022 (5.4% and 5.5% in number and in amount in real terms, respectively). As from the implementation of this payment modality, over a year ago, a remarkable performance has been observed since these transactions have almost five-folded in a year-on-year comparison (see Chart 13).[13]

In December 2022 (latest information available), there has been an increase in the number of transactions via debit cards against November (22.7% in number and 35.5% in amount in real terms), due in part to seasonal factors. In year-on-year terms, purchases made via debit cards have increased in number (+11%) and decreased slightly in amount in real terms. In December, there was a rise in onsite transactions. It is estimated that the amount of transactions made via debit card in the last three months (annualized) accounted for 8.6% of GDP (and posted no significant changes against the same period of the year before).[14]

Since January, the clearing of checks has decreased slightly in number (-1.8%) and increased slightly in amount in real terms (1.3%). In year-on-year terms, transactions with electronic checks (ECHEQs) have gone up (45.1% in number and 25.5% in amount in real terms), while the clearing of physical instruments has gone down (-8.9% in number and -14.4% in amount in real terms). Therefore, in the first month of 2023, transactions via ECHEQs accounted for 34.3% in number (+9.6 p.p. y.o.y.) and 59% in amount (+9.5 p.p. y.o.y.). It is estimated that the amount of checks cleared in the last three months (annualized) was equivalent to 26.1% of GDP (without significant changes against the figures recorded in January 2022).[15]

Lastly, the ratio of bounced checks for insufficient funds in terms of total cleared checks went down in January 2023 against December 2022 (-0.14 p.p., to 0.77% in number and -0.11 p.p., to 0.53% in amount). These levels are slightly higher in a year-on-year comparison.

13 In January, the average value of payments by transfer with interoperable QR code was ARS2,970.
14 In December, the average value of transactions via debit card amounted to ARS4,300.
15 In January, the average value of clearing transactions for physical and electronic instruments amounted to ARS315,000 and ARS868,000, respectively.