Report on Banks

February 2023

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on April, 19, 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.

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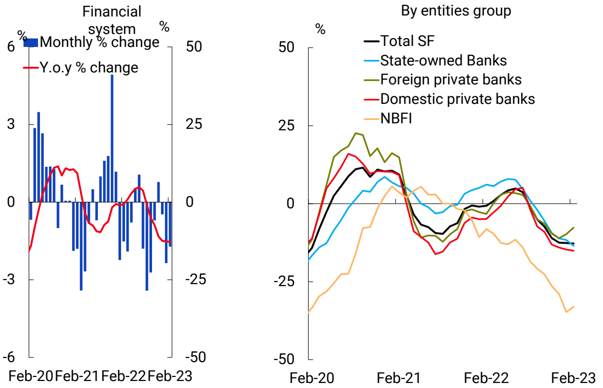
Executive Summary

- The financial intermediation activity with the private sector dropped in February, due in part to seasonal factors. There was a slight increase in the liquidity and solvency indicators of the aggregate financial system over the period, and they have stood at high levels if compared to the average of the last 10 years.
- Electronic means of payment have kept a remarkable year-on-year (y.o.y.) momentum at the beginning of 2023. In February, instant transfers grew 60.2% y.o.y. in number and 7.2% y.o.y. in amount in real terms. Payments by transfer initiated via an interoperable QR code were also on the rise, and these transactions have almost five-folded in year-on-year terms. In turn, the share of electronic checks (ECHEQs) continued to increase in the total clearing of checks, and transactions via ECHEQs have accounted for 35.1% in number and 60% in amount of total checks traded in February.
- The stock of loans in pesos to the private sector shrank 1.7% in real terms in February, due in part to the seasonal factors which are typical at the beginning of the year (-12.8% y.o.y. in real terms). The stock of loans under the "Credit Line for Productive Investment (LFIP) of Micro, Small and Medium-Sized Enterprises (MSMEs)" reached ARS1.3 trillion in February, accounting for 13.8% of the total stock of loans to the private sector (+1.9 percentage points (p.p.) y.o.y.).
- In February, the non-performing ratio of loans to the private sector continued to stand at 3.2% (-1 p.p. in year-on-year terms). The delinquency ratio of loans to households stood at 3.1% over the period while, in the case of loans to companies, this ratio reached 3.3%. Over the month, the financial system's loan loss provisions stood at relatively high levels, accounting for 4.1% of total loans to the private sector and for 127.2% of the non-performing portfolio of lending.
- The stock of private sector deposits dropped 1.1% in real terms over the month (+1.9% y.o.y. in real terms). Sight accounts went up 2.2% in real terms in February, while the stock of time deposits contracted 4% in real terms. The evolution observed in February was mainly explained by the migration of time deposits to remunerated sight accounts by some institutional investors. There was a reversal of this situation in March within the framework of the increase of reference rates and time deposits interest rates decided by the Central Bank of Argentina (BCRA).
- In February, the financial system's liquid assets in a broad sense stood at 76.3% of total deposits, up 0.7 p.p. against January and 8.5 p.p. y.o.y.
- The sector's solvency ratios were on the rise in February. Regulatory Capital (RC) of the ensemble of financial institutions stood at 31.1% of risk-weighted assets (RWAs), up 1.1 p.p. against the value recorded in January (+4.4 p.p. y.o.y.). The capital position —ASE minus the minimum regulatory requirement— totaled 289.3% of the requirement at systemic level (+56.4 p.p. y.o.y.) and 46.4% of the total loans to the private sector net of provisions.
- The financial system's total comprehensive income in homogeneous currency for the aggregate of the last 12 months up to February was equivalent to 2.1% of assets (ROA) and to 11.9% of equity (ROE). These ratios have gone up in a year-on-year comparison mainly due to a higher financial margin despite the increase in losses for exposure to monetary items and in tax burdens.

I. Financial Intermediation Activity

The financial intermediation activity with the private sector contracted in February, mainly due to the seasonal factors which are typical at the beginning of the year. 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 the private sector and of liquidity in a broad sense. At the same time, there was a reduction in the stock of deposits and a slight increase in public sector loans in real terms over the month. Regarding the items in foreign currency, in February, there was a drop in both the stock of lending and liquidity, which was mainly offset by a drop in public sector deposits.

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

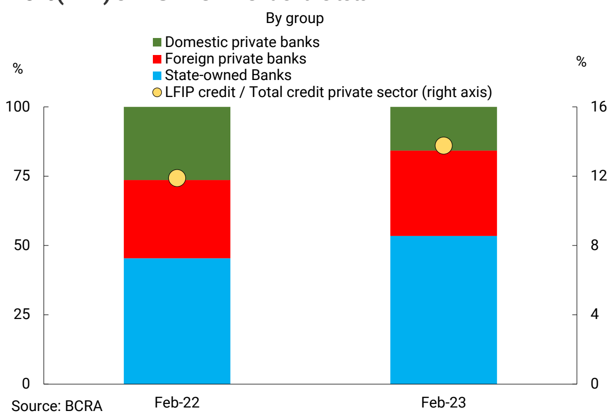


*Not seasonally adjusted. Total includes adjustments of principal and interest accrued. Source BCRA.

The stock of financing in pesos to the private sector fell 1.7% in real terms in February (+4.8% in nominal terms, see Chart 1),[1] with drops in state-owned and domestic private banks, and slight increases in foreign private institutions and in the non-banking financial institutions (EFNBs). Most of the credit lines in pesos dropped over the month in real terms, except for overdrafts. In year-on-year terms, the stock of loans in pesos went down 12.8% in real terms (+76.5% y.o.y. in nominal terms).

Under the "Credit Line for Productive Investment (LFIP) of MSMEs, ARS4.9 trillion have been disbursed from its launch (in October 2020) to late March 2023, which were provided to over 390,300 companies. In terms of stock, the estimated lending granted under the LFIP reached ARS1.3 trillion as of February, accounting for 13.8% of total lending to the private sector, up 1.9 p.p. against the level recorded one year ago (see Chart 2). More than 53% of the total estimated stock of the LFIP was provided by state-owned financial institutions.

Chart 2 | Estimated stock of the Credit Line for Productive Investment (LFIP) of MSMEs – As % of the total

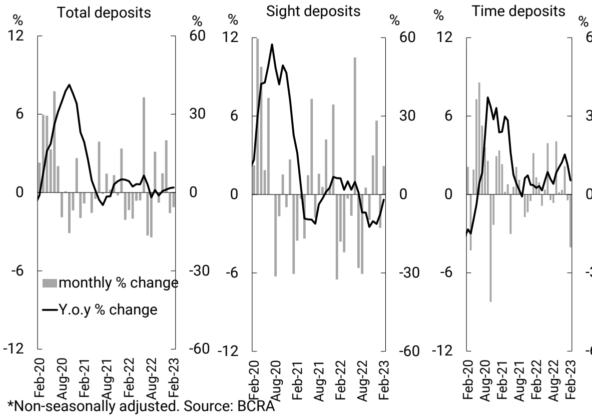


Source: BCRA

1 Including capital adjustments and accrued interest.

Regarding the segment in foreign currency, the stock of loans to the private sector contracted 3% in February against January.[2] Thus, the total stock of financing (in domestic and foreign currency) to the private sector accumulated a drop of 1.9% in real terms over the month (+4.6% in nominal terms) and of 13.1% in real terms against the level recorded one year ago (+75.8 % y.o.y. in nominal terms).

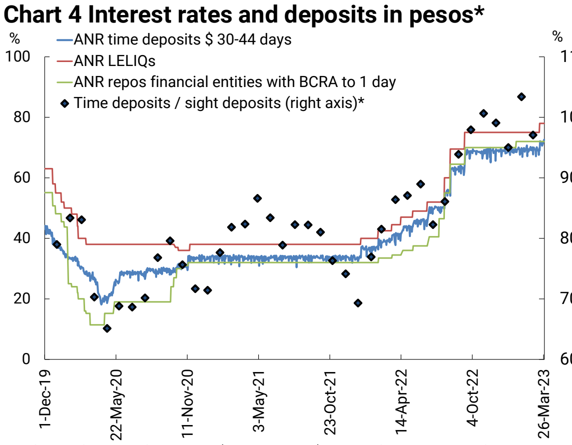
Chart 3 | Stock of private sector deposits in pesos
In real terms* - Financial System



*Non-seasonally adjusted. Source: BCRA

In terms of the financial system's funding, the stock of private sector deposits in domestic currency dropped 1.1% in real terms (+5.4% in nominal terms, see Chart 3) in February. A breakdown by type of deposit shows that sight accounts went up 2.2% in real terms (+8.9% in nominal terms) between ends of month, while the stock of time deposits dropped 4% in real terms (+2.3% in nominal terms). The monthly evolution was explained in part by the migration of time deposits to remunerated sight accounts by some institutional investors.[3]

Chart 4 Interest rates and deposits in pesos*



*Balance sheet stock in pesos (private sector). Last value is estimated . Source: BCRA

In March, institutional investors' time deposits resumed their growth path,[4] within the framework of the reference interest rate rises decided by the BCRA. In particular, the monetary authority raised the 28-day LELIQs interest rate and the minimum remuneration on natural persons' time deposits up to ARS10 million to a nominal annual percentage rate (APR) of 78% (minimum nominal APR of 69.5% for the remaining time deposits) (see Chart 4). The maximum lending interest rates of preferential lines for MSMEs and of credit cards remained unchanged.[5]

In February, the stock of private sector deposits in foreign currency did not post significant changes (+0.2% in currency of origin). The stock of private sector total deposits (in domestic and foreign currency) dropped 1.1% in real terms between ends of month (+5.5% in nominal terms).

In the last twelve months, the stock of private sector deposits in domestic currency went up 1.9% in real terms, mainly driven by time deposits (+5.4% y.o.y. in real terms). In turn, the stock of public

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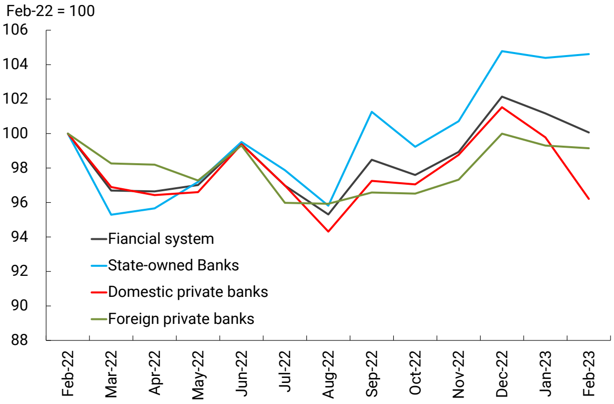
2 Expressed in currency of origin.
3 The stock of time deposits contracted 22.5% in real terms over the month (-17.4% in nominal terms), while time deposits (without adjustment clause) shrank 2.6% in real terms (+3.8% in nominal terms) and UVA-denominated deposits fell 12.8% in real terms (-7% in nominal terms).
4 For further detail, see Monthly Monetary Report.
5 See Press Release of March 16, 2023 and Communication "A" 7726.

sector deposits in pesos contracted 19.1% y.o.y. in real terms. Thus, the total stock of deposits (considering all currencies and both sectors) shrank 1.5% y.o.y. in real terms.

II. Aggregate Balance Sheet Evolution and Composition

The financial system's total assets contracted 1.1% in real terms (+5.4% in nominal terms) in February, standing at a level similar to that of one year ago (see Chart 5). The monthly contraction of assets was widespread across all groups of financial institutions, except for state-owned banks.

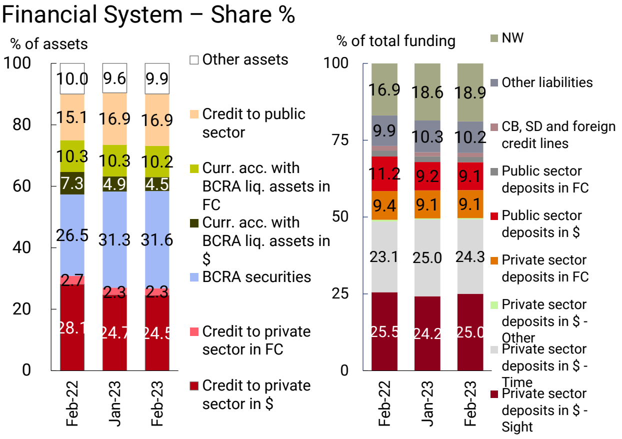
Chart 5 | Total assets in real terms
Financial system



Source: BCRA

Regarding the components of the financial sector's assets, there was a decrease in the relative share of liquid assets and current accounts held at the BCRA and also of loans in pesos to the private sector in February. Conversely, there was an increase in the share of BCRA's stock of holdings –LELIQs– (see Chart 6). With respect to the ensemble of institutions' total funding, there was a decrease in the share of private sector time deposits in pesos and public sector deposits in foreign currency. In turn, there was an increase in the share of private sector sight accounts in pesos and of net worth in the total funding corresponding to this period (see Chart 6).

Chart 6 | Composition of assets and total funding
Financial System – Share %



FC: Foreign currency. Source: BCRA

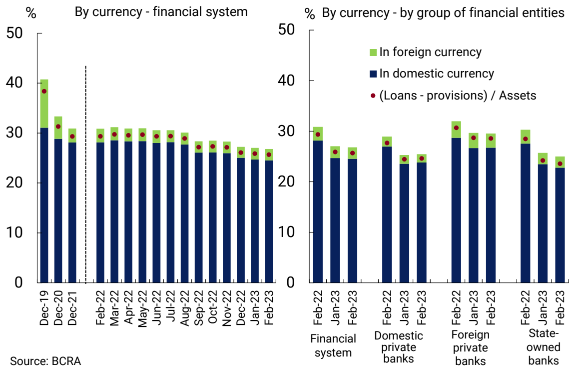
In the second month of the year, the differential between assets and liabilities in foreign currency contracted to 30.7% of the regulatory capital (+18.9 p.p. y.o.y.).[6] The differential between assets and liabilities with capital adjustment by CER (or denominated in UVA) did not post significant changes over the period and stood at 43.5% of the Regulatory Capital (RC) (-27.7 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.

III. Portfolio Quality

In February, the aggregate financial system's gross exposure to the private sector stood at 26.8% of total assets, down 4.1 p.p. in year-on-year terms (see Chart 7). Regarding the financing in pesos, this ratio stood at 24.5% over the period (-3.6 p.p. y.o.y.), while the weight of loans to the private sector in foreign currency accounted for 2.3% of assets (-0.4 p.p. y.o.y.). The stock of loans to the private sector net of provisions for the ensemble of financial institutions stood at 25.7% of assets in February, down 3.7 p.p. against the level recorded one year ago.

Chart 7 | Stock of loans to the private sector / Assets

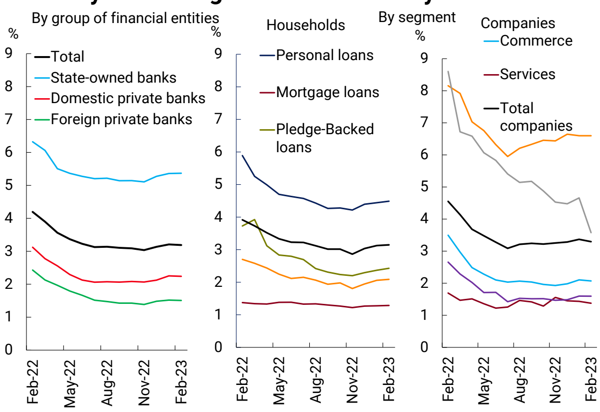


Source: BCRA

The non-performing ratio of loans to the private sector stood at 3.2% in February, contracting 1 p.p. in year-on-year terms (see Chart 8). A breakdown by credit segment shows that the delinquency ratio of loans to households remained unchanged at 3.1% (-0.8 p.p. y.o.y.), while the delinquency ratio of loans to companies went down slightly over the period, to 3.3% (-1.3 p.p. y.o.y.).

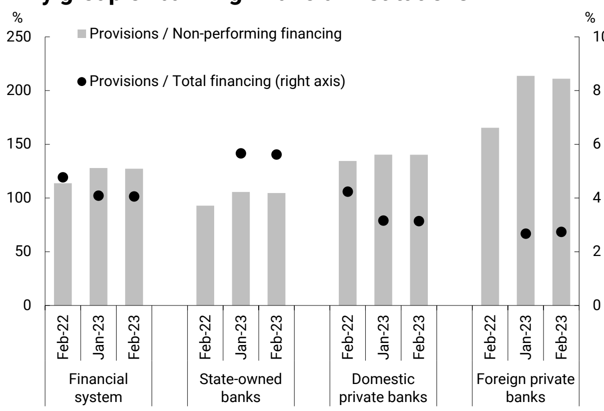
Provisions stood at around 4.1% of total financing to the private sector in February (without significant changes over the month and -0.7 p.p. y.o.y.; see Chart 9) and at 127.2% in terms of the non-performing portfolio (-0.2 p.p. against January and +13.5 p.p. y.o.y.). The stock of provisions attributable to the non-performing portfolio of loans[7] accounted for 94.9% of such portfolio at aggregate level (+5.4 p.p. y.o.y.).

Chart 8 | Non-performing ratio of loans to the private sector by debtor segment – Financial System



Sorce: BCRA

Chart 9 | Stock of loans and provisions (private sector) – By group of banking financial institutions



Source: BCRA

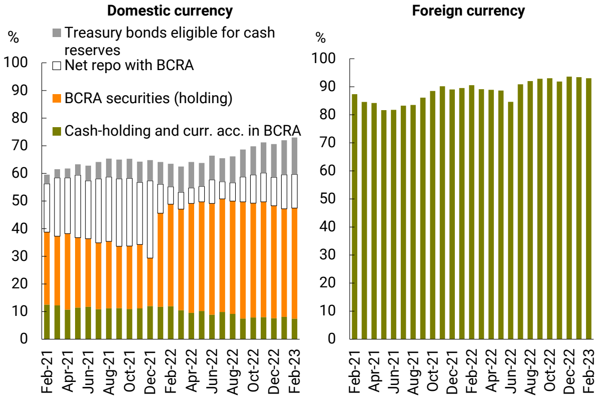
7 Total provisions net of the minimum regulatory provisions for debtors' categories 1 and 2, according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure

IV. Liquidity and Solvency

In February, liquid assets in a broad sense [8] of the aggregate financial system totaled 76.3% of deposits, up 0.7 p.p. against January. The ratio for the items in pesos stood at 73% and, for the items in foreign currency, it stood at 94.5% (see Chart 10). Broad liquidity (in pesos and in foreign currency) went up 8.5 p.p. of total deposits against February 2022.

The financial sector's solvency ratios went up over the month. The Regulatory Capital (RC) of the ensemble of financial institutions accounted for 31.1% of risk-weighted assets (RWAs), up 1.1 p.p. against the figure recorded in January (+4.4 p.p. y.o.y., see Chart 11). In turn, 96.8% of RC was accounted for by Tier 1 capital, with a greater capacity to absorb potential losses. The capital position —RC minus the minimum regulatory requirement— totaled 289.3% of the requirement at systemic level (up 14.2 p.p. against January and +56.4 p.p. y.o.y.) and 46.4% of the stock of loans to the private sector net of provisions, well above the average of the last 10 years (18.2%).

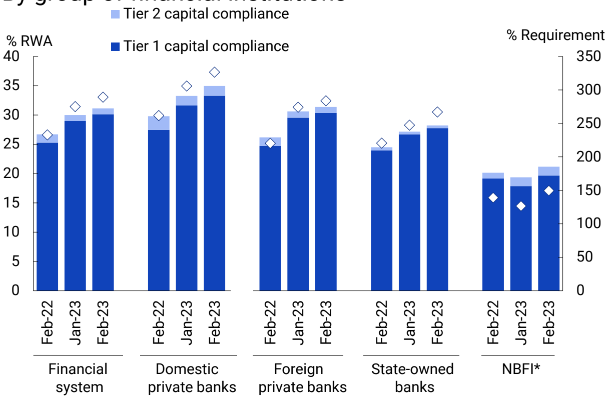
Chart 10 | Financial system's liquidity
In % of deposits



Source: BCRA

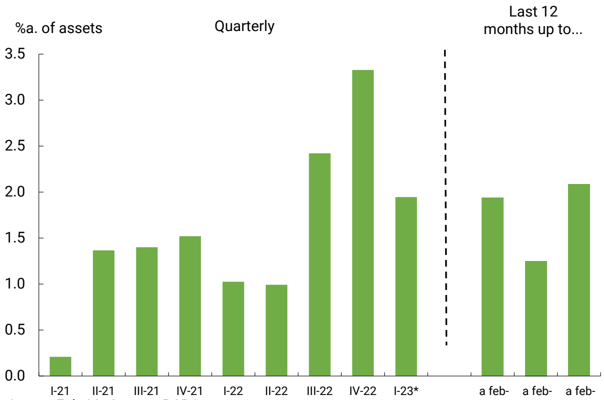
Regarding the sector's internal generation of capital, the financial system has managed to keep positive profitability ratios. The financial system accrued a total comprehensive income in homogeneous currency equivalent to 2.1% of assets (ROA) and to 11.9% of equity (ROE) in the aggregate of the last twelve months up to February. These ratios have increased in year-on-year terms (see Chart 12), mainly due to a higher financial margin, despite the increase in losses due to exposure to monetary items and in tax burdens.

Chart 11 | Compliance with regulatory capital
By group of financial institutions



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

Chart 12 | Financial system's total comprehensive income in homogenous currency



* up to Feb-23. Source: BCRA

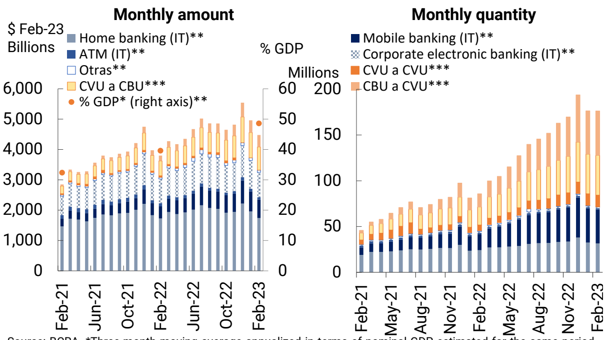
8 It considers liquid assets, BCRA instruments in domestic and foreign currency and all sovereign bonds admitted for compliance with the minimum cash requirement.

V. Payment System

In a context characterized by seasonal factors, instant transfers did not post significant changes in number and decreased in amount in real terms in February against January. However, in a year-on-year comparison, the expansion pace of instant transfers remained unchanged. In turn, instant transfers between Uniform Banking Codes (CBUs) grew 60.2% y.o.y. in number and 7.2% y.o.y. in amount in real terms, and especially remarkable was the performance of transactions made via Mobile Banking. Instant transfers involving Payment Service Providers —PSPs— (from and/or to Uniform Virtual Code —CVU) went up 160.1% y.o.y. in number and 73.7% y.o.y. in amount in real terms, exhibiting a greater momentum in transactions made from Financial Institutions to PSPs (CBU to CVU). It is estimated that the amount of instant transfers traded in the last three months (annualized) accounted for 48.6% of GDP (+9 p.p. against the same month of 2022, see Chart 13).[9]

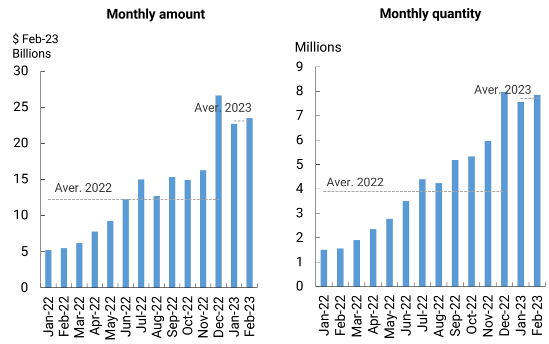
In February, payments by transfer (PCTs) initiated via interoperable QR codes increased against January (4% and 3.3% in number and in amount in real terms, respectively). The good reception by users of this payment modality translated into a quick adoption and increasing acceptance levels to such an extent that the transactions made have five-folded in a year-on-year comparison (see Chart 14).[10]

Chart 13 | 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 14 | Payments by transfer (PCTs) via interoperable QR codes



Source: BCRA.

Transactions with credit and debit cards dropped in January (latest information available) if compared to December 2022, within a context characterized by seasonal factors. However, there has been a year-on-year increase in both the number of transactions (16.5% in the case of debit cards and 8.5% in credit cards) and the amount in real terms (3.3% and 1%, respectively).[11]

In February, the clearing of checks went down in line with the typical seasonality of the period. In a year-on-year comparison, cleared checks have grown (7.9% in number and 6.2% in amount in

9 In February, the average value of transfers via channels between Financial Institutions (from CBUs to CBUs) was ARS45,500, while the value of transactions involving PSPs averaged ARS11,800.
10 During February the average amount of PCT with interoperable QRs was ARS3,000.
11 During January, the average amount of transactions via debit card and credit card was ARS4,380 and ARS8,420, respectively.

real terms), mainly due to the performance of electronic checks (ECHEQs) (+51.4% and 28.9%, respectively). These instruments have continued gaining share in the total clearing of checks. It is estimated that the amount of checks cleared in the last three months (annualized) was equivalent to 24.4% of GDP (+1.2 p.p. against the same month of 2022).[12]

Lastly, the ratio of bounced checks for insufficient funds in terms of total cleared checks did not post significant changes in number (0.76%) and went up slightly in terms of amounts traded (0.54%). The current levels of this ratio were slightly higher than those recorded in the same period of 2022 (+0.16 p.p. and +0.1 p.p. in terms of number and amount in real terms, respectively).

12 In February, the average amount of physical checks and electronic checks clearing transactions was ARS317,000 and ARS880,000, respectively.