Report on Banks

March 2023

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on May 17, 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

- In March, the financial intermediation activities of the aggregate financial system with the private sector exhibited a mixed performance: while time deposits in pesos continued growing like in previous months, the stock of loans to the private sector stabilized in real terms. In this context, the ensemble of financial institutions has kept high liquidity and solvency margins.
- So far this year, electronic means of payment have continued to expand and to gain relevance in the economy. This evolution has been driven by an increasing demand from users, the stimulus provided by the BCRA and the rising adoption by stores, financial institutions and Payment Service Providers (PSPs). It is estimated that the transactions made via the most relevant retail electronic means of payment (annualized value for the first quarter of 2023) accounted as a whole for an amount equivalent to the domestic GDP, up 15 percentage points (p.p.) and 29 p.p. of GDP against the value recorded one year ago and two years ago, respectively.
- In March, the stock of loans in pesos to the private sector in real terms did not post significant changes against February. Over the month, there was an increase in promissory notes, driven in part by the "Credit Line for Productive Investment (LFIP)" of Micro, Small and Medium-Sized Enterprises (MSMEs). As of March, the total stock of loans under the LFIP stood at ARS1.4 trillion and accounted for 13.4% of the total stock of lending to the private sector (+1.5 p.p. y.o.y.), with 43.8% of the stock intended for investment projects. Under the LFIP, the BCRA established that, as from mid-May, financing of investment projects will have a maximum nominal annual percentage rate (APR) of 76%, while financing for working capital will have a nominal APR of 88%. In order to improve financing alternatives for MSMEs, the BCRA regulated the Open Transfer System (SCA) of MSMEs Electronic Credit Invoices (FCEMs) through financial institutions.
- By the end of the first quarter of the year, the non-performing ratio of loans to the private sector continued to stand at 3.2% of the financial sector's portfolio, down 0.7 p.p. year-on-year (y.o.y.). Over the month, the delinquency ratio of loans to companies went down slightly to 3.2% (-0.9 p.p. y.o.y.), while the delinquency ratio of loans to households posted a slight increase up to 3.3% (-0.5 p.p. y.o.y.). The financial system's provisions accounted for 4% of loans to the private sector and for 126.1% of the non-performing portfolio of loans by the end of the first quarter of the year.
- The stock of private sector deposits in pesos shrank 1.1% in real terms in March (+2.9% y.o.y. in real terms). This decrease was mainly explained by the performance of sight accounts, since the stock of time deposits went up over the month. The monthly evolution was impacted by the rises in the minimum nominal interest rates established by the BCRA. In this context, some institutional investors decided to migrate their deposits from remunerated sight accounts to time deposits during March.
- By mid-May, the BCRA decided to raise the 28-day LELIQs interest rate and the minimum interest rate for time deposits in pesos of up to ARS30 million from natural persons, taking them to a nominal annual percentage rate (APR) of 97% (minimum nominal APR of 90% for the remaining time deposits). In addition, it also decided to reduce the interest rate on the financing of credit cards' unpaid balances for natural persons (as from June, it will go down from a nominal APR of 88% to a nominal APR of 86%).
- By the end of the first quarter, the financial system's liquid assets in a broad sense went up to 77.2% of deposits (74.6% for the items in pesos and 92.2% for the items in foreign currency), posting a slight rise against February and up 10.5 p.p. y.o.y.
- The financial system's solvency indicators went up slightly over the month. The Regulatory Capital (RC) of the ensemble of financial institutions stood at 31.4% of risk-weighted assets (RWAs), posting an increase of 3.8 p.p. y.o.y. In turn, the leverage ratio (based on Basel's

recommendations) reached 16.3% at systemic level by the end of the first quarter, exceeding the minimum regulatory requirement (3%) in all operating financial institutions.

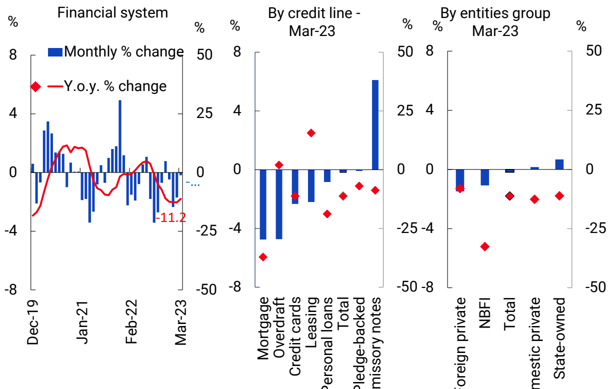
- In the first quarter of 2023, the financial system accrued a total comprehensive income (in homogenous currency) of 2.2% (annualized) of assets (ROA), standing at a level similar to the one recorded in the last 12 months.

I. Financial Intermediation Activity

In March, the aggregate financial system's intermediation activities with the private sector exhibited a weak performance. 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 liquidity in a broad sense and in the stock of financing, mainly to the public sector. In turn, there was a decline in deposits in real terms. Regarding the items in foreign currency, in March, there was a drop in both deposits and liquidity, accompanied by an increase in financing, mainly to the public sector.

The stock of loans in domestic currency to the private sector in real terms did not post significant changes against the value recorded in February (-0.2%, see Chart 1).[1] In March, there was a significant rise in promissory notes in real terms, which virtually offset the reduction observed in the remaining credit lines. The year-on-year change in the stock of financing in pesos continued to show a negative sign.

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.

Part of the positive monthly evolution of promissory notes was driven by the "Credit Line for Productive Investment (LFIP)" of MSMEs. Nearly ARS5.4 trillion have been disbursed under this tool from its launch to late April 2023, which were provided to over 424,200 companies. The estimated stock granted under the LFIP totaled ARS1.4 trillion as of March. It is estimated that the LFIP credit line has accounted for 13.4% of total lending to the private sector (+1.5 p.p. y.o.y.), with 43.8% of loans intended for investment projects.[2]

In order to widen financing alternatives for MSMEs, the BCRA has recently regulated the Open Transfer System (SCA) of MSMEs Electronic Credit Invoices (FCEMs) through financial institutions

1 Including capital adjustments and accrued interest.
2 In the framework of the LFIP, the BCRA decided that, as from mid-May, financing provided to investment projects will have a maximum nominal annual percentage rate (APR) of 76%, while the nominal APR for the remaining credit lines will be 88%.

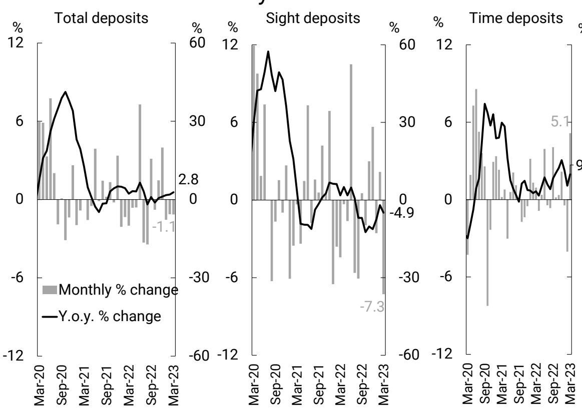
and created regulatory incentives associated with them. Using this system, MSMEs may transfer for free and discount the FCEMs from their account.[3]

In March, the stock of loans to the private sector in foreign currency went up 1.4%.[4] The total stock of financing (in domestic and foreign currency) to the private sector did not post significant changes over the period (-0.2% in real terms), thus accumulating an 11.2% year-on-year drop in real terms.

According to the results of the latest Survey on Credit Conditions (ECC) corresponding to the first quarter of the year,[5] the financial institutions participating in the survey reported that, in terms of financing to companies, credit supply would not have posted significant changes. In turn, demand would have gone up slightly in early 2023. In terms of lending to households, the result was also neutral with reference to supply but there was a slight increase in the demand for consumption loans and pledge-backed loans.

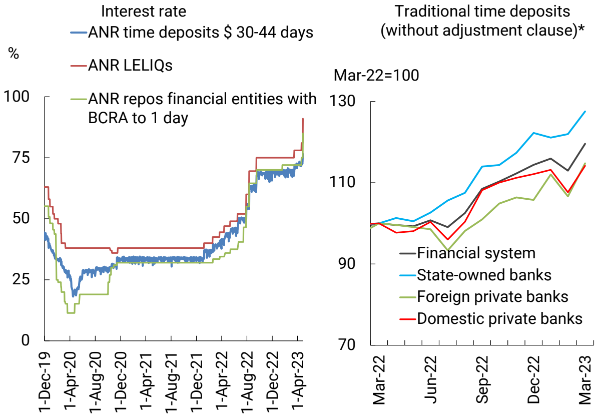
Regarding the ensemble of institutions' funding, the stock of private sector deposits in pesos in real terms went down in March on a month-on-month basis (see Chart 2), mainly due to the performance of sight accounts, since time deposits were on the rise. This evolution was mainly due to a migration to time deposits to the detriment of sight accounts by some institutional investors, resulting in a reversal of the performance observed in February. In addition, the increase in time deposits during March was in line with the rises in the minimum nominal interest rates (see Chart 3).

Chart 2 | Stock of private sector deposits in pesos
In real terms* - Financial System



*Non-seasonally adjusted. Source: BCRA

Chart 3 Interest rates and time deposits



*Not seasonally adjusted. Source: BCRA

By mid-May, the BCRA raised once again the interest rate on 28-day LELIQs and the minimum interest rate for time deposits in pesos of up to ARS30 million from natural persons, taking them to a nominal annual percentage rate (APR) of 97% (while the minimum nominal APR for the remaining time deposits was raised to 90%). In addition, the monetary authority decided to

3 See Press Release of May 4, 2023 and Communication "A" 7758. In addition, the financial institutions will be authorized to deduct financing to clients considered to be MSMEs instrumented via purchase of MSMEs Electronic Credit Invoices (FCEMs) from the minimum cash requirement in pesos.
4 Expressed in currency of origin.
5 For further information, see the Survey on Credit Conditions (ECC).

reduce, as from June, the interest rate on the financing of natural persons' credit card unpaid balances from a nominal annual percentage rate (APR) of 88% down to a nominal APR of 86%, whenever the amount financed —considering each credit card account— does not exceed ARS200,000.[6]

In March, the stock of private sector deposits in foreign currency went down 1.8% in currency of origin. Thus, the stock of the private sector total deposits (in domestic and foreign currency) shrank 1.5% in real terms over the period.

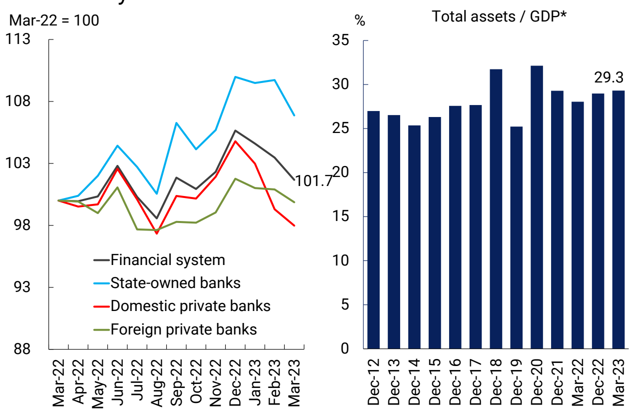
In a year-on-year comparison, the stock of private sector deposits in pesos went up 2.8% in real terms. In this context, the stock of total deposits in real terms (all currencies and sectors) posted no significant changes if compared to the level recorded one year ago.

II. Aggregate Balance Sheet Evolution and Composition

In March, the ensemble of financial institutions' total assets shrank 1.7% in real terms, standing above the level recorded one year ago (see Chart 4). This monthly decrease of assets was widespread across all groups of financial institutions. It is estimated that the financial institutions' total assets accounted for 29.3% of GDP by the end of the first quarter of the year, exceeding the level reached in March 2022 and the average value of the last 10 years (28.2%).

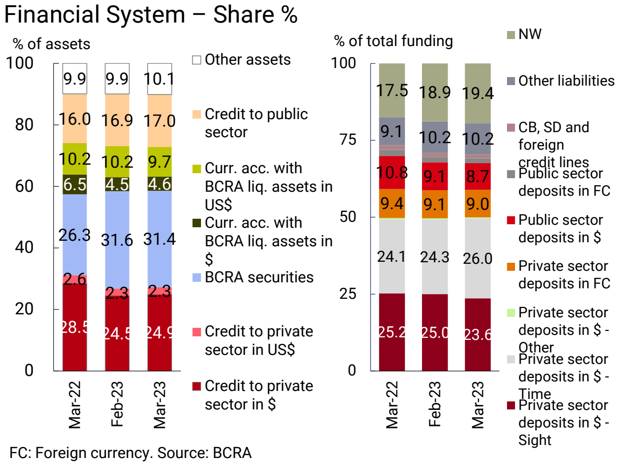
Regarding the components of the sector's total assets, there was a decrease in the share of the stock of liquid assets and of the current accounts held at the BCRA, accompanied by an increase in the relative share of loans in pesos to the private sectors (see Chart 5) in March. With reference to total funding, there was a decrease in the relative share of private sector sight accounts in pesos and of public sector deposits in the same denomination over the month. On the other hand, there was a rise in the share of private sector time deposits in pesos and of net worth in total funding over the period (see Chart 5).

Chart 4 | Total assets in real terms
Financial system



*Quarterly averages are considered. Source: BCRA

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



FC: Foreign currency. Source: BCRA

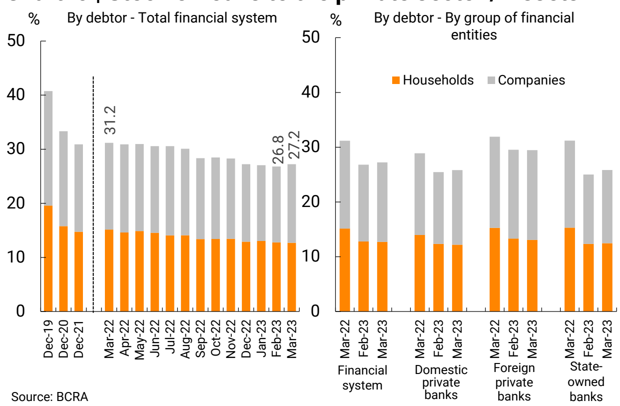
6 See Communication "A" 7767.

In turn, the estimated differential between the financial system's assets and liabilities in foreign currency went up 1.5 p.p. of the Regulatory Capital (RC) to 32.2% (+22.2 p.p. y.o.y.).[7] Regarding items adjusted by CER (or denominated in UVA), the estimated differential between assets and liabilities stood at 57.8% of ASE over the period for the ensemble of institutions, up 14.3 p.p. against February (-14.5 p.p. y.o.y.).[8]

III. Portfolio Quality

The share of total lending to the private sector in assets —gross exposure— of the ensemble of financial institutions totaled 27.2% in March, going up slightly over the month [9] (-3.9 p.p. y.o.y.). This monthly evolution was mainly related to the performance of financing to companies, which posted a slight increase in its relative share to 14.5% of assets, while the share of loans to households went down slightly to 12.7% of assets (see Chart 6). [10] Upon deduction of the stock of provisions, the exposure to the private sector stood at 26.1% of assets by the end of the first quarter of the year for the financial system as a whole.

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

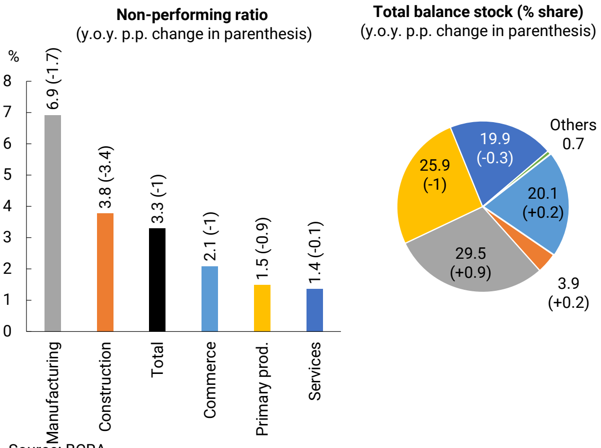


Source: BCRA

In March, the non-performing ratio of loans to the private sector continued to stand at around 3.2% of the sector's total portfolio, going down 0.7 p.p. in year-on-year terms. A breakdown by credit segment shows that the delinquency ratio of lending to companies decreased slightly to 3.2%, down 0.9 p.p. against the level recorded one year ago. This year-on-year performance was widespread across all sectors of the economic activity (with sharper drops in the non-performing ratio of loans to industrial and construction companies, see Chart 7). In turn, the non-performing ratio of loans to households went up slightly to 3.3%, accumulating a 0.5 p.p. drop y.o.y. In a year-on-year comparison, the performance of the delinquency ratio of loans to households was widespread in all credit lines (with sharper drops in pledge-backed loans and personal loans, see Chart 8).

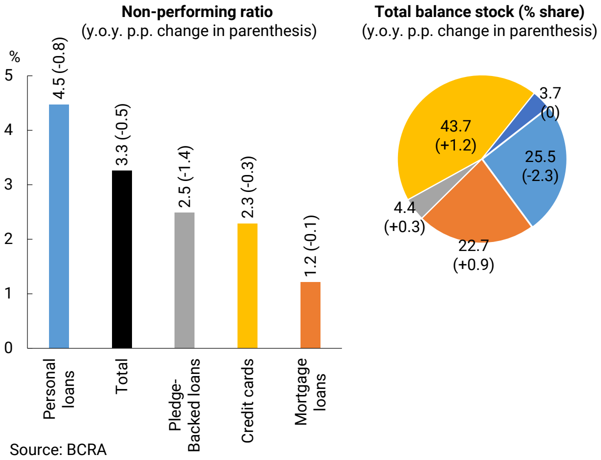
7 Including purchase and sale forward transactions in foreign currency, classified as off-balance. The deposits from the agricultural sector subject to a variable return based on the evolution of the exchange rate are included in liabilities.
8 It is worth mentioning that, in March, the Federal Government carried out a swap of bills and bonds, mainly delivering instruments in pesos adjusted by CER in exchange for instruments in pesos at a fixed rate.
9 This monthly increase occurred in a context where, relatively speaking, the drop of assets in real terms exceeded lending to the private sector (–1.7% versus –0.2%, respectively, see the preceding Sections of this Report).
10 Considering financing in pesos only, the ratio between credit to the entire private sector and assets stood at 24.9% over the period (+0.4 p.p. m.o.m. and -3.6 p.p. y.o.y.), while the ratio for items in foreign currency stood at 2.3% of assets (posting no changes over the month and standing at -0.3 p.p. y.o.y.).

Chart 7 | Non-performing ratio of loans to companies as of March 2023 – Financial System



Source: BCRA

Chart 8 | Non-performing ratio of loans to households as of March 2023 – Financial System



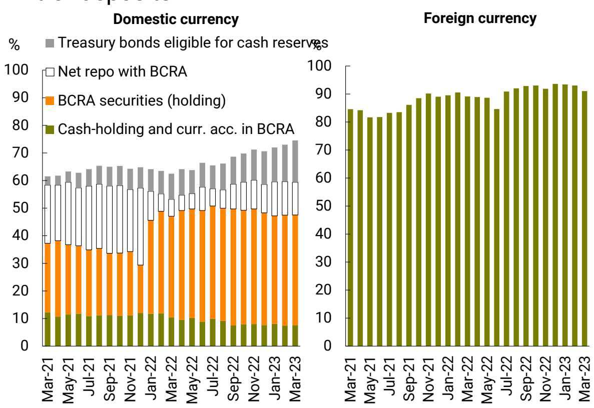
Source: BCRA

Provisioning stood at a relatively high level in March. Provisions for the aggregate financial system stood at 4% of total lending to the private sector in March (without posting significant changes over the month and standing at -0.5 p.p. y.o.y.) and at 126.1% of the non-performing portfolio of loans (-1.2 p.p. against February and +9.8 p.p. y.o.y.). Over the period, the stock of provisions attributable to the non-performing portfolio[11] totaled 93.9% of such portfolio at aggregate level (+3.7 p.p. y.o.y.).

IV. Liquidity and Solvency

In March, the financial system's liquid assets in a broad sense [12] accounted for 77.2% of deposits, posting a slight increase against February. The ratio for the items in pesos stood at 74.6%, while the ratio for the items in foreign currency stood at 92.2% (see Chart 9). Regarding the components of liquidity in domestic currency, between ends of month, there was an increase in the share of the National Treasury instruments admissible for compliance with the Minimum Cash requirement, accompanied by a reduction in the share of BCRA instruments (holdings and repo transactions). In a year-on-year comparison, broad liquidity (in pesos and in foreign currency) went up 10.5 p.p. of total deposits.

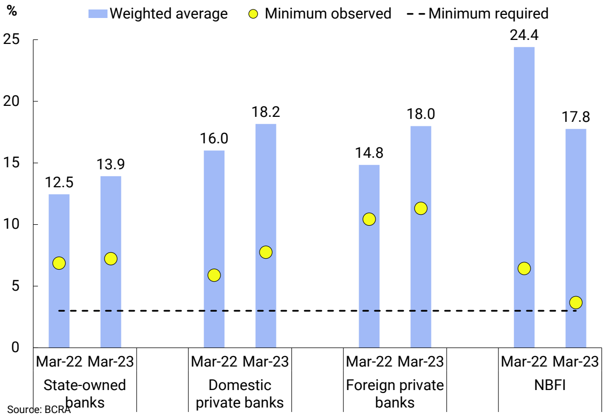
Chart 9 | Financial system's liquidity
In % of deposits



Source: BCRA

11 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.
12 It considers liquid assets, BCRA instruments in domestic and foreign currency and all sovereign bonds admitted for compliance with the minimum cash requirement.

Chart 10 | Leverage ratio
Tier 1 capital in terms of a total exposure measure



Source: BCRA

In turn, solvency ratios rose slightly over the month. The ensemble of financial institutions' Regulatory Capital (RC) stood at 31.4% of risk-weighted assets (RWAs), up 0.3 p.p. against the value recorded in February (+3.8 p.p. y.o.y.). In turn, 96.8% of ASE was accounted for by Tier 1 capital, with a greater capacity to absorb potential losses. In March, the capital position —ASE minus the minimum regulatory requirement— totaled 292.6% of the requirement at systemic level (+47.3 p.p. y.o.y.) and 47.1% of the stock of loans to the private sector net of provisions, standing above the average value of the last 10 years (18.5%).

On the other hand, the leverage ratio (according to the recommendations of the Basel Committee: Tier 1 Capital in terms of a total exposure measure) went up across all groups of banks in year-on-year terms (with a reduction in Non-Banking Financial Institutions (EFNBs), see Chart 10). As of March, the leverage ratio reached 16.3% at aggregate level, up 2 p.p. y.o.y., standing quite above the minimum regulatory requirement (3%). The ratio of all financial institutions has stood above the minimum regulatory requirement.

Regarding the sector's internal generation of capital, the financial system accrued a positive total comprehensive income in homogeneous currency over the first quarter of the year which, in terms of assets (ROA), has been similar to the value recorded in the last 12 months. Consequently, for the aggregate financial system, the ROA of the first quarter of 2023 has been lower than that of the last quarter of 2022, mainly due to higher negative monetary results, and this was partially offset by the decrease in other expenses (tax and administrative expenditures).[13]

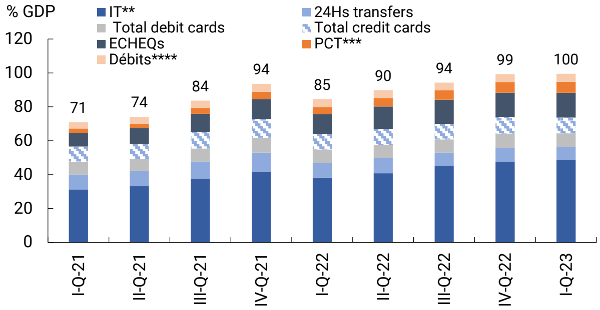
V. Payment System

In the first quarter of 2023, the main retail electronic means of payment continued to expand and to gain relevance in the economy, mainly due to the increasing demand by users, the stimulus provided by the BCRA and the rising adoption by stores, financial institutions and Payment Service Providers (PSPs).[14]

13 The ROA corresponding to the first quarter of 2023 was higher than that of the same period of 2022, mainly due to an increase in the financial margin (income from securities and from interest on loans, while this effect was partially offset by higher expenses for interest paid), which was lessened by higher losses due to exposure to monetary items.
14 Recently, the BCRA established that Payment Service Providers (PSPs) offering payment accounts (PSPCPs) can neither make nor allow their clients to make transactions with digital assets —including cryptoassets and those whose yield is determined on the basis of the changes recorded by them— if they are not authorized by the competent regulatory authority and the BCRA. The objective of this measure is to mitigate the risk that transactions with these assets might entail for the users of financial services and for the national payment system. This regulation puts PSPCPs and financial institutions on an equal footing regarding the regulations they must comply with (Communication A 7506). For further detail, see the Press Release and Communication "A" 7759.

In a context characterized by seasonal factors, there was an increase in the volume of transactions traded via the most relevant electronic means of payment in March.[15] Against this backdrop, it is estimated that the amounts traded through this set of payment instruments accounted for a total equivalent to nearly 100% of GDP by the end of the first quarter, exceeding the level reached one year ago and also two years ago (see Chart 11).

Chart 11 | Main retail electronic means of payment – Estimate of amounts traded as % of GDP



*Note: *Quarterly annualized in terms of nominal GDP (without seasonality) estimated for the same period.**IT = Immediate Transfers.***PCT = Payments with Transfer, includes inter and intra PSP transactions.**** Includes direct debits and immediate debits (DEBIN) Note: For credit card transactions, the latest information available is Feb-23. For debit card transactions, the latest available information is Jan-23. Source: BCRA. Source: BCRA.

Payments by transfer (PCTs), electronic checks (ECHEQs) and instant transfers (TI) were the instruments that have gained a significant share, both on the margin and in a year-on-year comparison. Thus, instant transfers and ECHEQs are consolidating as the instruments with the highest relative weight (48.6% and 14.6% of GDP, respectively), while payments by transfer (PCTs) are gradually gaining ground (6.5% of GDP).[16]

Lastly, the ratio of bounced checks for insufficient funds in terms of total cleared checks increased slightly in number (0.89%) and in terms of amounts traded (0.65%). The current levels of this ratio were slightly higher than those recorded in the same period of 2022 (+0.18 p.p. and +0.13 p.p. in terms of number and amount in real terms, respectively).

15 Over the month, Instant Transfers went up significantly: 18.8% in number and 16.8% in amount in real terms. Within instant transfers between Uniform Banking Codes (CBUs), there was a remarkable increase in the use of Corporate Banking, which went up 24.6% in number and 15.6% in amount in real terms. The use of interoperable QR codes also recorded a significant increase of 19% in number and 12.4% in amount in real terms. Lastly, the use of ECHEQs rose 14.5% in number and 13.7% in amount in real terms.
16 Within the framework of the retail digital transactions, the BCRA established that tourists may pay with electronic wallets by means of a debit in the non-residents' accounts held abroad at an exchange rate which will take the value of the financial dollars as reference (see Press Release and Communication "A" 7762).