Report on Banks

June 2020

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Table of Contents

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 August 26, 2020.
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

- Since late 2019, the BCRA has been implementing a set of economic measures that, among other objectives, seek to recover the dynamism of the main functions of the financial system: channeling savings towards financing consumption and production, while providing swift and secure means of payment. After significantly reducing the monetary policy interest rate from 63% to 38% per annum, in the context of the pandemic, the BCRA further its actions by actively stimulating credit, mainly to those sectors with the greatest liquidity needs. To this end, efforts were made to eliminate the procyclical nature that financial systems usually present and, in parallel, sustain the soundness that featured the ensemble of financial institutions in recent years. Simultaneously, measures were implemented to protect savings in pesos.

- Consolidating the performance of recent months, loans to private sector in pesos increased by 1.4% in real terms in June and accumulated a year-on-year (y.o.y.) rise of 5.6% in real terms. This performance was partly explained by new credit assistance for MSMEs that this Institution has been promoting. Until the third week of August, about 241,000 loans were granted through a special line for MSMEs (with a 24% ANR, below the market rate), totaling disbursements or $390 billion. The *MiPyME Plus* (MSME Plus) credit line, created to assist companies that did not have access to credit from financial institutions, also helped. The potential for financial inclusion of this last instrument was reflected in the almost 5,300 companies that accessed this line, with amounts disbursed for $2.6 billion.

- Another credit tool promoted by this Institution is the loan at a 0% rate, which seeks to ease the economic effects of the pandemic and social for those under the simplified tax regime (*monotributistas*) and the self-employed. Until the middle of the second half of August, 523,000 loans were approved for a total of $62 billion through this program, 88% of the total already disbursed. Given that this assistance is implemented through credit cards, it should be noted that up to the aforementioned date, 173,000 cardholders have been included in the system, who until then had no such credit instrument.

- In the context of measures designed to protect the savings of households and businesses in the financial system, the BCRA increased the minimum interest rate for time deposits in pesos from the beginning of June and then from the beginning of August. Boosted by the aforementioned measures, these private sector time deposits in pesos grew 8.6% in real terms in June. On the other hand, given the seasonal effect of the payment of the mid-year bonus, added to the disbursement of the second tranche of the Emergency Household Income (IFE), sight deposits also increased in the month (7.4% in real terms). Following this, private sector deposits in pesos climbed 26.1% y.o.y. in real terms.

- Significant growth has been observed in recent months in the economy's electronic means of payment, mainly in instant transfers (with an outstanding performance of mobile banking and online banking transactions) and debit card transactions (led by those conducted through electronic channels -not in person-). On the other hand, there is a growing weighting of electronic checks -ECHEQs- among checks cleared, amidst decreasing levels of bounced checks for insufficient funds.

- At the end of the first half of 2020, the liquidity of the ensemble of financial institutions continued at high levels. In June, the broad liquidity indicator in aggregate terms stood at 65.8% of total deposits, without significant changes compared to May and up 5 p.p. year-on-year.

- The financial system's aggregate solvency also maintained high records by mid-2020. The adjusted stockholders' equity (ASE) of the financial system totaled 22.3% of risk-weighted assets (RWA) in June, far exceeding the minimum required by international standards. The resilience of the sector, characterized in part by its solvency indicators, is maintained in the context of adjustments implemented by this Institution on macroprudential regulation. In particular, and in line with the modifications implemented by various Central Banks in the current pandemic scenario the BCRA decided to limit financial institutions' dividends distribution for the remainder of 2020.

I. Financial system activity

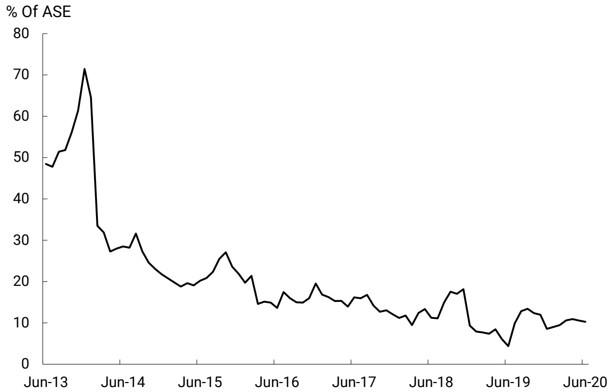
During June, the activity of the ensemble of financial institutions continued to unfold in the context defined by the COVID-19 pandemic and the measures implemented to mitigate its effects. Following this, the BCRA has been actively working to mitigate adverse effects on the real economy, promoting credit stimulus measures with accessible conditions for households and businesses, financial relief for the most affected segments, as well as protection and promotion of private-sector savings in the financial system. The actions of the BCRA were reflected in the recent positive performance of loans and time deposits in pesos (for further information, see “Section II. Credit and portfolio quality” and “Section III. Deposits and liquidity”).

According to the estimated monthly flow of funds for items in domestic currency,[1] the expansion of private-sector deposits and the reduction in the balance of institutions’ current accounts at the BCRA were the main sources of funds. On the other hand, among the most relevant allocations in June were the increase in BCRA instruments (including repos), the rise in loans to private and public sector, as well as a fall in public sector deposits.[2]

Financial institutions’ total aggregate assets grew 2.1% in real terms (4.4% in nominal terms) in June, reflecting a greater relative dynamism in national private institutions.

In June, the weighting of assets and liabilities in foreign currency continued to lose weight in the institutions’ balance sheets. Assets in foreign currency represented 19.9% of total assets (-1.1 p.p., m.o.m.) during the month, while liabilities in the same denomination totaled 18.6% of total funding (-1.2 p.p., m.o.m.). These levels were 10 p.p. below those recorded in June 2019. On the other hand, when including forward transactions in foreign currency, the difference between assets and liabilities in foreign currency stood at 10.3% of regulatory capital in June, slightly lower than last month (see Figure 1).

Figure 1 | Foreign currency assets - Foreign currency liabilities + Foreign currency forward position
Financial System

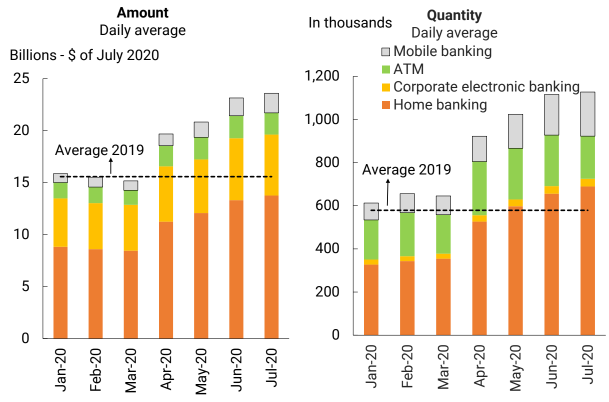


Source: BCRA

1 Differences of the balance sheet stock in uniform currency.
2 Considering the segment of items in foreign currency (in currency of origin), the monthly reduction in credit to the private sector was the most relevant source of funds for the financial system. In turn, the increase in liquid assets and, to a lesser extent, the decrease in private sector deposits and wholesale funding (foreign credit lines), were the most prominent allocation of resources in foreign currency in most institutions.

As to payment system transactions, the use of instant electronic transfers continued growing among the transactions performed in the economy during July (latest available information) (see Figure 2). The number of said transactions and the amount involved climbed (considering daily averages) 1% m.o.m. (+91.1% y.o.y.) and 1.9% m.o.m. in real terms (+47.2% y.o.y. in real terms), respectively. As in previous months, mobile banking was the most dynamic channel in July, although it still represents a relatively moderate share of total instant transfers (18% and 8% of the total for number and amount in the month, respectively).

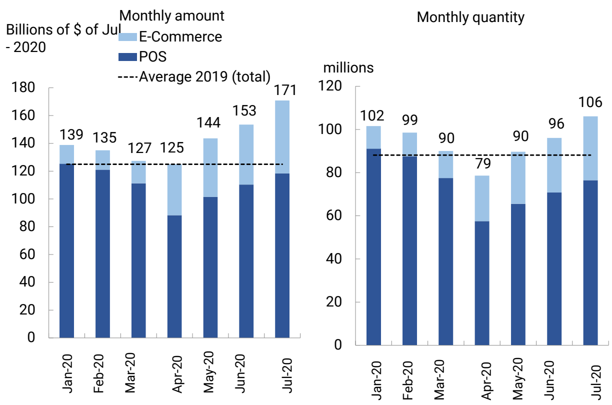
Figure 2 | Instant transfers in domestic currency



Source: BCRA

In addition to strengthened instant transfers, certain changes have also been observed in the use of other electronic means of payment in recent months. The use of debit cards grew in July just over 10% both in amount and number in real terms against June (+26% y.o.y. in real terms), reaching levels above 2019 average (37% and 20% in amount and number, respectively) (see Figure 3). The most notable change in this payment instrument is taking place in the channels of use. While at the beginning of the year only 10% of the amount and number of transactions were carried out through online electronic commerce (the remainder was traditional commerce carried out in person), in July 2020 the electronic channel reached 31% and 28% in amount and number of transactions, respectively. Furthermore, so far in 2020, there has been a growth of around 18% in the average purchase real terms (approximately $1,600 in July). Amidst the mobility restrictions implemented to face the effects of the pandemic, the BCRA ruled in March that the delivery of debit and credit cards must be made by post to user's homes[3], thus speeding up its availability.

Figure 3 | Debit card transactions



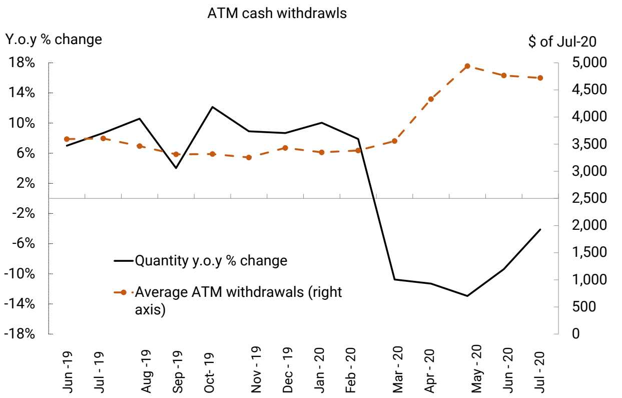
Source: BCRA

Since the beginning of the pandemic, this Institution has been implementing measures to reduce the infection risk that could be related to the frequent use of ATMs. Cash availability at ATMs was thus expanded, establishing they should admit withdrawals of at least $15,000 daily per user.[4] Furthermore, fees and charges for cash withdrawals at ATMs[5] (when withdrawing cash from ATMs or networks other than the customer's) were suspended. A lower number of ATM cash withdrawals by the population was therefore recorded (see Figure 4), along with higher amounts in average withdrawals -growing 33% in real terms in March, to almost $4,720 in July-.

3 Communication "A" 6948.
4 Communication "A" 6957.
5 Communications "A"6945 and "A" 7044.

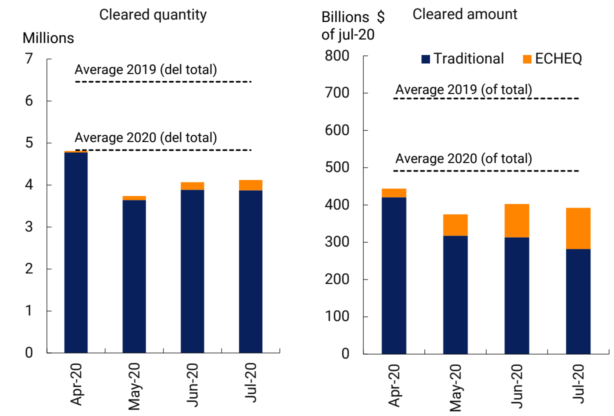
During July (latest available information), the number of cleared checks was similar to last June (below the annual average of 2019 and 2020). Broken down by types of check, electronic checks (ECHEQs) have been gaining prominence in recent months, from 5.2% of the total amount (0.8% in number) in April to 28.2% (6% in number) in July (see Figure 5). Checks bounced for insufficient funds regarding total cleared checks fell again in July (both in amount and number), reaching thus levels similar to those registered by mid last year (see Figure 6), significantly below those observed after the outbreak of the COVID-19 pandemic and the social isolation measures therefore adopted.

Figure 4 | ATM cash withdrawals



Source: BCRA

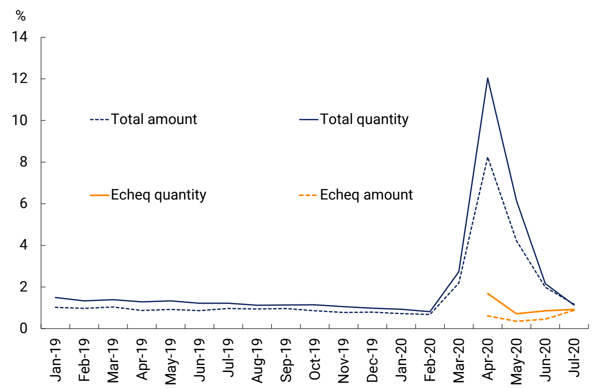
Figure 5 | Cleared checks



Source:BCRA

Figure 6 | Bounced Checks for insufficient funds

As % of total cleared



Source: BCRA

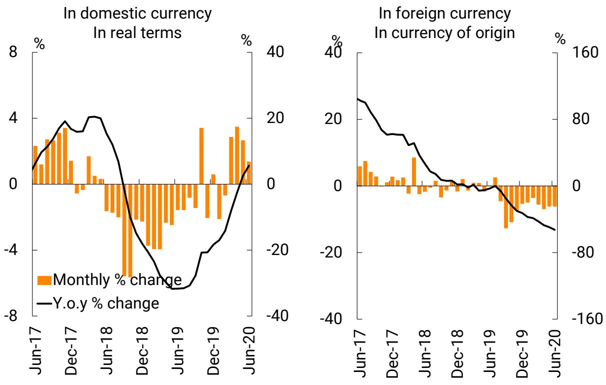
II. Credit and portfolio quality

Consolidating the performance of recent months, loans to private sector in pesos increased in June 1.4% in real terms (3.6% in nominal terms) (see Figure 7).[6] Credit cards and promissory notes continued to mainly lead this performance, reflecting the effect of the measures implemented by the BCRA to mitigate the economic impact of the pandemic on households and businesses, especially those most affected by the new scenario.

6 Including adjustments of principal and interest accrued.

Since the beginning of 2020, this Institution has been promoting new credit assistance targeting MSMEs, an action that was strengthened since the end of the first quarter due to the global shock. Namely, about 241,000 loans were granted until the third week of August through the special credit line for MSMEs launched by late March (with a 24% ANR, below the market)[7], accumulating disbursements for $390 billion -13% of which have a FoGar (Argentine Guarantee Fund) surety- (see Figure 8).[8] National private institutions accounted for 41% of total disbursements, followed by foreign private ones with 31% and public ones with 28%. It should be noted that, given the sustained expansion of this credit line with more flexible financial conditions, the BCRA decided to significantly expand its scope in June, allowing the alternative of assisting non-MSMEs that channel those resources to acquiring machinery and equipment produced. by local MSMEs.[9]

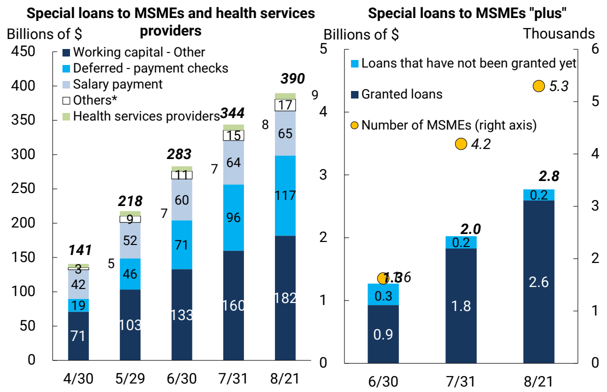
Figure 7 | Stock of loans to the private sector by currency*



*Not seasonally adjusted.

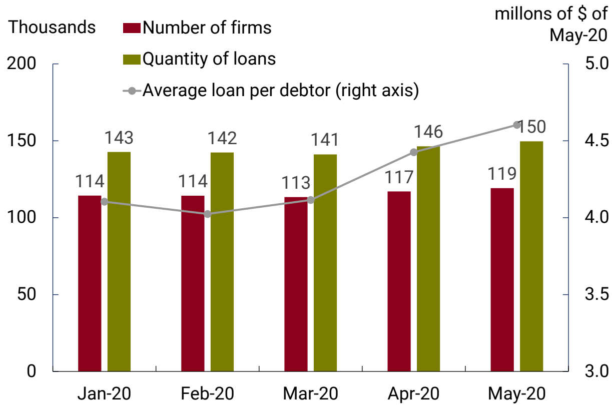
To expand the range of companies benefiting from loans at interest rates below market rates, this

Figure 8 | Special credit lines for MSMEs and Health Service Providers* - Cumulative disbursements



*To MSMEs not included in lines with 50% or more of working capital. Source: BCRA

Figure 9 | Loans through promissory notes
Financial System



Institution implemented a tool called MiPyME Plus (MSME Plus) in early May, to assist those businesses without access to bank financing.[10] The financial inclusion potential of this tool was reflected in the almost 5,300 companies that accessed it so far. The amounts disbursed totaled $2.6 billion (see Figure 8), with almost two-thirds backed by the FoGar sureties, a ratio that reaches 80% when considering the number of MSMEs covered by the aforementioned sureties.[11] National private institutions granted 75% of the total amount disbursed, followed by public ones with 16% and foreign private banks with 9%.

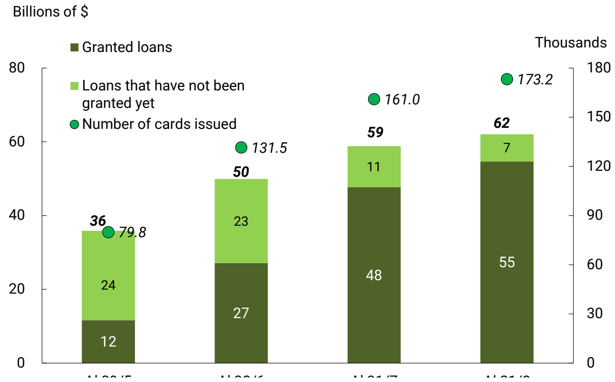
7 Communication "A" 6937 and amendments.
8 Note that, upon the release of this Report, $9.1 billion had been approved through this line though not yet disbursed, with additional requests in process for almost $7.7 billion.
9 See Communication "A" 7054.. Additionally, the obligation to grant this credit assistance to MSMEs with FoGar guarantees was implemented, among other changes.
10 Communication "A" 7006 and amendments.
11 Furthermore, at the time of releasing this Report, an additional $170 million had been approved, with pending disbursements.

As mentioned at the beginning of this Section, these initiatives aimed at assisting businesses in a more complex activity scenario are being reflected mainly in loans through promissory notes granted by financial institutions. In January 2020, the financial system at the aggregate level had almost 114,000 companies using this credit line,[12] with approximately 143,000 loans. In May, the latest available information, there were just over 119,000 companies registered under this line (+4.2% against the beginning of the year), with almost 150,000 loans (+4.8% in the same period) (see Figure 9). The average balance per debtor in this line grew 12% in real terms since the beginning of the year.

More recently, and in line with the initiative promoted by the National Government as part of the Emergency Assistance to Work and Production (ATP) program ([Executive Order No. 332/2020] and amendments), the BCRA implemented a new line at subsidized interest rates for businesses to pay salaries.[13] This line has special interest rates ranging from 15% to 0%, depending on the companies' y.o.y. turnover: the weaker the turnover performance observed, the lower the interest rate.[14] These resources are credited directly in the employees' wage account, available to the firms that request them (included in the list defined by the Federal Administration of Public Revenues (AFIP) for this purpose).

The actions of the BCRA also address the situation of households due to the shock. Another credit initiative promoted by this Institution together with the National Government is the loans at a 0% rate, to ease part of the economic effects of the COVID-19 pandemic to those under the simplified tax regime - monotributistas- and self-employed. Approximately 523,000 loans have been approved for a total of $62 billion through this credit line until the third week of August, 88% of which have already been credited (see Figure 10). It should be noted that this assistance is implemented through credit cards, generating new cardholders in the financial system. Until the middle of the second half of August, about 173,000 new cards had been issued. Foreign private financial institutions accounted for about 40% of the total amount granted, while national private and public institutions represented 34% and 26% of the total, respectively. Furthermore, the BCRA and the National Government decided in early August to further this initiative, launching the "Zero Rate Culture Credit Line", to address the impact that the shock is having on workers in the aforementioned sector.[15]

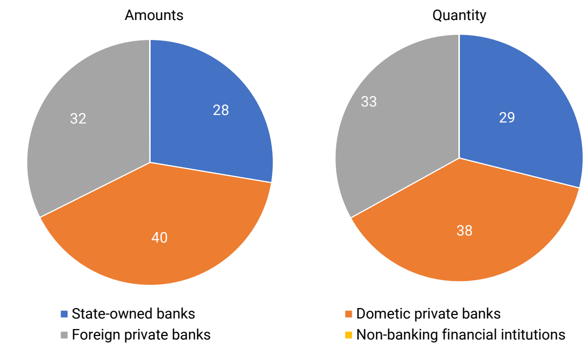
Figure 10 | Total loans granted to self-employed workers and members of the simplified tax regime - monotributistas- at 0%*



12 In this report, loans to companies are defined as those granted to legal persons plus commercial loans granted to natural persons.
13 See Communication "A" 7082.
14 Loans have a three-month grace period since crediting; they should be reimbursed from the fourth month, in at least 12 equal and consecutive monthly installments.
15 See Communication "A" 7082.

Considering the aggregate of the three aforementioned new credit lines launched by this Institution (MSME special, MSME Plus and 0% rate for monotributistas and the self-employed), 40% of the amount disbursed until the third week of August was granted by private national institutions, 32% by foreign ones and 28% by public ones (see Figure 11). Similar behavior was observed in the number of transactions.[16]

Figure 11 | Distribution by a group of financial institution in the aggregate of all new credit lines*
% share - Loans accumulated until August 21



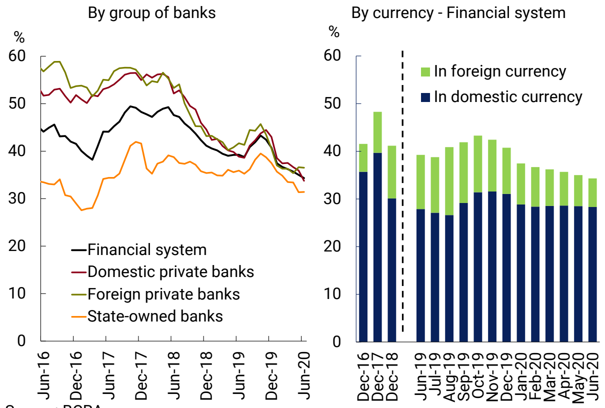
* Loans to MSMEs and health services providers (Comm. "A" 6937 and amendments), MSMEs "Plus" (Comm. "A" 7006) and Zero interest credit (Comm. "A" 6993). Source: BCRA

In a year-on-year comparison, loans to private sector in local currency showed a 5.6% rise in real terms in June, the second consecutive month with year-on-year rates in real terms recording growth, after 20 months without positive year-on-year changes.

On the other hand, loans to private sector in foreign currency -measured in currency of origin- decreased 6.2% in June, accumulating a 52.7% year-on-year drop. The stock of total loans to private sector, therefore, showed a slight 0.1% increase in real terms in June compared to May (with a year-on-year fall in real terms of around 9%).

Loans to private sector as a share of financial system assets fell 0.7 p.p. in June to 34.3% (see Figure 12). Considering loans in pesos, the ratio reached 28.3%, down 0.2 p.p. against the previous month -mainly due to the performance of national private banks, since foreign public and private banks increased their relative exposure- and up 0.4 p.p. against June 2019.

Figure 12 | Stock of loans to the private sector/ Total assets

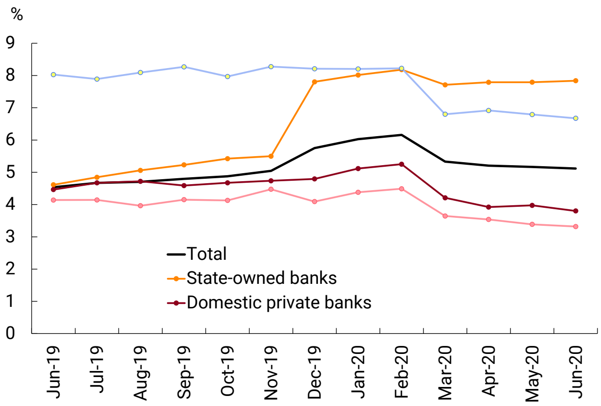


The ratio of non-performing loans to private sector reached 5.1% in June for the aggregate financial system, with no considerable changes against May. It should be noted that changes in parameters to classify -natural and legal persons- debtors introduced by the BCRA, as well as regulations on the incorporation of unpaid installments at the end of the loans' life, have been effective since the end of the first quarter of the year, as part of the measures taken to mitigate the effects of the pandemic on the private

16 In the case of the MSME Plus credit line, data corresponds to the number of companies.

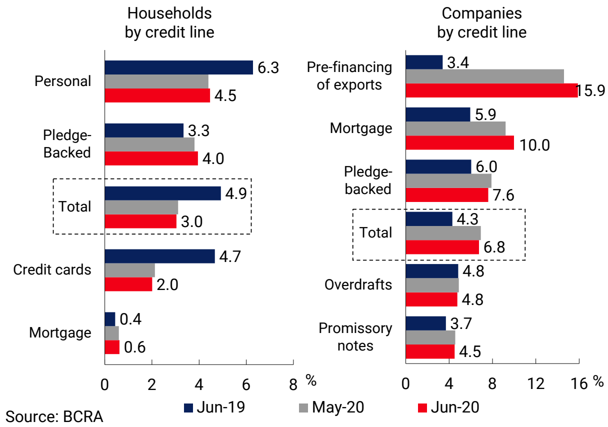
sector's financial situation.[17] This indicator showed a slight monthly reduction in private banks and NBFI that was practically offset by the dynamics of public banks (see Figure 13)[18].

Figure 13 | Non-Performing loans to the private sector
Non-Performing financing / total financing (%)



Source: BCRA

Figure 14 | Non-Performing loans to the private sector
Non-Performing financing / total financing (%)



Source: BCRA

Non-performing loans to companies stood at 6.8% in June, showing a slight drop compared to May. This performance was mainly reflected in pledge-backed loans, advances and promissory notes (see Figure 14). In June, the non-performing loans ratio for households also showed a slight decrease to 3%, mainly influenced by credit cards.

Total provisioning (for the performing and non-performing portfolio) was equivalent to 113.9% of non-performing portfolio (94% when considering only estimated provisioning for non-performing portfolio) by mid-2020. These values were similar to those observed in May. On the other hand, non-performing loans not covered with provisions totaled only 0.8% of the ASE in June, below the level in May.

The financial system's gross exposure to public sector represented 10% of total assets in June, up 0.3 p.p. against last month and up 0.6 p.p. against June 2019. When considering total deposits from all public sector jurisdictions, the financial system remains the net debtor of this sector at a consolidated level, for the equivalent of 1.5% of total assets in June.

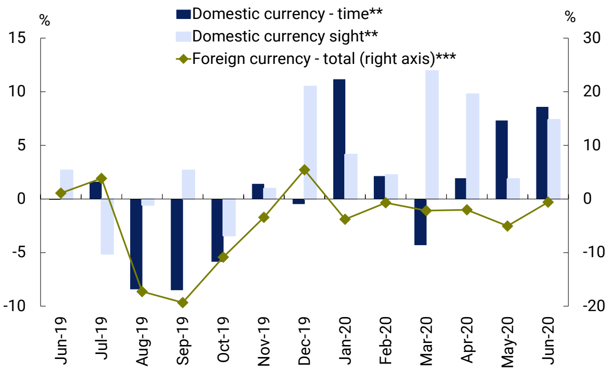
17 See Communication "A" 6938 and amended text "Financial Services in the context of the Health Emergency Pursuant to Executive Order No. 260/2020 COVID-19".
18 Including data until June 2020 on financial institutions that represent 80% of total financing (68% for private banks).

III. Deposits and liquidity

The stock of private sector deposits in pesos grew 7.7% in real terms (10.2% in nominal terms) in June. Within this segment, time deposits grew 8.6% (11% in nominal terms, see Figure 15), reflecting the effect of the measures adopted by this Institution in terms of minimum interest rates, designed to encourage savings in pesos in the financial system.[19] [20]

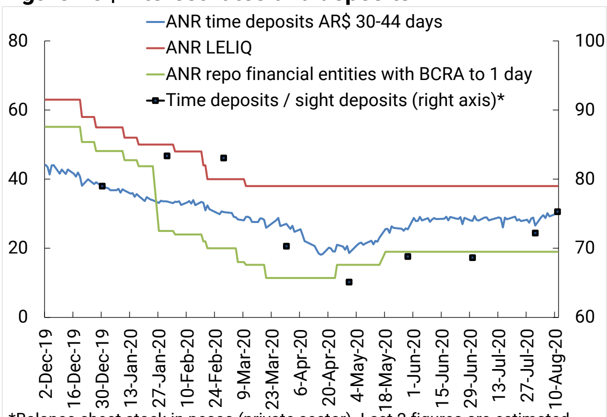
It should be noted that the BCRA decided to increase the minimum interest rate since early June (see Figure 16), with a new rise introduced as of early August.[21] The successive incentives mentioned above were reflected in the recomposition of the share between the stock of private

Figure 15 | Stock of private sector deposits
Monthly % change - by currency*



*Not seasonally adjusted. **In real terms. ***In currency of origin**
Source: BCRA

Figure 16 | Interest rates and deposits



*Balance sheet stock in pesos (private sector). Last 2 figures are estimated.
Source: BCRA

sector time and sight deposits in pesos, which had reached a 65% ratio at the end of April (83% at the end of 2019) and currently stands at around 75%. The positive performance of time deposits has been observed in all the ensemble of financial institutions (see Figure 17), with greater dynamics among private institutions.

On the other hand, private sector sight deposits also increased in June: 7.4% in real terms (9.8% in nominal terms), given the seasonal effect from the payment of the mid-year bonus, and the boost from the disbursement of the second tranche of the Emergency Household Income (IFE).

Private sector deposits in foreign currency fell slightly (-0.6% in currency of origin) in June, moderating the monthly decline observed in previous months. Total public sector deposits fell 3.5% in real terms compared to May (-1.3% in nominal terms). Thus, the stock of total deposits climbed 4.4% in real terms in the month (6.7% in nominal terms).

---

19 It should be noted that the performance observed in deposits in pesos in recent months (both in the public and private sectors) is taking place in a context of monetary policy management by the BCRA as a result of the emergency. This situation has demanded a large liquidity expansion, from a historically low level of monetization of the economy prior to the pandemic. For further details, see the recent publication of the Monetary Policy Report, August 2020.

20 The increase in time deposits gained momentum since mid-May, when the BCRA regulations for minimum interest rates also included legal persons (see Communication "A" 7018). In this regard, when breaking down the stock by amount, a greater dynamism was observed in deposits over $1 million. It should be noted that previously, this Institution had established since 04/20/2020 a minimum rate for natural persons deposits below $1 million (26.6% ANR for 30-day deposits, equivalent to 70% of the LELIQ rate, see Communication "A" 6980). Then, since 05/01/20, this regulation was extended to natural persons deposits below $4 million (Communication "A" 7000).

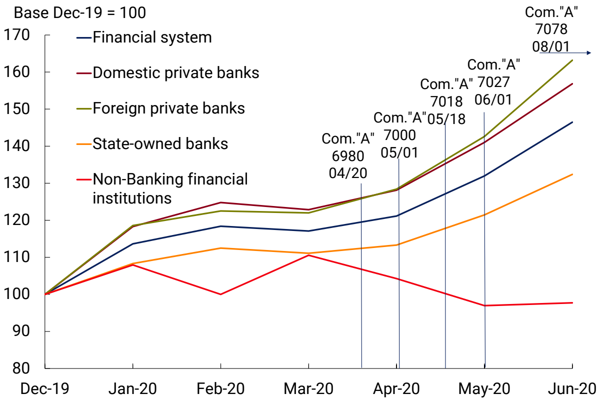
21 Since June, the minimum interest rate on time deposits in pesos received by Group A institutions and by G-SIBs not included in this group has been set at 30.02% ANR -34.5% EAR- (79% of the LELIQ rate, see Communication "A" 7027), except in the case of (legal/natural persons) debtors' deposits for the special credit lines established by this Institution. As of August, the minimum interest rate on natural persons' time deposits in pesos of up to $1,000,000, in Group A institutions and G-SIBs not included in this group, was set at 33.06% ANR -38.5% EAR- (87% of the LELIQ rate, see Communication "A" 7078). Additionally, the BCRA decided to increase the minimum interest rate for early-payment UVA time deposits, from 26.6% to 28.5% (75% of the LELIQ rate).

In a year-on-year comparison, private sector deposits in pesos escalated 26.1% in real terms (80.1% y.o.y., in nominal terms), with the stock of sight deposits rising 49.4% in real terms (113.3% y.o.y., in nominal terms) and 4.4% (49% y.o.y., in nominal terms) that of time deposits. On the other hand, private sector deposits in foreign currency -in currency of origin- accumulated a 45.6% drop in the last 12 months. The stock of public sector deposits grew 8.8% y.o.y., in real terms (+55.3% y.o.y., in nominal terms). Thus, total deposits in the financial system went up 4.2% in real terms (+48.8% y.o.y., in nominal terms) against June 2019.

The weighting of private sector deposits in pesos in the total funding (liabilities plus net worth) of the financial system was 48.6% in mid-2020, accumulating a 2.6 p.p. rise in the last month, and 8.5 p.p. compared to June 2019. Total private sector deposits (in domestic and foreign currency) represented 61.7% of total funding in June, a similar level compared to last year.

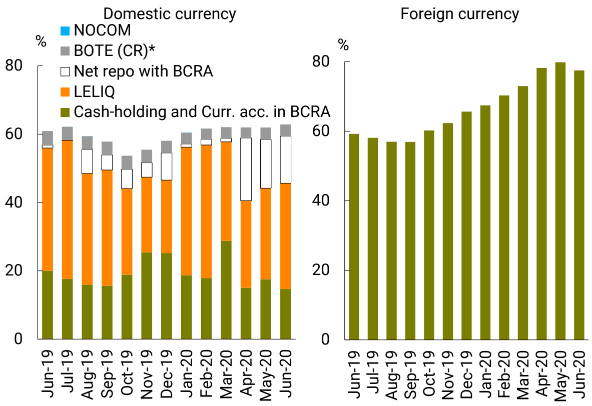
Financial system liquidity indicators remained at high levels compared to the last 15 years and without significant changes in June. The broad liquidity ratio[22] accounted for 65.8% of total deposits (62.8% for items in pesos and 77,5% for items in foreign currency) in the month, up 0.1 p.p. against may (+0.9 p.p. and -2.3 p.p. for the indicator in pesos and in foreign currency, respectively, see Figure 18). As to the composition of liquid assets in pesos, the relative share of financial institutions' current accounts at this Institution and of net repos fell during the period, while the share of LELIQ holdings increased. As in previous months, these movements took place in a context of egulatory changes implemented by the BCRA.[23] In year-on-year terms, broad liquidity climbed 5.5 p.p. of deposits (+1.9 p.p., y.o.y. for items in pesos and +18.3 p.p., y.o.y. for the segment in foreign currency).

Figure 17 | Stock of time deposits in pesos
Private sector - In real terms*



*Not-seasonally adjusted. Source: BCRA

Figure 18 | Financial system liquidity
In % of deposits



*CR: Cash reserves. Source: BCRA

---

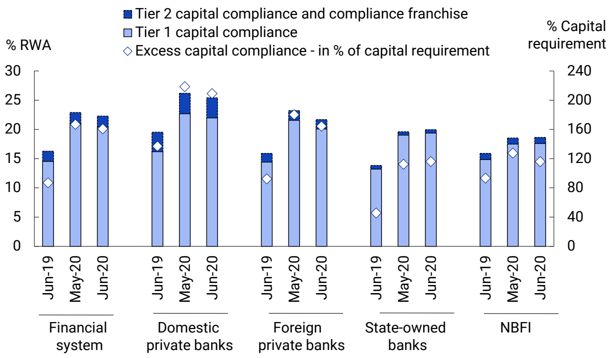
22 Considering liquid assets, compliance with minimum cash requirements and BCRA's instruments, both in domestic and foreign currency, in terms of total deposits.

23 On the one hand, effective since June and for those financial institutions that take deposits at the minimum rate, the LELIQ surplus was increased by 18% of the average daily balance of the previous month of time deposits in pesos from the non-financial private sector and the National, provincial, Autonomous City of Buenos Aires and/or municipal governments (see Communication "A" 7034). On the other hand, since mid-May any institution may comply through LELIQs with the entire minimum cash requirement in pesos of time deposits (except for the compliance through National Treasury Bonds, see Communication "A" 7018).

IV. Solvency

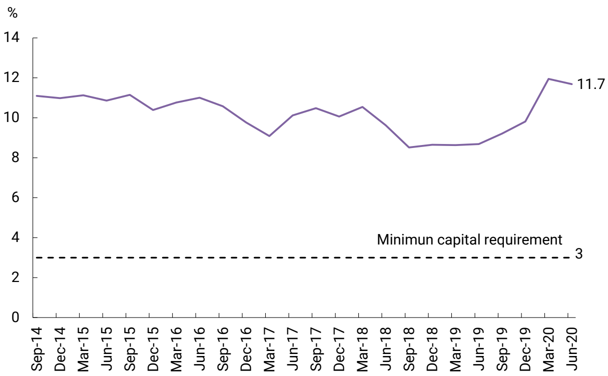
The solvency of the aggregate financial system closed the first half of 2020 at high levels. The adjusted stockholders' equity -ASE- of the ensemble of financial institutions represented 22.3% of risk-weighted assets -RWA- in June (see Figure 19). Although this level was slightly lower than last May, it was almost 6 p.p. higher than the mid-2019 record and the average of the last 5 years. Regulatory capital position (ASE minus minimum regulatory requirement) of the financial system reached 161% of the requirement in mid-2020, compared to an average of 94% for the last 5 years.

Figure 19 | Compliance with regulatory capital



Tier 1 capital compliance: basic net worth. Tier 2 capital compliance: complementary net worth. NBFI: Non-banking financial institutions. Source: BCRA

Figure 20 | Financial system leverage ratio (according to Basel)



Source: BCRA

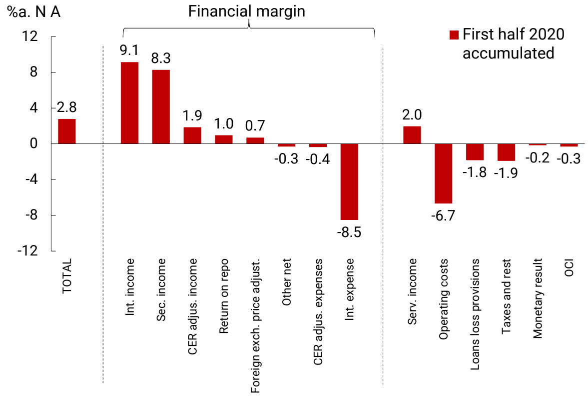
Tier 1 capital,[24] with the greatest capacity to face eventual losses, accounted for 91.7% of the system's ASE. This regulatory capital component represented 11.7% of financial institutions' total exposures (taking into account both non risk-weighted asset items and certain off-balance sheet items), 1.7 p.p. above the average of the last 5 years. It sits, therefore, comfortably above the minimum established by local prudential regulation, in line with the leverage ratio derived from the standard recommended by the Basel Committee (see Figure 20),[25] and above the levels observed in the financial systems of other economies.[26]

The growing evolution of the financial system's solvency ratios is, in part, a reflection of the changes implemented by this Institution in the macroprudential regulatory scheme. Namely, following the changes introduced in the context of the pandemic by several Central Banks, the possibility of dividends distribution by financial institutions was also suspended for the remainder of 2020.[27] Measures of this type allow credit to reach different economic sectors, avoiding the procyclicality generally experienced by financial systems from extending any further.

24 Consisting mainly of ordinary shares and income.
25 Considering the ensemble of financial institutions, the leverage ratio was 13.1% for foreign private banks, 12.3% for national private banks and 9.7% for public institutions in June 2020.
26 See IEF IH-20 for further details.
27 Communications "A"6939 and "A" 7035.

Throughout the first half of 2020, the financial system accrued positive comprehensive income in uniform currency equivalent to 2.8% annualized (a.) of assets (ROA) (see Figure 21) and 19% a. of equity (ROE). In particular, financial institutions at aggregate level accrued in June 2.4% a. ROA and 16.8% a. ROE. The monthly ROA was 1.2 p.p. below May (-7.9 p.p. in the case of the monthly ROE). This reduction responded mainly to the reversal of "other comprehensive income" (OCI) associated with the value of securities, recognition of various losses and a slight drop in the financial margin. These effects were tempered in the month by a decrease in loss loan provisions, income from "monetary result", an increase in income from services and a lower accrual of income tax.

Figure 21 | Financial system profitability (ROA)



Note: All topics are in $ of Jun-2020. Source: BCRA

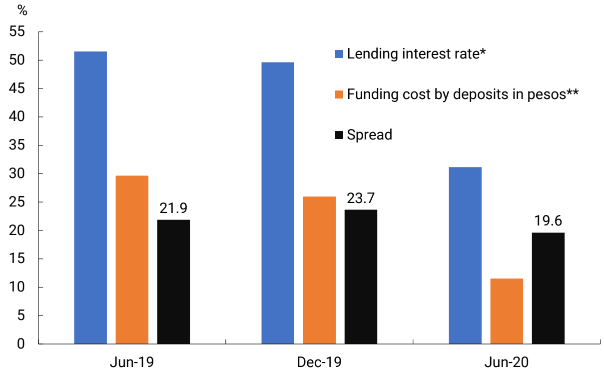
In June, the financial margin of all the institutions reached 11.1% a. of assets, down 0.1 p.p. against May. The monthly fall in the financial margin responded to higher interest expenditure -reflecting both higher time deposits in pesos and their interest rates, based on the minimum rate measures adopted by the BCRA-, lower interest and CER adjustments income. These effects were partially offset by an increase in securities income -mainly higher LELIQ holdings- and, to a lesser extent, by exchange differences income. The financial margin accumulated in the first half of 2020 reached 11.7% a. of the sector's assets.

To compare the last months of 2020 against 2019 in terms of "partial" indicators of sector profitability, it is useful to evaluate the performance of the estimated implicit lending and borrowing interest rates, as well as their spread.[28] Part of the financial margin in pesos (income and expenditure flows) should thus be isolated and considered according to the originating balances (be they assets or liabilities). The financial system's estimated implicit lending interest rate in pesos in nominal terms[29] (annualized) in June 2020 was 18.5 p.p. below that observed in December 2019. In turn, it is estimated that the implicit cost of funding for deposits in pesos[30] (annualized) went down 14.4 p.p. in June 2020 against late 2019. Therefore, it is estimated that the spread of implicit interest rates in nominal terms for transactions in pesos (considering only

28 It should be noted that according to Communication "A" 6651, financial institutions present their financial statements in uniform currency since 2020, in accordance with International Accounting Standard (IAS) number 29. Given this information requirement, some concepts built from balance sheets (for example, profitability indicators such as ROA or ROE) are not directly comparable between 2020 and previous years (balance sheets not expressed in uniform currency). The use of implicit interest rates is a partial approach (it does not consider all the transactions or the entire balance sheet) though it has the advantage of comparability.
29 It is booked as the annualized sum of the flows accrued in each month (month "t", for example June 2020) times (i) the interest income from loans in pesos (non-financial), (ii) the capital adjustment of the CER (or UVA) loans, (iii) the income estimated by LELIQ (what is excluded from minimum cash compliance) and (iv) the estimated income from premiums for net repos with the BCRA; all in terms of the sum of the average balances of month "t" (for example, for the quotient of the flows corresponding to June 2020, the average of the May 2020 and June 2020 end balances is taken as the denominator) of (i) estimated non-financial performing loans in pesos, (ii) balance of LELIQ (not included in the minimum cash compliance) and (iii) balance of net repos with the BCRA. Income from LELIQs used for minimum cash compliance as well as the balance of these LELIQs are excluded, since they are considered for the calculation of the cost of funding for deposits.
30 It is booked as the annualized flow in month "t" accrued by expenses from deposits in pesos, net of the annualized and estimated consideration from reserve requirements for month "t" (a share that many be complied with LELIQs and BOTE), all in terms of the deposits in pesos capacity to lend for month "t". This last concept is defined as the stock of deposits in pesos for month "t" net of the estimated minimum cash requirement (considering franchises).

deposits as a source of funding and only loans and BCRA instruments among assets) fell 4 p.p. between the mentioned months (see Figure 22). These estimates consider nominal interest rates in different inflation contexts (relatively higher at the end of 2019 compared to mid-2020). When calculating real interest rates, the evolution of the spread between both concepts also shows a reduction between mid-2020 and the end of 2019.[31]

Figure 22 | Estimated implicit interest rates (annualized)
Financial system



* For loans in pesos (non financial sector), LELIQ not used for minimum cash requirements and net repos with BCRA. ** It considers minimum cash requirement measures. Source: BCRA.

This estimated reduction in the spread is an indicator of the lower financial margin obtained for each peso applied by financial institutions as a whole in mid-2020 compared to late or mid-2019 (for assets and liabilities considered in domestic currency). The aforementioned reduction in the implicit rate spread in pesos reflects, in part, the effect of the considerable relative fall in the monetary policy interest rate since late 2019, the boost to new financing instruments for businesses and households under more favorable conditions that drove an incipient credit recovery (for further details, see Section II) and the incentive to savings in pesos from minimum rates for time deposits (for further details, see Section III).[32]

Following with the components of the income statement, net income from financial system services stood at 2.1% a. of assets in June, up 0.3 p.p. against last month. In the first six months of the year, this income totaled 2% a. of assets.

Financial institutions' loss loan provisions represented 1.7% a. of assets, falling against last month. These charges reached 1.8% a. of assets so far in 2020. In turn, financial institutions' administrative expenses did not show significant changes in the month, standing at 6.4% a. of assets. In the aggregate of the six months of the year, these expenditures totaled 6.7% a. of assets.

In June, the monetary result of the sector was positive, around 0.3% a. of assets. Between January and June, financial institutions at the aggregate level accrued a negative monetary result (-0.2% a. of assets). The flow of results by OCI of the financial system went from a positive level in May (0.9% a. of assets) to a negative one in June (-0.5% a.). This change was mainly influenced by the performance of the securities segment accounted for at market value with changes in OCI. In the aggregate of the six months of 2020, the financial system recorded negative OCI for 0.3% a. of assets.

31 The expected inflation as measured by the Market Expectations Survey (REM) for three months is used.
32 It should be noted that the policies to promote both loans and time deposits were followed by changes in the minimum cash standard (compliance and franchises), as well as in the limits on LELIQ's position.