# Report on Banks

June 2023

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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*Published on August 16, 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 June, there was an increase in the financial intermediation activities in pesos with the private sector, within a context of sizable liquidity and solvency levels for the ensemble of financial institutions. Over the month, electronic means of payment continued gaining relevance, largely due to the impact of the measures timely adopted by the BCRA.

- The stock of loans in pesos to the private sector went up 1.3% in real terms in June (-10.5% in real terms year-on-year (y.o.y.)), mainly due to the performance of commercial lines and loans with real property collateral. The estimated stock of loans provided under the "Credit Line for Productive Investment (LFIP)" of Micro, Small and Medium-Sized Enterprises (MSMEs) stood at ARS1.7 trillion by the end of the first half of the year, an amount equivalent to 13.4% of the total stock of lending provided to the private sector (+1.2 p.p. y.o.y.) and to 23.3% of financing to companies (+0.5 p.p. y.o.y.).

- The non-performing ratio of loans to the private sector posted no significant changes over the period and continued to stand at 3% (-0.2 p.p. y.o.y.). The delinquency ratio of lending to households reached 3.3% (+0.1 p.p. month-on-month (m.o.m.) and y.o.y.), while the delinquency ratio of loans to companies stood at 2.9% (-0.1 p.p. m.o.m. and -0.4 p.p. y.o.y.). In June, total provisions of the aggregate financial system accounted for 3.8% of the total portfolio and for 126% of the non-performing portfolio of loans.

- The stock of private sector deposits in pesos went up 0.9% in real terms in June (-3% in real terms y.o.y.), posting increases in sight accounts and time deposits. Traditional time deposits (at a fixed interest rate) rose 1.8% in real terms against May (+15.8% in real terms y.o.y.).

- On August 14, the BCRA raised the monetary policy interest rate by 21 p.p. (for 28-day LELIQs, it was raised to a nominal annual percentage rate (APR) of 118%), thus redefining the minimum interest rates for time deposits on the basis of the new monetary policy interest rate. Accordingly, the interest rates were readjusted in line with the re-gauging of the official exchange rate, so as to anchor foreign exchange expectations and reduce to a minimum any pass-through to prices, and also to seek positive yields in real terms on investments in domestic currency and favor the accumulation of international reserves.

- The financial system's liquid assets in a broad sense accounted for 81.5% of total deposits in June, up 2.8 p.p. and 12.4 p.p. against the figures recorded in May 2023 and in June 2022, respectively. Over the period, the liquidity ratio stood at 80.2% for the items in pesos and at 88.6% for the items in foreign currency.

- The Regulatory Capital (RC) for the aggregate financial system stood at 29.5% of risk-weighted assets (RWAs) in June, down 0.9 p.p. against the value recorded in May (+1.3 p.p. y.o.y.). The capital surplus position (RC minus the regulatory capital requirement) totaled 269.4% of the regulatory requirement at systemic level and 43.9% of the stock of loans to the private sector net of provisions. As of June, the leverage ratio (defined according to Basel's recommendations) reached 15.9% for the weighted average at aggregate level, up 1.9 p.p. y.o.y., standing quite above the minimum regulatory requirement (3%).

- The total comprehensive income in homogeneous currency accrued by the financial system in the aggregate of the last 12 months up to June was equivalent to 3% of assets (ROA) and to 16.7% of equity (ROE), going up in a year-on-year comparison.

- Instant transfers grew in June (9.2% in number and 7.9% in amount in real terms), including those exclusively arranged between Uniform Banking Codes (CBUs) and also those involving Uniform Virtual Codes (CVUs). In year-on-year terms, the number of instant transfers has doubled (+24.4%

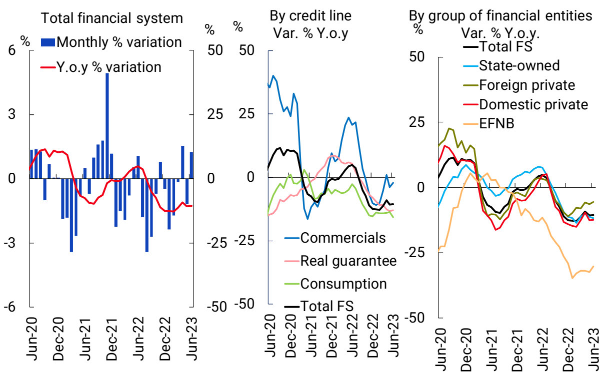
in real terms in amount). In turn, Payments by Transfer (PCTs) were also on the rise over the month and have virtually tripled the figure recorded one year ago. In addition, the use of electronic checks (ECHEQs) continued to gain relevance in the total clearing of checks (in June, they accounted for 38.2% in number and 64.2% in amount).

# I. Financial Intermediation Activity

Financial intermediation activity in pesos with the private sector was on the rise in June. Taking into account the most relevant movements of the aggregate financial system's balance sheet for the items in pesos (at constant prices), there was an increase in both liquidity in a broad sense and the stock of loans to the private and the public sectors. In turn, an increase in deposits was also observed over the month.[1]

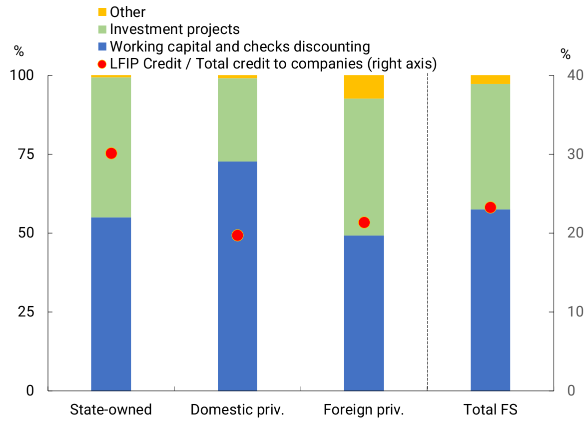
The stock of loans in pesos to the private sector grew 1.3% in real terms in June (see Chart 1). The monthly performance was mainly accounted for by commercial lines and, to a lesser extent, by loans with real property collateral.[2] In year-on-year terms, the stock of lending in pesos to companies and households dropped 10.5% in real terms.

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




*Not seasonally adjusted. Commercials include overdraft, promissory notes and leasing. Real guarantee: mortgages and pledge-backed. Consumption: Personal and credit cards. Capital adjustements are included in each segment. The total also includes accrued interest. Source: BCRA

**Chart 2 | Estimated stock of the Credit Line for Productive Investment (LFIP) of MSMEs – June 2023**




Source: BCRA

During the first half of 2023, the evolution of commercial credit lines in pesos (+6.8% in real terms from 2022 year-end to June 2023) was mainly driven by the "Credit Line for Productive Investment (LFIP)" of Micro, Small and Medium-Sized Enterprises (MSMEs). The loans under this credit line have totaled around ARS6.8 trillion from its launch (in October 2020) to July 2023, and were provided to 465,421 companies. Upon the closing date of the first six months of the year, the estimated stock of loans under the LFIP stood at ARS1.7 trillion (see Chart 2), equivalent to

1 Upon considering the main items in foreign currency, there was a reduction in liquidity and in the stock of lending to the private sector, accompanied by an increase in private sector deposits. In turn, financing to the public sector went up (mainly via instruments in dual currency), within the framework of the issue of debt made in June by the Federal Government. In addition, there was a contraction in the stock of deposits in real terms with variable yield based on the evolution of the foreign exchange rate (use of resources by depositors who timely settled foreign currency through the "Export Increase Program"), giving rise to a decrease in the institutions' holdings of BCRA Internal Bills in US dollars and payable in pesos according to the pesos at the Benchmark Exchange Rate (LEDIV) at zero interest rate.
2 Including capital adjustments and accrued interest.

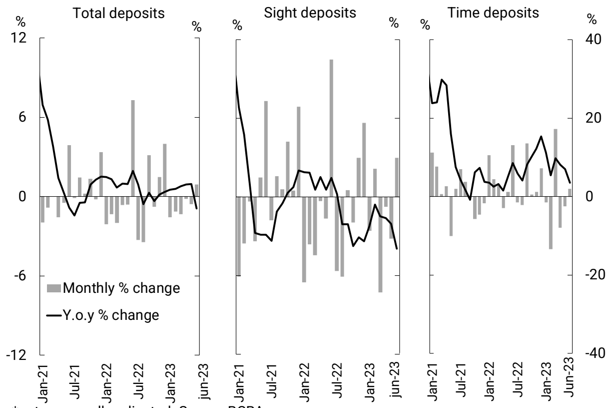
13.4% of the total stock of loans provided to the private sector (+1.2 p.p. y.o.y.) and to 23.3% of lending to companies[3] (+0.5 p.p. y.o.y.).

Considering the results of the latest Survey on Credit Conditions (ECC),[4] the performance of financial intermediation activities during the second quarter was characterized by a credit supply —to both companies and households— that would not have posted significant changes against the performance observed at the beginning of the year. In turn, based on the answers provided by the institutions in the latest ECC, the demand for credit from companies (mainly small and medium-sized enterprises – SMEs) would have gone up in the second quarter while the demand for credit from households would have also increased, especially in the case of pledge-backed loans and financing by cards.

In June, the stock of loans in foreign currency to the private sector went down 3% against May.[5] Total lending (in domestic and foreign currency) to the private sector increased 1% in real terms over the month, down 10.4% in real terms in a year-on-year comparison.

Regarding the ensemble of financial institutions' funding, the stock of private sector deposits in pesos rose 0.9% in real terms in June (see Chart 3), posting increases in both sight accounts (due to the impact of the collection of the semi-annual complementary wage) and time deposits.[6] In particular, traditional time deposits (at a fixed interest rate) grew 1.8% in real terms against the figures recorded in May (+15.8% in real terms y.o.y.).

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




*not seasonally adjusted. Source BCRA

On August 14, the BCRA raised the monetary policy interest rate by 21 p.p. (for 28-day LELIQs, it was raised to a nominal annual percentage rate (APR) of 118%), thus redefining the minimum interest rates for time deposits on the basis of the new monetary policy interest rate. Accordingly, the interest rates were readjusted in line with the re-gauging of the official exchange rate, so as to anchor foreign exchange expectations and reduce to a minimum any pass-through to prices, and also to seek positive yields in real terms on investments in domestic currency and favor the accumulation of international reserves.[7]

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3 Lending to companies is defined as any financing provided to legal persons, while commercial loans are granted to individuals.
4 For further detail, see the Survey on Credit Conditions (ECC) corresponding to the third quarter of 2023.
5 Expressed in currency of origin.
6 If deposits with a variable yield based on the evolution of the exchange rate (see Footnote 1) were excluded, the stock of deposits in pesos in real terms would have gone up 1.6% in June.
7 See Press Release and Communication "A" 7822

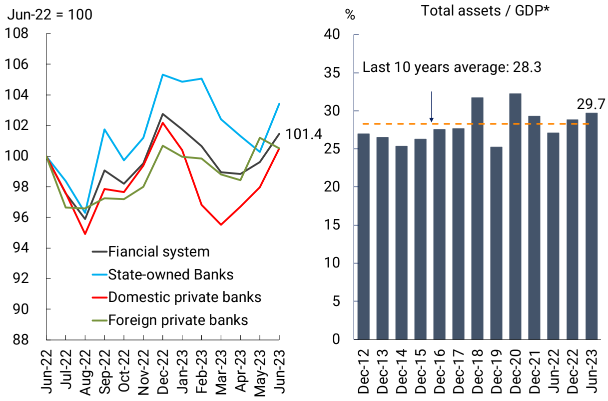
The stock of private sector deposits in foreign currency went up 0.9% over the period.[8] Against this backdrop, total private sector deposits (in domestic and foreign currency) accumulated an increase of 1.1% in real terms in June.

In a year-on-year comparison, the stock of private sector deposits in domestic currency in real terms contracted 3%, and posted an increase of 3.5% in real terms in time deposits and a decrease of 13.1% in sight accounts. Considering all currencies and sectors, the total stock of deposits dropped 3.4% y.o.y. in real terms.

# II. Aggregate Balance Sheet Evolution and Composition

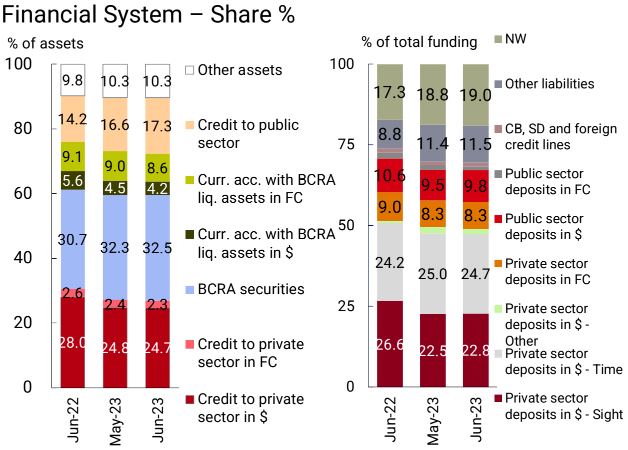
The size of the financial system's balance sheet —considering total assets— grew in real terms in June. This evolution was mainly driven by state-owned banks and domestic private banks (see Chart 4). If compared with the same period of 2022, total assets posted an increase of 1.4% in real terms at systemic level, mainly driven by state-owned banks. It is estimated that the financial institutions' total stock of assets was equivalent to 29.7% of GDP by the end of the second quarter of the year, thus exceeding the level observed one year ago and the average value of the last ten years (28.3%).

**Chart 4 | Total assets in real terms**
Financial System




*Quarterly averages are considered. June data is estimated. Source: BCRA

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




FC: Foreign currency. Source: BCRA

Regarding the components of the sector's total assets, there was an increase in the relative share of loans to the public sector and of BCRA's instrument holdings —mainly LELIQs— in June (see Chart 5). In recent months, the increase observed in BCRA's instrument holdings was mainly due to the need of sterilizing the net rise of monetary liquidity. This evolution occurred in a context characterized by a low momentum in the demand for monetary base and by the policies adopted by the BCRA and the Federal

8 If deposits with a variable yield based on the evolution of the exchange rate were included, the stock of private sector deposits in foreign currency would have gone down 2.6% (in currency of origin) over the period.

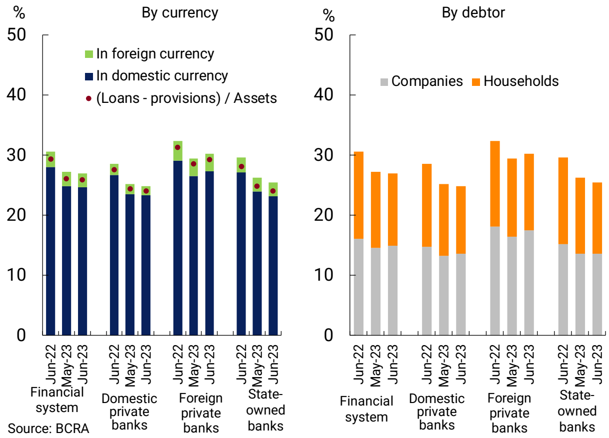
Government to face the negative impact of the drought on the context-related macroeconomic situation.[9] Regarding the sector's total funding, there was an increase in the relative share of private sector sight accounts in pesos, public sector deposits in pesos and net worth in total funding.

In June, the estimated differential between assets and liabilities in foreign currency[10] went up 4.8 p.p. of the Regulatory Capital (RC) of the financial system, to 37.5% (+26 p.p. y.o.y.).[11] In turn, it is estimated that the mismatch of the items adjusted by CER (and denominated in UVA) stood at 65.7% of ASE for the aggregate financial system in June, up 1.4 p.p. against May (+1.7 p.p. y.o.y.).

# III. Portfolio Quality

The financial system's gross exposure to the private sector (considering both domestic and foreign currency) stood at 27% of assets in June (-0.2 p.p. m.o.m., see Chart 6). Regarding financing in pesos, the ratio totaled 24.7% over the period (-0.1 p.p. m.o.m.), while the share of credit to the private sector in foreign currency in the sector's total assets stood at 2.3% (-0.1 p.p. m.o.m.). A breakdown of credit exposure by debtor shows that the segment of loans to companies went up in June (+0.4 p.p. to 14.9%), while the segment of loans to households contracted (-0.6 p.p. to 12.1%). Across the ensemble of financial institutions, the stock of lending to the private sector net of provisions accounted for 25.9% of assets over the month, down 0.2 p.p. against May and down 3.4 p.p. against the same month of 2022.

**Chart 6 | Stock of loans and provisions (private sector)**
By group of financial institutions

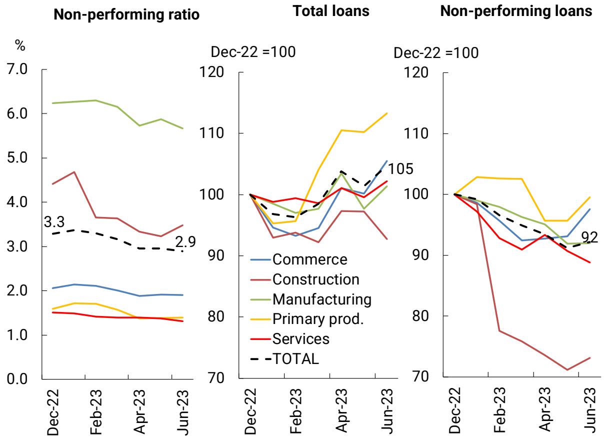


Source: BCRA

In June, the non-performing ratio of loans to the private sector posted no significant changes and continued to stand at 3%, in line with what has been observed in recent months. The delinquency ratio of loans to companies totaled 2.9% (-0.1 p.p. m.o.m.), down 0.4 p.p. against the figure recorded by the end of 2022 in a context where the numerator went down and the denominator went up in real terms. So far in 2023, there was a widespread reduction of the non-performing ratio of loans to companies across all sectors of the economic activity (see Chart 7). Regarding the segment of loans to households, the non-performing ratio stood at 3.3% (+0.1 p.p. m.o.m.) in June, up 0.3 p.p. against the level recorded in December 2022 within a context characterized by a slight increase in the numerator and a decrease in the denominator in real terms. In the first half of 2023,

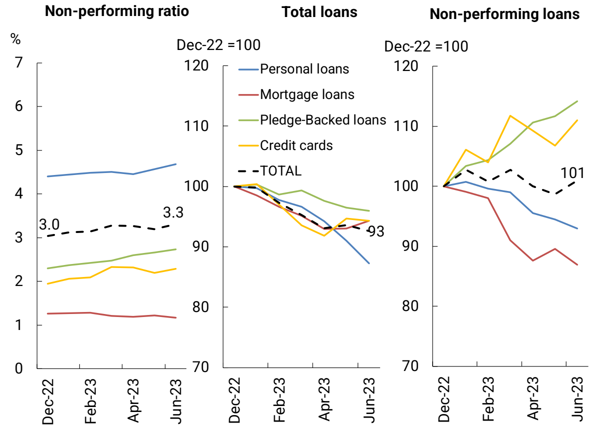
9 For further detail, see Monetary Policy Report (IPOM).
10 Including purchase and sale forward transactions in foreign currency, classified as off-balance. The deposits subject to a variable yield based on the evolution of the exchange rate (associated with the Export Increase Program) are included in liabilities.
11 The monthly evolution was mainly accounted for by higher holdings of instruments in dual currency (see Footnote 1).

**Chart 7 | Non-performing ratio of loans to companies**
In real terms – Financial system




Source: BCRA

**Chart 8 | Non-performing ratio of loans to households**
In real terms – Financial system




Source: BCRA

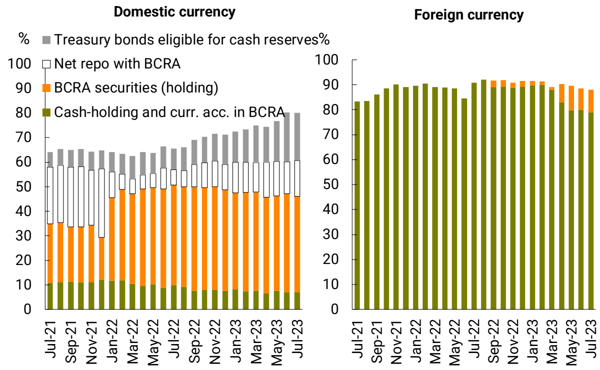
the evolution of the non-performing ratio of loans to households was widespread across most credit lines (except for mortgage loans, see Chart 8).

The financial sector's provisioning has continued to stand at high levels. As of June, the financial system's total provisions accounted for 3.8% of the total portfolio (-0.1 p.p. m.o.m. and posting no changes in year-on-year terms) and for 126% of the non-performing portfolio of loans (-2.1 p.p. m.o.m. and +5.7 p.p. y.o.y.). Over the period, the stock of provisions attributable to the non-performing portfolio continued to cover such portfolio almost entirely at aggregate level (92%).[12]

# IV. Liquidity and Solvency

The financial system's liquid assets in a broad sense[13] accounted for 81.5% of deposits by the end of June, up 2.8 p.p. against the figure recorded in May. Over the period, the ratio for the items in pesos stood at 80.2%, and the ratio for the items in foreign currency stood at 88.6% (see Chart 9). Considering the components of liquidity in domestic currency, between ends of month, there was an increase in the share of the National Treasury's instruments admissible for compliance with the Minimum Cash requirement and of BCRA's instrument holdings; in turn, there was a

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




Note: Special deposit accounts related to the "Programa de Incremento Exportador" are considered in the foreign currency segment. Source: BCRA

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

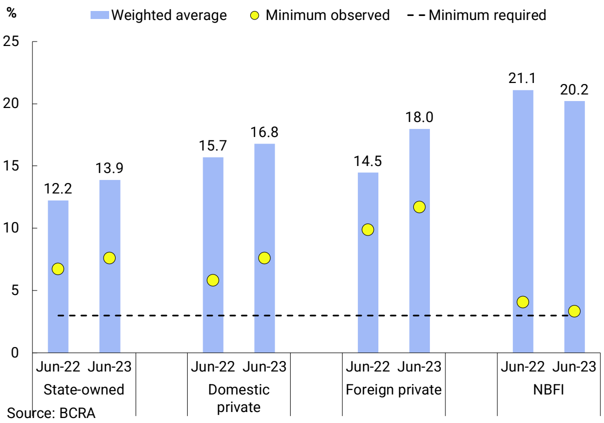
decrease in the share of net repo transactions and of the stock of the current accounts held by the institutions at the BCRA. Broad liquidity (in pesos and in foreign currency) in terms of deposits went up 12.4 p.p. against June 2022.

The financial sector's solvency ratios have continued to stand at high levels against the average value of the last 10 years. The Regulatory Capital (RC) of the ensemble of financial institutions stood at 29.5% of risk-weighted assets (RWAs) over the period, down 0.9 p.p. against the figure recorded in May (+1.3 p.p. y.o.y.). In turn, nearly 97% of ASE was accounted for by Tier 1 capital, with a greater capacity to absorb potential losses. In June, the capital surplus position —RC minus the minimum regulatory requirement— totaled 269.4% of the requirement at systemic level (-11.2 p.p. against May and +17.7 p.p. y.o.y.) and 43.9% of the stock of loans to the private sector net of provisions, standing quite above the average value of the last 10 years (19.3%).

The leverage ratio, defined according to the guidelines recommended by the Basel Committee (Tier 1 Capital in terms of total exposure measure), went up in year-on-year terms across all groups of banks (with a reduction in non-banking financial institutions —EFNBs—, see Chart 10). As of June, the weighted average leverage ratio stood at 15.9% at aggregate level, up 1.9 p.p. y.o.y., standing quite above the regulatory minimum value (3%). All institutions have managed to keep a level above the regulatory minimum.

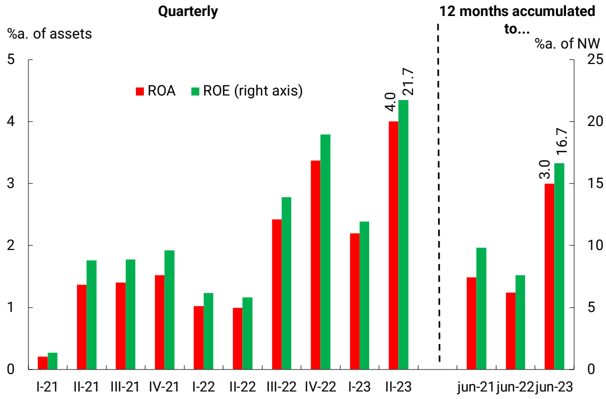
The sector has managed to keep positive profitability ratios so far in 2023. The total comprehensive income in homogeneous currency accrued by the financial system in the aggregate of the last 12 months up to June was equivalent to 3% of assets (ROA) and to 16.7% of equity (ROE). These ratios have gone up in year-on-year terms (see Chart 11) mainly due to a higher financial margin (increase of income from securities, income from interest and exchange rate differences, even though these positive figures were lessened by higher expenses for interest). This movement was partially offset by higher losses due to exposure to monetary items and tax burdens, among other concepts.

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



Source: BCRA

**Chart 11 | Total comprehensive income in homogeneous currency of the financial system**

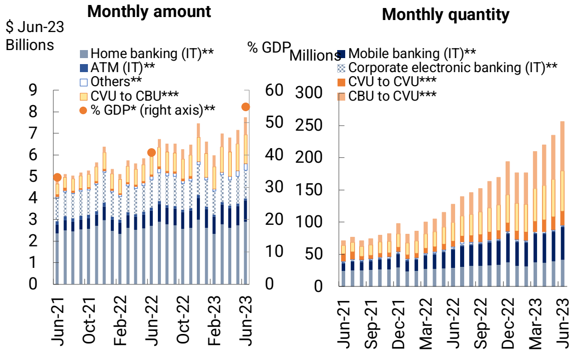


Source: BCRA

# V. Payment System

In June 2023, instant transfers went up 9.2% in number (7.9% in amount in real terms). Over the month, instant transfers via Uniform Banking Codes (CBUs) grew 8% in number (5.9% in amount in real terms)[14], while instant transfers involving Uniform Virtual Codes (CVUs) went up 9.9% in number (12.8% in amount in real terms).[15] In a year-on-year comparison, the number of instant transfers has doubled (+103%), posting an increase of 56.2% in the case of transactions arranged between CBUs and of 146.2% in transactions involving CVUs.[16] It is estimated that the amount of instant transfers of the last three months (annualized) accounted for 55% of GDP, up 14.3 p.p. if compared to the same month of 2022 (see Chart 12).[17]

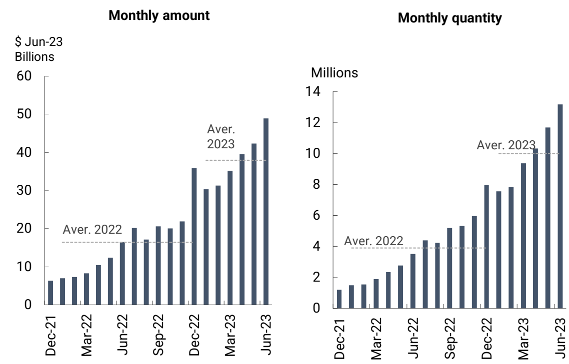
**Chart 12 | Instant Transfers**




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.

In June, Payments by Transfer (PCTs) via interoperable QR codes continued to go up: 12.7% in number and 15.6% in amount in real terms (see Chart 13). This evolution shows the positive effect of the measures that were timely adopted by the BCRA in order to promote the acceptance of payment by means of any interoperable digital wallet. In year-on-year terms, these transactions expanded 276% in number and 197% in amount in real terms.[18]

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




Source: BCRA.

In May (latest information available), transactions with debit cards went down 3% in number and 7.1% in amount in real terms. Regarding the payment method, onsite transactions went down on a monthly basis, while ecommerce transactions have virtually remained

14 In June 2023, transactions arranged via Mobile Banking went up 9.4% in number (10.6% in amount in real terms). In turn, transactions via Online Banking grew 0.5% in number (5.5% in amount in real terms), while transactions via Corporate Electronic Banking increased 6.1% in number (3.2% in amount in real terms) and transactions via ATMs grew 8.4% in number (0.1% in amount in real terms).
15 Over the month, transfers from CVU to CVU grew 7.8% in number (11% in amount in real terms), transfers from CVU to CBU went up 7.8% in number (6.5% in amount in real terms), and transactions from CBU to CVU rose 12.3% in number (25.2% in amount in real terms).
16 Against the same period of 2022, the amount of instant transfers in real terms grew 24.4% in total, 9.3% upon considering transactions made via CBU only and 82.2% upon considering transactions where one CVU is involved.
17 In June, the average transaction made via instant transfers stood at around ARS29,800. In turn, the average transaction via instant transfer between CBUs reached ARS55,800, and the average instant transfer involving CVUs reached ARS14,400.
18 In June, transactions via interoperable QR codes reached ARS3,700 on average.

unchanged. Against May 2022, the number of transactions grew 12.2%, but their amount went down 4.6% in real terms.[19]

In June, checks clearing went down against May: 7% in the number of transactions and 5.5% in amount in real terms. If compared to the same month of 2022, there has been an increase in the number and amount of cleared electronic checks (ECHEQs) (+32.3% and +12.2%), while physical instruments have continued to lose ground. Thus, the share of ECHEQs has increased in total check clearing to 38.1% in number and 64.2% in amount in real terms. It is estimated that the amount of cleared checks in the last three months (annualized) was equivalent to 26% of GDP (+1.2 p.p. y.o.y).[20] In turn, the ratio of bounced checks for insufficient funds in terms of total cleared checks went down 0.09 p.p. in June in both number and amount in real terms, standing below the average of 2023.

19 In May, the average amount per transaction with debit cards stood at ARS5,200 (ecommerce and onsite transactions stood at similar levels).
20 The average cleared check reached ARS693,500 (physical checks average = ARS401,100, and ECHEQs average = ARS1,168,600).