Report on Banks

July 2020

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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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.

Posted on September 30, 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.

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Executive Summary

- In the context of policy actions implemented by the BCRA to face the pandemic scenario, intermediation (growth of loans and deposits) and provision of payment services showed a positive performance in July. The ensemble of financial institutions maintains relatively high levels of liquidity and solvency margins.
- Loans to private sector in pesos grew in real terms for the fifth consecutive month, with a 1.4% monthly and 8.8% year-on-year (y.o.y.) change. This performance was partly explained by a set of credit assistance programs designed by this Institution, which provide more favourable financial conditions for both businesses and households. In particular, the special line to MSMEs and Health Service Providers at a nominal annual interest rate of 24%, accumulated disbursements for almost $469.7 billion by the end of September. In turn, almost $2.5 billion were disbursed (distributed among 5,658 companies) through the MSME Plus (*MiPyME Plus*) credit line.
- As part of the new financial assistance programs for workers registered under the simplified tax regime (*monotributistas*) and/or self-employed, more than 543,700 loans have been granted for a total of $64.49 billion (94% of it already credited) through the Zero Rate credit line, by the end of September. For this purpose, 240,512 new credit cards were issued and 698 sight accounts were opened. Furthermore, 1,424 loans were granted through the Zero Rate Culture Credit line for a total amount equivalent to $151 million.
- In the context of measures taken to encourage savings in pesos, the stock of private sector deposits in this currency increased 2% in real terms from June to July (30.9% y.o.y.), mainly due to the 5.2% rise in real terms of time deposits.
- The BCRA has been adopting a set of measures to strengthen and streamline operations within the payment system in the current pandemic scenario. In recent months, the use of digital payment channels has been encouraged and, for those cases in which cash must be used, access to it by individuals has been improved, always trying to reduce their exposure to COVID-19. In this context, the dynamic use of debit cards for electronic payments, instant transfers, as well as ECHEQs stands out, while there is a lower frequency of ATM cash withdrawals (for higher average amounts per transaction).
- Since March, the BCRA implemented financial relief mechanisms and changes in the parameters to classify debtors to mitigate the adverse economic effects of the pandemic. In this context, the non-performing ratio of loans to private sector for the financial system remained unchanged in July at around 5%. The BCRA recently decided to extend the aforementioned measures until 12/31/2020. The accounting provisions represented 116.6% of the system's non-performing loans to private sector.
- The financial system maintains adequate liquidity and solvency margins, both in comparison with previous years, and in terms of internationally recommended standards. In July, the median of the Liquidity Coverage Ratio (LCR) for the ensemble of institutions covered totaled 2.3, above the regulatory minimum established at 1. The median of the Net Stable Funding Ratio (NSFR) reached 1.8 among all the institutions that must comply with this ratio in June (median of the latest available information), exceeding the minimum of 1.
- The sector's solvency indicators increased in July. The system's compliance with regulatory capital grew 0.3 p.p. of RWA (Risk Weighted Assets) monthly to 22.9%. This level is high both from a local and international perspective. The sector's capital position was 168% of the regulatory requirement in July, up 3.1 p.p. against last month.
- In the first seven months of this year, the financial system obtained income equivalent to 2.7% a. of assets (ROA) and 18.8% a. of equity (ROE). In terms of partial profitability indicators, estimates indicate that while the nominal implicit lending rate for June-July 2020 fell almost 18.9 p.p. compared to the end of 2019, the nominal implicit funding cost declined 12.3 p.p. in the same period. As a result, the difference between implicit rates went down 6.7 p.p. in the period considered.

I. Financial Intermediation Activity in pesos

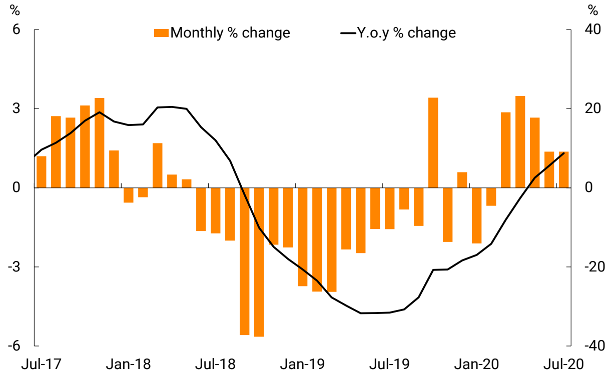
During July, the positive effects of tools designed by the BCRA to mitigate the adverse economic effects triggered by the COVID-19 pandemic were further strengthened. As a result, financing to businesses (especially MSMEs) and households increased again during this month, accompanied by rising time deposits in pesos in these sectors.

Considering the estimated flow of funds for the financial system at an aggregate level on items denominated in pesos,[1] resources mainly originated from the increase in private sector deposits. These funds were used primarily to increase financial institutions' broad liquidity and to expand financing to public and private sectors.

The stock of loans to private sector in domestic currency increased 1.4% in real terms in July (3.3% in nominal terms) (see Figure 1),[2] mainly due to the rise in financing through credit cards and promissory notes. Public financial institutions, and to a lesser extent, national and foreign private ones drove this growth.

Credit to private sector in pesos within the banking system grew in real terms for the fifth consecutive month in July. This performance was explained, in part, by the credit assistance programs that the BCRA implemented in recent months, promoting more favourable financial conditions for both businesses and households. Among them is the special line to MSMEs and Health Service Providers at a nominal annual interest rate of 24%,[3] which has accumulated disbursements for almost $469.7 billion by the end of September (11.5% of which were backed by the FoGar surety) (see Figure 2, left panel). It is estimated that around 290,000 loans have been granted to companies through this instrument, resources channeled mainly to cover deferred payment checks, salary payments, and meet other working capital needs of MSMEs. Broken down by group of financial institutions, national private ones accounted for 40.1% of total disbursements, while foreign ones explained 31.2% and public ones 28.6% (see Figure 3).[4]

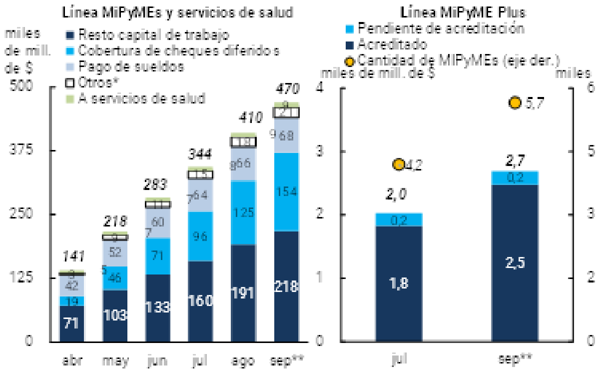
Figure 1 | Stock of loans to the private sector in pesos*
Changes in real terms



*Non-seasonally adjusted.
Source: BCRA

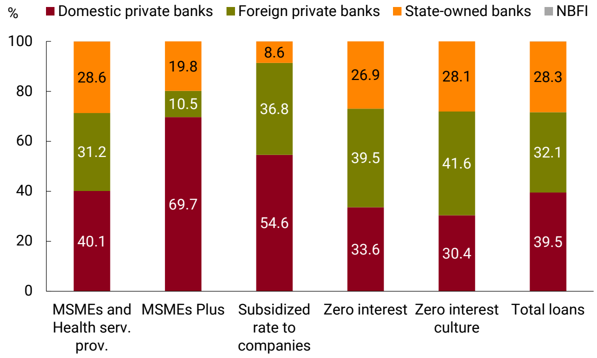
1 Differences of balance sheet position in uniform currency.
2 Including adjustments of principal and interest accrued.
3 Communication "A" 6937 and amendments.
4 Upon the release of this Report, about $7.633 billion had been approved through this line though not yet disbursed, with additional requests in process for approximately $6.7 billion.

Figure **2 | Special credit lines for MSMEs and Health Service Providers* - Cumulative disbursements**



*A MiPyMEs no incluidas en líneas con al menos 50% de capital de trabajo. ** Se considera el valor acumulado al último día de cada mes. La información de septiembre corresponde al día 24.
Fuente: BCRA

Figure 3 | Distribution of amounts granted through new credit lines by group of financial institutions*
% share - Accumulated until September 24

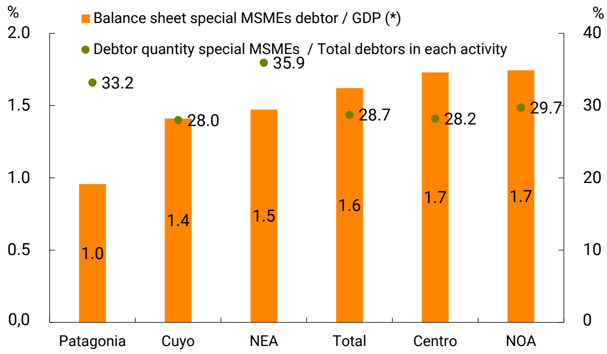


NBFI: Non-banking Financial Institutions. Source: BCRA

In July, according to the latest available data and considering only legal persons, it is estimated that almost 29% of debtors were benefited by the special line to MSMEs and Health Service Providers at an interest rate of 24% ANR (see Figure 4).[5] In this sense, it is estimated that the regions of Patagonia and the North East of Argentina presented the highest relative incidence in terms of the number of debtor legal persons receiving this credit assistance since its implementation.[6] On the other hand, when considering the total stock of loans channeled to these debtors (not only through the special line to MSMEs)[7] in terms of the estimated regional gross domestic product (GDP),[8] the highest ratio would be observed in the North Western, Central and North Eastern regions of the country.

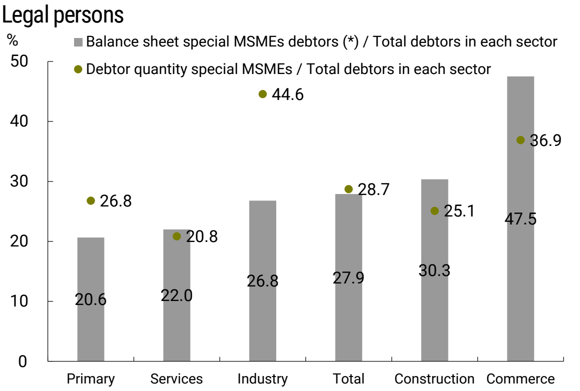
There is a higher share of legal persons that accessed the special line for MSMEs in the industrial and commercial sectors in terms of the number of legal persons borrowing from the financial system, while there is a higher share in the stock of loans to these debtors among the commercial and building sectors (not only through the special MSME line) (see Figure 5).

Figure 4 | Special credit line for MSMEs and Health Service Providers - Estimate by region (July 2020)
Legal persons



NOA: Salta, Jujuy, Tucumán, Catamarca and Santiago del Estero. NEA: Formosa, Chaco, Misiones and Corrientes. Cuyo: Mendoza, San Juan, San Luis and La Rioja. Patagonia: La Pampa, Neuquén, Río Negro, Chubut, Santa Cruz and Tierra del Fuego. Central: Córdoba, Santa Fe, Entre Ríos, Bs.As. and CABA. (*) In financial institutions with special MiPyME credit. Source BCRA

Figure 5 | Special credit line to MSMEs and Health Service Providers - Estimate by main activity AFIP to July 2020
Legal persons



(*) In financial institutions with special MiPyME credit. For each debtor is considered main activity by AFIP classification.
Source BCRA

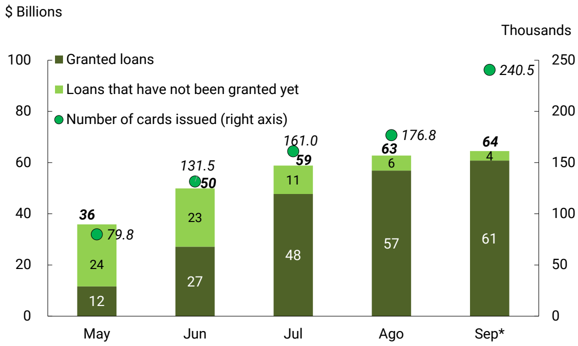
5 The special line for MSMEs and Health Service Providers at an interest rate of 24% ANR has been granted to both legal and natural persons conducting some type of productive activity. It is estimated that the largest share of these loans has been channeled to the former.
6 Location of debtors according to their tax domicile.
7 Given the difficulty identifying more accurately the assistance received by these debtors, the stock of all the loans granted to the aforementioned legal persons (through the special MSME line and others) is included in the institutions granting them the special MSME line.
8 Regional GDP is estimated from the economic structure by provinces published by the national statistics agency (INDEC) for the base year 2004, considering then the performance of each of the branches of activity proportionally to each jurisdiction.

In turn, almost $2.5 billion were disbursed until late September through the so-called *MiPyME Plus* credit line[9] -which offers loans to micro, small and medium-sized companies that do not have performing loans in the financial system-, distributed among 5,658 firms (see Figure 2, right panel).[10] National private institutions were the main promoters of this credit line, granting almost 70% of the total amount (19.8% of which was channeled by public institutions and the remaining 10.5% by foreign private ones).

Additionally, the BCRA implemented in August a new credit line at subsidized interest rates to assist businesses in paying salaries.[11] These loans are available to those companies registered in the "Emergency Assistance to Work and Production Program" (ATP). Following this, since this credit line was launched until mid-September, a total of $1.79 billion had been granted, channeled to more than 90,000 workers.

In this context, the scope of the Zero Rate credit line launched last April, which focuses on assisting members of the simplified tax regime (*monotributistas*) and/or the self-employed, was further extended.[12] Through this program, more than 543,700 loans were granted until the end of September for a total equivalent to $64,49 billion (94% of which has already been credited) (see Figure 6). These loans are implemented through cash advances available in the beneficiaries' credit cards. In the case of not having a credit card, the financial institution must issue one or open an account for purchasing purpose, thus generating a higher level of financial inclusion. Therefore, 240,512 new credit cards have been issued and 698 sight accounts have been opened for this purpose so far.

Figure 6 | Total loans granted to self-employed workers and members of the simplified tax regime at 0% rate.



* The accumulated value on the last day of each month is considered. The information for September corresponds to the 24th. Source BCRA

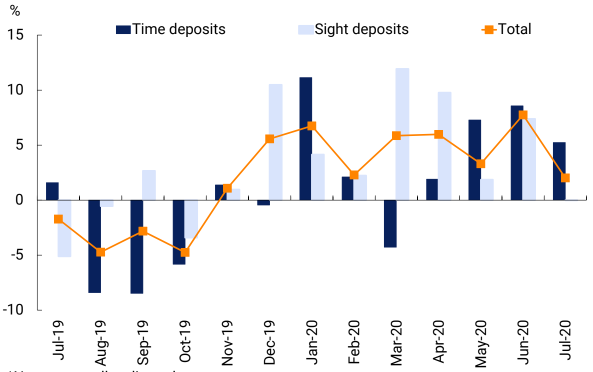
As a complement to this last initiative, the BCRA regulated the Zero Rate Culture Credit line in August for those under the simplified tax regime and the self-employed who develop culture-related activities. These loans are also credited to the applicant's credit card, in three equal and consecutive monthly installments. The financing has a 0% nominal annual interest rate, a one-year grace period from its first credit, reimbursed in 12 equal and consecutive monthly installments.[13] At the end of September, 1,424 loans had been granted through this credit line for a total amount equivalent to $151 million (39% of which had already been credited).

9 Communication "A" 7006 and amendments.
10 Furthermore, by September 24, $195 million more had been approved with pending disbursements, with additional applications in process for almost $10 million.
11 See Communication "A" 7082 and Communication "A" 7102
12 See Communication "A" 6993.
13 See Communication "A" 7082.

In the context of this positive performance observed by the subsidized credit lines promoted by the BCRA, the stock of loans in pesos to the private sector in real terms grew in July for the third consecutive month y.o.y. Financing in pesos to businesses and households thus accumulated an 8.8% increase in real terms y.o.y., a dynamic led by foreign and national private institutions. Commercial lines (promissory notes and, to a lesser extent, cash advances) and credit card loans showed the highest y.o.y. rise in real terms.

Influenced by the weak performance of loans in foreign currency, the stock of total loans to private sector (in domestic and foreign currency) accumulated in July an +0.1% change against June and -9% y.o.y. in real terms.

Figure 7 | Stock of private sector deposits in pesos
Monthly % change* - In real terms



*Non-seasonally adjusted.
Source: BCRA

As to the funding of the aggregate financial system, the stock of private sector deposits in pesos climbed 2% in real terms (4% in nominal terms) in July, mainly due to the 5.2% increase in time deposits (7.3% in nominal terms) (see Figure 7). The positive performance of private sector time deposits reflects, to a large extent, the effect of the minimum interest rate policy adopted by the BCRA encouraging savings in domestic currency.

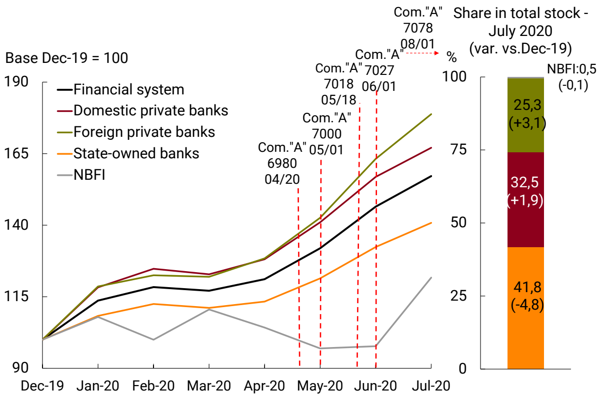
Following this, the BCRA has set minimum interest rates for time deposits in pesos since mid-April, gradually including natural and legal person's deposits.[14] To further the positive performance of time deposits, the BCRA increased since August the minimum interest rate for natural persons time deposits in pesos of up to $1 million in Group "A" institutions and G-SIBs not belonging to this group, taking it to 87% of the LELIQ rate (resulting in 33.06% ANR or 38.5% AER).[15] Also, the ratio defining the fixed interest rate for early-payment UVA time deposits was raised, from 26.6% to 28.5% ANR.[16]

It should be noted that the path of sustained growth in time deposits observed in recent months is driven by the different groups of financial institutions (see Figure 8), with relatively stronger dynamics in national and foreign private ones. In particular, since early this year, these time deposits channeled by private banks increased their share in the total stock by 5 p.p., representing 57.7% in July.

14 See Communication "A" 6980 , Communication "A" 7000 , Communication "A" 7018 and Communication "A" 7027.
15 The remaining institutions may choose to offer this new minimum interest rate, in the case of deposits with the aforementioned characteristics.
16 See Communication "A" 7078.

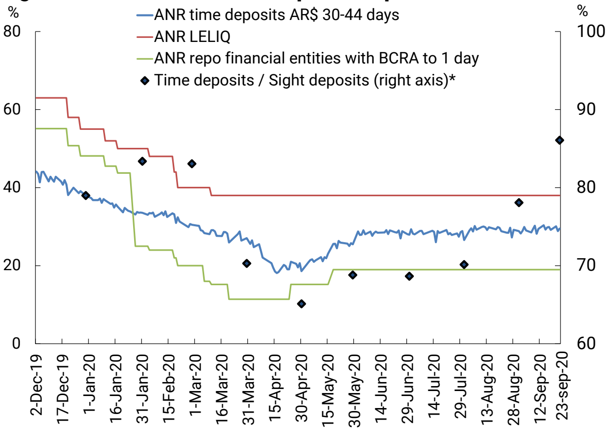
Figure 8 | Stock of time deposits in pesos

Private sector - In real terms *



NBFI: Non-Banking Financial institution. *Not seasonally adjusted. Source: BCRA

Figure 9 | Interest rates and deposits in pesos



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

The stock of private sector sight accounts in domestic currency did not show a significant change in real terms in July (+1.9% in nominal terms). Therefore, given the positive performance of time deposits, the relationship between these deposits and private sector sight accounts in pesos continued to climb, reaching an estimated ratio equivalent to 86% by late September (see Figure 9).

In July, public sector deposits in domestic currency grew 2.8% in real terms (4.8% in nominal terms). Thus, the stock of total deposits in pesos went up 2.1% in real terms (4.1% in nominal terms) against last month.

In year-on-year terms, the stock of private sector deposits in domestic currency grew by 30.9% in real terms in July (86.4% y.o.y. in nominal terms), with an increase in both sight accounts and time deposits. In the last twelve months, public sector deposits in pesos climbed 7.8% y.o.y. in real terms (53.5% y.o.y. in nominal terms). Thus, the stock of total deposits in pesos increased 25.1% y.o.y. in real terms (78.1% y.o.y. in nominal terms) against July 2019.

II. Aggregate Balance Sheet Composition

The balance sheet of the ensemble of financial institutions expanded during July. Sector total assets increased 1.7% in real terms in the month (3.7% in nominal terms), with a greater relative rise among private institutions.

Since the beginning of the pandemic, total assets of the financial system have been expanding, accumulating a 13% increase in real terms between February and July 2020. In addition to the dynamics of loans in pesos in recent months (see the previous section), most of the aforementioned increase in assets was explained by the net incorporation of BCRA instruments (LELIQ and repos). Accordingly, it should be noted that this Institution contributed to the financing of extraordinary programs to support businesses and households promoted by the National Government aimed at mitigating the economic and social impact of the health emergency.[17] In this

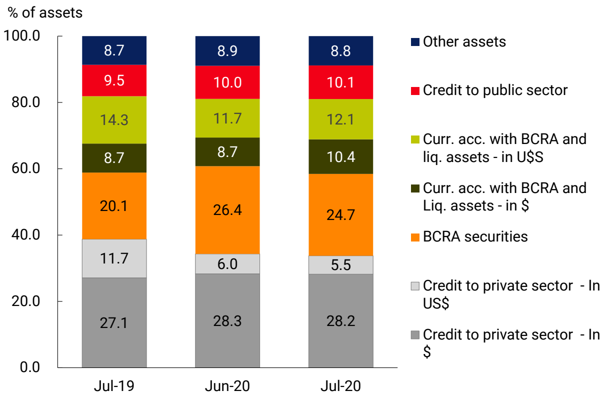
17 For further details, see the latest issue of the Monetary Policy Report (IPOM).

context, transfers from the BCRA to the National Treasury were, throughout the preventive and compulsory social lockdown, one of the main factors behind the monetary base expansion. To avoid pressure on monetary stability, part of the peso issuance was sterilized through repos and LELIQs, instruments that financial institutions hold in their assets.

Considering the composition of total assets, in July, credit to private sector in national currency and BCRA instruments (LELIQ and repos) continued to present the largest shares, reaching 28.2% and 24.7% respectively (see Figure 10). The share of BCRA instruments in domestic currency decreased and the relative share of the current account balance in the same denomination increased, while the weighting of credit in domestic currency remained stable against June. As to assets in foreign currency, the weighting of credit to private sector decreased during the month and the share of liquidity increased. In a year-on-year comparison, credit to private sector in pesos and liquidity[18] in the same currency expanded their relative weight in total assets. Considering foreign currency items against July 2019, the weighting of the stock of loans to the private sector and liquidity went down.

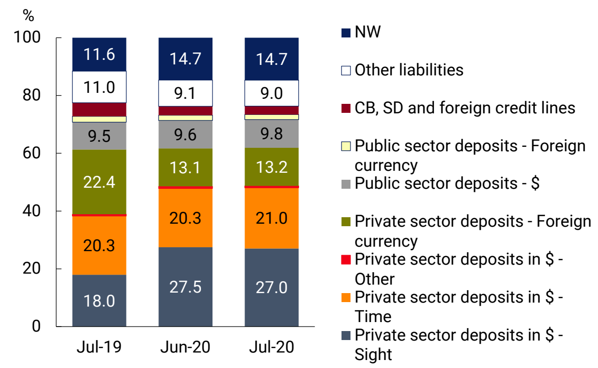
As to total funding (liabilities and net worth) of the financial system, private sector sight and time deposits in national currency in July were the main components, reaching weights of 27% and 21%, respectively (see Figure 11). During the month, the increase in the relative share of private sector time deposits in pesos stood out, as well as a certain reduction in the weighting of this sector' sight accounts in the same denomination. Compared to the same month of 2019, the funding structure was mainly modified due to a lower relative share of private sector deposits in foreign currency and an increase in the share of private sector sight and time deposits in domestic currency and in equity.

Figure 10 | Financial system's assets composition
% share in the total



Source: BCRA

Figure 11 | Composition of the system's funding (liabilities + net worth)
% share in the total

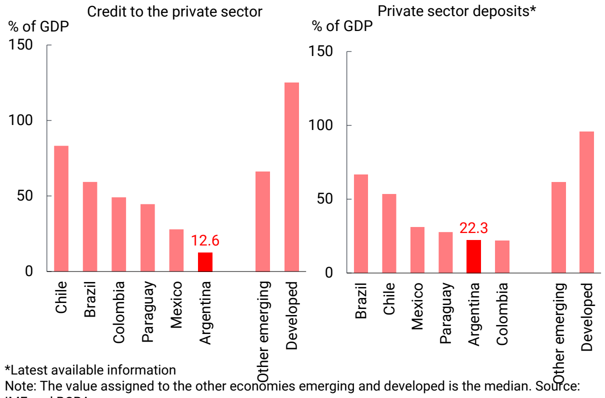


Source: BCRA

18 Liquidity considers the balance of financial institutions' current accounts at the BCRA, monetary regulation instruments (LELIQs and repos), as well as money holdings in financial institutions.

According to the aforementioned composition of assets and funding, where the relative weightings of loans and deposits stand out, we can observe the type of low complexity traditional intermediation conducted by the ensemble of financial institutions. This characteristic, added to its low depth and extent in the economy, constitute historical features of the Argentine financial system. In this sense, it is currently estimated that the stock of loans to the private sector in terms of GDP is around 12.6% (July), while this sector deposits reach 22.3% of GDP. These values continue to be significantly low compared with those of the other countries in the region and other emerging and developed economies (see Figure 12), providing a certain indication of the development potential to increase its role in channeling savings and financing to the private sector.

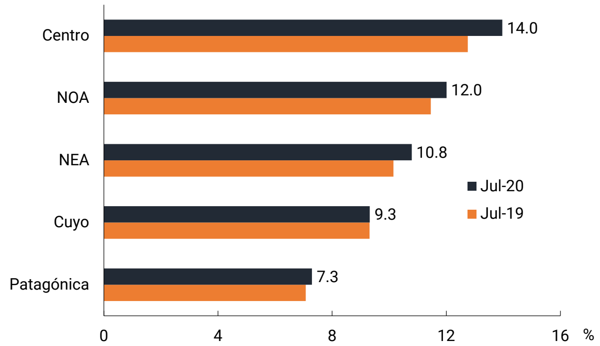
Figure 12 | Financial intermediation with the private sector
International comparison - In % of GDP



*Latest available information
Note: The value assigned to the other economies emerging and developed is the median. Source: IMF and BCRA.

The challenge of increasing the role of the financial system in the economy is, basically, transversal to all regions of the country. Thus, although total loans channeled to businesses and households are still focused mostly in the Central region of the country[20] (approximately 80% of the stock by July), its extent in terms of activity is relatively low in all regions (see Figure 13). This area is estimated to have also presented the highest ratio between the stock of loans and its GDP (equivalent to 14%), followed by the North West (12%) and the North East of Argentina (10.8%).

Figure 13 | Private sector loans by region[19]
As % of regional GDP * - Loans by debtor's tax registration (AFIP)



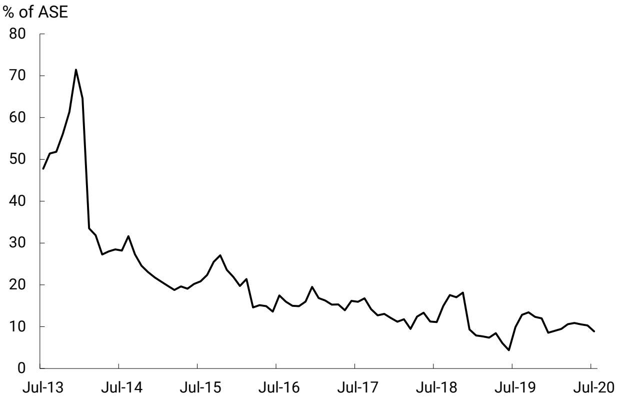
NOA: Salta, Jujuy, Tucumán, Catamarca and Santiago del Estero. NEA: Formosa, Chaco, Misiones and Corrientes. Cuyo: Mendoza, San Juan, San Luis and La Rioja. Patagonia: La Pampa, Neuquén, Río Negro, Chubut, Santa Cruz and Tierra del Fuego. Centro: Córdoba, Santa Fe, Entre Ríos, Bs.As. and CABA.
*Estimated. Source: INDEC and BCRA

Finally, from a macroprudential perspective, it is relevant to see the behavior and evolution of the balance sheet in foreign currency. Overall, this segment has been losing its share in the aggregate balance of the financial system. By July, assets in foreign currency totaled 19.8% of total assets (-0.1 p.p., m.o.m. and -10 p.p., y.o.y.), while liabilities represented 18.6% of total funding (without significant changes in the month and -10.6 p.p., y.o.y.). When including off-balance sheet foreign currency forward purchase and sale transactions, the spread between financial system's assets and liabilities in foreign currency totaled 8.9% of the Adjusted Stockholders' Equity (ASE) in July, down 1.4 p.p. and 1 p.p. against last month and July 2019 respectively (see Figure 14).

19 Regional GDP is estimated according to the economic structure by province published by the national statistics agency (INDEC) for the base year 2004, considering thereby the performance of each of the branches of activity proportionally to each jurisdiction.
20 Using information from the Debtors' Central Database, classifying debtors by their tax registration address (AFIP).

Figure 14 | Foreign currency assets - Foreign currency liabilities + Foreign currency forward position

Financial System

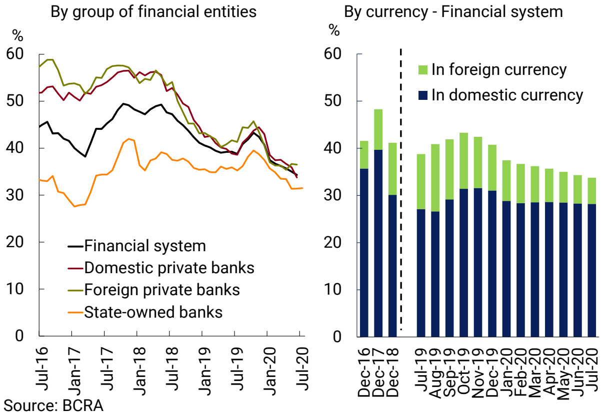


Source: BCRA

III. Portfolio Quality

The financial system's exposure to private sector represented 33.8% of total assets in July (see Figure 15), down 0.6 p.p. against last month, and almost 2 p.p. less if netting private portfolio provisions. The segment in foreign currency mainly explained this decrease; while the stock of loans to private sector in pesos kept its weighting of total assets relatively stable (around 28.2%).

Figure 15 | Stock of loans to the private sector / Total assets



Source: BCRA

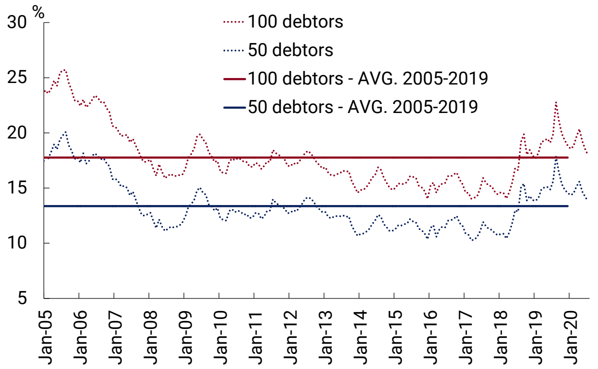
The concentration of private sector debtors in financial institution's portfolios, continues to be moderate.[21] The share of the main debtors (legal and natural persons) in the total portfolio has been falling gradually, after the maximum reached in August 2019. In particular, the 100 and 50 main private sector debtors in the aggregate financial system represented 18% and 13.8% of the total stock of loans by July 2020 (see Figure 16), 4.8 p.p. and 4.1 p.p. below the peak observed in the previous year.

Following the change in parameters to classify debtors effective since March, to mitigate part of the adverse economic effects of the pandemic, and in addition to the financial relief mechanisms promoted by the BCRA for the same purpose,[22] the non-performing ratio of loans to private sector

21 It should be noted that the Argentine regulatory framework has a set of rules that seek to promote the diversification of financial institutions' debtor portfolio. The purpose is thus to avoid banks' excessive exposure to individual clients that could sharply increase the levels of credit risk assumed and, potentially, adversely affect its capital. See Amended Text on "Large exposures to credit risk" and Section 5 of the IIH19 IEF.

22 Communication "A" 6938 and Point 2.1.1. of the Amended Text " Financial Services in the context of the Health Emergency Pursuant to Executive Order No. 260/2020 CORONAVIRUS (COVID-19)". In this regard, it should be mentioned that the BCRA recently established, through Communication "A" 7107, to extend most of these measures until December 31, 2020.

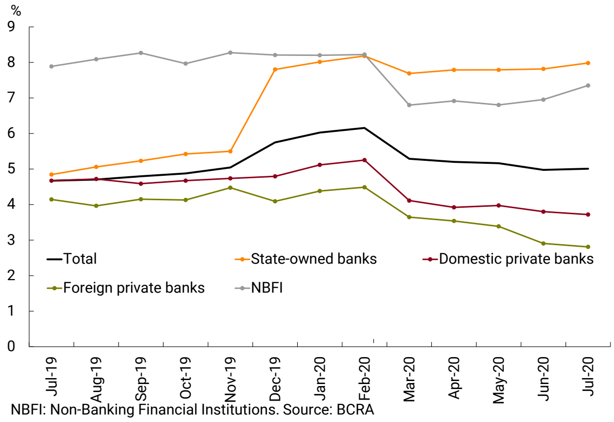
Figure 16 | Main debtors. Share in stock of loans to the private sector - Financial system



Source: BCRA

Figure 17 | Non-Performing loans to the private sector

Non-Performing financing / total financing (%)



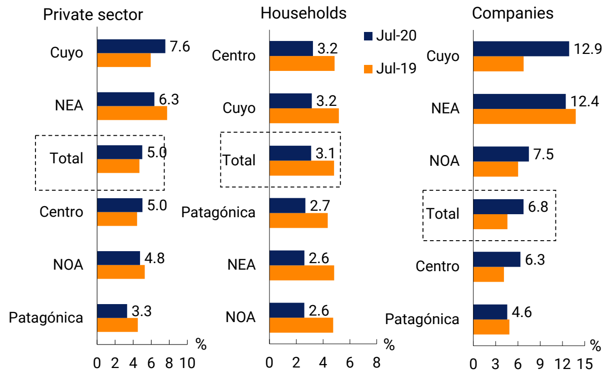
NBFI: Non-Banking Financial Institutions. Source: BCRA

for the aggregate financial system remained unchanged in July at around 5% (with a slight fall in private financial institutions and increase in public ones, see Figure 17). Particularly, the non-performing loans ratio under the special credit line to MSMEs and Health Service Providers reached a level of 1.2% in July.[23]

At a regional level,[24] the non-performing ratio continued to show certain heterogeneity, mainly reflected in business loans segment. In July, the highest non-performing loans to private sector ratio was observed in Cuyo, with a total level standing at 7.6% (see Figure 18, left panel), while the best portfolio quality was observed in Patagonia with a ratio of only 3.3% for the same period.

In July, the ratio of non-performing loans to businesses in the ensemble of institutions stood at 6.8%, slightly higher than in June and up 2.2 p.p. against last year (see Figure 18, right panel). In year-on-year terms, the ratio of non-performing loans to businesses grew relatively more in Cuyo (+6.1 p.p. to 12.9%, the highest regional value), while it fell in Patagonia (-0.3 pp to 4.6%, lowest regional value). In turn, the delinquency ratio of loans to households stood at 3.1% in July (see Figure 18, middle panel), slightly above the value of the previous month and down 1.7 p.p. against the same month of the previous year. This fall was widespread among regions, standing out the performance in the North East and North West of the country.

Figure 18 | Non-performing loans to the private sector by region

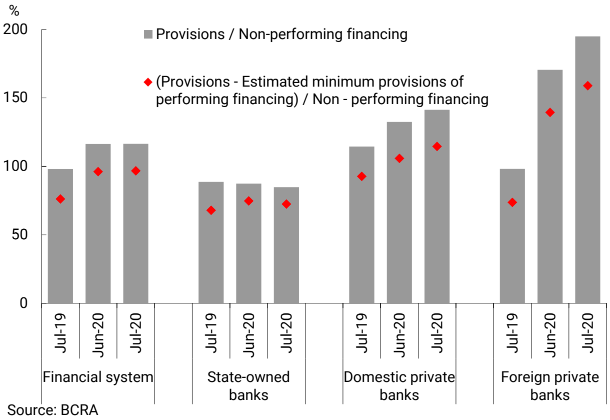


NOA: Salta, Jujuy, Tucumán, Corrientes, Santiago del Estero. NEA: Formosa, Chaco, Misiones y Corrientes. Cuyo: Mendoza, San Juan, San Luis y La Rioja. Patagonia: La Pampa, Neuquén, Río Negro, Chubut, Santa Cruz y Tierra del Fuego. Centro: Córdoba, Santa Fe, Entre Ríos, Bs.As. y CABA. Source: BCRA

23 It includes all loans taken by the aforementioned debtors, not only those promoted by the BCRA to face the economic effects of the COVID-19 pandemic.
24 Using information from the Debtors' Central Database, classifying debtors by their tax registration address (AFIP).

The stock of accounting provisions (from both the performing and non-performing portfolio) represented 116.6% of the system's non-performing loans to private sector in July, with no changes against the previous month (see Figure 19).[25]

Figure 19 | Provisioning and non-performing portfolio
By group of institutions



Source: BCRA

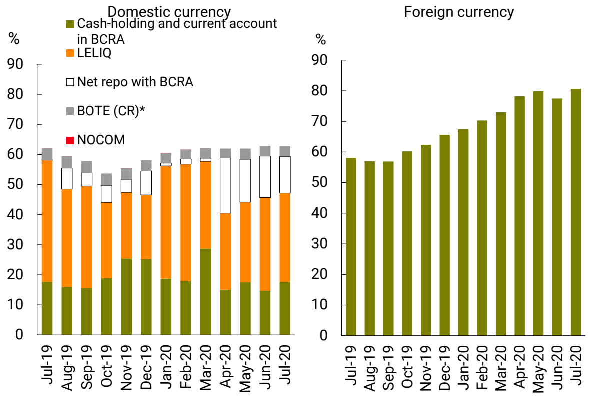
The gross exposure of the financial system to public sector represented 10.1% of total assets in July, up 0.2 p.p. against the previous month (+0.7 p.p., y.o.y.). Netting public sector deposits, the system's exposure to this sector continued to be negative, equivalent to 1.4% of total assets in the month.

IV. Liquidity and Solvency

The financial system at an aggregate level maintains adequate liquidity and solvency margins, both in comparison with previous years, and in terms of internationally recommended regulatory standards.

The broad liquidity indicator[26] reached 66.4% of total deposits in July (62.8% for items in pesos and 80.6% for items in foreign currency), up 0.5 p.p. against the level registered in June (-0.1 p.p. and +3.2 p.p. for the ratio in pesos and in foreign currency, respectively, see Figure 20).[27] Broad liquidity climbed 5.6 p.p. of deposits against July, mainly due to the performance of the foreign currency segment.

Figure 20 | Financial system liquidity
In % of deposits



*CR=Cash reserves. Source: BCRA

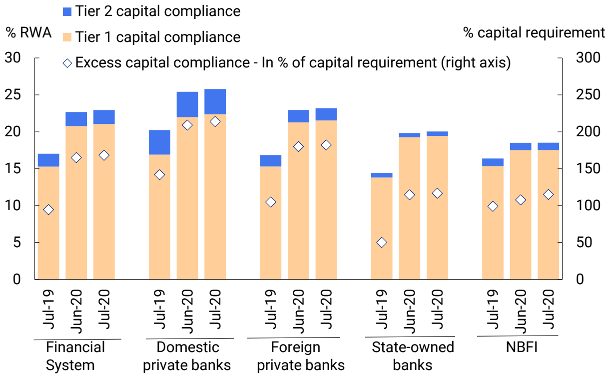
The ensemble of institutions continues to comfortably exceed the internationally recommended minimum levels in terms of

25 In turn, the estimated stock of regulatory provisions for the non-performing portfolio (following the criteria of minimum loan loss provisions standards, without using IFRS criteria for Group "A" institutions) stood at 96,7% of said loans in July, up 0.5 p.p. against June. It is estimated that non-performing loans not covered by provisions attributable to this portfolio totaled only 0.4% of the Adjusted Stockholders' Equity (ASE) in July.
26 Considering liquid assets, compliance with minimum cash requirements and BCRA's instruments, both in domestic and foreign currency, in terms of total deposits.
27 Regulatory changes regarding minimum cash requirement compliance became effective in July. On the one hand, the unified calculation of the minimum cash positions in pesos for the periods July/August and December of one year/January of the following year ceased to be effective (see Communication "A" 7046). On the other hand, the extension of the minimum cash deduction in pesos for loans granted at an interest rate of up to 24% came into force, including a special tranche for large companies investing in capital goods produced by national MSMEs (see Communication "A" 7054).

liquidity indicators. In July the Liquidity Coverage Ratio (LCR)[28] amounted to 2.3 (median of the institutions that have to comply with this requirement[29]), compared to a required minimum (in line with Basel standards) of 1. All financial institutions required to observe this liquidity requirement. In turn, the Net Stable Funding Ratio (NSFR) in June (latest available information) totaled 1.8 among institutions that have to comply with this requirement.[30] All institutions exceeded the required minimum of 1, in line with international recommendations.

As to the financial sector' solvency level, the aggregate regulatory capital ratios of the ensemble of institutions increased in July (see Figure 21). The adjusted stakeholders' equity (ASE) increased in the month 0.3 p.p. of risk-weighted assets (RWA) to 22.9% (+0.3 p.p. to 24.5% for private institutions and +0.2 p.p. to 20% for public ones). The capital position (ASE net of the minimum regulatory requirement) of the ensemble of institutions stood at 168% of the regulatory requirement in July, up 3.1 p.p. against June (+3.4 p.p. to 198% for private institutions and +2.1 p.p. to 117% for public entities).

Figure 21 | Compliance with regulatory capital
By group of financial institutions



NBFI: Non-Banking Financial Isntitutions. Source: BCRA

Additionally, the aggregate financial system broadly complied with the additional capital margins established by local regulation (2.5% of the RWA, increasing 1 p.p. for systemically important institutions). Keeping the sectoral solvency close to pre-pandemic levels is, in part, a reflection of the micro and macroprudential policies that this Institution has been adopting in recent months (in line with those implemented by other Central Banks to face the pandemic scenario). In particular, dividends distribution was postponed until the end of 2020.[31]

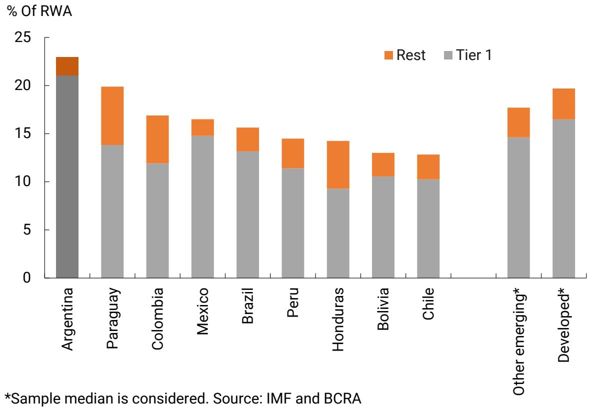
It is worth mentioning that solvency indicators for the local financial system (in line with Basle III recommendations, as well as financial reporting standards) remain at high levels compared to levels observed in other economies. According to latest available information, the capital compliance ratio in terms of RWA of the ensemble of institutions was among the highest in the region, also exceeding the median of a sample of other emerging and developed economies (see Figure 22). This occurs in a context in which Tier 1 capital share (with higher capacity to absorb eventual losses) over total capital in Argentina presents one of the highest levels from an international perspective.[32] Furthermore, this type of capital represents approximately 12% of the total exposures assumed by institutions (taking into account both non-risk weighted assets and

28 The LCR considers the liquidity available to face potential outflows in the event of a possible stress scenario in the short term. See Amended Text —AT— "Liquidity Coverage Ratio".
29 Group "A" institutions, according to Communication "A" 6835
30 The purpose of the NSFR is for institutions to have a stable term funding structure, in line with the terms of the businesses to which it applies. See AT "Net Stable Funding Ratio"
31 Communications "A" "6939 and " A "7035.
32 Best-quality capital, consisting mainly of ordinary shares and income.

certain off-balance sheet items), and is well above international recommendations (leverage ratio) and what is observed in other economies.[33]

In terms of domestic capital formation, the financial system accrued in the first seven months of the year comprehensive income in uniform currency equivalent to 2.7% a. of assets (ROA) and 18.8% a. of equity (ROE). The ROA in the year was 1.9% a. for public banks (16% a. ROE) and 3.3% a. for private companies (20.5% a. ROE).

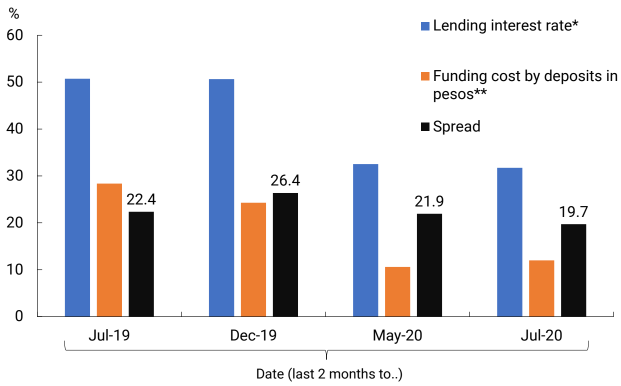
Figure 22 | Compliance with regulatory capital
International comparison - Latest available information



*Sample median is considered. Source: IMF and BCRA

The cumulative financial margin for seven months of 2020 totaled 11.6% a. of assets for the ensemble of institutions. Among the main sources of income, interests from loans (9% a. of assets) and income from securities (8.3% a. of assets) stood out, while interests paid on deposits (8.5% a. of assets) were the most important expenses of the financial margin. Income from services was another relevant source of income for the financial system's profitability so far this year (2% a. of assets). On the other hand, loss loan provisions totaled 1.7% a. of assets and administrative expenses 6.8% a. of assets in seven months of 2020.

Figure 23 | Estimated implicit interest rates (annualized)
Financial System



* For loans in pesos (non-financial), LELIQ not used for integration of minimum cash requirements and net repo with BCRA. ** It is considered minimum cash requirements. Source: BCRA

To compare some "partial" indicators of profitability against previous periods[34], implicit (lending and borrowing) interest rates in domestic currency and their differences should be estimated.[35] Following this, the implicit lending interest rate estimated for the system in nominal terms -in pesos- for the last two months to July was 0.8 p.p. lower than that of the previous two-month period (see Figure 23), while the estimated implicit cost of funding in nominal terms increased slightly in the same period. As a result, it is estimated that the difference between implicit rates fell 2.2 p.p. in the July-June two-month period compared to the previous two months.[36]

The estimated implicit lending rate in nominal terms -in pesos- for the last two months to July of this year registered a marked drop of 18.9 p.p. against late 2019. This occurred amidst an

33 See June 2020 Report on Banks and November 2019 IEF.
34 It should be noted that starting in 2020, banks' balance sheets are adjusted for inflation, i.e., information is presented in uniform currency (see Communication "A" 6651 for further details). Information for 2019 (and previous years) is not therefore comparable with the current one. The construction and monitoring of certain alternative profitability indicators, such as those based on implicit rates, although still partial, facilitate certain comparability over time.
35 For details on the methodological construction of the implicit rates, see footnote 29, 30, 31 and 32 of the June 2020 Report on Banks.
36 It should be noted that these implicit interest rates in nominal terms were estimated for periods with different levels of inflation. When estimating interest rate calculations in real terms, the difference between them also fell at the margin.

estimated implicit cost of funding in nominal terms of 12.3 p.p. less in the same period. Therefore, the estimated difference of implicit rates experienced a contraction of almost 6.7 p.p. in the July-June two-month period compared to the level at the end of 2019.[37]

V. Payment System

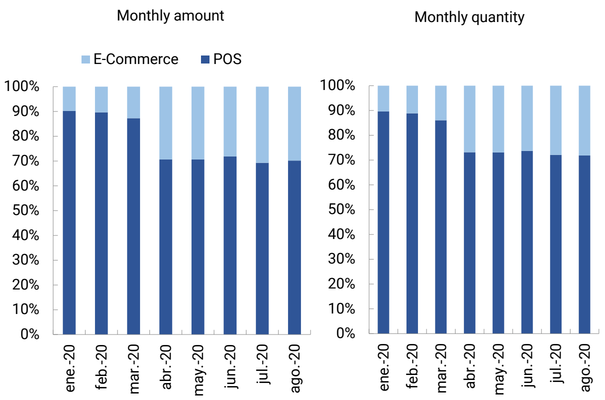
The BCRA has been actively working to minimize the impact of the pandemic on the Argentine payment system, adopting policy actions that facilitate transactions for households and businesses, always considering the necessary health protection measures. Specifically, the use of digital payment channels has been encouraged in the last few months and, for those cases in which cash must be used, access to it by individuals has been improved, trying to reduce their risk of exposure to COVID-19.

In August (latest available information), an outstanding share of electronic commerce was maintained through debit card transactions, reaching 28% of the number of debit card transactions and 30% of total amount, well above the level observed at the beginning of the year (see Figure 24).

As to ATM cash withdrawals, in August (latest information available), the frequency of withdrawals and the average amount per transaction decreased against the previous month, although the latter continued to be higher than the average of 2019 (see Figure 25). Compared to the beginning of 2020 and the average of last year, there are fewer of these operations for a higher average amount per transaction. It should be noted that to deepen the measures adopted to reduce people's mobility as a health prevention action, the BCRA recently decided to extend the decision of suspending fees on ATM withdrawals until the end of 2020.[38]

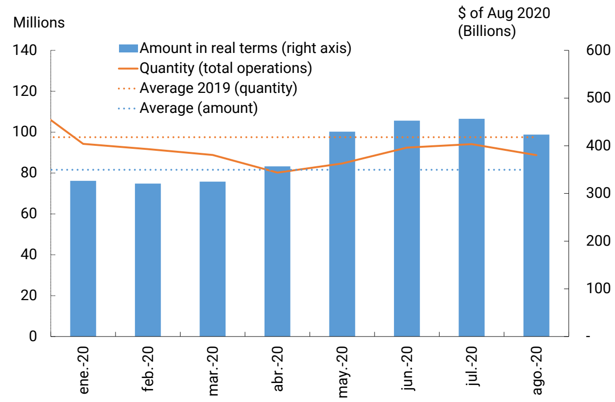
Figure 24 | Debit card transactions

% share in the total



Source: BCRA

Figure 25 | ATM cash withdrawals



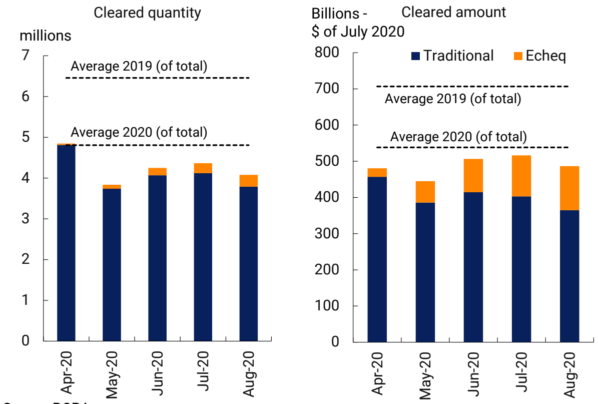
Source: BCRA

Concerning cleared checks, electronic transactions climbed. Cleared digital checks (ECHEQs) increased 18.7% in number and 7.3% in amount in real terms in August compared to July. However,

37 Similar movement to that detailed in the previous footnote, when comparing the July-June two-month period against the corresponding one in late 2019.
38 Communication "A" 7107 established that financial institutions will not be able to charge fees or commissions for any of the transactions (deposits, withdrawals, inquiries, among others) carried out through all the ATMs authorized and operated by them in the country.

total transactions with checks decreased in the month (6.6% in number and 5.8% in amount in real terms), driven by physical checks (see Figure 26). In turn, the ratio of checks bounced for insufficient funds over the total cleared dropped again in August, both in number (-0.28 p.p. to 0.79%) and in amount (-0.2 p.p. to 0.72%). The ratio of ECHEQs bounced (considering all the reasons for bouncing) over the total ECHEQs cleared also fell in the month, in number (-0.41 p.p. to 0.52%) and amount (-0.26 p.p. to 0.62%). Therefore, the current ratio of total checks bounced for insufficient funds over the total cleared is already below the record for August 2019 (see Figure 27).

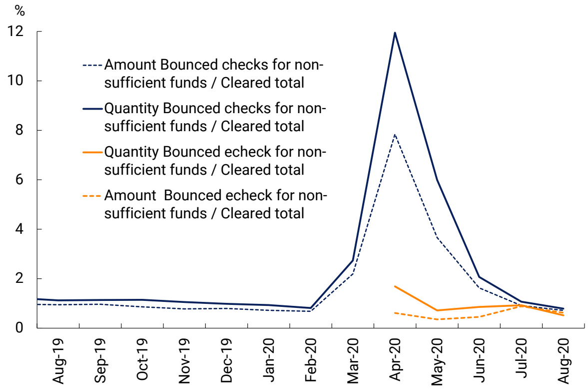
Figure 26 | Cleared checks



Source:BCRA

Figure 27 | Bounced checks

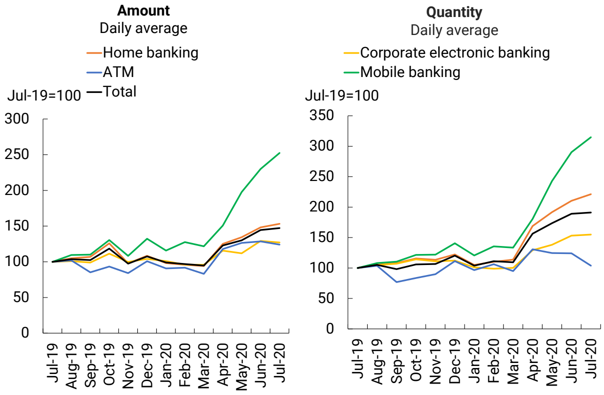
As % of total cleared



Source: BCRA

Like electronic payment mechanisms described throughout this section, instant fund transfers have also gained momentum in recent months. This performance was observed throughout all available channels to make instant transfers, particularly mobile banking and internet banking (see Figure 28).

Figure 28 | Instant transfers in domestic currency



Source: BCRA