Report on Banks

July 2022

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 September 28, 2022.
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

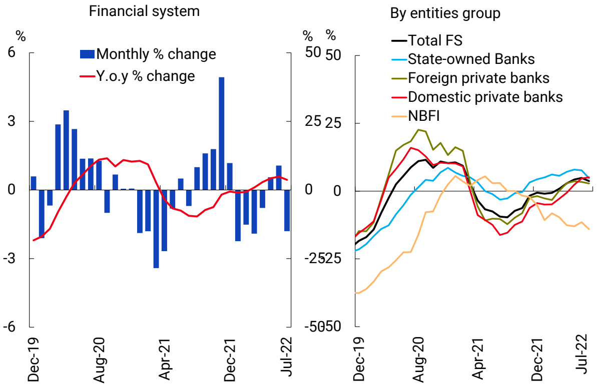
- Financial intermediation activities contracted in July, within a context where the ensemble of financial institutions continued to exhibit high liquidity and solvency margins.
- The Regulatory Capital (RC) of the ensemble of financial institutions stood at 28.4% of risk-weighted assets (RWAs) in July, up 0.6 percentage points (p.p.) against June. The capital position —capital compliance in excess of the regulatory requirement— totaled 253% over the month at systemic level, up 7.2 p.p. against June and 37.9 p.p. year-on-year (y.o.y.).
- So far in 2022, electronic means of payment have shown a remarkable momentum. Instant transfers went up 105.2% y.o.y. in number and 28.7% y.o.y. in amount in real terms. In turn, within instant transfers, there was an increase in the share of transactions involving accounts with Payment Service Providers —PSPs— from/to Uniform Virtual Codes (CVUs) to 52.8% in number (+11.4 p.p. y.o.y.) and 21.3% in amount (+5.7 p.p. y.o.y.). Transactions via electronic checks (ECHEQs) have also posted a significant growth of 73.4% y.o.y. in number and 40.6% in amount in real terms, and accounted for 30.9% and 56.1%, respectively, of total cleared checks during August.
- In July, the stock of loans in pesos to the private sector contracted 1.8% in real terms (+5.5% in nominal terms), even though it recorded a year-on-year increase of 3.7% in real terms (+77.1% y.o.y. in nominal terms), mainly due to the performance of commercial loans and pledge-backed loans. The evolution of commercial loans has been driven by the "Credit Line for Productive Investment (LFIP)" of Micro, Small and Medium-Sized Enterprises (MSMEs), under which nearly ARS2.9 trillion have been disbursed in nominal terms as of August, providing loans to over 298,300 firms. In order to continue promoting the access of MSMEs to credit lines at subsidized rates, the LFIP has been recently extended to late March 2023, keeping the same conditions now in force. The estimated stock of credit under the LFIP stood at ARS871.7 billion (nearly 40% corresponds to financing of investment projects), accounting for almost 22.6% of the total stock of loans to companies.
- In July, the non-performing ratio of loans to the private sector contracted for the sixth consecutive month to 3.1%, down 2.3 p.p. in a year-on-year comparison. The total stock of provisions accounted for 3.8% of total loans to the private sector and for 120.5% of the non-performing portfolio of loans.
- The stock of private sector deposits in pesos shrank 3.2% in real terms in July (+3.9% in nominal terms), posting decreases in sight accounts and, to a lesser extent, in traditional time deposits. In turn, the stock of UVA-denominated time deposits went up 3.7% in real terms over the month, and accounted for 7.8% of the total stock of private sector time deposits (+2.9 p.p. against December 2021). In year-on-year terms, the stock of private sector deposits rose 3.1% in real terms (+76.1% in nominal terms). In order to consolidate the regularization process of the interest rate structure, the BCRA has recently raised the interest rate on 28-day LELIQs to a nominal annual percentage rate of 75%, and has also raised the minimum interest rate on 30-day time deposits of up to ARS10 million made by natural persons (for the remaining private sector time deposits, the interest rate stood at a nominal annual percentage rate of 66.5%).
- The financial system's liquidity ratios continued to stand at relatively high levels in July against the average values of the last 10 years. Broad liquidity accounted for 69.1% of total deposits over the month (65.5% for the items in pesos and 90.9% for the items in foreign currency).
- In the first seven months of the year, the financial system accrued a total comprehensive income in homogeneous currency of 1% annualized (a.) of assets (ROA) and 5.9%a. of equity (ROE), standing

slightly above the records observed in the same period of 2021 but below the values observed in the same period of 2020. Considering the aggregate of the last 12 months up to July, the financial system's ROA stood at 1.2%, while the financial system's ROE stood at 7.4%.

I. Financial Intermediation Activity

The financial intermediation activity with the private sector declined in July. Taking into account the main differences in the balance sheet of the aggregate financial system for the items in domestic currency —in real terms—, there was a decrease in broad liquidity and also in financing to both the public and the private sectors. In turn, there was also a drop in the stock of deposits. A similar evolution was observed in the items in foreign currency, which posted a reduction in financing and in deposits at aggregate level.[1]

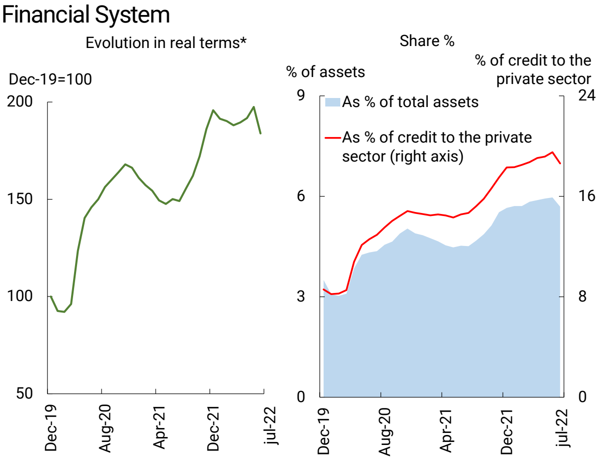
Chart 1 | Stock of loans to the private sector in pesos
In real terms* - Financial System



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

In July, the stock of loans in pesos to the private sector went down 1.8% in real terms against June (see Chart 1; +5.5% in nominal terms), with drops across all groups of financial institutions.[2] A breakdown by type of credit assistance shows that, over the month, there were increases in real terms in the stocks of commercial loans (leasing, overdrafts and promissory notes) and of pledge-backed loans, accompanied by drops in the remaining credit lines. Despite the monthly performance, the stock of loans in domestic currency accumulated a 3.7% rise y.o.y. in real terms (+77.1% y.o.y. in nominal terms). The year-on-year rise of loans was widespread across all groups of financial institutions, mainly driven by the performance of pledge-backed loans (35.4% y.o.y. in real terms) and commercial lines (+21.8% y.o.y. in real terms).

Chart 2 | Stock of loans in pesos to MSMEs
Financial System



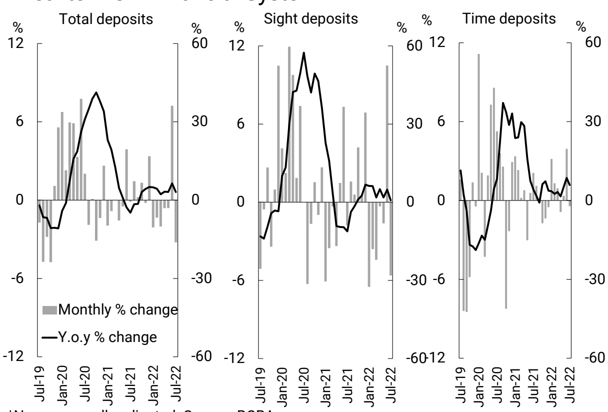
* Not seasonally adjusted. Source: BCRA

The momentum of commercial loans in pesos continues to be led by the "Credit Line for Productive Investment" (LFIP) of MSMEs. Consequently, in order to continue encouraging access to credit lines at subsidized rates, the BCRA has recently

1 Values expressed in currency of origin.
2 Including capital adjustments and accrued interest.

extended the LFIP until late March 2023, keeping the current conditions in force.[3] From the launch of the LFIP credit line (in November 2020) to August 2022, nearly ARS2.9 trillion in nominal terms have been disbursed and provided to over 298,300 enterprises. As of July (latest information available), the estimated stock of loans under the LFIP stood at ARS871.7 billion (nearly 40% corresponds to financing of investment projects), accounting for almost 22.6% of the total stock of loans to companies. Within a context where the LFIP seeks to focus resources mainly on enterprises of a relatively smaller size in order to promote their productive development, the stock of loans in pesos channeled to MSMEs has accumulated an increase of 23.3% in real terms at systemic level in a year-on-year comparison up to July, and it has almost doubled the stock (measured in homogenous currency) of late 2019 (see Chart 2).

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

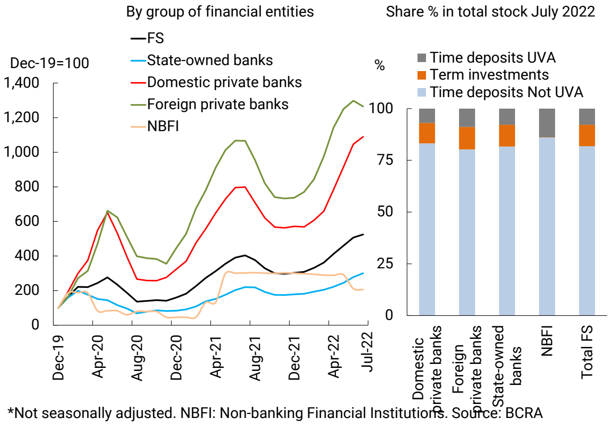


*Non-seasonally adjusted. Source: BCRA

In July, the stock of loans to the private sector in foreign currency dropped 7.1% against June.[4] Therefore, the total stock of loans (in domestic and foreign currency) to the private sector posted a contraction of 2.4% in real terms over the month (+4.8% in nominal terms) and of 2.8% in real terms y.o.y.

As regards the financial system's funding, the stock of private sector deposits in pesos shrank 3.2% in real terms against June (+3.9% in nominal terms, see Chart 3), posting drops in both sight accounts (-5.6% in real terms or +1.4% in nominal terms) and time deposits (-0.4% in real terms or +6.9% in nominal terms). Within this last segment, traditional time deposits recorded slight drops in real terms during July, which were offset in part by the increases in UVA-denominated time deposits and in time investments. The stock of the last two items went up 3.7% in real terms over the month,[5] accumulating a 73.6% rise in real terms since last December. In the first seven months of the year, the performance of these deposits showcased a higher relative momentum of private financial institutions and, to a lesser extent, state-owned banks (see Chart 4). In July, UVA-

Chart 4 | Stock of private sector UVA-denominated deposits in real terms *



*Not seasonally adjusted. NBFI: Non-banking Financial Institutions. Source: BCRA

3 Communication "A" 7612 and Press Release of September 22, 2022.
4 Expressed in currency of origin.
5 Deposits with early cancellation option went up 8.6% in real terms in July, while those without this early cancellation option went down 0.3% in real terms.

denominated time deposits accounted for 7.8% of the total stock of private sector time deposits in pesos, up 2.9 p.p. against the value recorded by the end of 2021.

In order to consolidate the regularization process of the interest rate structure so as to sustain their positive sign in real terms, the BCRA has recently raised the interest rate on 28-day LELIQs from a nominal annual percentage rate of 69.5% to a nominal annual percentage rate of 75%. Simultaneously, it has also raised the minimum interest rate on 30-day time deposits up to ARS10 million made by natural persons to a nominal annual percentage rate of 75% while, for the remaining private sector time deposits, the rate stood at a nominal annual percentage rate of 66.5%.[6]

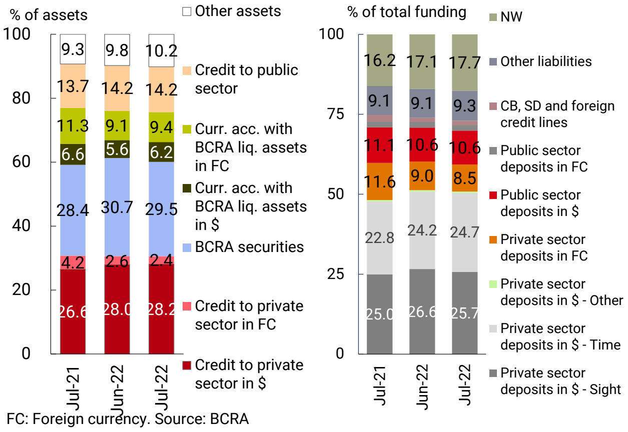
In July, the private sector stock of deposits in foreign currency contracted 5.5% in currency of origin. Consequently, the total stock of private sector deposits (in both domestic and foreign currency) posted a drop of 3.9% in real terms (+3.2% in nominal terms) over the month and a drop of 3.1% in real terms in a year-on-year comparison (+65.6% in nominal terms).

In year-on-year terms, the stock of private sector deposits in pesos went up 3.1% in real terms (+76.1% in nominal terms), while public sector deposits contracted 6.7% in real terms (+59.5% y.o.y. in nominal terms). Taking into account both sectors, the total stock of deposits in pesos rose by 1.6% y.o.y. in real terms (+73.6% y.o.y. in nominal terms). Bearing in mind all types of depositors and currencies, the total stock of deposits shrank 3.4% y.o.y. in real terms (+65% y.o.y. in nominal terms).

II. Aggregate Balance Sheet Evolution and Composition

In July, the financial system's balance sheet size, measured by the stock of total assets, shrank 2.4% in real terms (+4.8% in nominal terms) against June. In a year-on-year comparison, the stock of assets dropped slightly in real terms (-2.2% or +67% in nominal terms) at systemic level.

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



FC: Foreign currency. Source: BCRA

Regarding the components of the aggregate financial system's total assets, there was a decrease in the share of the BCRA's stock of instruments and of loans in foreign currency to the private sector over the month. In turn, in July, there was an increase in the relative share of the balances of current accounts held by the institutions at the BCRA and of loans in pesos to the private sector (see Chart 5). Considering the assets by currency, over the month, there was a slight increase (to 74.1%) in the share of the items in pesos without CER adjustment (or denominated in

6 Communication "A" 7605 and Press Release of September 15, 2022.

UVA), while the relative share of assets denominated in pesos with adjustment by CER (or denominated in UVA) dropped slightly (to 11.6%) over the month.

With reference to the components of the aggregate financial system's total funding, there was a decrease in the share of private sector sight accounts in pesos and of deposits in foreign currency arranged by this sector. In turn, there was an increase in the relative share of the private sector net worth and time deposits in domestic currency (see Chart 5). A breakdown of total funding by currency shows that there was a slight increase in the share of the items in pesos adjusted by CER or denominated in UVA over the month, accompanied by a decrease in the share of items denominated in foreign currency.

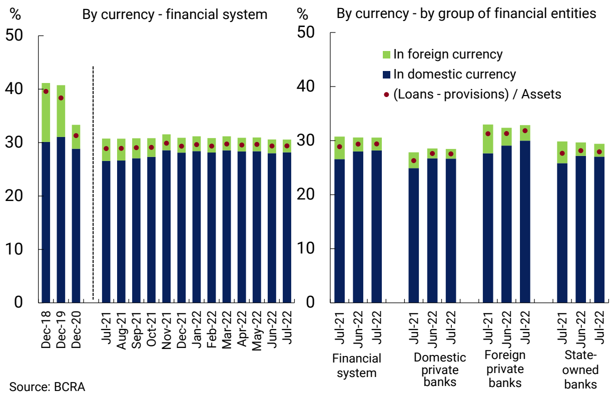
Within the macroprudential regulatory framework, the exposure of the aggregate financial system's balance sheet to items in foreign currency continued to stand at relatively low levels in July. The differential between assets and liabilities of the ensemble of financial institutions in foreign currency[7] stood at 13.1% of the regulatory capital in July, up 1.4 p.p. against June (+5.8 p.p. y.o.y.). In turn, the positive differential between assets and liabilities with capital adjustment by CER (or denominated in UVA) totaled 60.8% of the regulatory capital over the month, down 4.4 p.p. against June and up 5.2 p.p. against the value recorded in July 2021.

III. Portfolio Quality

In July, the financial system's gross exposure to the private sector (in domestic and foreign currency) stood at 30.6% of total assets,[8] posting no significant changes against June and in year-on-year terms (see Chart 6). When considering financing in pesos only, the gross exposure of the ensemble of financial institutions to the private sector stood at 28.2%, up 0.2 p.p. against the figure recorded in June (+1.6 p.p. y.o.y.). In turn, the ensemble of institutions' exposure to the public sector accounted for 14.2% of total assets in July, posting no significant changes over the month (+0.5 p.p. y.o.y.).

The non-performing ratio of loans to the private sector contracted in July for the sixth consecutive month, down to 3.1%, and has accumulated a year-on-year decline of 2.3 p.p. [9] The monthly performance of this indicator was mainly driven by loans to companies. The non-performing ratio of this segment contracted 0.2 p.p. over the month, to 3.1% (-2.8 p.p. y.o.y.), and this change was mainly accounted for by the performance of

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



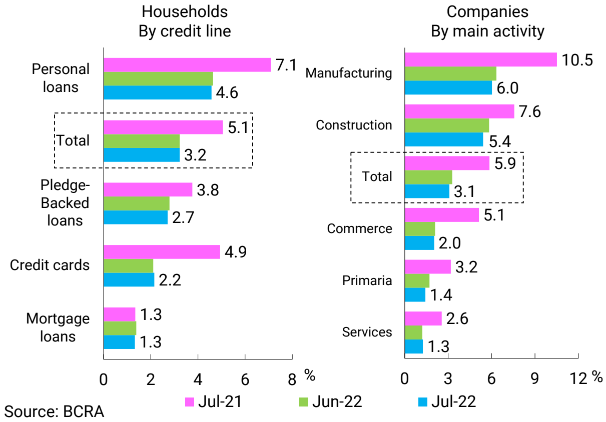
Source: BCRA

7 Including purchase and sale forward transactions in foreign currency, classified as off-balance.
8 This indicator would stand at 29.4% at aggregate level in July if the accounting stock of provisions were netted.
9 A significant part of the year-on-year drop of this ratio was accounted for by the migration of debtors classified as non-performers to off-balance items (bad loans), according to the regulations in force. It is worth pointing out that these movements did not impact on the income statement due to the fact that these debts were already fully provisioned.

companies involved in the construction business, industry and primary production (see Chart 7). In July, the delinquency ratio of loans to households stood at 3.2% (without significant changes over the month, and at -1.8 p.p. y.o.y.).

A breakdown by group of institutions shows that loans to companies channeled through state-owned financial institutions exhibited a relatively higher non-performing level than that of the remaining groups of institutions, within a context where there was a widespread decline in the delinquency ratio of this segment in the last 12 months. In turn, in the segment of lending to households, non-banking financial institutions continued to have a higher non-performing ratio.

Chart 7 | Non-performing loans to the private sector
Non-performing financing / Total financing (%)



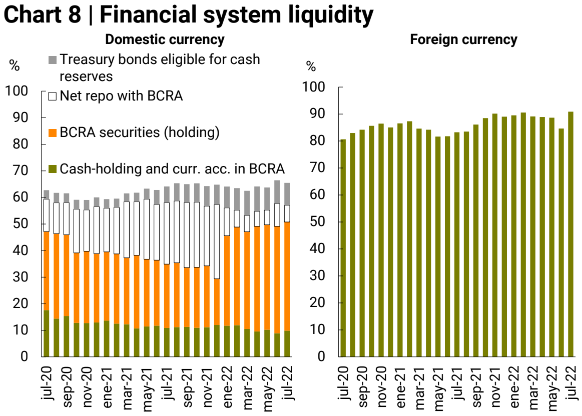
Source: BCRA

In July, the aggregate financial system's total stock of provisions accounted for 3.8% of total loans to the private sector (-2.1 p.p. y.o.y.) and for 120.5% of the non-performing portfolio of loans (without significant changes over the month and -11.9 p.p. y.o.y.). Over the period, the stock of regulatory provisions net of those attributable to debtors' categories 1 and 2 (according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure) stood at 89.3% of the non-performing portfolio for the ensemble of financial institutions.

IV. Liquidity and Solvency

The financial system's liquidity ratios stood at high levels in July. Broad liquidity accounted for 69.1% of total deposits by the end of the month, without posting significant changes against the value recorded in June. The ratio for the items in pesos stood at 65.5%, while the ratio for items in foreign currency stood at 90.9% (-1 p.p. and +6.2 p.p. over the month, respectively, see Chart 8). Regarding the composition of liquidity in domestic currency, there was a decrease in the relative share of net repo transactions with the BCRA between ends of month, accompanied by an increase in the balance of the current accounts held by banks at this institution and in the BCRA's instrument holdings. In year-on-year terms, broad liquidity (in pesos and in domestic currency) contracted 1.4 p.p. of total deposits.

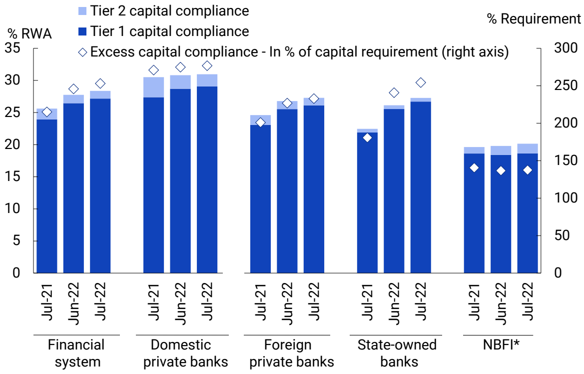
Chart 8 | Financial system liquidity



Source: BCRA

In relation with the regulatory liquidity ratios subject to the framework of international recommendations (Basel Committee), the group of institutions subject to compliance with this requirement at local level (Group A) closed the first half of 2022 (latest information available) at levels that exceeded the minimum values required. As of June, the median of the Liquidity Coverage Ratio (LCR) stood at 2.1, while the median for the Net Stable Funding Ratio (NSFR) stood at 2, against a minimum value of 1 for both ratios.

Chart 9 | Compliance with regulatory capital
By group of financial institutions

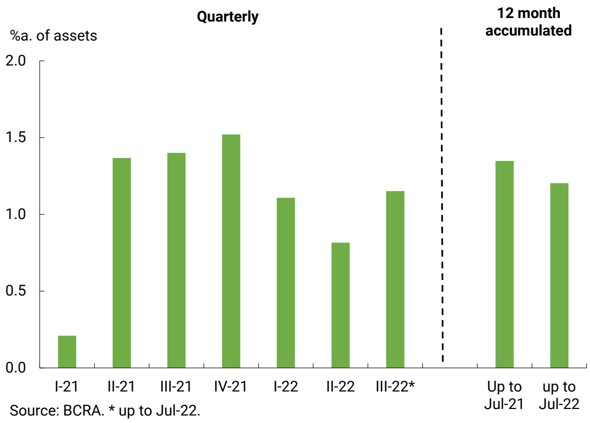


*NBFI: Non-Banking Financial Institutions. Source: BCRA

In turn, the ensemble of financial institutions kept high solvency levels in July. The aggregate financial system's Regulatory Capital (RC) accounted for 28.4% of its risk-weighted assets (RWAs), standing 0.6 p.p. above the value recorded in June (+2.8 p.p. y.o.y., see Chart 9). Regarding the components of the sector's ASE, nearly 96% was accounted for by Tier 1 Capital, with a greater capacity to absorb potential losses. The capital position —excess capital compliance in terms of the regulatory requirement— totaled 253% of the requirement at systemic level over the month, up 7.2 p.p. against June (+37.9 p.p. y.o.y.). In turn, in July, the excess of regulatory capital accounted for 36.3% of the stock of loans to the private sector net of provisions at aggregate level, quite above the historical average of the last 10 years (16.2%).

As to the internally-generated funds of the sector, the financial system accrued a total comprehensive income in homogeneous currency of 1% annualized (a.) of assets (ROA) and 5.9%a. of equity (ROE) during the first seven months of the year, slightly above the figures observed in the same period of 2021 but below the values of the same period of 2020. Considering the aggregate of the last 12 months up to July, the ensemble of financial institutions has accrued a ROA of 1.2% and a ROE of 7.4%, standing at slightly lower values in a year-on-year comparison (see Chart 10). This reduction was mainly due to the effects of the increase in the cost of funding for deposits and higher monetary losses. In turn, this year-on-year evolution was lessened by higher income from securities and a reduction of loan loss provisions.

Chart 10 | Financial system's total comprehensive income in homogeneous currency



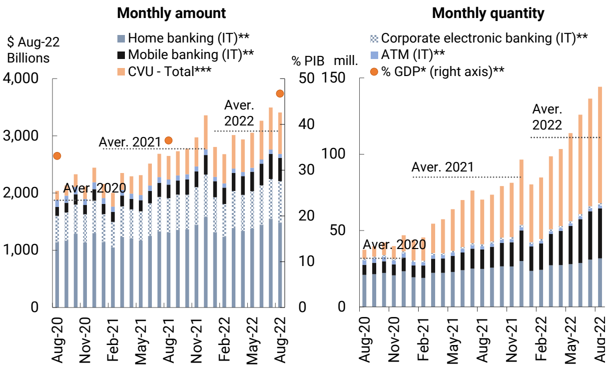
Source: BCRA. * up to Jul-22.

V. Payment System

In August, instant transfers went up in number (+5.7%) and went down in amount in real terms (-2.5%). Instant transfers have accumulated an increase of 105.2% y.o.y. in number and 28.7% y.o.y. in amount in real terms. This performance was mainly driven by transfers involving accounts with Payment Service Providers —PSPs— from/to Uniform Virtual Codes (CVUs). There was an increase in the share of these transactions in total instant transfers: 52.8% in number (+11.4 p.p. y.o.y.) and 21.3% in amount (+5.7 p.p. y.o.y.). It is estimated that the amount of instant transfers traded in the last three months (annualized) accounted for 46.7% of GDP (+10.2 p.p. against the same month of 2021, see Chart 11). [10]

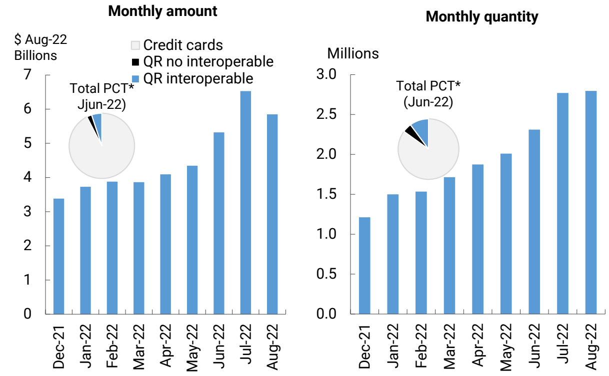
In August, payments by transfer (PCTs) initiated via an interoperable QR code went up slightly in number and went down in amount in real terms against the figures of July (see Chart 12). As of the seventh month of the year (latest information available), these transactions accounted for 10.7% and 5% in terms of total number and amount of payments by transfer, respectively.[11]

Chart 11 | Instant transfers



Source: BCRA. *Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted. **IT between accounts open at financial entities (from and to a CBU) ***Transfers where accounts are opened at PSP (from and/or to CVU: CBU to CVU, CVU to CBU and CVU to CVU). Note: high value transfers and batch transfers are not included.

Chart 12 | Payments by transfer (PCTs)



Source: BCRA. * Total payments with transfers (PCT) totales. Last data available Jan-22.

In July, there was an increase in the transactions arranged with debit cards against the values recorded in June: 5% in number and 8.4% in amount in real terms, in part due to seasonal factors. The increase was entirely accounted for by onsite transactions. In year-on-year terms, transactions via debit cards grew significantly (+21.7% in number and +12.4% in amount in real terms). Onsite transactions posted the most remarkable momentum, signaling a higher mobility of people if compared to the pandemic period. It is estimated that transactions made via debit cards in the last three months (annualized) accounted for 8.2% of GDP (up 0.9 p.p. against the same month of 2021).

In June, there was a slight decrease in transactions made with credit cards, in both number and amount in real terms, in part due to seasonal factors. Nevertheless, in year-on-year terms,

10 During August, the average amount of instant transfers arranged via Uniform Banking Codes (CBUs) was ARS39,500, while the average amount of transfers via Uniform Virtual Codes (CVUs) was ARS9,500. In turn, the average amounts of transactions via instant transfers as per channel were ARS12,400, ARS54,200, ARS446,500 and ARS $30,400 for Mobile Banking, Online Banking, Corporate Electronic Banking and ATMs, respectively.
11 During August, the average amount of a transaction via Payment by Transfer (PCT) with interoperable QR code was ARS2,200.

transactions via credit cards went up 11.5% y.o.y. in number and 15.9% y.o.y. in amount in real terms. It is estimated that these transactions (last three months, annualized) accounted for 8.3% of GDP (up 0.8 p.p. against the same month of 2021).

In August, the clearing of checks went up against July, in both number (+9.3%) and amount in real terms (+7.3%). The share of transactions via electronic checks (ECHEQs) continued to increase in the total clearing of documents: in August, they accounted for 30.9% in number and 56.1% in amount. It is estimated that the amount of checks cleared in the last three months (annualized) was equivalent to 26.6% of GDP (+1.8 p.p. y.o.y.). The ratio of bounced checks for insufficient funds in terms of total cleared checks stood at moderate levels (0.60% in number and 0.56% in amount), standing at values similar to those of July and at slightly higher values in a year-on-year comparison.