Report on Banks

July 2023

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on September 20, 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

- Financial intermediation activities in pesos with the private sector increased slightly in July, in a context where coverage ratios with liquidity and capital continued to be high for the aggregate financial system.

- In July, the number of transactions arranged through the main electronic means of payment as well as their amount in real terms continued to be on the rise. The number of instant transfers recorded an increase of 109.8% year-on-year (y.o.y.) (+25% y.o.y. in amount in real terms), accompanied by a 276% y.o.y. increase in the number of payments by transfer (200% y.o.y. in amount in real terms) and a 30.5% y.o.y. rise in the number of electronic checks (ECHEQs) (18.2% y.o.y. in amount in real terms). On the other hand, the bouncing of checks for insufficient funds over the total cleared posted no significant changes over the last month, standing below the average of 2023.

- Over the month, the stock of loans in pesos to the private sector went up 0.4% (-8.5% in real terms y.o.y.), mainly driven by commercial loans and credit for consumption purposes. In particular, the estimated stock of loans under the “Credit Line for Productive Investment (LFIP)” for Micro, Small and Medium-Sized Enterprises (MSMEs) totaled nearly ARS1.8 trillion in July, accounting for 13% of the total stock of loans to the private sector (+0.5 p.p. y.o.y.) or 22.6% of the total stock of lending to companies.

- In July, the non-performing ratio of loans to the private sector stood at 3.1% and posted no significant changes against the value recorded in June and in year-on-year terms. A breakdown by segment shows that both loans to households and to companies did not record significant changes in their delinquency ratios (reaching a total of 2.9% and 3.3%, respectively). In turn, total provisions of the ensemble of financial institutions accounted for 3.8% of the total stock of lending to the private sector and for 124% of the non-performing portfolio of loans over the period.

- In July, the total stock of private sector deposits in pesos went up 1.2% in real terms (+1.5% y.o.y.), mainly driven by time deposits. By mid-August 2023, in order to anchor foreign exchange expectations and seek positive yields in real terms on investments in domestic currency, the BCRA raised by 21 percentage points (p.p.) the nominal interest rate of 28-day LELIQs and the minimum interest rate on time deposits in pesos of up to ARS30 million made by natural persons, taking them to a nominal annual percentage rate (APR) of 118% (and to a nominal APR of 111% for the remaining time deposits).

- At the beginning of the second half of the year, the financial system’s liquidity continued to stand at relatively high levels. In July, liquid assets in a broad sense totaled 81.3% of total deposits at systemic level (80.1% for the items in pesos and 88% for the segment in foreign currency), standing 0.2 p.p. below the value recorded in June but 12.3 p.p. above the figure recorded in the same period of 2022 and 26.2 p.p. above the average of the last 10 years.

- The financial system’s solvency indicators continued to stand at high levels in July. The Regulatory Capital (RC) of the ensemble of financial institutions stood at 29.1% of risk-weighted assets (RWAs) over the month (-0.4 p.p. month-on-month (m.o.m) and +0.7 p.p. y.o.y.). At systemic level, the capital position (ASE minus the regulatory requirement) totaled 264% of the capital requirement (-4.8 p.p. m.o.m. and +11.3 p.p. y.o.y.) against an average of 134.6% for the last 10 years.

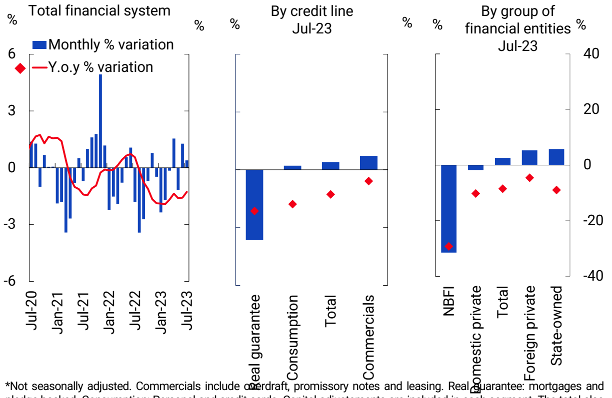
- In the aggregate of the last 12 months up to July, the financial system accrued a total comprehensive income (in homogeneous currency) equivalent to 3.3% of assets (ROA) and to 18.4% of equity (ROE). These levels are standing above the values recorded in the same period of 2022.

I. Financial Intermediation Activity

The financial intermediation activities arranged by the institutions in pesos with the private sector went up slightly in July. 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 sector, accompanied by a decrease of public sector deposits. In turn, there was a rise in the stock of private sector deposits accompanied by a decline in the stock of financing to the public sector.[1]

In July, the stock of loans in domestic currency to the private sector went up 0.4% in real terms against June (see Chart 1). This increase in lending over the period was mainly driven by the commercial segment and by lending for consumption purposes (there was a reduction in the stock of loans with real property collateral) and was mainly observed in state-owned and foreign private banking institutions.[2] In year-on-year terms, the stock of financing to the private sector in pesos went down 8.5% 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

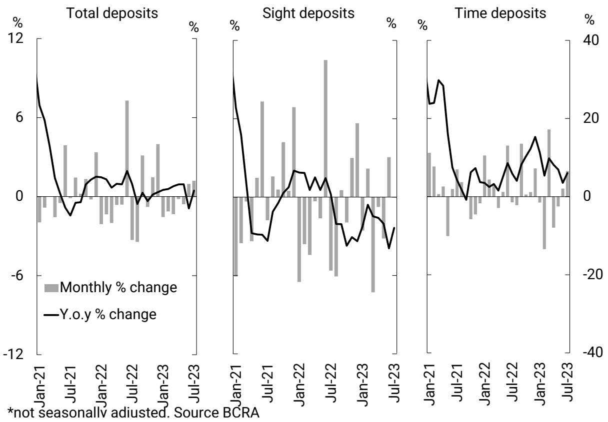
So far in 2023, the "Credit Line for Productive Investment (LFIP)" for Micro, Small and Medium-Sized Enterprises (MSMEs) has continued to be one of the main instruments to promote credit and has provided special lending conditions to MSMEs. From its implementation (in October 2020) to August 2023, nearly ARS7.3 trillion has been disbursed to over 475,500 companies. As of July (latest information available), the estimated stock of loans under the LFIP has totaled nearly ARS1.8 trillion, accounting for 13% of the total stock of financing to the private sector and standing 0.5 p.p. above the level recorded one year ago (equivalent to 22.6% of the total stock of loans to companies).

1 Upon considering the main items in foreign currency, there was an increase of liquidity and, to a lesser extent, of financing to the public sector in July (mainly instruments in dual currency), while the stock of public and private sectors' deposits was on the rise. In turn, within the framework of the "Export Increase Program", there was an increase in the stock of deposits in real terms with variable yield based on the evolution of the foreign exchange rate. On the other hand, a rise was observed in the institutions' holdings of BCRA Internal Bills in US dollars and payable in pesos according to the Benchmark Exchange Rate (LEDIV) at zero interest rate.
2 Including capital adjustments and accrued interest.

Regarding the segment in foreign currency, the total stock of loans to the private sector went down 1.9% in July.[3] Total financing (in domestic and foreign currency) to the private sector went up 0.3% in real terms over the month, accumulating a year-on-year drop of 8% in real terms.

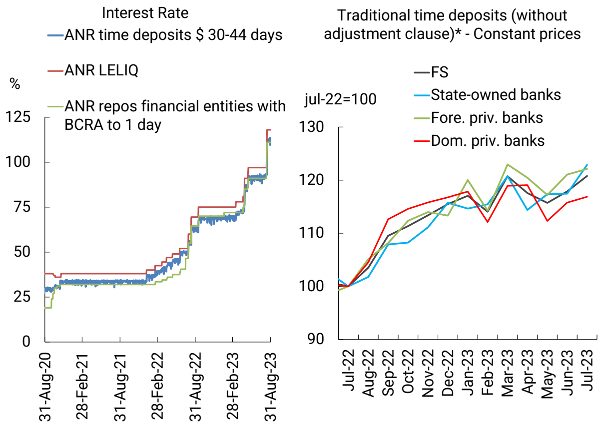
Regarding the ensemble of financial institutions' funding, the stock of private sector deposits in pesos rose 1.2% in real terms in July, mainly driven by time deposits (see Chart 2).[4] In particular, traditional time deposits (excluding time investments and UVA-denominated deposits) rose 2.5% in real terms over the month and 20.8% y.o.y. in real terms, posting a greater relative year-on-year momentum in state-owned and foreign private banking institutions (see Chart 3).

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



*not seasonally adjusted. Source BCRA

Chart 3 | Interest rates and private sector time deposits
In domestic currency



*Not seasonally adjusted. Source: BCRA

By mid-August and in order to anchor foreign exchange expectations and seek positive yields in real terms on investments in domestic currency, the BCRA raised by 21 p.p. the interest rate of 28-day LELIQs and the minimum interest rate on time deposits in pesos of up to ARS30 million made by natural persons, taking them to a nominal annual percentage rate (APR) of 118% (and to a nominal APR of 111% for the remaining time deposits).[5]

In July, private sector deposits in foreign currency rose 0.5%.[6] Consequently, the total stock of deposits from households and companies (considering both domestic and foreign currency) increased 1.2% in real terms against June.

In the last 12 months, the stock of private sector deposits in pesos went up 1.5% in real terms, mainly due to the performance of time deposits (6% y.o.y. in real terms). Upon considering total deposits (currencies and sectors), the stock of deposits grew 1.5% y.o.y. in real terms.

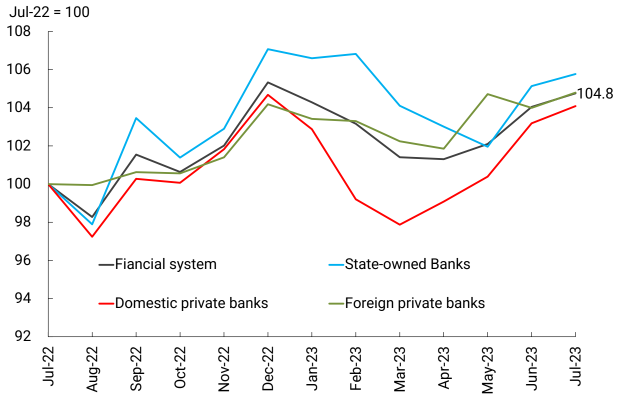
3 Expressed in currency of origin.
4 If deposits with a variable yield based on the evolution of the exchange rate (see Footnote 1) were excluded, the stock of deposits in pesos would have gone up 1% in real terms in July.
5 See Press Release and Communication "A" 7822.
6 Expressed in currency of origin.

II. Aggregate Balance Sheet Evolution and Composition

The size of the financial system's balance sheet —measured in terms of the stock of total assets— grew slightly in real terms in July (see Chart 4). In a year-on-year comparison, total assets increased 4.8% in real terms at systemic level, and the rise was slightly higher in state-owned banks.

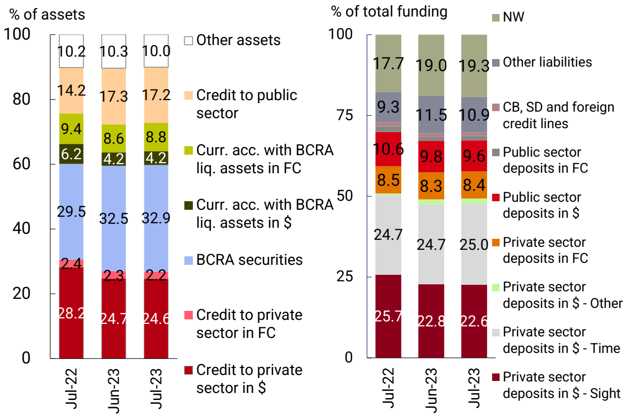
Regarding the components of the financial system's total assets, there was an increase over the month in the share of the stock of BCRA's instrument holdings and of liquid assets and current accounts in foreign currency held by the institutions at the BCRA (see Chart 5). With reference to the composition of the ensemble of financial institutions' total funding, there was an increase in the share of private sector time deposits in pesos and of net worth.

Chart 4 | Total assets in real terms
Financial System



Source: BCRA

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



FC: Foreign currency. Source: BCRA

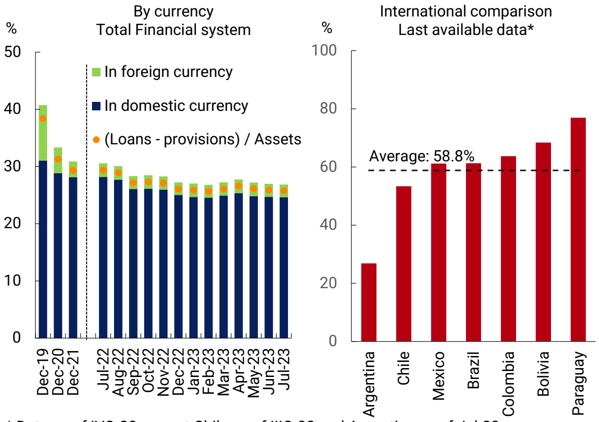
In July, the estimated differential between assets and liabilities in foreign currency [7] of the financial system stood at 39.3% of the Regulatory Capital (RC), up 1.9 p.p. against June (+26.2 p.p. y.o.y.). In turn, it is estimated that the mismatch of the items adjusted by CER (and denominated in UVA) stood at 66.2% of ASE over the period for the aggregate financial system, up 0.5 p.p. against June (+5.4 p.p. y.o.y.).

7 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, while BCRA's LEDIVs are included in assets.

III. Portfolio Quality

In July, the aggregate financial system's gross exposure to the private sector (considering both domestic and foreign currency) accounted for 26.9% of assets, posting no significant changes against June. The current level is standing below the values recorded at domestic level in the last 10 years (average of 40.2%) and also below the figures observed in other economies of the region (see Chart 6). A breakdown by currency shows that the stock of loans in pesos accounted for 24.6% of assets over the period (-0.1 p.p. m.o.m.). In turn, upon considering financing in foreign currency only, this ratio stood at 2.2% of assets in July. The stock of lending to the private sector net of provisions accounted for 25.8% of assets over the period for the financial system.

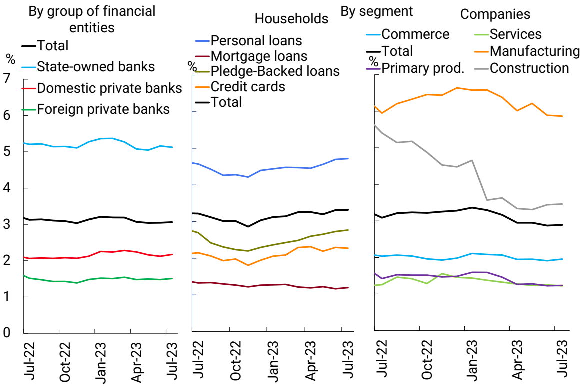
Chart 6 | Stock of loans to the private sector in terms of assets



* Data as of IVQ-22, except Chile as of IIIQ-22 and Argentina as of Jul-23.
Source: IMF and BCRA

In July, the non-performing ratio of loans to the private sector stood at 3.1%, posting no significant changes against the value recorded in June and against the level observed one year ago (see Chart 7). A breakdown by segment shows that the delinquency ratio of financing to companies reached 2.9% (-0.2 p.p. y.o.y.). In turn, the non-performing ratio of loans to households continued to stand at 3.3% (+0.1 p.p. y.o.y.).

Chart 7 | Non-performing ratio of loans to the private sector
Financial system



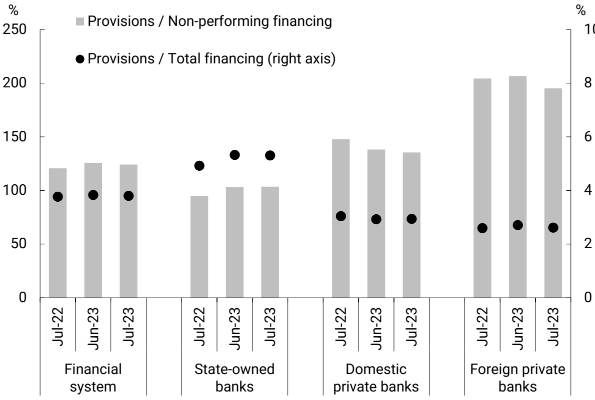
Source: BCRA

For the purpose of deepening the mapping and analysis process of the financial system's exposures and resilience to risks related to climate change, the BCRA has recently set in motion a survey addressed to the main institutions, taking into account the requirements resulting from the Sustainability Disclosure Standards and Climate Related Disclosures (International Financial Reporting Standards – IFRS). In a first stage, information is requested about the geolocation of the debtor companies' main activities. These data will help analyze their proximity to areas of the country with various degrees of exposure to locally-identified physical risk factors.[8]

8 See Press Release of August 28, 2023 and Communication "B" 12618.

In July, the financial sector's provisioning has continued to stand at sizable levels. Provisions accounted for 3.8% of the total stock of loans to the private sector, posting no significant changes against June and against the level recorded one year ago (see Chart 8). In turn, the stock of provisions totaled 124% of the non-performing portfolio (-1.7 p.p. m.o.m. and +3.6 p.p. y.o.y.). The provisions attributable to the non-performing portfolio accounted for 90.7% of such portfolio at systemic level.[9]

Chart 8 | Stock of loans and provisions (private sector)
By group of financial institutions

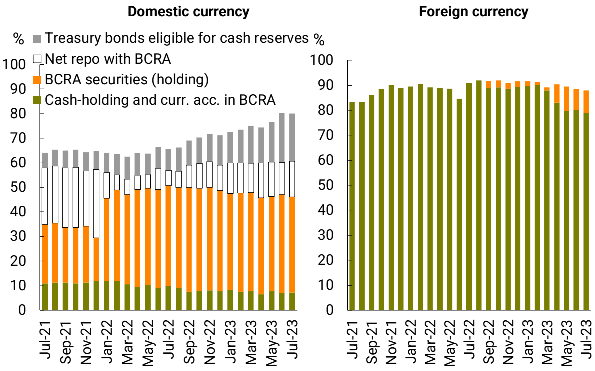


Source: BCRA

IV. Liquidity and Solvency

The financial system's liquidity continues to stand at high levels, from a historical perspective and also in an international comparison.[10] In July, the broad liquidity ratio[11] accounted for 81.3% of deposits at systemic level (80.1% for the segment in domestic currency and 88% for the segment in foreign currency), down 0.2 p.p. against the value recorded in June (see Chart 9). Regarding the components of liquidity in pesos, between ends of month, there was a slight increase in the share of net repo transactions to the detriment of BCRA's instrument holdings and of the National Treasury's instruments admissible for compliance with the Minimum Cash requirement. In a year-on-year comparison, liquid assets in a broad sense have grown 12.3 p.p. of total deposits.

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



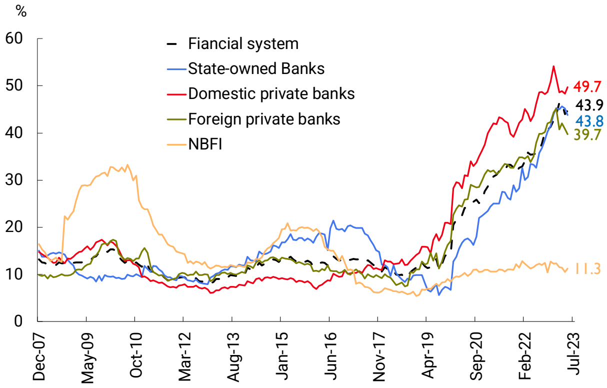
Note: Special deposit accounts related to the "Programa de Incremento Exportador" are considered in the foreign currency segment. Source: BCRA

Starting from high levels, the financial system's solvency indicators contracted slightly in July. The Regulatory Capital (RC) of the ensemble of financial institutions stood at 29.1% of risk-weighted assets (RWAs), down 0.4 p.p. against June. Tier 1 capital (with a greater capacity to absorb potential losses) accounted for over 98% of ASE over the month for the entire financial system. The financial system's compliance in excess of the requirement (ASE minus the capital requirement)

9 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.
10 In July, the financial system's liquid assets accounted for 57.5% of total assets, up 17.4 p.p. and 25.4 p.p. against the average of the last 10 years at domestic level and against the average recorded by the economies of the region (according to the IMF's latest information available), respectively.
11 It considers liquid assets, BCRA instruments in domestic and foreign currency and all sovereign bonds admitted for compliance with the minimum cash requirement.

stood at 264% of the regulatory requirement (-4.8 p.p. m.o.m. and +11.3 p.p. y.o.y.) and at 43.9% of loans to the private sector net of provisions (-0.4 p.p. m.o.m. and +7.1 p.p. y.o.y., see Chart 10).

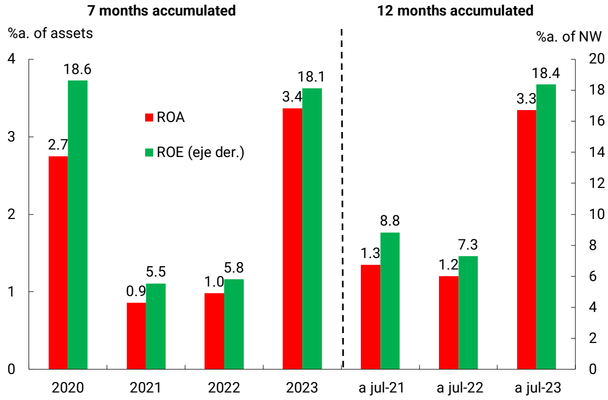
Chart 10 | Capital position relative to loans to the private sector net of provisions



Source: BCRA

The total comprehensive income in homogeneous currency accrued by the financial system in the aggregate of the last 12 months up to July was equivalent to around 3.3% of assets (ROA) and to 18.4% of equity (ROE).

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



Source: BCRA

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.

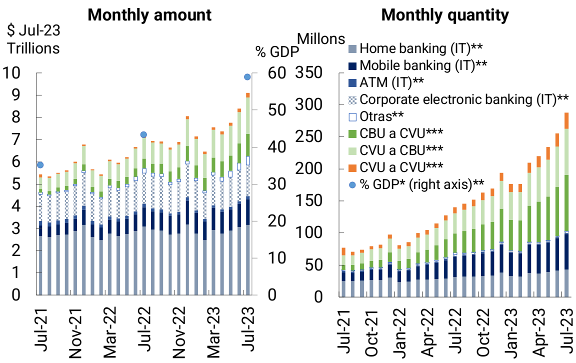
V. Payment System

In July, instant transfers went up 12.2% in number (7.6% in amount in real terms), posting a widespread increase across their components. Over the month, instant transfers between accounts held at financial institutions grew 7.2% in number (Uniform Banking Code (CBU) to CBU, 4% in amount in real terms),[12] instant transfers between accounts held at financial institutions and accounts with Payment Service Providers (PSP) rose 15% (CBU to Uniform Virtual Code (CVU) and CVU to CBU, posting the same variation in amount in real terms),[13] while instant transfers between accounts with PSPs (CVU to CVU) went up around 20% (posting the same

12 In July 2023, instant transfers between CBUs (excluding transfers made between accounts of the same financial institution) accounted for 35.6% of the total number of instant transfers (67.3% of the total amount). In this segment, the transactions made via Mobile Banking went up 9.9% in number (11.1% in amount in real terms), transactions via Online Banking grew 4.6% in number (2.9% in amount in real terms), while transactions arranged via Corporate Electronic Banking went down 1.4% in number (1% in amount in real terms) and transactions via ATMs posted no significant changes in number (3.4% in amount in real terms).
13 In July 2023, instant transfers from CBU to CVU accounted for 30.6% of the total number of instant transfers (11.5% of the total amount) and instant transfers from CVU to CBU accounted for 25% of the number of these transfers (18.8% of the total amount). Over the month, the number of transfers from CBU to CVU grew 14.2% (16% in amount in real terms) and transfers from CVU to CBU went up 14.6% in number (14.8% in amount in real terms).

variation in amount in real terms).[14] In year-on-year terms, the number of instant transfers has doubled (109.8% y.o.y.), mainly due to the performance driven by the interaction between accounts held at financial institutions and accounts with PSPs and by the segment of transfers exclusively arranged between accounts with PSPs.[15] It is estimated that the amount of instant transfers of the last three months (annualized) accounted for 58.8% of GDP, up 15.6 p.p. against the same month of 2022 (see Chart 12).[16]

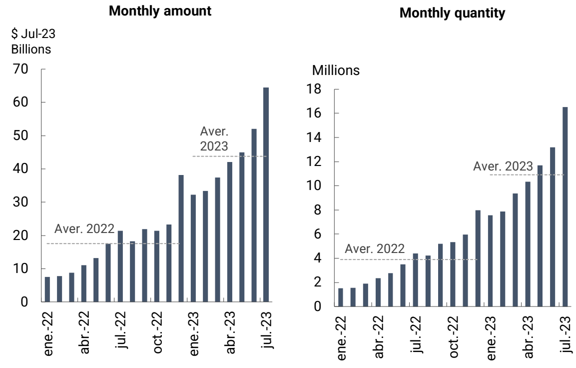
Chart 12 | Instant Transfers



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 July, Payments by Transfer (PCTs) via interoperable QR codes continued to go up at a fast pace: 25.3% in number and 23.8% in amount in real terms (see Chart 13). In year-on-year terms, these transactions have expanded 276% in number and 200% in amount in real terms.[17] This evolution shows the positive effect of the measures adopted by the BCRA in order to promote the acceptance of payment by means of any interoperable digital wallet.[18]

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



Source: BCRA.

In order to deepen and streamline the electronic use of the means of payment, the BCRA has recently established that Payment Service Providers (PSPs) offering payment accounts (known as virtual wallets) must transfer to their clients the entire profitability earned by the balances in pesos of deposit accounts in financial institutions (where they deposit their clients' funds).[19] In the context of improvements introduced to the payment system, the BCRA has also set minimum requirements for the management of risks related to information technology and security in the financial services. These requirements seek to ensure the integrity, confidentiality and availability of financial information, as well as the prevention of, and response to, cyber incidents. They mainly focus on the relevance of multi-factor

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14 Over the month, instant transfers between CVUs (excluding transfers made between accounts of the same PSP) accounted for 8.9% of the total number of instant transfers (2.4% of the total amount).

15 Against the same period of 2022, transfers between CBUs have grown 54.1% (6.4% in amount in real terms), transfers from CVU to CBU have gone up 126.3% in number (72% in amount in real terms), transfers from CBU to CVU have risen 191% in number (134.5% in amount in real terms) and transfers between CVUs have jumped 192.1% in number (150.4% in amount in real terms).

16 In July, the average transaction made via instant transfers stood at around ARS30,400 (ARS57,500 for instant transfers between CBUs, ARS8,200 for instant transfers between CVUs, ARS11,500 for transfers from CBU to CVU, and nearly ARS23,000 for transfers from CVU to CBU).

17 In July, transactions via interoperable QR codes reached ARS3,900 on average.

18 The BCRA postponed the interoperability of QR codes for collections with credit cards for a 45-day term due to operating problems of a provider of these codes, thus deferring the date originally established (September 1, 2023) (for further detail see the "Press Release").

19 For further detail, see the "Press Release".

authentication, technological resilience and adoption of international standards. Special emphasis is placed on the need of a risk management culture and of cooperation with third parties in order to ensure security in the payment system.[20] Lastly, and in this same respect, the BCRA has established —effective as from December 2023— some adjustments to the operations with recurrent Immediate Debit Transfers (DEBIN), specifically in the process of adherence by users, added to improvements in "pull" immediate transfers (an electronic transaction where the recipient of the funds initiates the operation and the payer has to accept it), which reinforces security and efficiency in the use of electronic means of payment.[21]

In July (latest information available), transactions with debit cards went up 3.9% in number and 7.5% in amount in real terms.[22] Against June 2022, the number of transactions has gone up 10.9%, but their amount in real terms has contracted 4.7%.

Regarding the clearing of checks, the number of transactions went up 0.3%, while the amount in real terms increased 1.4% in July.[23] Keeping things in perspective, electronic checks (ECHEQs) continue to grow remarkably (30.5% y.o.y. in number and 18.2% y.o.y. in amount in real terms). Consequently, the share of ECHEQs in the total clearing of checks has gone up and accounted for 39% in number and 64.5% in amount in real terms in July.[24] It is estimated that the amount of cleared checks in the last three months (annualized) was equivalent to 27.2% of GDP (+1.9 p.p. y.o.y.). On the other hand, the bouncing of checks for insufficient funds in terms of total cleared checks posted no significant changes over the month, standing below the average of 2023.

20 For further detail, see Communication "A" 7783.
21 For further detail, see the "Press Release".
22 In June, the average amount per transaction with debit cards stood at ARS5,700 (ecommerce and onsite transactions stood at similar levels).
23 The average cleared check reached ARS745,300 (physical checks average = ARS433,100, and ECHEQs average = ARS1,233,000).
24 Communication "A" 7832 has updated the regulations related to MSMEs Electronic Credit Invoices (FCEMs) and electronic checks (ECHEQs). This regulation defines the specific roles and procedures of the Open Transfer System (SCA) for FCEMs, establishes legal supporting documents for ECHEQs and details the creation of a Database of MSME Electronic Invoices Not Paid Upon Maturity. The adjustments became effective on August 15, 2023 and are aimed at improving payment and commercial transactions management.