Report on Banks

October 2021

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on December 29, 2021.
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

- The financial system's intermediation activity with companies and households increased in October due to the growth observed in loans and deposits in pesos. The transactions made by the sector occurred in a context of adequate aggregate levels of liquidity and solvency.
- Over the month, the stock of lending in pesos to private sector went up 1.8% in real terms (+5.4% in nominal terms) and has kept positive change rates in real terms during three months in a row. The monthly performance was widespread across nearly all credit lines and groups of financial institutions. This momentum has been driven, in part, by the various measures implemented by the BCRA to mitigate the effects of the pandemic context. These measures include the "Credit Line for Productive Investment of micro, small and medium-sized enterprises (MSMEs) (LFIP)", under which around $1.3 trillion were disbursed until late October to over 198,000 companies.
- The non-performing ratio of loans to private sector went down slightly in October (-0.1 p.p.) to 4.9% (+0.7 p.p. year-on-year (y.o.y.)). The contraction of this ratio in the last three months followed the increase observed in the first part of the year, in the context of the strategic focus given to the financial relief measures adopted during the pandemic. In October, total provisions accounted for 5.4% of total loans to private sector and 111.3% of the non-performing portfolio.
- The stock of private sector deposits in domestic currency rose 1.4% in real terms in October (+4.9% in nominal terms). Sight accounts grew 4.2% in real terms (+7.9% in nominal terms) over the month, while time deposits shrank 1.7% in real terms over the period (+3.5% in nominal terms). In a year-on-year comparison, the stock of private sector deposits in pesos has increased 3.1% in real terms (+56.8% in nominal terms), and the greatest relative momentum was observed in time deposits since they have grown 6.2% in real terms (+61.6% in nominal terms).
- The financial system's liquid assets accounted for 69.3% of total deposits in October (65.3% for the items in pesos and 88.6% for the segment in foreign currency), up 0.5 p.p. and 5.3 p.p. against September 2021 and October 2020, respectively.
- The solvency indicators of the sector did not post significant changes over the month and have continued to stand at high levels. The Regulatory Capital (RC) totaled 26.2% of risk-weighted assets (RWAs) at systemic level in October (+3.2 p.p. y.o.y.), while the capital position (RC minus the Minimum Capital Requirements) reached 222% of the minimum requirement over the period (+51 p.p. y.o.y.).
- From January to October 2021, the total comprehensive income in homogenous currency of the ensemble of financial institutions was equivalent to 0.9% of assets (ROA) and 6% of equity (ROE). These ratios are standing at lower levels than those of the same period of 2020. It is worth underlining that, in recent months, the BCRA established that, in 2022, financial institutions may distribute 20% of their unappropriated retained earnings up to December 2021. The prudential regulation is seeking to ensure the solvency of the sector within a context of credit and activity recovery.
- In recent months, payment transactions via electronic channels continued to show a positive performance. The amount of instant transfers has grown 40.5% y.o.y. in real terms (105.6% y.o.y. in nominal terms) as of November. The value cleared via electronic checks (ECHEQs) has doubled in a year-on-year comparison (134 % y.o.y. in number), and their share has increased in total cleared checks up to a total of 46.4% and 22.5% in total amount and number in November, respectively. In addition, it is noteworthy that interoperable transactions with QR codes exceeded 50,000 daily transactions in the second fortnight of December, for the first time since the launch of the Transfers 3.0 initiative.

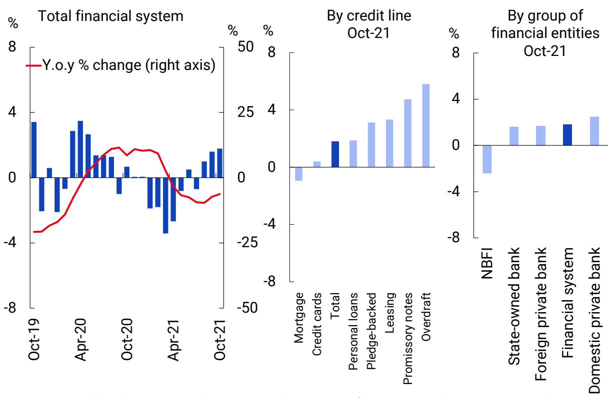
I. Financial Intermediation Activity

In October, there has been an increase of the financial system's intermediation activity in pesos with the private sector. Taking into account the main changes in the balance sheet of the aggregate financial system for the items in domestic currency[1] —expressed in homogeneous currency—, there has been an increase in the stock of private sector deposits and a contraction in lending to the public sector over the month. The impact of these changes was mainly offset by a monthly increase of broad liquidity and of the stock of loans to private sector. In turn, the most relevant movements for the items of the balance sheet in foreign currency[2] over the period were the following: a reduction of loans to private sector and an expansion of public sector deposits, and these funds were mainly used to increase the stock of loans to public sector and liquidity in this denomination.

The stock of loans to private sector in pesos went up 1.8% in real terms in October (+5.4% in nominal terms), and has accumulated positive change rates in real terms for three months in a row (see Chart 1).[3] Within this segment, the commercial lines —current account overdrafts, promissory notes and assets under financial lease— have shown the greatest relative momentum over the month, within a context where nearly all credit assistance lines and groups of financial institutions have grown in real terms over the period. In a year-on-year comparison, the stock of lending in pesos to the private sector has accumulated a 6.3% drop in real terms (+42.6% in nominal terms).[4]

Chart 1 | Stock of loans to private sector in pesos

In real terms* - Monthly changes



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

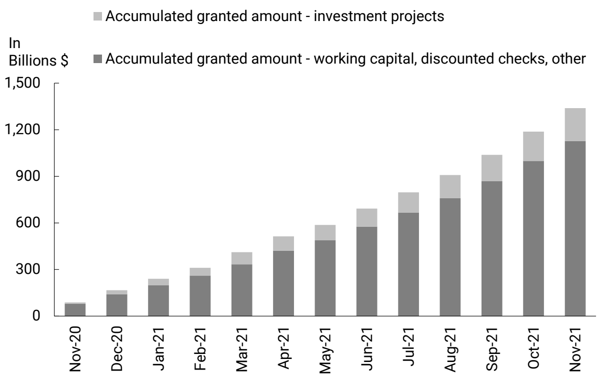
The evolution of loans to private sector in pesos has been driven in part by measures implemented by the BCRA together with the National Government since the onset of the pandemic. In particular, under the "Credit Line for Productive Investment of MSMEs"[5] (LFIP), around $1.3 trillion were disbursed (15.8% was intended for investment projects, see Chart 2) to over 198,000 companies, since its implementation —by mid-October 2020— to late November 2021. Via the LFIP, around 12,000 companies which did not have any bank financing by early 2020 have managed to access the financial system under favorable conditions (estimate for the

1 Differences of the balance sheet stock expressed in homogeneous currency. Information taken from the Monthly Accounting Reporting System (October 2021, latest information available at the time of publication of this Report).
2 Expressed in currency of origin.
3 Including capital adjustments and accrued interest.
4 Throughout this Report, whenever reference is made to ensembles of private (domestic and/or foreign) and state-owned financial institutions, such reference is to banks. Non-banking financial institutions shall be referred to as "EFNBs".
5 For further detail, see the Consolidated Text on "Credit Line for Productive Investment of MSMEs".

2021 quota). This tool exhibited a wide scope in terms of both geographical level (reaching all provinces of the country) and productive sectors (benefitting most economic activities).[6]

In addition, until late November, under the credit line at subsidized interest rates for companies registered with the "Emergency Assistance Program for Work and Production" (ATP),[7] over $14.3 billion were disbursed by means of 20,900 loans.

Chart 2 | Credit Line for Productive Investment (LFIP) of MSMEs



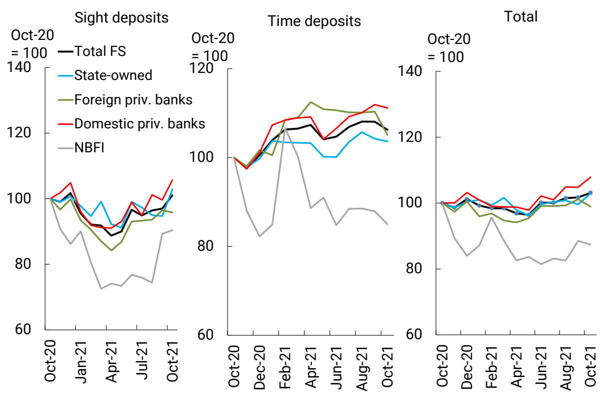
Note: Data up to end of each month. Data subject to correction. Source: BCRA

In turn, under the "2021 Zero Interest Rate Credit Line", launched last August and intended to provide assistance to self-employed workers and small taxpayers, 292,157 loans were granted for over $34.2 billion[8] (via the "2020 Zero Interest Rate Credit Line", approximately $66.5 billion were provided last year).

In October, the stock of loans to private sector in foreign currency went down 3.3% —in currency of origin. Thus, the total stock of lending (in domestic and foreign currency) to the private sector increased 0.9% in real terms against September (+4.4% in nominal terms), accumulating an 8.8% drop in real terms in the last twelve months.

In terms of the ensemble of financial institutions' funding, the stock of private sector deposits in pesos increased 1.4% in real terms (+4.9% in nominal terms) in October. The monthly performance was heterogeneous across the various groups of financial institutions: increases in state-owned banks and domestic private banks, and a drop in the remaining ones (see Chart 3). Sight accounts grew 4.2% in real terms (+7.9% in nominal terms) over the month, and the greatest relative momentum was observed in current accounts. In turn, time deposits contracted 1.7% in real terms in October (+1.7% in nominal terms), with drops in both time deposits (of the UVA segment and the traditional segment) and time investments. It is noteworthy that, despite the monthly performance, the current level of the stock of time deposits in real terms exceeds the level recorded by late 2020 (+5.7% in real terms).

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



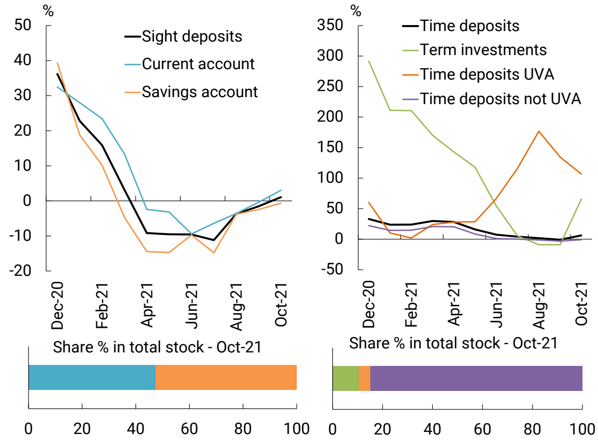
NBFI: Non-Banking financial institutions. Not seasonally adjusted. Source: BCRA

6 For further information, see Box 3 of the Financial Stability Report of December 2021 (IEF II-21).
7 See Communication "A" 7082 and Communication "A" 7102.
8 See Communication "A" 7342.

In October, the stock of private sector deposits in foreign currency went down 1.6% (in currency of origin) against September. In this context, the total stock of private sector deposits (in domestic and foreign currency) grew 0.4% in real terms over the period (+3.9% in nominal terms).

In year-on-year terms, the stock of private sector deposits in domestic currency accumulated a 3.1% rise in real terms (+56.8% in nominal terms). Sight accounts grew 1.1% y.o.y. in real terms (+53.7% y.o.y. in nominal terms), while time deposits went up 6.2% y.o.y. in real terms (see Chart 4; +61.6% y.o.y. in nominal terms). In turn, public sector deposits in pesos contracted 1.8% y.o.y. in real terms (+49.4% y.o.y. in nominal terms). Thus, the total stock of private and public sector deposits in pesos increased 2.7% y.o.y. in real terms (+56.1% y.o.y. in nominal terms). Taking into consideration all currencies and both sectors, the total stock of deposits accumulated a rise of 0.9% y.o.y. (+53.4% y.o.y. in nominal terms).

Chart 4 | Stock of private sector deposits in pesos
Year-on-year changes in real terms*

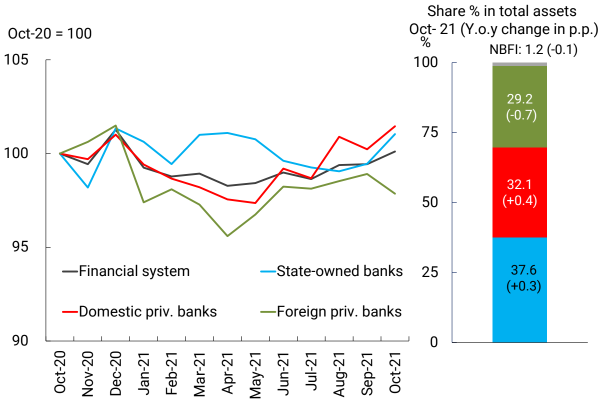


* Not seasonally adjusted.Source: BCRA

II. Aggregate Balance Sheet Evolution and Composition

The total stock of assets of the ensemble of financial institutions went up 0.7% in real terms in October, mainly due to the performance of state-owned and domestic private financial institutions (see Chart 5). In a year-on-year comparison, the aggregate financial system's assets did not exhibit significant changes (+0.1% in real terms).

Chart 5 | Financial system's total assets
In real terms



NBFI: Non-Banking Financial Institutions. Source: BCRA

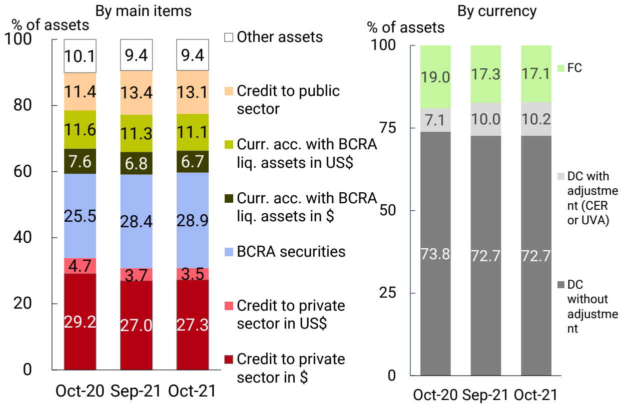
With reference to the main components of the financial system's total assets, there has been an increase in the share of broad liquidity in pesos[9] and of the stock of loans in pesos to the private sector in total assets (see Chart 6) in October. Conversely, there has been a reduction in the share of the stock of loans to the public sector, of credit to the private sector in foreign currency and of liquid assets and current accounts in foreign currency held by the institutions at the BCRA. Upon a breakdown by currency, there has been a slight increase in the relative share of

9 It considers liquid assets, compliance with regulatory liquidity requirements, and BCRA instruments.

CER-adjusted assets (including those denominated in UVA) over the period, while the share of assets in foreign currency contracted in the same period.

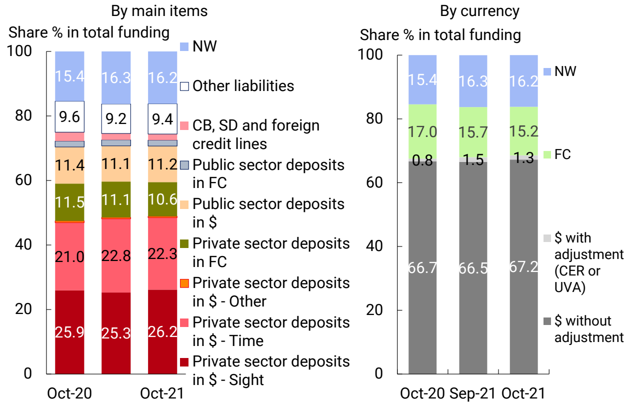
Regarding the financial system's funding coming from the private sector, there has been an increase in the relative share of sight deposits in pesos, accompanied by a decrease in the share of time deposits in domestic currency and also in foreign currency (see Chart 7) in October. A breakdown of total funding by currency has revealed that the relative share of the items in pesos without an adjustment clause has increased over the month, while the share of items adjusted by CER or denominated in UVA and in foreign currency has lost ground over the month.

Chart 6 | Composition of total assets
Financial System - Share %



FC. foreign currency. DC: domestic currency. Source: BCRA

Chart 7 | Composition of the system's total funding
In % of total funding (liabilities + net worth)



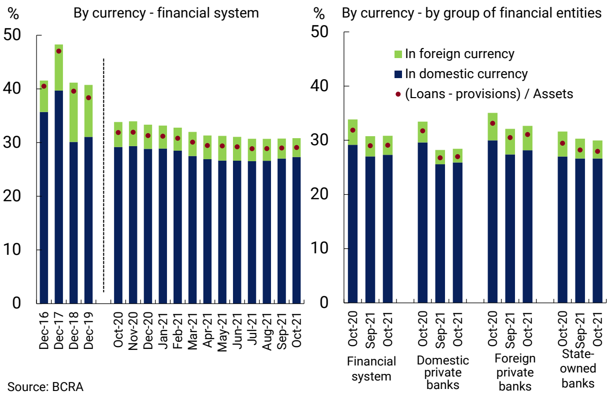
FC: Foreign currency. Source: BCRA

In October, currency mismatches in the balance sheet of the ensemble of financial institutions continued to be limited. The differential between assets and liabilities in foreign currency[10] accounted for 13.4% of the regulatory capital as of October, up 3.4 p.p. against the figure recorded in September (-1.2 p.p. y.o.y.). In turn, it is estimated that the differential of the items adjusted by CER (and/or UVA) stood at 62.3% of the regulatory capital over the period, up 2.8 p.p. over the month (+14.3 p.p. y.o.y.).

III. Portfolio Quality

In October, the gross exposure of the financial system to the private sector (in both domestic and foreign currency) stood at 30.8% of total assets,[11] in line with the records of recent months and down 3 p.p. against the level recorded in the same period of 2020. During October, this ratio went up in the private financial institutions and went down in the state-owned banks. When considering lending in pesos only,

Chart 8 | Stock of loans to the private sector / Assets



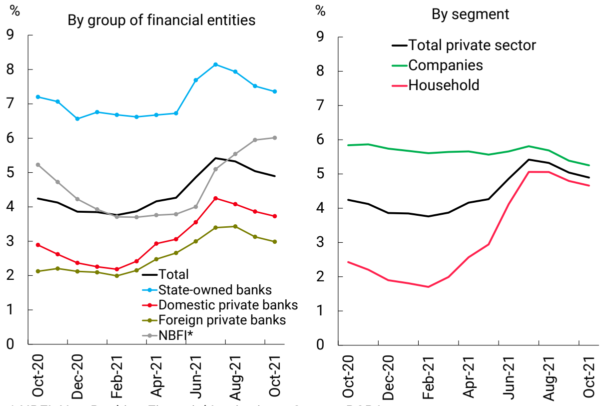
Source: BCRA

10 Including purchase and sale forward transactions in foreign currency, classified as off-balance.
11 This ratio reached 29.1% if credit to the private sector is netted from the stock of accounting provisions.

this ratio stood at 27.3%, up 0.3 p.p. against September, and down 1.9 p.p. in a year-on-year comparison (see Chart 8). The share of lending to the private sector in foreign currency in total assets contracted 0.2 p.p. to 3.5% in October (-1.2 p.p. y.o.y.). The financial system's total exposure to the private sector consisted, virtually in equal parts, in loans for companies (52.2% of the total) and loans for households (47.8% of the total).[12]

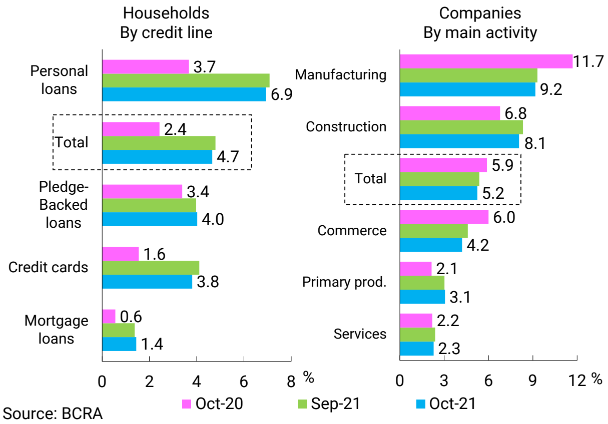
The non-performing ratio of loans to private sector for the aggregate financial system went down slightly in October (-0.1 p.p.) to a total of 4.9% (+0.7 p.p. y.o.y.). The decline of the ratio over the month resulted from the combined effect of the increase in the total stock of loans in real terms and the drop of the non-performing stock of loans in real terms (see Chart 9). The contraction of the delinquency ratio over the last three months has occurred after the expansion observed in the first part of the year, within the context of the strategic focus given to the financial relief measures adopted during the pandemic.[13]

Chart 9 | Non-performing loans to private sector
Non-performing financing / Total financing
(%)



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

Chart 10 | Non-performing loans to the private sector
Non-performing financing / Total financing
(%)



Source: BCRA

In October, the non-performing ratio of loans to households stood at 4.7% (see Chart 10), slightly below the figure recorded in September (-0.1 p.p.) and 2.2 p.p. above the figure recorded in the same period of 2020. The monthly performance was mainly due to the drop in the delinquency rate of loans intended for consumption (personal loans and credit cards), an effect which was partially offset by the increase in the non-performing ratio of loans with real property collateral. In turn, the non-performing ratio of loans for companies stood at 5.2% over the period, slightly below (-0.1 p.p.) the figure recorded in September (-0.6 p.p. y.o.y.). The monthly drop was led by companies whose main activities are related to Commerce and Construction.

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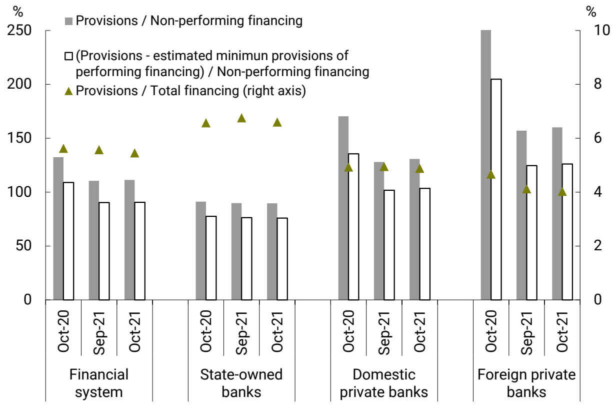
12 For further information about the composition of the financial system's exposure to the private sector, see Section 3.1 of IEF II-21.
13 See Communication "A" 6938, Communication "A" 7107, Communication "A" 7181, Communication "A" 7245 and Item 2.1.1. of the Consolidated Text on "Financial Services in the framework of the Health Emergency provided for by Executive Order No. 260/2020 CORONAVIRUS (COVID-19)". As of today, the only measure effective for debtors is the deferral, to the end of the lifetime of the loan, of the unpaid installments of the loans granted to employers registered with REPRO II (which is out of the reclassification process).

The aggregate financial system's total provisions accounted for 5.4% of total lending to the private sector in October (see Chart 11). Total provisions in terms of the non-performing portfolio stood at 111.3% over the month at systemic level, up 0.8 p.p. against September (-21.1 p.p. y.o.y.). In turn, the stock of regulatory provisions attributable to the non-performing portfolio (according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure) accounted for 90.6% of such portfolio for the ensemble of financial institutions.

Chart 11 | Loans to private sector and provisions
By group of institutions



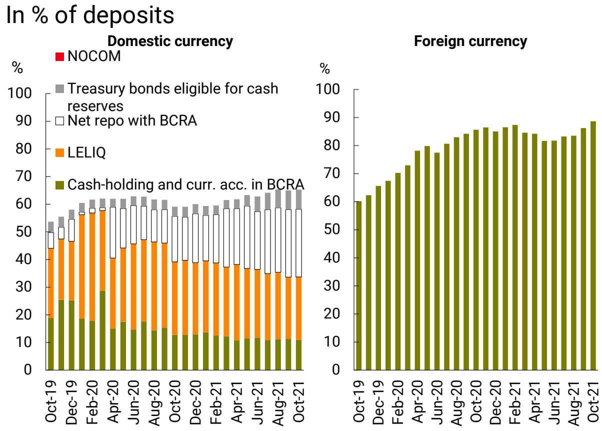
Source: BCRA

IV. Liquidity and Solvency

In October, the aggregate financial system kept high levels of liquidity and solvency, from a historical perspective and in terms of the regulatory standards recommended at global scale.[14]

The broad liquidity[15] of the ensemble of financial institutions stood at 69.3% of total deposits in October (65.3% for the items in pesos and 88.6% for the segment in foreign currency, see Chart 12), up 0.5 p.p. against the level observed in September (+0.3 p.p. and +2.4 p.p. for the segment in domestic currency and in foreign currency, respectively). Over the month, the composition of liquidity in pesos showed a slight increase in the share of LELIQ holdings and of national sovereign bonds for compliance with regulatory liquidity requirements, while a slight decrease was observed in the share of the current accounts held by the institutions at the BCRA. In the last twelve months up to October 2021, the broad liquidity ratio expanded 5.3 p.p. at systemic level.

Chart 12 | Financial system liquidity
In % of deposits



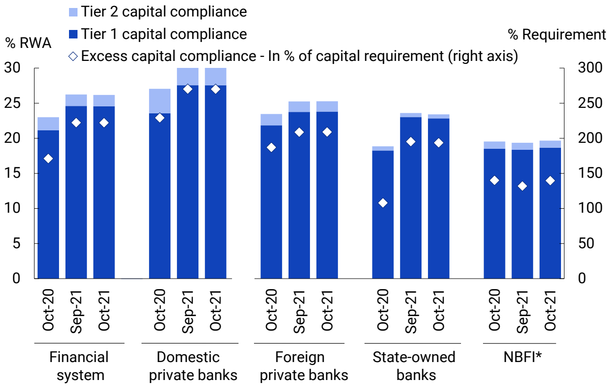
Source: BCRA

In October, the sector's aggregate ratios of regulatory capital did not post significant changes, and have remained within a high-level range. The Regulatory Capital (RC) of the ensemble of financial institutions accounted for 26.2% of risk-weighted assets (RWAs) (+3.2 p.p. y.o.y., see

14 For further detail on the main strengths of the domestic financial system, see IEF II-21.
15 It considers liquid assets, compliance with regulatory liquidity requirements, and BCRA instruments, in domestic currency and in foreign currency.

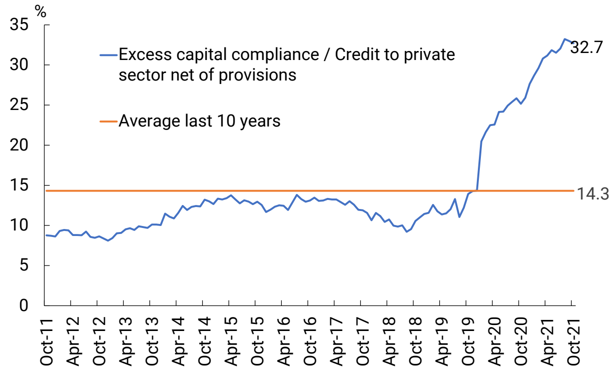
Chart 13). Nearly 94% of the RC consisted in Tier 1 Capital, with a greatest capacity to absorb potential losses. The capital surplus position (difference between RC and the minimum capital requirement) totaled 222% of the regulatory requirement for the aggregate financial sector over the month (+51 p.p. y.o.y.). In this context, it is worth mentioning that the BCRA has recently authorized the financial institutions to distribute in 2022 part of the unappropriated retained earnings (up to 20% of the retained earnings until December 2021, and the distribution must be performed in twelve monthly and consecutive installments). This prudential regulation seeks to ensure the solvency of the financial sector in a context of credit and activity recovery.[16]

Chart 13 | Compliance with regulatory capital
By group of financial institutions



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

Chart 14 | Capital surplus position in terms of loans to the private sector net of provisions

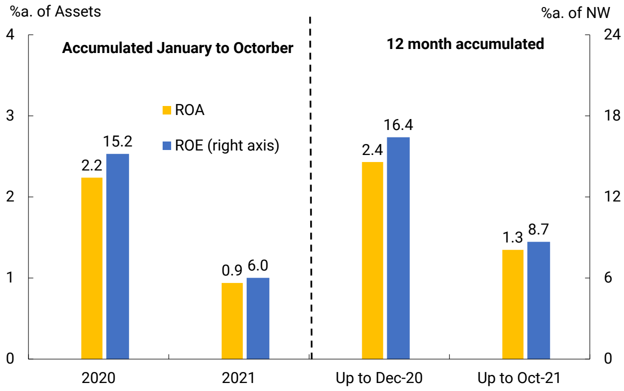


Source: BCRA

The indicators that are taken into account to assess the financial system's level of coverage in the face of the risk assumed include the ratio between the regulatory capital surplus position and the loans to the private sector net of provisions. This ratio stood at 32.7% for the ensemble of institutions in October, up 7.5 p.p. in year-on-year terms and quite above the average of the last ten years —14,3% (see Chart 14).

In turn, the financial system accrued a positive total comprehensive income in homogeneous currency in October, and has accumulated income equivalent to 0.9% annualized (a.) of assets (ROA) and to 6%a. of equity (ROE) in the period from January to October 2021 (see Chart 15). These ratios are standing at levels lower than those seen in the same period of 2020 (-1.3 p.p. and -9.2 p.p. in terms of assets and equity, respectively).

Chart 15 | Total comprehensive income in homogeneous currency of the financial system



Source: BCRA.

The year-on-year accumulated drop of ROA (or ROE) over the last ten months was mainly due to the effect of higher monetary losses, an

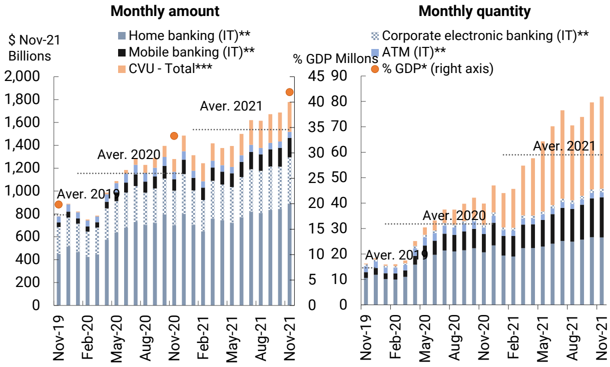
16 For further detail, see Communication of December 16, 2021.

increase in the cost of funding for deposits in pesos and a reduction in the income from interest in pesos, among other factors. This evolution was partially offset by higher income from premiums for repo transactions and securities,[17] as well as by a lower income tax accrued and a reduction of loan loss provisions, among other.

V. Payment System

In November, instant transfers were on the rise against October, in both number (+2.8%) and amount in real terms (+7.1%). This performance was observed in transactions made between accounts opened at financial institutions (between Uniform Banking Codes - CBUs) and also in transactions involving accounts with payment service providers (PSP, from and/or to Uniform Virtual Codes - CVUs). In year-on-year terms, instant transfers expanded 105.6% in number and 40.5% in amount in real terms. It is estimated that, as of October, instant transfers accounted for 42% of GDP (+8.6 p.p. against the same month of 2020, see Chart 16).[18] The expansion of this type of transfers proves the positive performance of digital means of payment, the pace of which has accelerated during the pandemic, underpinned by the measures implemented by the BCRA.[19]

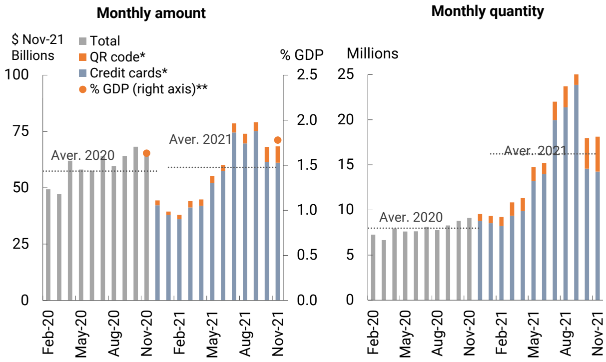
Chart 16 | Instant transfers



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). Note: high value transfers and batch transfers are not included.

Chart 17 | Payments by transfer

Initiation methods



Source: BCRA. Note: operations of payment started with debit cards and qr code. Information consolidation with PEI program. *Information available since Dec-20. ** Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

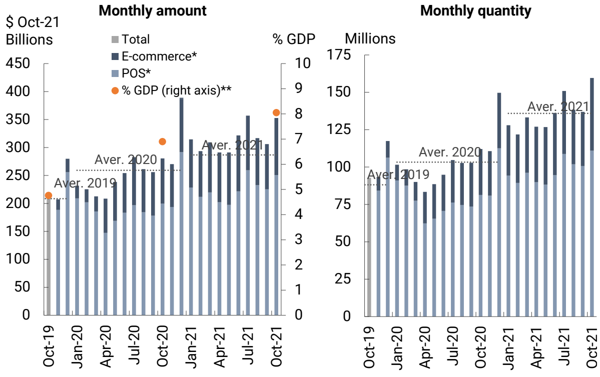
In November, payments by transfer[20] went up in number (+0.9%) and in amount in real terms (+0.3%). Payments made with QR code grew significantly over the period, while some moderation was observed in the decrease of transactions made via cards. Against the same month of 2020, payments by transfer rose in number (+98.7%) and amount in real terms (+3.5%, see Chart 17). It is estimated that, as of November, payments by transfer accounted for 1.8% of GDP, slightly exceeding the figure recorded in the same month of 2020. In addition, it is noteworthy

17 Including those posted in Other Comprehensive Income (ORI).
18 When considering annualized amounts of the last three months in terms of the nominal GDP estimated for the same period (the latter, seasonally-adjusted). Throughout this section, whenever estimates of indicators in terms of GDP are considered, a similar definition is used.
19 The recent measures include, on the one hand, the launch of the standardized payment system via codes (Press Release of November 29, 2021) and, on the other hand, the option available to users of digital wallets whereby they can associate their payments directly to their bank accounts or virtual accounts, without the need of being holders of a debit card (Press Release of November 16, 2021).
20 Payments by transfer represent a group of transactions other than instant transfers. They refer to payments made with debit card credentials and with open QR codes, and at the same time they consolidate information previously submitted as Immediate Electronic Payment (PEI).

that, for the first time since the launch of the Transfers 3.0 initiative, there have been over 50,000 daily interoperable transactions with QR codes in the second fortnight of December.[21]

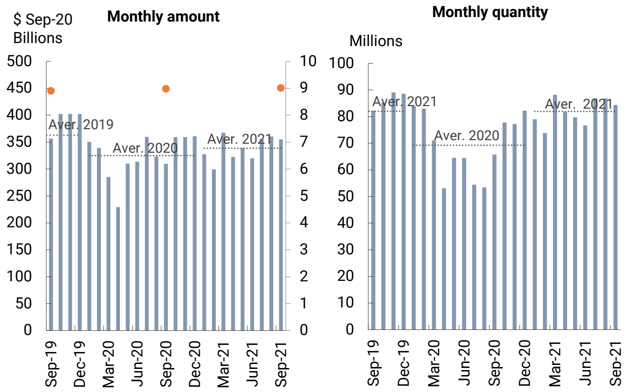
In October (latest information available), transactions with debit cards —both onsite and electronic— went up in number (+16.6%) and in amount in real terms (+15.3%, see Chart 18). In year-on-year terms, transactions via debit cards have also grown (+42.4% in number and +25.7% in amount in real terms). This positive performance was observed in both onsite and digital transactions, with a more remarkable performance in electronic transactions. Consequently, as of October, electronic transactions accounted for 30.5% of the number of transactions made and 28.9% of the amount in real terms. It is estimated that the total volume of transactions via debit card accounted for 8.1% of GDP (up 1.2 p.p. against the same month of 2020).

Chart 18 | Debit card transactions



Source: BCRA. *Desegregation available from Nov-19. ** Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

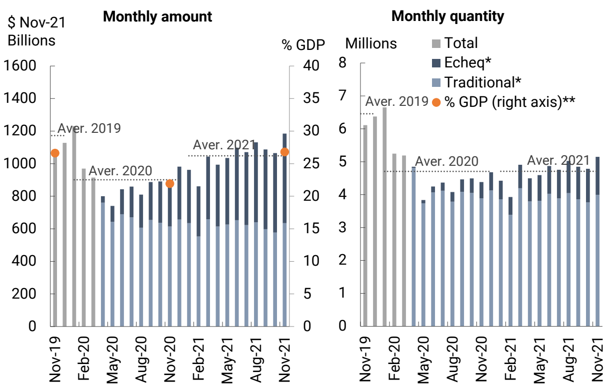
Chart 19 | Credit card transactions



Source: BCRA. Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

In September (latest information available), the transactions made with credit cards lost ground against August (see Chart 19). Despite this monthly performance, transactions via credit cards grew significantly in year-on-year terms (28.4% in number and +14.6% in amount in real terms). Consequently, it is estimated that, as of September, transactions made with credit cards accounted for 9.1% of GDP (posting no significant changes against the same month of 2020).

Chart 20 | Cleared checks

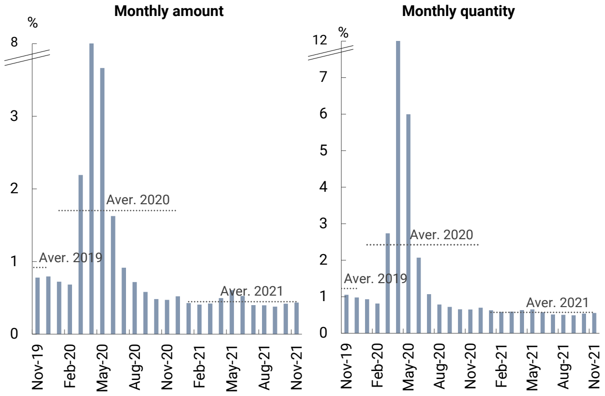


Source: BCRA. *Desegregation available from Apr-20. **Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

In November, there was an increase in the clearing of checks against October in both number of transactions made (+7.6%) and amount in real terms (+11.2%). Electronic checks exhibited a better relative performance (+13.4 in number and +12.6% in amount in real terms). A year-on-year comparison also shows a positive performance of checks in both formats, even though electronic checks have exhibited a better relative performance (+134% in number and +100% in amount in real terms). Thus, in November, the share of ECHEQs has

21 For further detail, see Press Release.

Chart 21 | Bounced checks for insufficient funds



Source: BCRA. Note: Including bouncing of traditional checks and Echeqs.

continued to go up in total cleared checks and has accounted for 22.5% in number (+11.2 p.p. y.o.y.) and 46.4% in amount in real terms (+15.5 p.p. y.o.y., see Chart 20). Consequently, it is estimated that the amount of cleared checks in GDP terms totaled 26.8% as of November (+4.9 p.p. y.o.y.).

In November, the ratio of bounced checks for insufficient funds[22] expanded slightly against October (+0.02 p.p. to 0.56% in number and +0.02 p.p. to 0.44% in amount, see Chart 21), even though it has stood below the average of 2021. Against the same month of 2020, the ratio of bounced checks contracted slightly in number (-0.1 p.p.) and in amount (-0.04 p.p.).

22 It considers both physical instruments and electronic checks.