Report on Banks

October 2022

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on December 29, 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.

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Executive Summary

- In a context of decreasing financial intermediation activities with the private sector, the ensemble of institutions continued to operate with broad liquidity and solvency coverage in October.
- Electronic means of payment exhibited a remarkable momentum once again in the last part of the year. The number of instant transfers grew 107.8% year-on-year (y.o.y.) (13.9% y.o.y. in amount in real terms). This performance was mainly driven by a widespread rise in their components, where instant transfers involving accounts of Payment Service Providers —PSPs— from and/or to Uniform Virtual Codes (CVUs) (which posted a higher momentum than transfers from accounts in financial institutions —via Uniform Banking Codes (CBUs)— to accounts in PSPs —via CVUs—) stood out. In turn, there was an increase in the share of electronic checks (ECHEQs), which accounted for 58.6% of the total amount transacted by checks (33% in number).
- In October, the stock of loans in pesos to the private sector in real terms went down slightly against September (+5.5% in nominal terms), and this performance was widespread across nearly all credit lines. In turn, the "Credit Line for Productive Investment (LFIP)" of Micro, Small and Medium-Sized Enterprises (MSMEs) has kept its momentum. From its launch to November 2022, a sum of ARS3.6 trillion was disbursed to 350,400 companies. With data as of October, it is estimated that the stock of lending under the LFIP accounted for 13.6% of the total loans provided to the private sector and for 1.1% of GDP.
- In October, the non-performing ratio of loans to the private sector continued to stand at 3.1%, posting no relevant changes against September and accumulating a decline of 1.8 percentage points (p.p.) in a year-on-year comparison. The value of this ratio is considerably lower than the value observed before the onset of the pandemic (5.4% on average in six months up to February 2020). In turn, provisioning continued to be high and accounted for 3.9% of the total stock of loans to the private sector and for 126.8% of the non-performing portfolio of loans, standing at figures similar to the average value of the last 10 years.
- The main ratios of liquidity and solvency for the aggregate financial system have exceeded the levels of the average value corresponding to the last 10 years. In October, the financial system's liquid assets in a broad sense totaled 73.5% of deposits, up 1.2 p.p. against September and up 4.2 p.p. in a year-on-year comparison. The Regulatory Capital (RC) of the ensemble of financial institutions stood at 29.3% of the risk-weighted assets (RWAs) in October, up 0.4 p.p. and up 3.2 p.p. against the value of September and of the same period of 2021, respectively. Over the month, the financial system's capital position —ASE minus the minimum regulatory requirement— totaled 265% of the regulatory requirement and 40.6% of the stock of loans to the private sector net of provisions.
- In October, the stock of the private sector deposits in pesos declined slightly in real terms against September (+5.4% in nominal terms), mainly due to the performance of sight accounts since the stock of time deposits in real terms did not post significant changes over the month. In a year-on-year comparison, the stock of private sector time deposits in pesos grew 10.3% in real terms, and it has gained share in the financial system's total funding (+3.1 p.p. y.o.y., accounting for over one fourth of total deposits).
- Regarding the sector's profitability ratios, in the aggregate of the first 10 months of 2022, the financial system accrued a total comprehensive income in homogeneous currency equivalent to 1.6% annualized (a.) of assets (ROA) and of 9.1%a. of equity (ROE), standing at higher levels than in the same period of 2021 but at lower levels than in the same period of 2020.

I. Financial Intermediation Activity

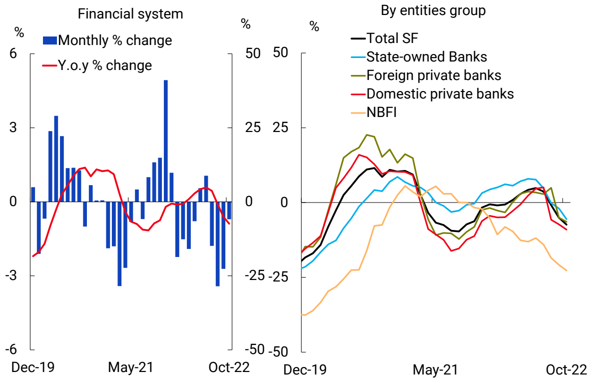
In October, the financial intermediation activity in pesos with the private sector went down slightly. Taking into account the most relevant movements (in homogenous currency) of the financial system's balance sheet for the items in pesos, there was a decrease in the stock of deposits of both the private and the public sectors. In turn, broad liquidity and financing contracted over the period. Regarding the items in foreign currency, there was an increase in the stock of lending to both the public and the private sectors, accompanied by a rise in the deposits of both sectors in October.

In October, the stock of loans in pesos to the private sector went down 0.7% in real terms against September (+5.5% in nominal terms),[1] and this performance was widespread across nearly all credit lines (except for overdrafts and assets under financial lease). A breakdown by group of institutions shows that there were increases in the stock of loans in pesos in real terms of private banking financial institutions and drops in these loans in the remaining groups of banks over the period. In a year-on-year comparison, the stock of lending in domestic currency contracted 7.4% in real terms (+74.1% in nominal terms, see Chart 1).

Within the framework of the "Credit Line for Productive Investment (LFIP)" of MSMEs, a sum of ARS 3.6 trillion was disbursed from its launch to November 2022, and such amount was distributed among 350,400 companies. As of October —latest information available—, the estimated stock of financing provided under the LFIP stood at ARS1.1 trillion, equivalent to 13.6% of the total stock of loans to the private sector, going up 2.2 p.p. y.o.y. It is estimated that the stock of lending under the LFIP accounts for 1.1% of GDP, posting no significant changes in a year-on-year comparison (+0.1 p.p., see Chart 2).[2]

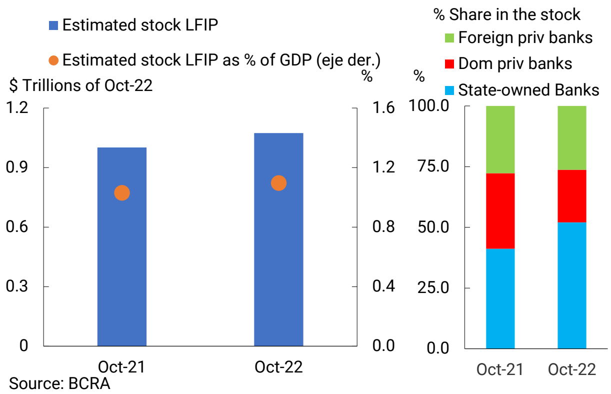
Regarding the segment in foreign currency, financing to the private sector in such denomination went up 2.7% (in currency of origin) over the month. Consequently, the total stock of loans (in domestic and foreign currency) provided to the private sector shrank 0.4% in real terms against September (+5.9% in nominal terms), accumulating a year-on-year drop of 10.5% in real terms

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.

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



Source: BCRA

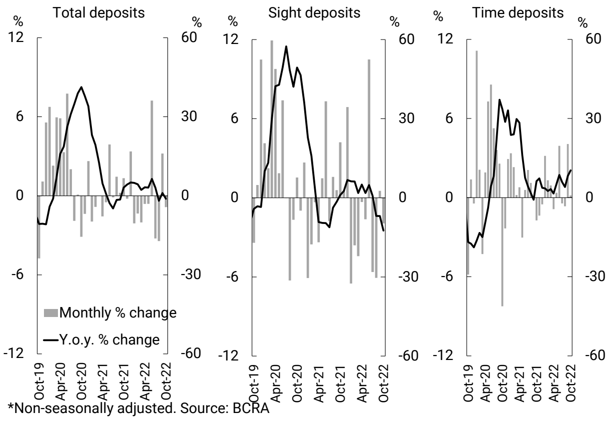
1 Including capital adjustments and accrued interest.
2 See Box 1 of the Financial Stability Report (IEF) of December 2022.

(+68.1 % y.o.y. in nominal terms).
In October, the stock of private sector deposits in pesos declined 0.9% in real terms against September (+5.4% in nominal terms, see Chart 3), mainly due to the performance of sight accounts (-1.9% in real terms or +4.2% in nominal terms). In turn, the stock of time deposits did not post significant changes over the month (+0.2% in real terms or 6.5% in nominal terms, see Chart 4).

A breakdown of private sector time deposits by type shows that traditional deposits (at a fixed interest rate) went up 1.7% in real terms (+8.1% in nominal terms) over the month and have accumulated a year-on-year rise of 14.5% in real terms (+115.2% y.o.y. in nominal terms). In turn, against the stock of late September, time deposits denominated in UVA went down 11.3% (-5.7% in nominal terms), even though they have grown 33% y.o.y. in real terms (+150% y.o.y. in nominal terms).

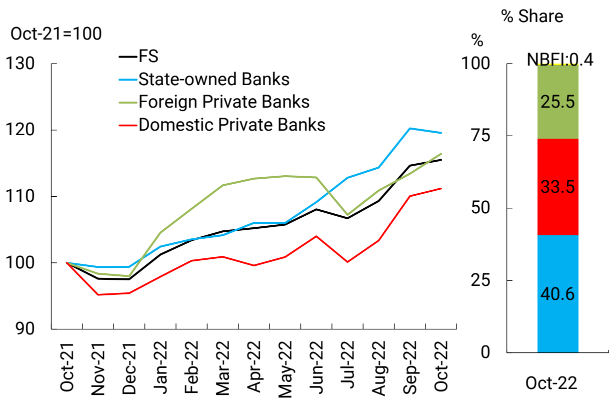
In October, the stock of private sector deposits in foreign currency increased 0.5% (in currency of origin). Thus, the total stock of private sector deposits (in domestic and foreign currency) contracted 0.6% in real terms over the month (+5.6% in nominal terms), accumulating a year-on-year drop of 4.9% in real terms (+78.8% y.o.y. in nominal terms).

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



*Non-seasonally adjusted. Source: BCRA

Chart 4 | Stock of private sector time deposits in pesos
In real terms* - Financial System

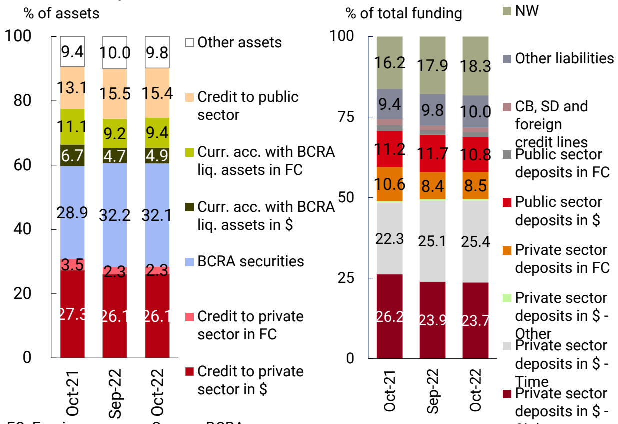


**Not seasonally adjusted. Source: BCRA

In a year-on-year comparison, the stock of private sector deposits in pesos in real terms shrank slightly as of October (+85.8% y.o.y. in nominal terms), recording a decrease in sight accounts and an increase in time deposits. Likewise, public sector deposits in pesos contracted 6.1% y.o.y. in real terms (+76.4% y.o.y. in nominal terms). Taking into consideration all sectors, deposits in pesos dropped 1.4% y.o.y. in real terms (+85.3% y.o.y. in nominal terms). Consequently, the total stock of deposits (all currencies and sectors) contracted 5% y.o.y. in real terms (+78.6% y.o.y. in nominal terms) in October.

II. Aggregate Balance Sheet Evolution and Composition

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



FC: Foreign currency. Source: BCRA

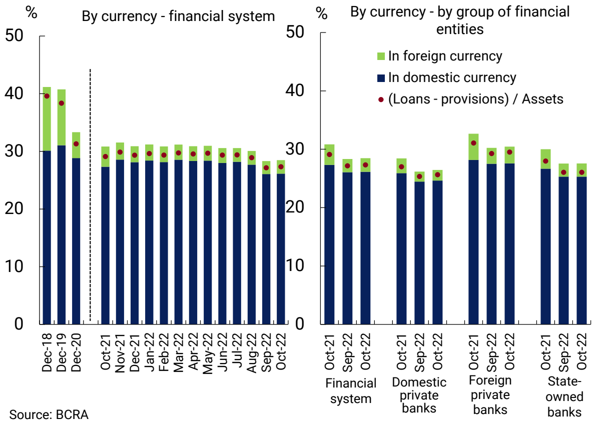
The financial system's total stock of assets contracted 0.9% in real terms in October (+5.3% in nominal terms), and this performance was widespread across the various groups of institutions. In the last 12 months, the sector's total stock of assets has accumulated a drop of 3.1% in real terms (+82.1% in nominal terms).

Over the month, there were no significant changes in the main components making up the financial system's total assets: there was a slight drop in the share of BCRA's instruments in pesos and of loans to the public sector, accompanied by a slight increase in the relative share of the balances in the current accounts held by the institutions at the BCRA (in both domestic and foreign currency). Regarding the main components of the aggregate financial system's total funding, there was a decrease in the share of public sector deposits in domestic currency and of private sector sight accounts in the same denomination, accompanied by an increase in the relative share of private sector time deposits in pesos and net worth over the month (see Chart 5).

In October, the estimated differential between assets and liabilities in foreign currency stood at 25.5% of the regulatory capital at systemic level (-2.2 p.p. month-on-month (m.o.m.) and +12.1 p.p. y.o.y.).[3] In turn, the estimated positive differential between assets and liabilities with capital adjustment by CER (or denominated in UVA) totaled 55.2% of the Regulatory Capital (RC) at aggregate level (-2.1 p.p. m.o.m. and -6.6 p.p. y.o.y.) over the month.

III. Portfolio Quality

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



Source: BCRA

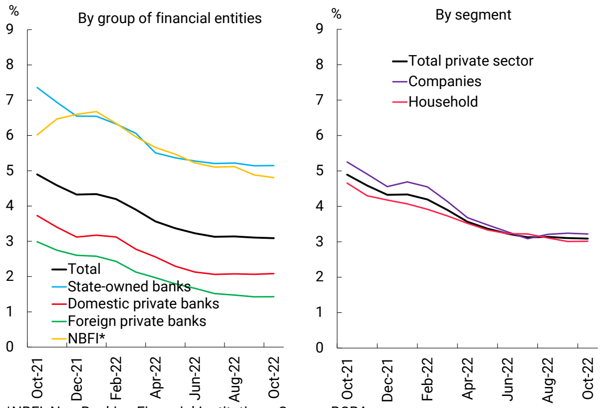
In October, the financial system's gross exposure to the private sector (in domestic and foreign currency) stood at 28.5% of assets, slightly above the figure recorded in September but 2.4 p.p. below the figure recorded in October 2021. The month-on-month and year-on-year evolution was widespread across all homogenous groups of banking financial institutions (see Chart 6). When considering financing in pesos only,

3 Including purchase and sale forward transactions in foreign currency, classified as off-balance. The deposits from the agricultural sector subject to a variable return based on the evolution of the exchange rate are included in liabilities.

this ratio stood at 26.1% over the period (+0.1 p.p. m.o.m. and -1.2 p.p. y.o.y.), while the share of loans to the private sector in foreign currency relative to the financial system's total assets stood at 2.3% (+0.1 p.p. m.o.m. and -1.2 p.p. y.o.y.). Upon deduction of the stock of provisions of the aggregate financial system, lending to the private sector accounted for 27.3% of assets over the month, up 0.2 p.p. against the figure recorded in September and down 1.8 p.p. against the figure recorded in the same period of 2021.

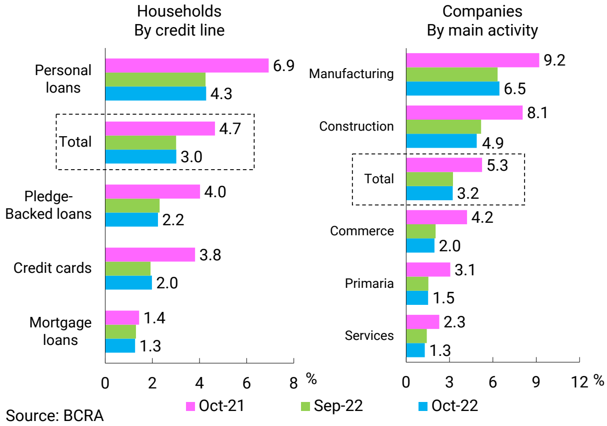
The non-performing ratio of loans to the private sector continued to stand at 3.1% in October, posting no relevant changes against September (see Chart 7). A breakdown by credit segment shows that the delinquency ratio of loans to households did not exhibit significant changes (and the evolution was similar across the various credit lines, see Chart 8); in turn, the portfolio of loans to companies recorded a similar evolution (even though their performance was heterogeneous among economic sectors with increases in industry, reduction in construction, commerce and services, and no significant changes in the remaining sectors, see Chart 8). In the last 12 months, the private sector delinquency ratio contracted 1.8 p.p. at systemic level (-1.6 p.p. in the segment of loans to households and -2 p.p. in the segment of loans to companies).[4]

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



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

Chart 8 | Non-performing ratio of loans to the private sector - By debtor segment



Source: BCRA

In October, the stock of provisions reached 3.9% of total loans to the private sector for the ensemble of financial institutions (-0.1 p.p. m.o.m and -1.5 p.p. y.o.y.) and 126.8% of the non-performing stock of financing (-2.1 p.p. m.o.m. and +15.5 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 around a 93.5% of the non-performing portfolio at systemic level.

IV. Liquidity and Solvency

In October, the financial system's liquid assets in a broad sense totaled 73.5% of deposits, up 1.2 p.p. against September. A breakdown by currency shows that the ratio for the items in pesos stood

4 For a further detail about the financial system's balance sheet exposure to credit risk and its hedging, see Section 3.1 of the [Financial Stability Report (IEF) - December 2022.]

at 69.8%, and the ratio for the items in foreign currency stood at 93% (+1.2 p.p. and +0.2 p.p. m.o.m., respectively, see Chart 9). In terms of the composition of liquidity in domestic currency, between ends of month, there was an increase in the share of net repo transactions with the BCRA, accompanied by a decrease in the relative share of BCRA's instrument holdings. In a year-on-year comparison, broad liquidity (in domestic currency and in foreign currency) went up 4.2 p.p. of total deposits.

In October, the financial system's solvency ratios were on the rise. The Regulatory Capital (RC) of the ensemble of financial institutions stood at 29.3% of risk-weighted assets (RWAs), up 0.4 p.p. against the value of September (+3.2 p.p. y.o.y., see Chart 10). Over 96% of ASE was accounted for by Tier 1 capital, with a greater capacity to absorb potential losses. The capital position —ASE minus the minimum regulatory requirement— totaled 265% of the regulatory requirement at systemic level, up 4.7 p.p. against September (+42.6 p.p. y.o.y.). In turn, the excess of regulatory capital stood at 40.6% of the stock of loans to the private sector net of provisions, at systemic level, well above the average of the last 10 years (17%).

Chart 9 | Financial system's liquidity

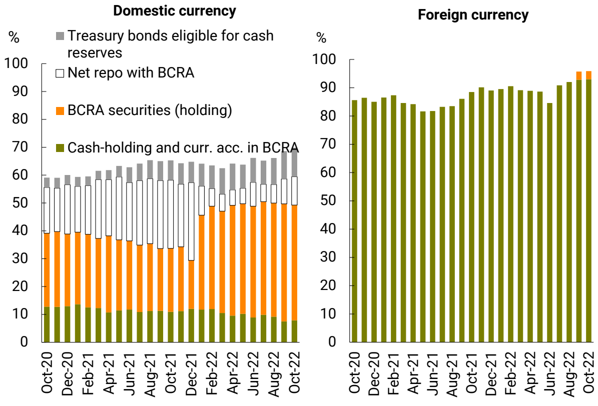
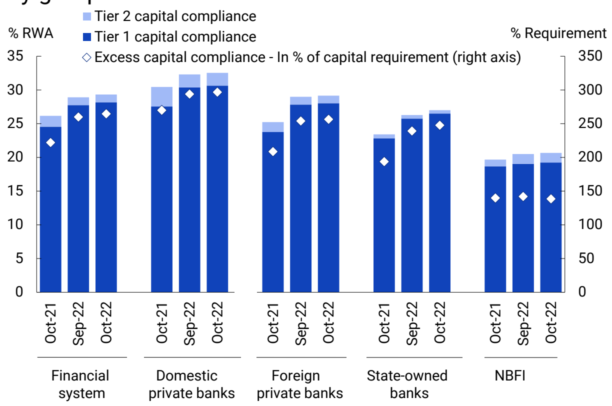


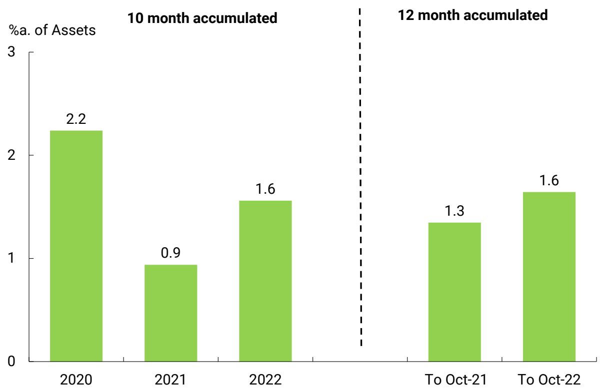
Chart 10 | Compliance with regulatory capital
By group of financial institutions



Source: BCRA

Regarding the sector's profitability ratios, the financial system accrued a total comprehensive income in homogeneous currency equivalent to 1.6% annualized (a.) of assets (ROA) and to 9.1%a. of equity (ROE) in the aggregate of the first ten months of the year, standing above the figures observed in the same period of 2021 but below the values of the same period of 2020 (see Chart 11). In a year-on-year comparison of the sector's profitability accumulated in 10 months, there was higher income from interest on loans, which was partially offset by increases in expenses for interest paid and rises in losses due to exposure to monetary items.

Chart 11 | Financial system's total comprehensive income in homogeneous currency

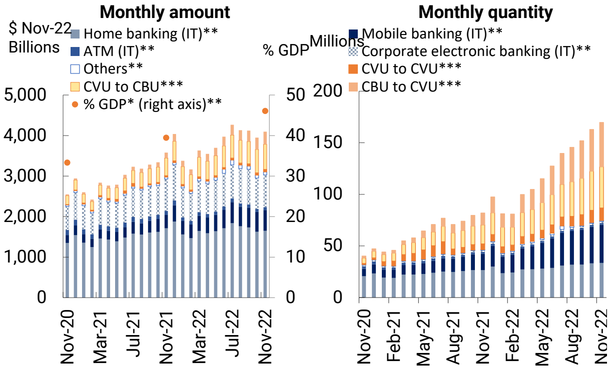


Source: BCRA

V. Payment System

Instant transfers continued to grow significantly. Considering data as of November 2022, the number of instant transfers went up 4.2% against October and 107.8% y.o.y. (3.7% and 13.9% y.o.y. in amount in real terms). This year-on-year performance was driven by a widespread increase in all their components, with a remarkable evolution of instant transfers involving accounts of Payment Service Providers —PSPs— from and/or to Uniform Virtual Codes (CVUs). Within these transactions, the year-on-year momentum of transactions from Financial Institutions to PSPs (from Uniform Banking Codes (CBUs) to CVUs) has been especially remarkable in both number (+272.7%) and amount in real terms (+131.6%). Consequently, transactions involving CVUs have continued to gain share in total instant transfers, and have accounted for 56.3% in number (+12.6 p.p. y.o.y.) and 24.6% in amount (+7.6 p.p. y.o.y.). It is estimated that the amount of instant transfers traded in the last three months (annualized) accounted for 46.1% of GDP (+6.6 p.p. against the same month of 2021, see Chart 12).[5]

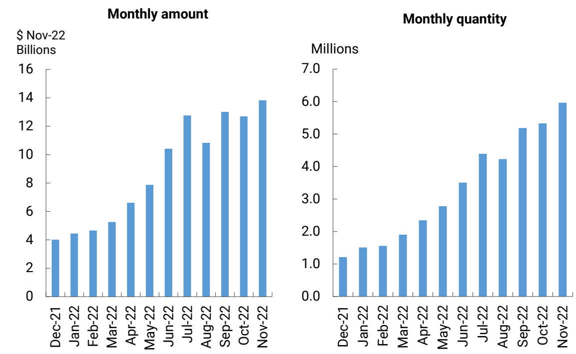
Chart 12 | Instant transfers



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

In November, payments by transfer (PCTs) initiated via interoperable QR codes increased against October, in both number and amount in real terms (+11.9% and +8.9%, respectively, see Chart 13).[6]

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



Source: BCRA.

In October, and due in part to seasonal factors, there was an increase in the transactions made via debit cards against September: 6.8% in number and 5.4% in amount in real terms. In year-on-year terms, purchases with debit cards went up in number (+11.4%) but went down in amount in real terms (-3.7%). It is estimated that the amount of the transactions made via debit card in the last three months (annualized) accounted for 7.8% of GDP (and posted no significant changes against the same period of 2021).[7]

In November, the clearing of checks went up against October, in both number (3.6%) and amount in real terms (2.1%). In year-on-year terms, checks clearing went down in number (1.1%) and amount in real terms (4.4%). This evolution was entirely accounted for by the declining clearing of physical

5 In November, the average value of transfers via channels between Financial Institutions (from CBUs to CBUs) was ARS41,000, while the value of transactions involving PSPs averaged ARS10,400.
6 In November, the average value of payments by transfer with interoperable QR code was ARS2,319.
7 In October, the average value of transactions via debit card amounted to ARS3,596.

instruments. In turn, the share of transactions via electronic checks (ECHEQs) continued to increase in the total clearing of documents and accounted for 33% in number (+10.6 p.p. y.o.y.) and 58.6% in amount (+12.2 p.p. y.o.y.) in November. It is estimated that the amount of checks cleared in the last three months (annualized) was equivalent to 25.4% of GDP (+0.2 p.p. y.o.y.). In November, the average value of physical instruments and electronic checks cleared over the month amounted to ARS265,000 and ARS760,000, respectively.

Lastly, the ratio of bounced checks for insufficient funds in terms of total cleared checks went up in November against October (+0.08 p.p., to 0.83%, in number, and +0.02 p.p., to 0.61%, in amount). These levels are slightly higher than the average value of 2022 (0.67% in number and 0.53% in amount in real terms).