Report on Banks

November 2020

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on January 27, 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

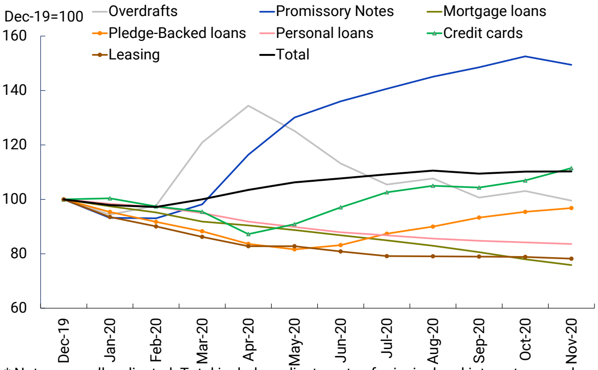
- In November, the financial system continued developing its financial intermediation activity and the provision of means of payment, and kept high levels in terms of solvency, liquidity and provisions. The performance of the sector continued to be underpinned by the various measures adopted by the BCRA in order to contribute to a better access to credit, the protection of savings in domestic currency and an increasing efficiency in the payment system transactions, preserving the conditions required for financial stability.
- In November, the stock of loans to private sector in pesos went up slightly in real terms against October, while increasing slightly over 3.2% in nominal terms. With this performance, loans to private sector in pesos accumulated a 10.9% year-on-year (y.o.y.) increase in real terms, while financing via promissory notes and credit cards stood out.
- Regarding the Credit Line for Productive Investment of micro, small and medium-sized enterprises (MSMEs), the ensemble of financial institutions had disbursed $221.28 billion by late January 2021 to 65,772 companies. Looking into the future, the BCRA will continue promoting measures to deepen the credit channel in order to cover the private sector financing needs (mainly of MSMEs, either via working capital or loans for investment projects).
- In a context where the modification of parameters to classify debtors and the possibility of deferring the unpaid installments to the end of the lifetime of the loan are still in force, the non-performing ratio of loans to private sector shrank slightly, down to 4.1%. Over the month, the relative level of provisioning of the aggregate financial system continued to be high if compared to its performance of the last 15 years, and accounted for 5.8% of total loans to private sector and 139.9% of the non-performing portfolio.
- The stock of private sector deposits in domestic currency, in real terms, went down in November, even though it accumulated a 37.8% y.o.y. growth (87.2% y.o.y. in nominal terms), driven by both time deposits and sight accounts.
- The ensemble of financial institutions continued exhibiting high liquidity levels. In November, liquid assets accounted for 64% of deposits at systemic level, without significant changes against October and up 6.7 p.p. against the level recorded in November 2019.
- The solvency indicators of the ensemble of financial institutions increased during November. The Regulatory capital (RC) of the financial system stood at 23.2% of risk-weighted assets (RWAs) over the month, up 0.2 p.p. against the previous month. The capital position (RC minus the capital requirement) of the ensemble of financial institutions stood at 175% of the regulatory requirement in November, up 6.7 p.p. against October.
- The profitability indicators of the aggregate financial system in real terms have kept positive levels and have shown a gradually decreasing trend. In the aggregate of the last 11 months up to November 2020, the comprehensive income in homogenous currency of the ensemble of financial institutions has been equivalent to 2.2% annualized (a.) of assets (ROA) and to 14.7%a. of equity (ROE). Specifically in November, the ROA stood at 1.8%a. and the ROE at 11.9%a., and both records have been lower than the annual cumulative figure.

I. Financial Intermediation Activity

In terms of the monthly flow of funds estimated for November on the items in domestic currency,[1] the reduction of broad liquidity at aggregate level was the main source of funds for the ensemble of financial institutions in the period. In turn, the contraction of private and public sector deposits was the most remarkable use of funds over the month.[2]

In November, the stock of loans to private sector in domestic currency, in real terms, increased slightly against October (+0.1%; +3.2% in nominal terms) (see Chart 1).[3] There was a mixed performance in the segment in pesos over the period, with increases in cards and pledge-backed loans and decreases in the other credit lines. It is worth mentioning that, due to the measures implemented by the BCRA to promote lending in pesos, during 2020 there was a remarkable performance in terms of credits via promissory notes, which exhibited an increase of over 52% in real terms between March and November and, to a lesser extent, via credit cards. Regarding the evolution by group of institutions, the funding provided by state-owned financial institutions and non-banking financial institutions (EFNBs) recorded an increase in real terms, while such funding shrank in the remaining financial institutions over the month.[4]

Chart 1 | Stock of loans to private sector in pesos
In real terms*



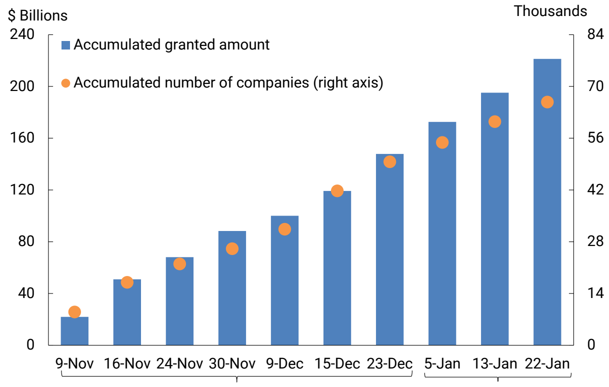
* Not seasonally adjusted. Total includes adjustments of principal and interest accrued .
Source: BCRA

Regarding the new Credit Line for Productive Investment of MSMEs[5] scheme, from its implementation to late January 2021, $221.28 billion (out of which $37.75 billion correspond to investment projects) were disbursed to a total of 65,772 companies (see Chart 2).[6] A breakdown by group of financial institutions shows that domestic private institutions accounted for 38% of total disbursements, while state-owned institutions represented 34% and foreign private institutions accounted for 28%. It is noteworthy that, within the framework of the objectives and plans for 2021, recently published by the BCRA,[7] the monetary authority will continue promoting measures to deepen the credit channel in order to cover the private sector financing needs (mainly of MSMEs, either via working capital or loans for investment projects).

1 Differences of the balance sheet stock expressed in homogeneous currency.
2Considering the segment of items in foreign currency —expressed in currency of origin—, in November 2020, the reduction of financing to the private and the public sectors was the most relevant source of funds of the financial system, whereas the decrease of foreign credit lines, corporate bonds and subordinate debt, as well as the increase of liquidity, were the main use of funds over the period.
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 See Communication "A" 7140, as amended.
6 Regarding this new credit line, by Communication "A" 7161, the BCRA: a) has recently expanded financing alternatives and b) has included an additional regulatory benefit in terms of Minimum Cash for funds intended for investment projects (at a maximum nominal annual percentage rate of 30%).
7 See Objectives and Plans Report on the development of the monetary, financial, credit and exchange policies for 2021.

In addition, through the credit line at subsidized interest rates for companies registered with the "Emergency Assistance Program for Work and Production (ATP)",[8] $12.93 billion had been granted to over 550,600 workers as of January 2021.

Chart 2 | Credit Line for Productive Investment of MSMEs

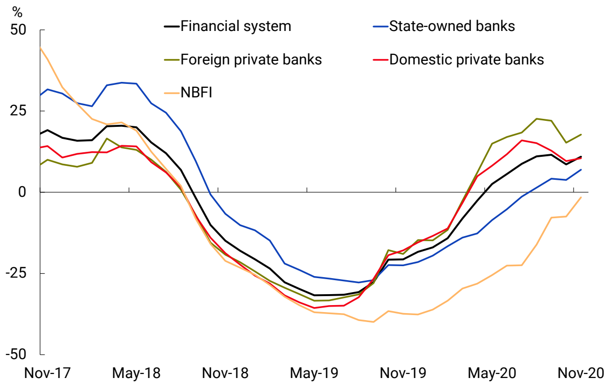


Source: BCRA

In turn, regarding the credit lines intended for workers developing their activities under the Simplified Tax Regime and for self-employed workers, 561,931 loans had been granted under the "Zero Interest Rate Credit Line"[9] until late January, for a total amount equivalent to $66.47 billion (99.5% has already been disbursed). The implementation of this line resulted in the issue of 249,316 new credit cards and the opening of 777 sight accounts in order to credit the abovementioned loans in such accounts. Likewise, through the "Culture Zero Interest Rate Credit Line",[10] $304 million were granted (93.3% has already been disbursed) through 2,902 loans.

Lending to private sector in pesos went up 10.9% y.o.y. in real terms in November, thus posting seven consecutive months of positive year-on-year changes. The loans granted by private institutions recorded the highest relative year-on-year rises over the period (see Chart 3).

Chart 3 | Stock of loans to private sector in pesos
By group of financial institutions – y.o.y. % change in real terms.*



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

In turn, the stock of loans to private sector in foreign currency shrank 2.5% —in currency of origin— in November against October. Thus, total loans to private sector (in domestic and foreign currency) dropped 0.2% in real terms over the month and 4.5% y.o.y. in real terms.

Regarding funding of the aggregate financial system, the private sector stock of deposits in pesos contracted 1.4% in real terms in November (+1.7% in nominal terms) (see Chart 4). Time deposits in pesos fell 2.3% in real terms against October (+0.7% in nominal terms), while sight accounts dropped 1% in real terms (+2.2% in nominal terms).

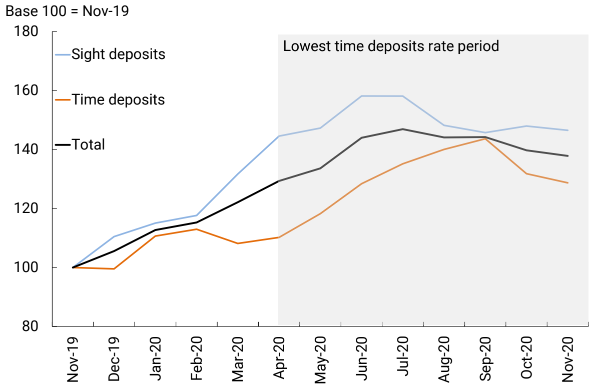
Meanwhile, the stock of private sector deposits in foreign currency did not exhibit significant changes against October —in currency of origin. In this context, the total stock of private sector deposits in real terms (in both domestic and foreign currency) contracted 1% over the month and accumulated a rise of 20.5% y.o.y. in real terms.

8 See Communication "A" 7082 and Communication "A" 7102.
9 See Communication "A" 6993.
10 See Communication "A" 7082.

In turn, public sector deposits in domestic currency dropped 5.4% in real terms during November (-2.4% in nominal terms). Thus, total deposits in pesos (public and private sectors) contracted 2.2% in real terms against October (0.9% in nominal terms).

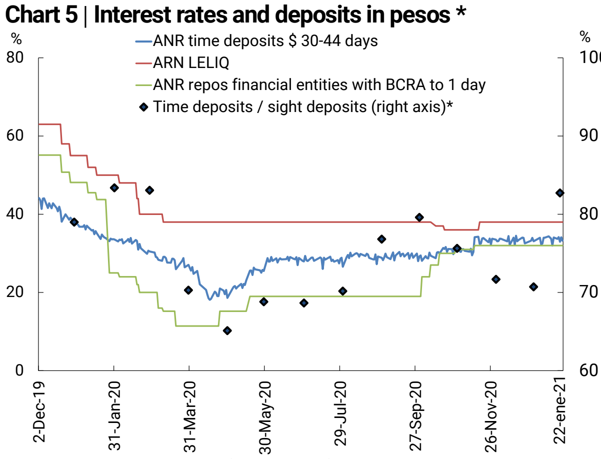
During November, the BCRA continued implementing measures to harmonize the interest rates of its monetary policy instruments (see Chart 5). Thus, over the month, there was an increase in the interest rate of overnight and 7-day reverse repos for the BCRA (assets for the financial institutions) and also a rise of the interest rate on LELIQs. Simultaneously, in order to provide a return in line with inflation levels and favor saving in pesos, the minimum guaranteed interest rate on time deposits in pesos was also raised (37% nominal annual percentage rate for deposits up to $1 million made by natural persons and 34% nominal annual percentage rate for other deposits).[11]

Chart 4 | Stock of private sector deposits in pesos
In real terms*



* Not seasonally adjusted. Source: BCRA

Chart 5 | Interest rates and deposits in pesos *



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

In year-on-year terms, private sector deposits in pesos accumulated an increase of 37.8% in real terms (87.2 y.o.y. in nominal terms) in November, posting a change similar to that of public sector deposits in the same currency. As a result, the total stock of deposits (public and private sectors) in pesos rose by 36% y.o.y. in real terms (84.7% y.o.y. in nominal terms).

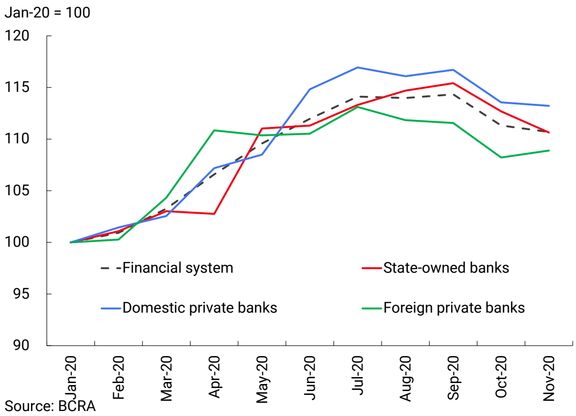
II. Aggregate Balance Sheet Composition

The assets of the financial system shrank 0.6% in real terms in November, mainly due to the performance of state-owned financial institutions (see Chart 6). It is worth pointing out that the momentum of the aggregate financial system's total assets lost ground as from mid-year, in line with a lesser need of monetary issue because of a certain smoothing in the extraordinary support measures driven by the National Government to help both households and companies. This occurred in a context of regularization of some economic activities, even though still heterogeneous. In this respect, the sterilization needs were also more limited and, therefore, the holding of LELIQs in the portfolio of the financial institutions ceased to grow.

11 See Communication "A" 7160.

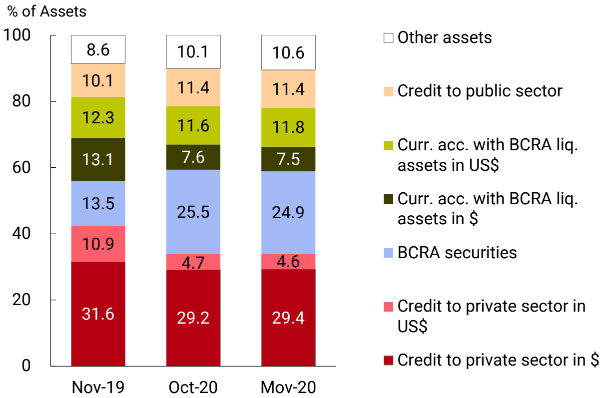
Regarding the composition of the financial system's total assets, the share of loans to private sector in pesos expanded slightly (up to a total of 29.4%), while the relative share of the stock of LELIQs (holdings and repos with the BCRA) dropped (down to 24.9%, see Chart 7). Regarding the items in foreign currency, the relative share of loans to private sector lost ground over the month, while the share of assets with a higher liquidity gained ground.

Chart 6 | Stock of total assets
In real terms



Source: BCRA

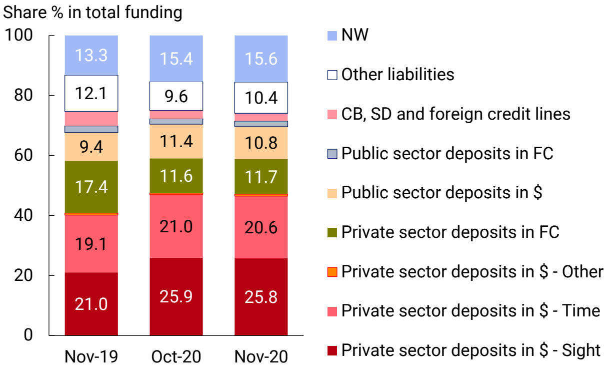
Chart 7 | Composition of total assets
Financial System - Share %



Source: BCRA

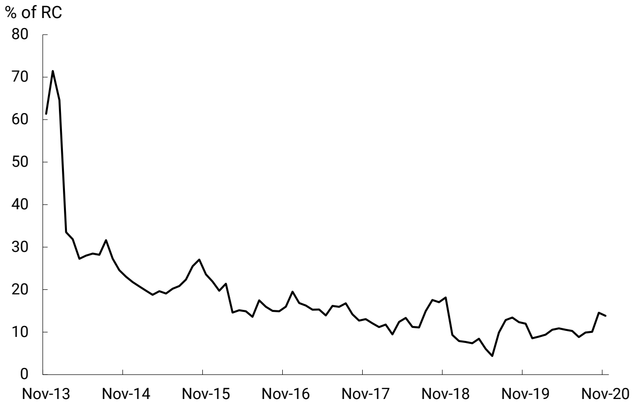
With reference to bank funding, there was a reduction in the share of public sector deposits in domestic currency (down to 10.8%) and also in the share of private sector time deposits (down to 20.6%, see Chart 8).

Chart 8 | Composition of the system's total funding
In % of total funding (liabilities + net worth)



FC: Foreign currency. Source: BCRA

Chart 9 | Foreign currency assets – Foreign currency liabilities + Foreign currency forward position (Financial System)



Source: BCRA

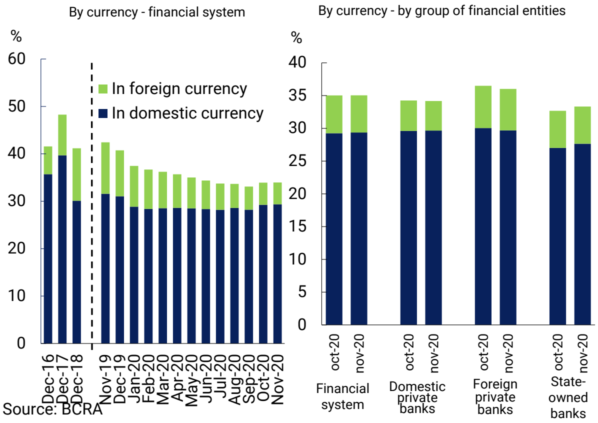
When considering the items in foreign currency of the financial system's balance sheet, the assets in foreign currency kept, in aggregate, their share in the total in November against October (standing at 19.1%), while the share of liabilities increased slightly in total funding in the same period (+0.2 p.p. up to 17.2%). Despite this monthly performance, there was a contraction of 7.7 p.p. in year-on-year terms in the share of assets in foreign currency in total assets and of 8 p.p. in year-on-year terms in the case of the ratio corresponding to liabilities. In November, the spread between assets and liabilities in foreign currency plus the net stock of purchase and sale forward transactions in foreign currency totaled 13.8% of the regulatory capital, down 0.7 p.p. against October and up 1.9 p.p. against the same month of 2019 (see Chart 9).

III. Portfolio Quality

The stock of loans to private sector (in both domestic and foreign currency) stood at 34% of the financial system's assets in November. This level was higher than the level recorded in October, as mentioned in the previous section, resulting in an increase of the gross exposure of the financial system to the private sector for the second consecutive month. If only lending in pesos is considered, this ratio went up 0.2 p.p. against October (see Chart 10), driven by state-owned financial institutions and domestic private institutions.

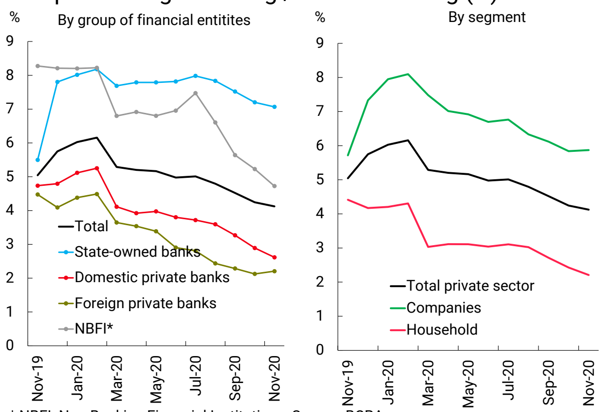
In a context where the modification of the parameters to classify debtors and the possibility of deferring the unpaid installments to the end of the lifetime of a loan —accruing compensatory interest only[12]—, are still in force, the non-performing ratio of loans to private sector continued to go down. Thus, as of November, the delinquency rate stood at 4.1%, slightly below the figure corresponding to October (see Chart 11). This drop was widespread in all groups of financial institutions except for foreign private financial institutions.

Chart 10 | Stock of loans to private sector / Assets



Source: BCRA

Chart 11 | Non-performing loans to private sector
Non-performing financing / Total financing (%)



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

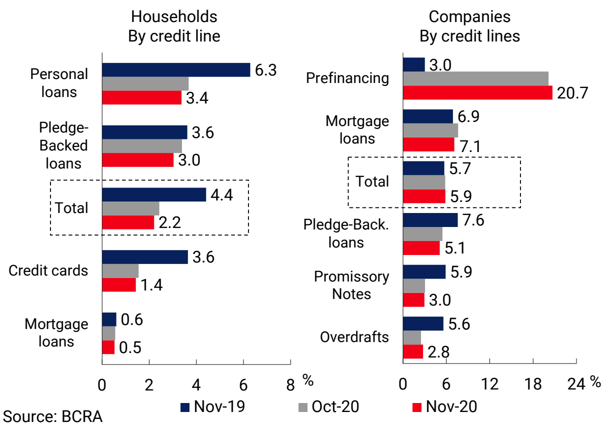
A breakdown by type of debtor shows that the monthly performance was mainly explained by loans to households. The delinquency rate of these loans stood at 2.2%, down 0.2 p.p. against October. This drop was widespread among the various credit lines but the evolution of pledge-backed loans and personal loans stood out (see Chart 12). With reference to loans to companies, non-performance remained stable in November, around 5.9%, but the performance among lines

12 Communication "A" 6938, Communication "A" 7107, Communication "A" 7181, and item 2.1.1. of the Consolidated Text on the "Financial Services in the framework of the Health Emergency Provided For by Decree No. 260/2020 CORONAVIRUS (COVID-19)".

was mixed since there was an increase in loans via overdrafts and prefinancing for exports[13] and a decrease in loans with real property collateral.

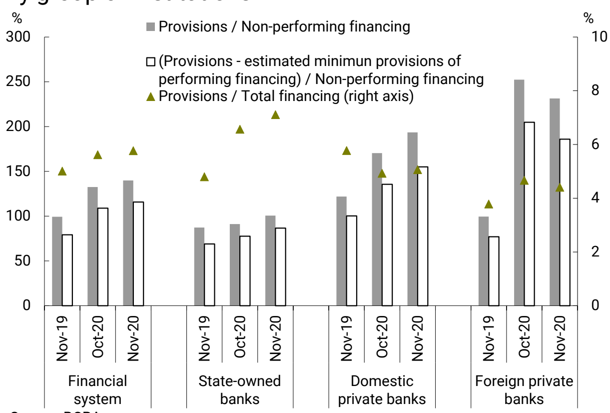
In November, the ensemble of financial institutions continued showing a sizable provisioning level. At aggregate level, provisions accounted for 5.8% of total loans to private sector, up 0.1 p.p. against October and up 0.8 p.p. in year-on-year terms (see Chart 13). The total stock of accounting provisions represented 139.9% of the non-performing loans to private sector, up 7.4 p.p. against October and 40.6 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) totaled 115.7% of such portfolio in November.

Chart 12 | Non-performing loans to private sector
Non-performing financing / Total financing (%)



Source: BCRA

Chart 13 | Loans to private sector and provisioning
By group of institutions



Source: BCRA

IV. Liquidity and Solvency

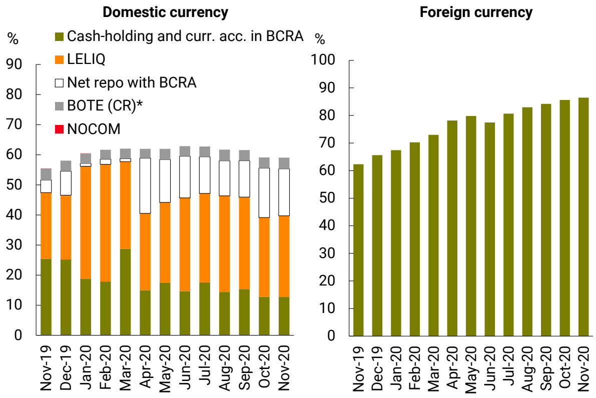
The aggregate financial system continued to show relatively high levels of liquidity and solvency, which have even exceeded the levels recommended by international standards.

In November, the liquidity ratios were in line with the recommendations of the Basel Committee —Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)— for the group of institutions subject to compliance with this requirement (Group A) and they have nearly doubled the minimum values required at domestic level.[14,15]

13 This was the monthly performance observed all year long and was more closely related to a decrease in the denominator than an increase in the numerator which, in contrast, had been clearly observed towards the end of 2019 in a reduced set of companies.
14 The LCR considers the liquidity available to face any potential outflow of funds within a stress scenario in the short term. See Consolidated Text on "Liquidity Coverage Ratio".
15 The NSFR considers the availability of institutions' stable funding in line with the terms of businesses to which it is applied. See Consolidated Text on "Net Stable Funding Ratio".

In November, the broad stock of liquid assets for the ensemble of financial institutions[16] accounted for 64% of total deposits (58.8% for the segment in pesos, and 86.4% for the items in foreign currency), posting only minor changes over the month (-0.2 p.p. and +0.8 p.p. for items in domestic currency and in foreign currency, respectively) (see Chart 14). Within the segment in pesos, the composition of liquid assets showed a higher share of LELIQ holdings, and a lower share of net repo transactions against the BCRA and of the balance of current accounts held by the financial institutions at the BCRA.[17,18] In a year-on-year comparison, the broad liquidity ratio went up 6.7 p.p. of deposits, mainly due to the liquidity in foreign currency.

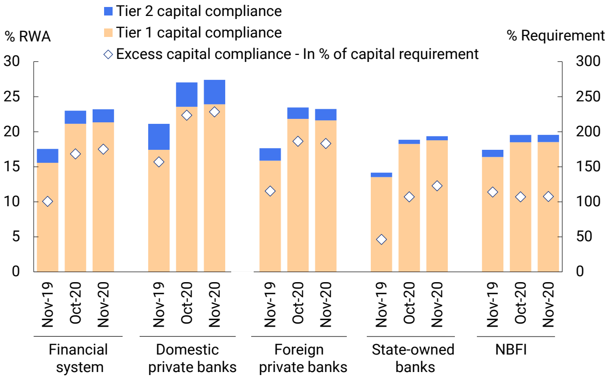
Chart 14 | Financial system liquidity
In % of deposits



*CR: Cash reserves. Source: BCRA

Regarding the sector's solvency indicators, the Regulatory Capital (RC) increased relative to risk-weighted assets (RWAs). This ratio stood at 23.2% at systemic level during November, up 0.2 p.p. against October (+0.1 p.p. to 25.3% for private banks and +0.5 p.p. to 19.4% for state-owned banks, see Chart 15). The capital position (RC minus the regulatory requirement) of the ensemble of financial institutions stood at 175% of the regulatory requirement in November (206% for private banks and 123% for state-owned banks). It is worth mentioning that the increase observed in the aggregate financial system's solvency indicators has occurred in the context of macroprudential measures adopted by the BCRA in due time, specifically the suspension of the distribution of profits, which will continue to be effective until the end of the first quarter of 2021.

Chart 15 | Compliance with regulatory capital
By group of financial institutions



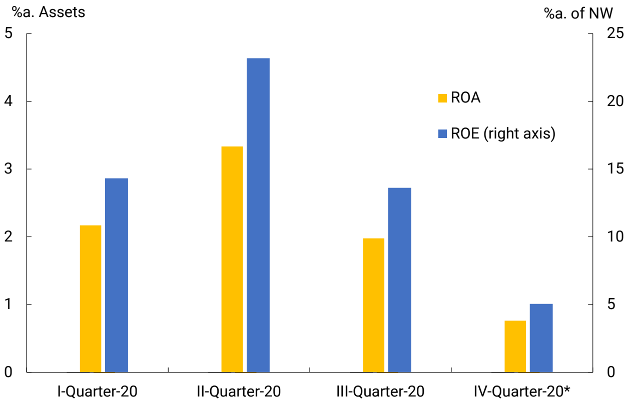
NBFI: Non-Banking Financial institutions. Source: BCRA

In turn, the profitability indicators of the sector, in real terms, have continued to show a gradual decline pattern. In the aggregate of 11 months up to November 2020, the ensemble of financial institutions has accrued a total comprehensive income in homogeneous currency equivalent to 2.2% annualized (a.) of assets (ROA) and to 14.7%a. of equity (ROE). Specifically in November, the

16 It considers liquid assets, compliance with minimum cash requirements, and BCRA instruments, in domestic currency and foreign currency.
17 By the end of November, the BOTE due 2020 —used by the institutions for compliance with the cash requirement— became due and an auction was held for the BOTE due 2022, resulting in a slight increase in these holdings in terms of deposits (+0.2 p.p.).
18 In November, the BCRA established the percentages of financing admitted as deductions of the regulatory liquidity requirement in the framework of the "Credit Line at Subsidized Rate for Companies" program based on the interest rate of such financing. In addition, the possibility of taking as deduction from the requirement the loans provided to micro, small and medium-sized enterprises for the payment of wages for up to 120% of the Minimum Wage included in the Emergency Assistance Program for Work and Production (ATP) program was revoked (see Communication "A" 7157). In turn, effective as from the beginning of the month, the regulatory liquidity requirement was reduced by an amount equivalent to 14% of financing for capital investment agreed upon in the framework of the LFIP, at a nominal annual percentage rate of up to 30% (see Communication "A" 7161).

ROA stood at 1.8%a. and the ROE at 11.9%a., and both records were lower than the annual cumulative figure. As a result, so far in the fourth quarter of 2020, the ROA totaled 0.8%a., standing 1.2 p.p. and 2.6 p.p. below the figures recorded in the previous two quarters (see Chart 16).

Chart 16 | Total comprehensive income in homogeneous currency of the financial system

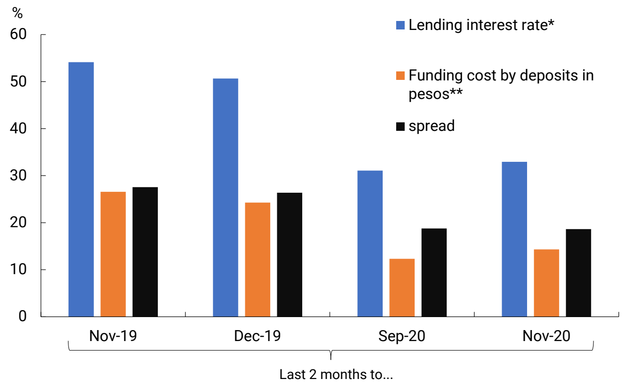


Source: BCRA. *Annualized to November 2021.

In the aggregate from January to November 2020, the financial margin of the ensemble of financial institutions totaled 11%a. of assets. Income from interest was the most relevant source component (8.5%a. of assets) over the period, followed by income from securities (8.1%a. of assets). In turn, the interest paid has been the main expenditure in terms of financial margin so far this year (8.8%a. of assets). Among non-financial items of the income statement, services stood out as a source of net income (1.9%a. of assets), while administrative expenses (6.6%a. of assets) and loan loss provisions (1.5%a. of assets) were the main expenditures in the aggregate of 2020.

The monitoring of the implicit interest rates is a useful instrument for the follow up of financial income and expenditure in domestic currency recorded by the ensemble of financial institutions for every peso intended for financial intermediation.[19] It is estimated that in the last two months up to November, the nominal implicit lending interest rate increased less than the implicit cost of funding via deposits in domestic currency in the same period (see Chart 17).[20] Therefore, the estimated spread between both concepts narrowed slightly in the last two months. It is also worth mentioning that the inflation rate recorded in the last two months up to November was higher than the inflation recorded in the previous two months. Therefore, since the effect of inflation has been considered, it has been estimated that the spread of the implicit interest rates would have narrowed even more in line with the lower levels of financial margins and the lower profitability in real terms that has been observed in recent months.

Chart 17 | Estimated implicit nominal interest rates (annualized) – Financial System



*For loans in pesos (non-financial), LELIQs not used to comply with Minimum Cash requirements, and Net Repos with BCRA. ** Considering the Minimum Cash requirement. Source: BCRA

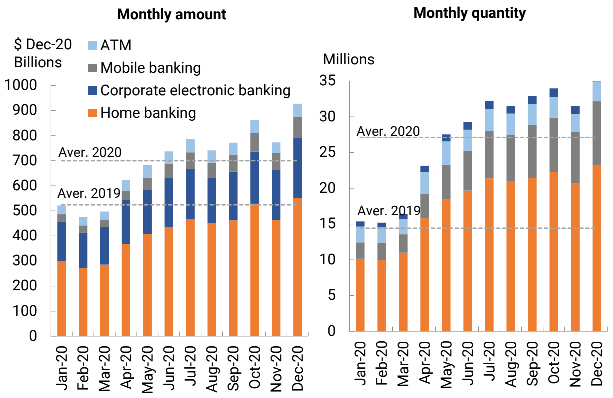
19 For the calculation of the nominal implicit interest rates, concepts such as administrative expenses, tax expenditures, cost of capital or other components associated with hedging for risks inherent in financial intermediation activities are not taken into account.
20 Implicit interest rates are built by accumulating the flows for the last two months annualized. For further detail as to the method of calcula-tion, see previous issues of the Report on Banks.

V. Payment System

The transactions of the payment system continued to be performed subject to the health-related measures adopted to face the pandemic, even though some of them have gradually become less stringent. In this context, the BCRA continues promoting actively several measures tending to minimize risk and encourage the use of digital payment channels.

As it is usual at this time of the year, total instant transfers made in December (latest information available) increased against November; they have recorded monthly rises of 15% in number and 15.4% in amount in real terms (see Chart 18) and expanded 103.2% in number and 52% in amount in year-on-year terms. Thus, the instant transfers made in the last month of the year stood above the annual average: +33.7% in number and +24.7% in amount in real terms. Mobile banking and corporate electronic banking were the channels with the best relative performance for the transactions made over the month.

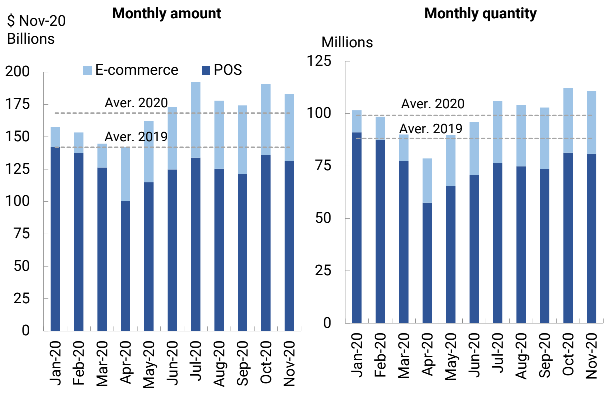
Chart 18 | Instant transfers in pesos



Source: BCRA

Regarding transactions made with debit cards, there was a decrease in November (latest information available) (-1.2% in number and -4.1% in amount in real terms), even though they have continued to stand above the annual average of 2020 (+11.7% and +8.8% in real terms with reference to number and amount, respectively, see Chart 19). If compared to the same month of 2019, debit card transactions went up in number (18.5%) and amount in real terms (29.8%). During the year, transactions under electronic format gained ground and went up 227% in number (up to 27% of total transactions in November) and 304% in amount in real terms (accounting for 28% of the total over the period).

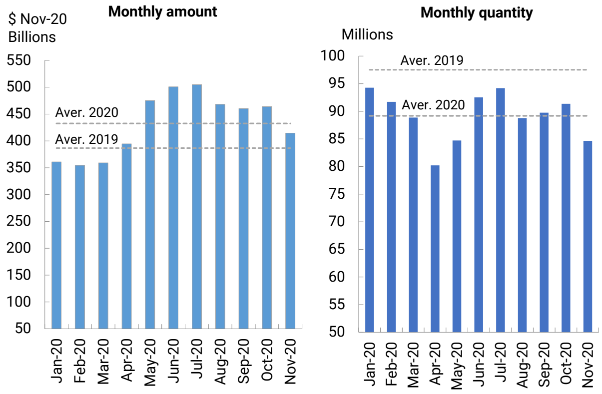
Chart 19 | Debit card transactions



Source: BCRA

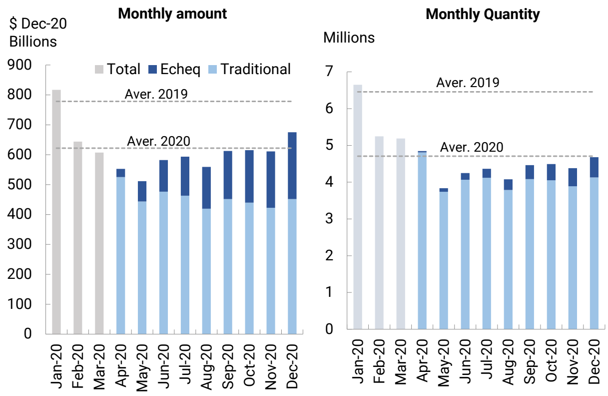
Regarding the use of ATMs, there was a reduction of withdrawals in both number and amount in November if compared to October (-7.3% in the number of transactions and -10.6% in the amounts withdrawn, in real terms, see Chart 20). Against October, cash withdrawals via ATMs went down in number (-14.6%) and went up in amount in real terms (13.3%), as a result of which there was a rise in the average amount of each withdrawal measured at constant currency (+$1,206, up to nearly $4,900 per withdrawal at prices of November 2020).

Chart 20 | Cash withdrawals



Source: BCRA

Chart 21 | Cleared checks

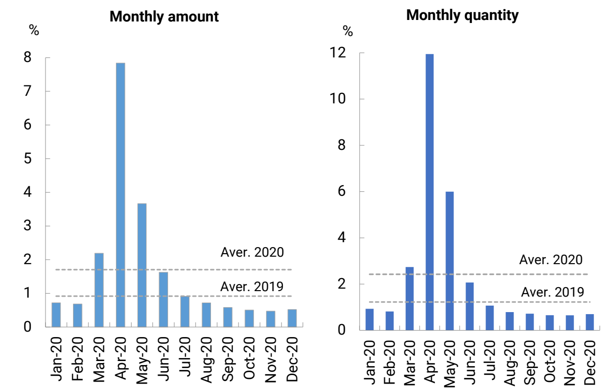


Source: BCRA

With reference to transactions made with checks, total clearing rose in December (latest information available) against November: 6.8% in number and 10.5% in amount in real terms (see Chart 21). The number of cleared checks over the month was in line with the annual average, while the amounts stood above such average (measured at homogeneous currency). The monthly clearing of checks went up against November in terms of both physical instruments (6.2% and 6.9% in number and amount in real terms, respectively) and the electronic version (ECHEQs grew 11.7% in number and 18.4% in amount in real terms). Thus, as from April, the relative share of transactions made with ECHEQs increased significantly and accounted for 11.8% in the number of transactions and 33.1% in amount. In turn, in year-on-year terms, the clearing of checks went down in number (-26.6%) and amount in real terms (-13.3%).

In turn, the ratio of the bouncing of checks for insufficient funds in terms of total cleared checks went up slightly in December against November, up to a total of 0.7% and 0.52% for number and amount, respectively. Consequently, the ratio of the bouncing of checks for insufficient funds continues to stand below the average of 2020, in both number and amount (see Chart 22). If compared to the same month of 2019, the bouncing ratio decreased in number (-0.28 p.p.) and also in amount (-0.27 p.p.), and has even stood below the monthly average of 2019.

Chart 22 | Bounced checks for insufficient funds
Bounced / Total cleared



Source: BCRA