

Report on Banks

December 2022



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Published on February 23, 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

- Throughout the year, the financial system operated without disruption in its financial intermediation activities and in the provision of payment systems, keeping high margins in terms of solvency and liquidity coverage. Electronic means of payment expanded during 2022, in line with a higher demand by users and the increasing drive from the BCRA.
- Along the year, instant transfers of funds have grown 18.2% in real terms (99.8% year-on-year (y.o.y.) in number). It is estimated that, by 2022 year-end (annualized value for the last three months), the amount traded via instant transfers was equivalent to 48.5% of GDP, up 7 percentage points (p.p.) y.o.y. The performance of electronic checks (ECHEQs) was also remarkable throughout the year, since they have grown 22.9% in real terms (42.9% y.o.y. in number). Thus, it is estimated that ECHEQs (annualized value for the last quarter of 2022) accounted for 14.6% of GDP, going up 2.9 p.p. y.o.y.
- In December, the stock of loans to the private sector in pesos contracted slightly in real terms (+4.6% in nominal terms), accumulating a 12.5% y.o.y. drop in real terms. In 2022, the “Credit Line for Productive Investment (LFIP) of Micro, Small and Medium-Sized Enterprises (MSMEs)” was the main tool to promote financing to MSMEs: it is estimated that the stock of loans under the LFIP reached ARS1.2 trillion by the end of the year, equivalent to 13.5% of the total stock of loans to the private sector (+1.7 p.p. y.o.y.).
- In a context characterized by seasonal factors, the stock of private sector deposits in pesos went up 4% in real terms (+9.3% in nominal terms) in December, with rises in sight accounts (+5.6% in real terms) and time deposits (+2.2% in real terms). The stock of traditional time deposits (without adjustment clause) has exhibited positive change rates in real terms for five consecutive months, due to the effect of the regularization of the interest rate structure. In year-on-year terms, the stock of private sector deposits in pesos in real terms has recorded a slight increase (+1.1%) in real terms, mainly explained by the performance of time deposits.
- In December, the non-performing ratio of loans to the private sector stood at 3.1% at systemic level, down 1.2 p.p. against the figure recorded by the end of 2021. The year-on-year drop was noticeable in the segments of loans to companies and to households. The financial system ended the year with high provisioning levels, equivalent to 4.1% of the total stock of lending to the private sector and to 131.1% of the stock of non-performing loans.
- By the end of December 2022, the financial system exhibited high liquidity ratios from a historical perspective. Liquid assets in a broad sense totaled 72% of total deposits by the end of the year, standing slightly below the level observed by late November 2022, and 3.3 p.p. above the level recorded by 2021 year-end. The level of this ratio stood 19.5 p.p. above the average value of the last 10 years.
- In turn, solvency ratios are standing at the highest levels of the last 10 years. The Regulatory Capital (RC) of the aggregate financial system stood at 29.6% of risk-weighted assets (RWAs), up 3.4 p.p. and 11.2 p.p. against late 2021 and against the average of the last 10 years, respectively. By the end of 2022, the leverage ratio –in line with the guidelines suggested by the Basel Committee– continued widely exceeding the minimum regulatory requirements (14.6% for the financial system against a minimum of 3%) and went up against the value recorded one year ago (+1.6 p.p.).
- In 2022, the ensemble of financial institutions accrued a total comprehensive income in homogeneous currency equivalent to 1.9% of assets (+0.7 p.p. y.o.y.) and to 10.9% of equity (+3.7 p.p. y.o.y.).

I. Financial Intermediation Activity

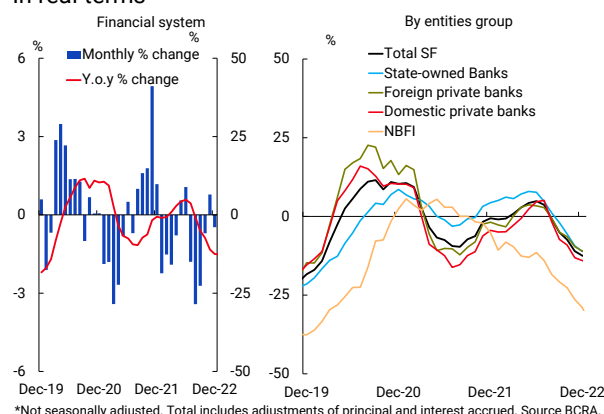
Taking into account the most relevant movements (in homogenous currency) of the financial system’s balance sheet for the items in pesos, there was an increase in the stock of private sector deposits, accompanied by a decrease in the stock of loans to this sector in December. In turn, the stock of financing to the public sector in pesos in real terms went up over the month, while the stock of public sector deposits went down in real terms, accompanied by a slight increase of liquidity in a broad sense. With reference to items in foreign currency, the stock of deposits increased but the stock of loans to the private sector decreased in December, while the increase in the stock of lending to the public sector and the rise in liquid assets were the main changes in terms of use of funds.

The stock of loans in domestic currency to the private sector shrank 0.5% in real terms in December (+4.6% in nominal terms, see Chart 1),¹ mainly due to the performance of overdrafts and personal loans. Over the month, the stock of loans in pesos in real terms remained unchanged in state-owned financial institutions, went up in domestic private banks and went down in the remaining groups of institutions. In year-on-year terms, the stock of financing in pesos dropped 12.5% in real terms (+70.4% y.o.y. in nominal terms).

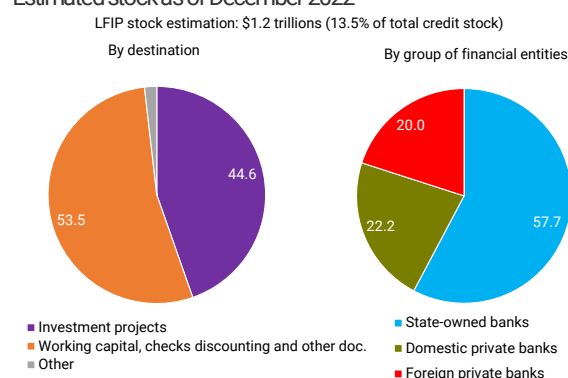
Throughout 2022, the “Credit Line for Productive Investment (LFIP) of MSMEs” was one of the main tools to promote credit to these enterprises under favorable conditions. From the implementation of this credit line (October 2020) to January 2023, ARS4.2 trillion were disbursed and provided to over 371,280 companies. The estimated stock under the LFIP reached ARS1.2 trillion by the end of 2022, equivalent to 13.5% of total loans to the private sector (see Chart 2).

Recently, the Central Bank of Argentina has adopted measures to address the situation of producers under the Agricultural Emergency Act, and to foster financing to the sectors that have been hardest hit by the drought. In particular, more flexible terms have been included for reporting

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



**Chart 2 | Credit Line for Productive Investment (LFIP) of MSMEs –
Estimated stock as of December 2022**



Source: BCRA

¹ Including capital adjustments and accrued interest.

the credit conditions of debtors (45 days are added to the first three categories of debtors) as well as the possibility of access to subsidized credit lines.²

Regarding the segment in foreign currency, the stock of loans to the private sector dropped 2.9%³ in December. Consequently, the stock of total loans (in domestic and foreign currency) in real terms to the private sector accumulated a 0.6% drop against November (+4.4% in nominal terms) and a 13.4% y.o.y. drop in real terms (+68.6 % y.o.y. in nominal terms).

Regarding the financial system’s funding, and in the context of the seasonal factors that are typical of December, the stock of deposits in pesos went up 4% in real terms (+9.3% in nominal terms, see Chart 3) between ends of month. Sight accounts rose 5.6% in real terms (+8% in nominal terms), due in part to the effect of the collection of the semi-annual complementary wage. In addition, the stock of time deposits grew 2.2% in real terms (+7.4% in nominal terms). Within this segment, the stock of traditional time deposits (without adjustment clause) went up 1.9% in real terms over the month (+7% in nominal terms, see Chart 4), accumulating five consecutive months with positive change rates in real terms.

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

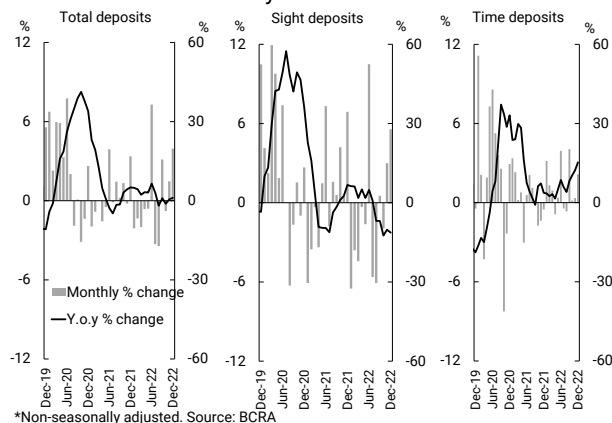
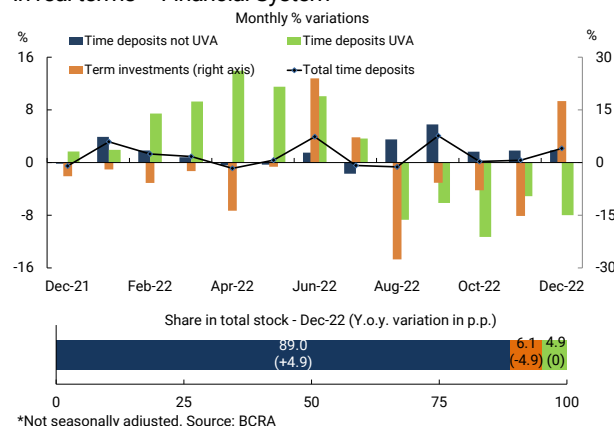


Chart 4 | Stock of private sector time deposits in pesos
In real terms* - Financial System



The performance of time deposits was in line with the regularization process of the interest rate structure implemented by the BCRA throughout 2022, seeking to provide positive real yields in pesos. The BCRA continued with this process at the beginning of 2023 and raised the financial institutions’ repo transactions rate by 2 p.p. Seeking to improve the monetary policy transmission mechanisms, the BCRA also raised in January the overnight repo rate for mutual funds —up to a value equivalent to 85% of the financial institutions’ overnight repo rate— and authorized financial institutions to make transactions using marketable securities as a collateral (stocks or bonds, applying a haircut to their value).⁴

² See [Press Release](#) of February 2, 2023 and Communication “A” [7687](#).

³ Expressed in currency of origin.

⁴ See [Press Release](#) of January 26, 2023 and Communication “A” [7683](#). It is worth mentioning that the transactions using marketable securities as collateral (stocks or bonds, applying a haircut to their value) are excluded from the minimum cash requirements.

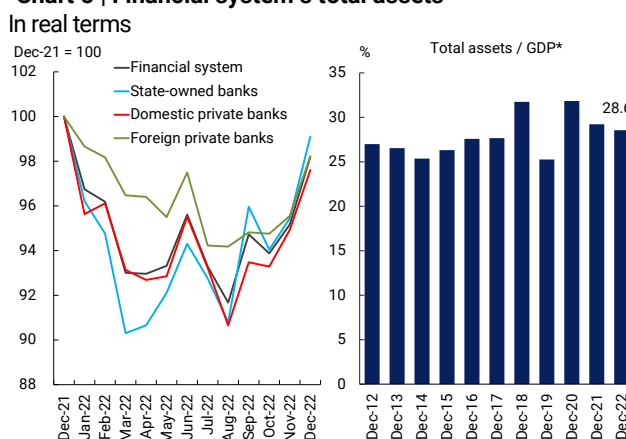
In December, the stock of private sector deposits in foreign currency went up 6.3%,⁵ in part due to tax-related factors that are typical of every year-end. Consequently, the total stock of private sector deposits in real terms (in domestic and foreign currency) went up 4.4% in December (+9.8% in nominal terms).

In year-on-year terms, the stock of private sector deposits in domestic currency in real terms went up slightly (+1.1% or +96.9% in nominal terms). In turn, the stock of public sector deposits in pesos in real terms went down in a year-on-year comparison. Considering total deposits (all currencies and sectors), there was a 3.2% y.o.y. drop in real terms by the end of the year (+88.4% y.o.y. in nominal terms).

II. Aggregate Balance Sheet Evolution and Composition

In December, the financial system's total assets grew 3.2% in real terms (+8.5% in nominal terms), and this evolution was widespread across the various groups of financial institutions (see Chart 5). Against the year-end closing of 2021, the sector's total assets dropped 1.8% in real terms (+91.2% in nominal terms). It is estimated that aggregate assets of the ensemble of financial institutions accounted for 28.6% of GDP by the end of 2022, standing slightly below the 2021 year-end closing, even though in line with the average of the last 10 years (up +0.4 p.p.).

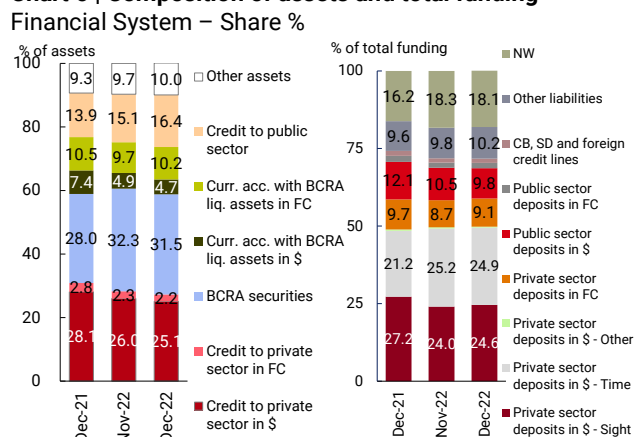
Chart 5 | Financial system's total assets



*Quarterly averages are considered. Source: BCRA

Regarding the components of the financial system's total stock of assets, there was an increase in the relative share of loans to the public sector,⁶ accompanied by a rise in the share of current account balances held by institutions at the BCRA in foreign currency. In turn, there was a decrease in the relative share of loans to the private sector and of BCRA's holdings (see Chart 6). Considering the most relevant components of total funding and a context characterized by some seasonal factors, there was an increase in

Chart 6 | Composition of assets and total funding



FC: Foreign currency. Source: BCRA

⁵ Expressed in currency of origin.

⁶ Including the position in sovereign bonds. Over the month, the exposure of financial institutions to the public sector was on the rise, mainly in terms of instruments in domestic currency, at a fixed rate and with CER adjustment clause.

the relative share of private sector sight accounts and deposits in foreign currency over the month. In turn, there was a decrease in share of public sector deposits in domestic currency and of private sector time deposits in the same denomination in total funding over the period (see Chart 6).

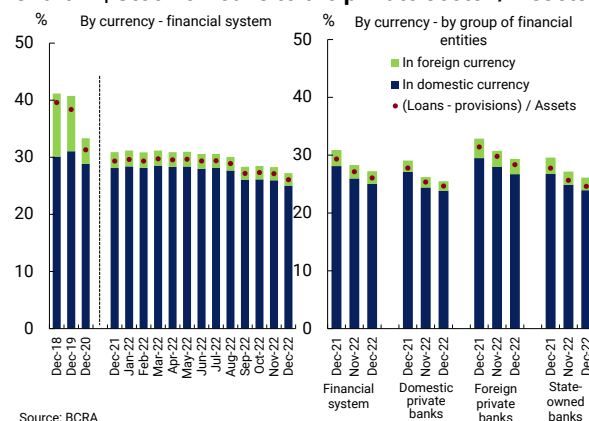
In year-on-year terms, there was an increase in the share of BCRA's instruments and of loans to the public sector in the financial system's assets. Regarding the financial institutions' funding, there was a remarkable increase in the share of the private sector time deposits in domestic currency and of net worth throughout 2022 (see Chart 6).

By the end of the year, the estimated differential between assets and liabilities in foreign currency went up 1 p.p. of the regulatory capital at systemic level, up to 30.2% (+17.7 p.p. y.o.y.).⁷ The estimated positive differential between assets and liabilities with capital adjustment by CER (or denominated in UVA) for the ensemble of financial institutions increased 2.4 p.p. of the Regulatory Capital (RC) in December, up to 52.7% (-12.7 p.p. y.o.y.).

III. Portfolio Quality

The weight of loans to the private sector in the financial system's assets –gross exposure to the private sector– stood at 27.2% by the end of 2022, 1 p.p. below the figure recorded in November and 3.7 p.p. below the figure recorded by the end of 2021. It is worth stating that this evolution was widespread across all groups of financial institutions (see Chart 7). In the segment in pesos, this ratio stood at 25.1% in December (-0.9 p.p. month-on-month (m.o.m.) and -3.1 p.p. y.o.y.) for the financial system as a whole, and stood at 2.2% if the items in foreign currency are considered (slight contraction over the month and -0.6 p.p. y.o.y.). Upon deduction of the stock of provisions, lending to the private sector accounted for 26.1% of assets over the month, down 1 p.p. and 3.2 p.p. against November and against the level of the same period of 2021, respectively.

Chart 7 | Stock of loans to the private sector / Assets



Source: BCRA

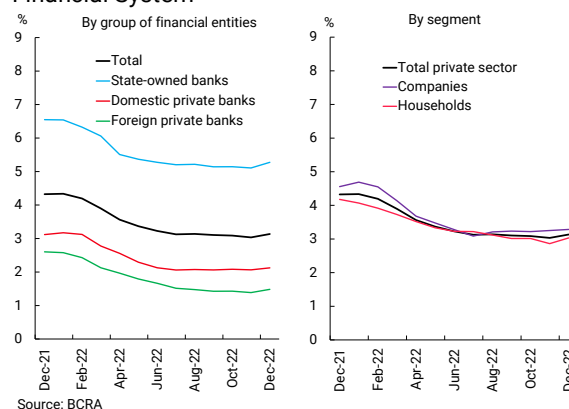
In December, the non-performing ratio of loans to the private sector stood at 3.1% at systemic level, slightly above the figure of the previous month, posting a widespread performance across the various groups of banking financial institutions (see Chart 8). The monthly evolution of this ratio was mainly driven by loans to households, whose delinquency ratio reached 3%, up 0.2 p.p. against November. In turn, the non-performing ratio of loans to companies totaled 3.3% over the month, without posting significant changes in this period.

⁷ 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.

Throughout 2022, the non-performing ratio of loans to the private sector shrank 1.2 p.p., mainly during the first half of the year, and it involved financing to both companies and households. The value of the non-performing ratio of lending to companies went down in all economic sectors, but especially remarkable was the case of loans related to the construction business and, to a lesser extent, loans intended for the industrial sector and commerce (see Chart 9). The drop in the delinquency ratio of credit to households in 2022 was widespread across all credit lines, with a remarkable performance of personal loans and pledge-backed loans (see Chart 9).

Chart 8 | Non-performing ratio of loans by segment of debtors

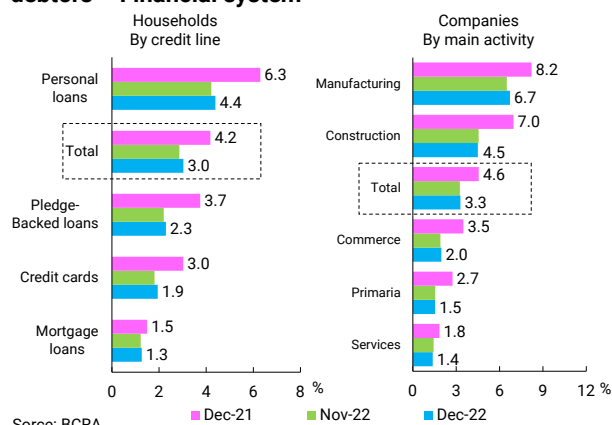
Financial System



Source: BCRA

The ensemble of financial institutions ended the year with high provisioning levels. In December, total provisions were equivalent to 4.1% of the total stock of loans to the private sector of the aggregate financial system (+0.2 p.p. and -0.8 p.p. y.o.y.) and to 131.1% of the non-performing portfolio of loans (+0.7 p.p. m.o.m. and +17.1 p.p. y.o.y.). Over the period, the provisions attributable to non-performing loans (total provisions net of those corresponding to debtors of categories 1 and 2, according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure) totaled 98.4% of such portfolio at systemic level, going up 7.8 p.p. y.o.y.

Chart 9 | Non-performing ratio of loans by segment of debtors – Financial system



Source: BCRA

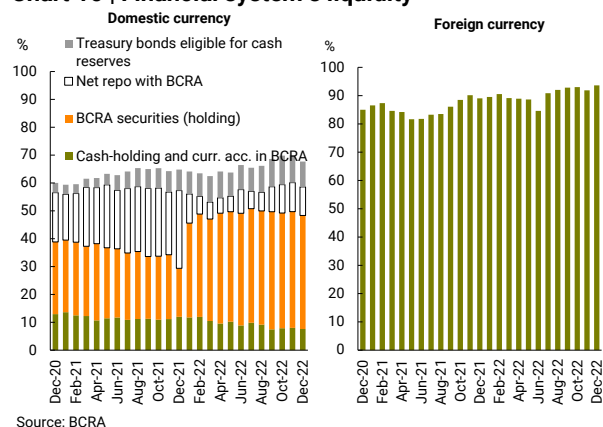
IV. Liquidity and Solvency

The financial system has kept relatively high liquidity levels, from both a historical perspective and an international comparison. As of December, liquid assets in a broad sense amounted to 72% of total deposits, standing slightly below the figure observed in November. The liquidity ratio for the items in domestic currency stood at 67.7% of deposits of the same denomination (-2.3 p.p. m.o.m., see Chart 10), while the ratio for the items in foreign currency totaled 96% (+1.9 p.p. m.o.m.). Regarding the components of liquidity in domestic currency, the share of the National Treasury's instruments admissible for compliance with the Minimum Cash requirement went down, while the relative share of BCRA's instrument holdings went up. The broad liquidity ratio grew 3.3 p.p. of

deposits year-on-year (+2.9 p.p. for the ratio in domestic currency and +7 p.p. for the ratio in foreign currency), up 19.5 p.p. against the average of the last 10 years.

In December, solvency ratios did not post significant changes and stood at relatively high levels. Over the month, the Regulatory Capital (RC) of the financial system stood at 29.6% of risk-weighted assets (RWAs), up 3.4 p.p. y.o.y. and exceeding by 11.2 p.p. the average of the last 10 years. Tier 1 Capital –with greater capacity to absorb potential losses– continued to account for a very high percentage of the sector’s regulatory capital, accounting for 96.4% of the total in December. In turn, the financial system’s capital position (ASE minus the minimum regulatory requirement) totaled 268% of the regulatory requirement over the period (+1 p.p. m.o.m. and +42.3 p.p. y.o.y.) and 42% of loans net of provisions (+0.7 p.p. m.o.m. and +9.4 p.p. y.o.y.).

Chart 10 | Financial system’s liquidity



Regarding the leverage ratio –defined according to the guidelines suggested by the Basel Committee⁸–, the sector has also exhibited high and increasing levels throughout the year, and this performance was widespread across all groups of financial institutions (see Chart 11). As of December, the leverage ratio reached 14.6% at aggregate level, up 1.6 p.p. against the figure recorded by the end of 2021, standing quite above the regulatory minimum value (3%).

The ensemble of financial institutions recorded positive profitability levels in 2022, higher than the levels observed in 2021 but lower than those recorded two years ago (see Chart 12). In the aggregate of 2022, the financial system’s ROA (total comprehensive income in homogenous currency in terms of assets) stood at 1.9% (+0.7 p.p. y.o.y.), while ROE (total comprehensive income in homogenous currency in terms of equity) stood at 10.9% (+3.7 p.p. y.o.y.). The year-on-year increase of profitability was mainly due to higher income from securities and, to a lesser extent, to

Chart 11 | Leverage ratio

By group of financial institutions

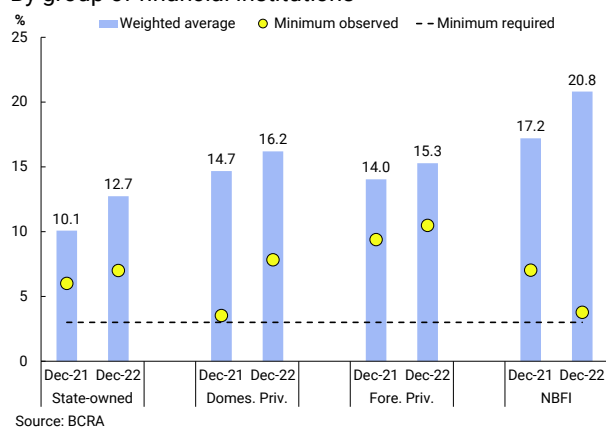
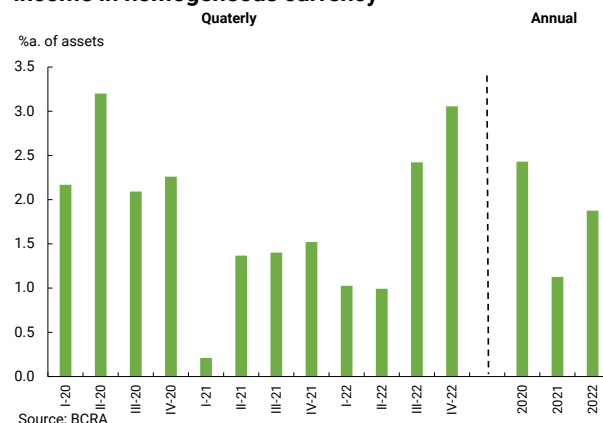


Chart 12 | Financial system’s total comprehensive income in homogeneous currency



⁸ Tier 1 capital in terms of a wide exposure measure (includes assets and off-balance items).

higher income from interest on loans. These effects were partially offset by an increase of expenses for interest paid and of losses due to exposure to monetary items.

V. Payment System

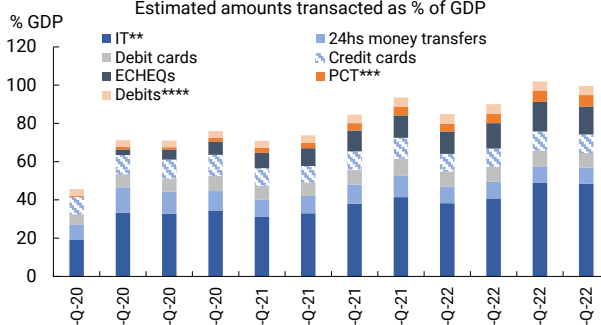
Electronic means of payment have continued to be on the rise during 2022 in the retail segment, in line with a higher demand by users and an increasing drive from the BCRA.

Technological improvements have helped electronic payment transactions gain weight in the economy in recent years (see Chart 13). In terms of the domestic GDP, it is estimated that the main electronic means of payments taken as a whole have expanded around 6 p.p. in 2022 and almost 24 p.p. if compared to the time elapsed since late 2020.

Among the instruments that have accounted for this positive performance during the last year, instant transfers grew 18.2% in real terms. Upon considering the instant transfers traded at 2022 year-end closing (annualized value for the last three months), it is estimated that they have accounted for 48.5% of GDP, growing 7 p.p. y.o.y. In addition, the clearing of electronic checks (ECHEQs) increased 22.9% in real terms throughout the year. Thus, it is estimated that ECHEQs (annualized value for the last quarter of 2022) have accounted for 14.6% of GDP, up 2.9 p.p. y.o.y.

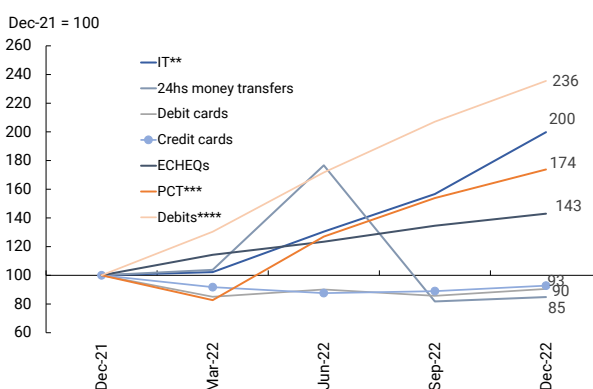
In terms of the number of transactions carried out in 2022, there was also an increase in most electronic means of payment (see Chart 14). A breakdown by type of instrument —and compared to the figures observed in December 2021— shows that the number of instant transfers has doubled, while the number of cleared ECHEQs went up 43%, and the number of transactions involving payments by transfers increased 74%.

Chart 13 | Main electronic means of payment
Main retail electronic means of payment - Amounts
Estimated amounts transacted as % of GDP



*Quarterly annualized in terms of nominal GDP (without seasonality) estimated for the same period. **IT = Immediate transfers. ***PCT = Payments with transfers. ****Debits = Includes direct debits and immediate debits (DEBIN). Note: For credit card transactions, the latest available information is Oct-22. For debit card transactions, the latest available information is Nov-22. Source: BCRA.

Chart 14 | Main electronic means of payment
Number of transactions – Baseline Index



*Quarterly annualized in terms of nominal GDP (without seasonality) estimated for the same period. **IT = Immediate transfers. ***PCT = Payments with transfers. ****Debits = Includes direct debits and immediate debits (DEBIN). Note: For credit card transactions, the latest available information is Oct-22. For debit card transactions, the latest available information is Nov-22. Source: BCRA.