Report on Banks

September 2021

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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About the use of inclusive language in the Spanish version of this report

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Published on November 25, 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

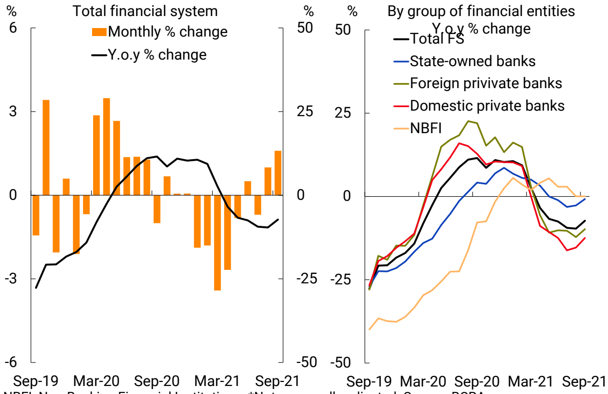
- Financial intermediation in pesos with the private sector went up in September, and the ensemble of financial institutions managed to sustain sizable margins of coverage in terms of liquidity and solvency.
- The same as in August, the stock of loans to the private sector in domestic currency exhibited a positive performance in September, reaching a monthly growth of 1.6% in real terms (+5.1% in nominal terms), and the rises were widespread in terms of financing lines and groups of institutions. On the basis of the performance observed in September and in August, lending in pesos to the private sector has accumulated a 1.9% increase in real terms over the third quarter of the year (+11.3% in nominal terms), and has reversed the declining trend observed in the previous two quarters. Among the credit assistance lines provided, the Credit Line for Productive Investment (LFIP) of micro, small and medium-sized enterprises (MSMEs) has accumulated disbursements for nearly $1.2 trillion from its date of launch to October 2021 (out of which 15.9% corresponds to investment projects), provided to around 183,700 companies.
- In September, the non-performing ratio of loans to private sector dropped 0.3 percentage points (p.p.), down to 5%. This decrease was observed in both the segment of lending to companies and to households and results from the combined effect of a rise in the total stock of loans in real terms and a decline of the non-performing stock. The evolution of the non-performing ratio in the last two months occurred after the increase observed between February and July 2021 within the framework of the new focus given to the financial relief measures adopted during the pandemic. In turn, over the month, accounting provisions totaled 110.5% of the non-performing portfolio of loans to private sector, recording a 2.2 p.p. increase.
- In September, the stock of private sector deposits in pesos went up 0.2% in real terms (+3.7% in nominal terms) against August. Within this segment, sight accounts rose by 0.6% in real terms (+4.1% in nominal terms) against August, while the total stock of time deposits in real terms did not exhibit significant changes over the period (+3.5% in nominal terms). In the third quarter of 2021, the private sector's stock of deposits in pesos accumulated a rise of 1.5% in real terms, and there were increases in both time deposits and sight accounts.
- The financial system's broad liquidity accounted for 68.8% of total deposits at aggregate level over the month (65% for the items in pesos and 86.3% for the segment in foreign currency), up 0.2 p.p. and 2.8 p.p. against August 2021 and September 2020, respectively.
- Starting from high levels, the aggregate ratios of regulatory capital went down slightly in September. TheRegulatory Capital (RC) in terms of the risk-weighted assets (RWAs) stood at 26.2% at systemic level in September, down 0.2 p.p. against August (+2.4 p.p. year-on-year (y.o.y.)). The capital position (RC minus the regulatory requirement) of the financial system totaled 222% of the regulatory requirement over the period, down 2 p.p. against the level observed in August (+42.9 p.p. y.o.y.).
- In the aggregate of the 9 months up to September 2021, the total comprehensive income in homogeneous currency of the financial system was equivalent to 1% of assets (ROA) and to 6.3% of equity (ROE). The sector's profitability indicators were slightly higher in the third quarter of 2021 than those of the previous period, standing below the figures observed in 2020.
- In recent months, payment transactions via electronic channels continued to show a positive performance. The volume of instant transfers has accumulated a 19.2% increase y.o.y. in real terms (89% y.o.y. in number) as of October. In turn, the value cleared by means of electronic checks (ECHEQs) expanded 92.2% y.o.y. in real terms (131% y.o.y. in number), and their share has increased in total cleared checks up to a total of 46% and 21% in total amount and number in October, respectively.

I. Financial Intermediation Activity

The financial intermediation activity of the ensemble of financial institutions with the private sector increased in September. Taking into account the main changes in the balance sheet of the aggregate financial system for the items in domestic currency —expressed in homogeneous currency—,[1] there has been a contraction of broad liquidity over the month, added to an increase in the total stock of public and private sector deposits in real terms. The impact of these changes was mainly offset by an increase in the stock of loans to private sector in real terms. In turn, in the segment of items in foreign currency —expressed in currency of origin—, there has been a decrease in the stock of loans to private sector, added to an increase of public sector deposits, and these changes resulted in a rising liquidity of the aggregate financial system.

In September, the stock of loans to private sector in domestic currency went up 1.6% in real terms (+5.1% in nominal terms; see Chart 1).[2] The monthly increase was widespread across all credit lines (even though pledge-backed loans and promissory notes stood out) and across all groups of financial institutions (with a greater relative momentum observed in domestic private financial institutions and state-owned banks).[3] Consequently, the stock of loans to private sector in pesos closed the third quarter with an increase of 1.9% in real terms (+11.3% in nominal terms) against the immediately preceding period, and has reversed the negative changes observed in the previous two quarters. Nevertheless, in year-on-year terms, there has been a drop of 7.3% in real terms (+41.3% in nominal terms), mainly explained by private financial institutions.

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



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

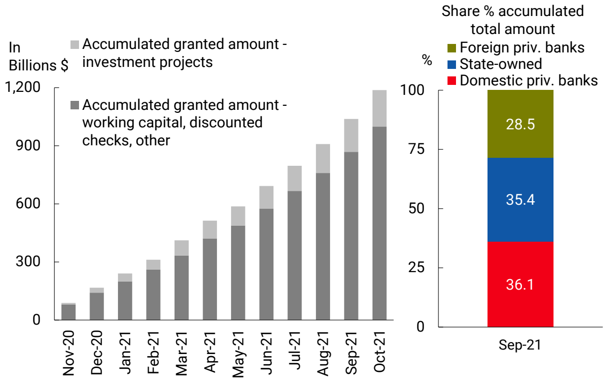
Throughout the year, the "Credit Line for Productive Investment of MSMEs"[4] (LFIP) was one of the main instruments promoted by the BCRA to provide credit to the private sector. From its implementation —by mid October 2020— to late October 2021, this credit line has accumulated disbursements for nearly $1.2 trillion (out of which 15.9% corresponds to investment projects), which were provided to approximately 183,700 companies. The domestic private financial institutions have accounted for 36.1% of total disbursements, while 35.4% corresponded to state-owned institutions, and foreign private institutions accounted for the rest (see Chart 2).

1 Differences of the balance sheet stock expressed in homogeneous currency. Information taken from the Monthly Accounting Reporting System (September 2021, latest information available at the time of publication of this Report).
2 Including capital adjustments and accrued interest.
3 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".
4 For further detail, see the Consolidated Text on "Credit Line for Productive Investment of MSMEs".

Simultaneously, under the credit line at subsidized interest rates for companies registered with the "Emergency Assistance Program for Work and Production" (ATP),[5] around 20,900 loans for an amount of $14.3 billion have been granted so far.

With regards to credit lines intended for small taxpayers and self-employed workers, under the "2021 Zero Interest Rate Credit Line", a total amount of $30.56 billion[6] (added to around $66.5 billion of the 2020 Credit Line) was granted from its implementation (last August) to late October.

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

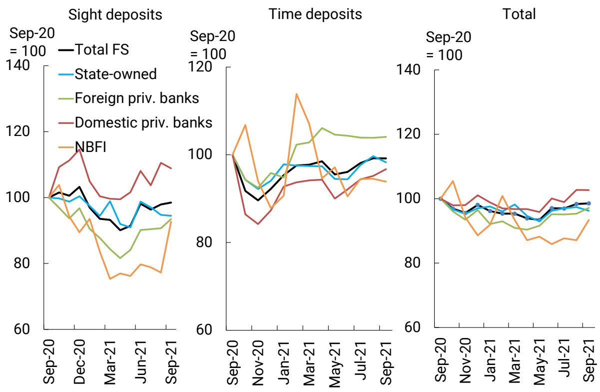


Note: Data up to end of each month. Data subject to correction. Source: BCRA

In September, the stock of loans to private sector in foreign currency contracted 6.3% —in currency of origin— against August, especially in exports prefinancing, which experienced a greater relative drop. In this context, the total stock of loans to private sector (in domestic and foreign currency) increased 0.2% in real terms over the period (+3.8% in nominal terms) but decreased 10% y.o.y. in real terms.

Regarding the aggregate financial system's funding, the stock of private sector deposits in pesos went up 0.2% in real terms (+3.7% in nominal terms) in September, driven mainly by foreign private financial institutions and by non-banking institutions (see Chart 3). The stock of sight deposits increased 0.6% in real terms (+4.1% in nominal terms) against August, while the stock of time deposits in real terms posted no significant changes over the period (+3.5% in nominal terms). Within this last segment, there was a rise in time investments (8.5% in real terms over the month), which was offset by the drop of time deposits, mainly explained by the so-called UVA deposits (-12.6% in real terms). In this context, the stock of private sector deposits in pesos accumulated a rise of 1.5% in real terms during the third quarter, with increases in both sight accounts and time deposits.

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



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

5 See Communication "A" 7082 and Communication "A" 7102.
6 See Communication "A" 7342.

Considering the items in foreign currency, the stock of deposits in such denomination contracted 0.2% —in currency of origin— over the period. Total private sector deposits (in both domestic and foreign currency) dropped 0.3% in real terms against August (+3.1% in nominal terms).

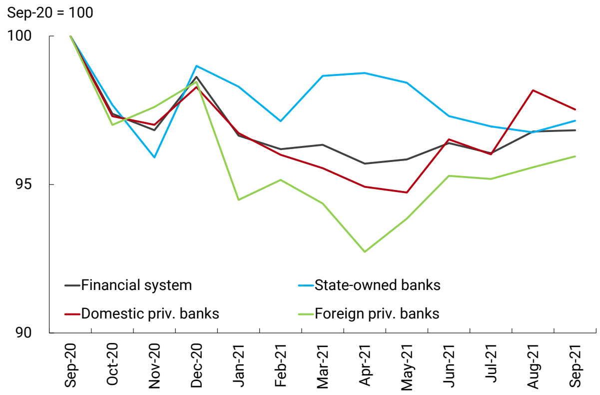
In a year-on-year comparison, the stock of private sector deposits in pesos contracted 1.5% in real terms (+50.2% in nominal terms), with slight decreases in the stock of sight deposits and time deposits in real terms. In turn, the stock of public sector deposits in pesos accumulated a decline of 4.4% y.o.y. in real terms (+45.7% y.o.y. in nominal terms). As a result, the total stock of deposits in pesos (considering both sectors) accumulated a drop of 1.7% y.o.y. (+49.9% y.o.y. in nominal terms). Lastly, taking into account all currencies and sectors, the total stock of deposits went down 3.7% y.o.y. in real terms (+46.9% y.o.y. in nominal terms).

II. Aggregate Balance Sheet Evolution and Composition

In September, the stock of the financial system's total assets did not exhibit significant changes against August (see Chart 4). Over the period, there were dissimilar performances among the groups of financial institutions: increases in state-owned and foreign private institutions, and decreases in the remaining ones. In year-on-year terms, the financial system's assets have contracted 3.2% in real terms.

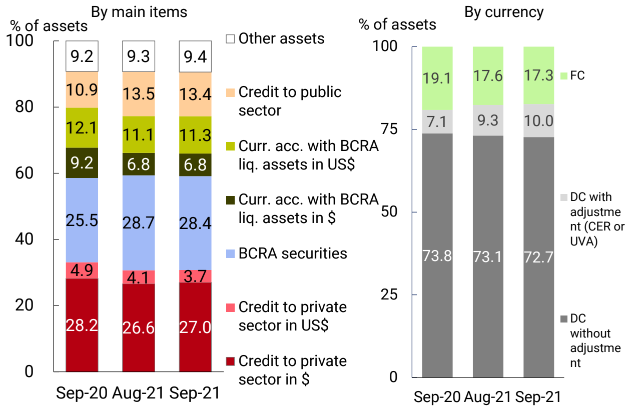
Regarding the main components of the financial system's total assets, the share of loans in pesos to private sector went up slightly in September (see Chart 5). In turn, the relative share of BCRA's instrument holdings and loans in foreign currency to the private sector shrank in total assets. A breakdown of assets by currency shows that there was a slight increase in the share of CER-adjusted items (including those denominated in UVA), accompanied by a contraction in the relative share of assets in pesos (without any adjustment) and in foreign currency.

Chart 4 | Financial system's total assets
In real terms



Source: BCRA

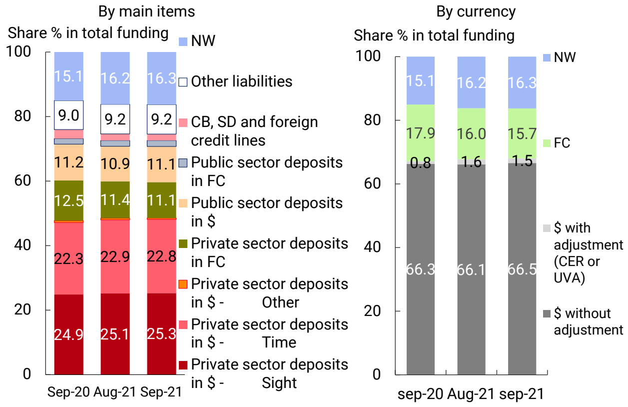
Chart 5 | Composition of total assets
Financial System - Share %



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

With reference to the composition of the financial system's funding, there was a slight increase in the share of public sector deposits in domestic currency, accompanied by a decrease in the share of private sector deposits in foreign currency (see Chart 6). The share of the remaining items that make up the financial system's funding did not show significant changes in September against August. In turn, there was a rise in the share of the items in pesos without an adjustment clause in total items, while a contraction was observed in the relative share of items in foreign currency and those adjusted by CER or denominated in UVA.

Chart 6 | Composition of the system's total funding
In % of total funding (liabilities + net worth)



FC: Foreign currency. Source: BCRA

In September, the financial system continued exhibiting a limited exposure to items in foreign currency, in the context of regulations in force. It is estimated that the differential between assets and liabilities in this denomination stood at 10% of the regulatory capital,[7] up 2.1 p.p. against August and remained unchanged against the level recorded one year ago (see Chart 7). In turn, considering the items adjusted by CER (including those in UVA), it is estimated that the differential between assets and liabilities accounted for 59.5% of the regulatory capital, going up in both month-on-month and year-on-year terms (6.2 p.p. and 10.9 p.p., respectively).

Chart 7 | Foreign currency assets – Foreign currency liabilities + Foreign currency forward position (Financial System)

Source: BCRA

III. Portfolio Quality

In September, the financial system's lending to the private sector in terms of total assets (gross exposure to such sector) stood at 30.8%,[8] without significant changes against August (-2.3 p.p. y.o.y.). This ratio increased slightly in all groups of institutions, except for foreign private banks. When considering lending in pesos, this ratio stood at 27% over the month for the aggregate system, up 0.4 p.p. against August and -1.2 p.p. in a year-on-year comparison (see Chart 8). The share of loans to

7 Including purchase and sale forward transactions in foreign currency, classified as off-balance.
8 This ratio reached 29% if credit to the private sector is netted from the stock of accounting provisions.

private sector in foreign currency in total assets shrank over the month and totaled 3.7% (-1.1 p.p. y.o.y.).

The non-performing ratio of loans to private sector stood at 5% over the month, down 0.3 p.p. against August. This decline resulted from an increase in total loans and a decrease in the stock of non-performing loans, in real terms in both cases.[9] The evolution of the non-performing ratio in the last two months occurred after the rise observed from February to July of 2021 within the framework of the focus given to the financial relief measures adopted to face the pandemic.[10]

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

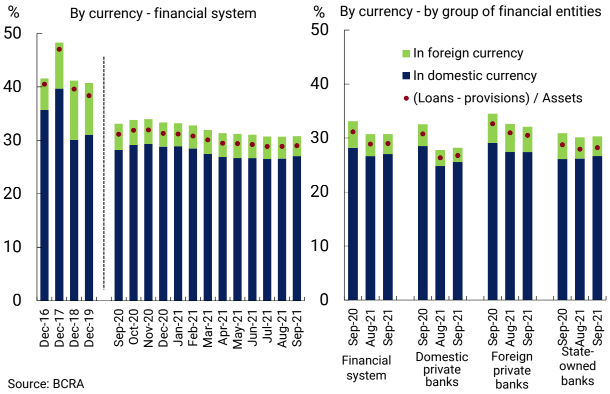
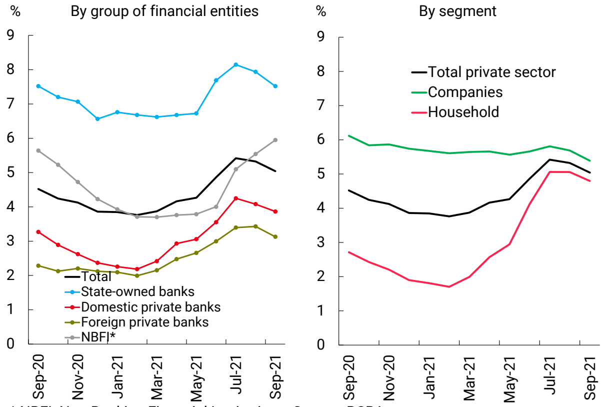


Chart 9 | Non-performing loans to the private sector
Non-performing financing / Total financing
(%)



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

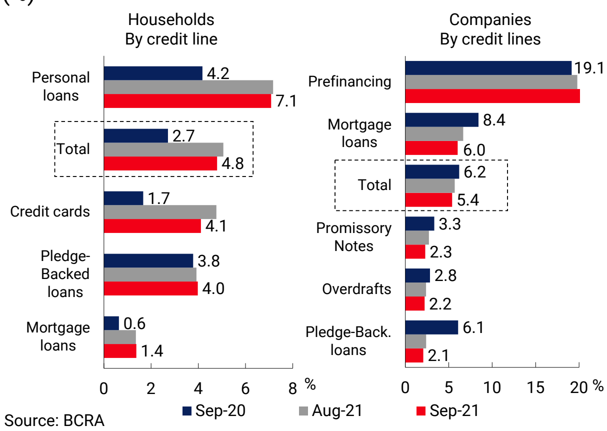
The monthly reduction in the non-performing ratio was observed in the segment of lending to companies and also in the segment of loans to households (see Chart 9).

In September, the non-performing ratio of loans to households stood at 4.8% of the total lending provided to this segment (see Chart 10), down 0.3 p.p. against the level observed in August (+2.1 p.p. y.o.y.). The monthly performance was mainly due to the drop in the delinquency ratio of loans arranged via credit cards. In turn, the delinquency ratio of lending to companies stood at 5.4% over the period, also going down 0.3 p.p. against August (-0.8 p.p. y.o.y.). The monthly reduction was observed in all credit lines except for export prefinancing.

By the end of the third quarter, the aggregate financial system's total loan provisions accounted for 5.6% of total lending to the private sector, down 0.2 p.p. against the level of August 2021 and of September 2020 (see Chart 11). Total provisions in terms of non-performing portfolio stood at 110.5% over the month at systemic level, up 2.2 p.p. against the previous month (-16.3 p.p. y.o.y.). It is estimated that the stock of regulatory provisions attributable to non-performing portfolio (according to the criteria set by the rules on regulatory minimum provisions for loan loss

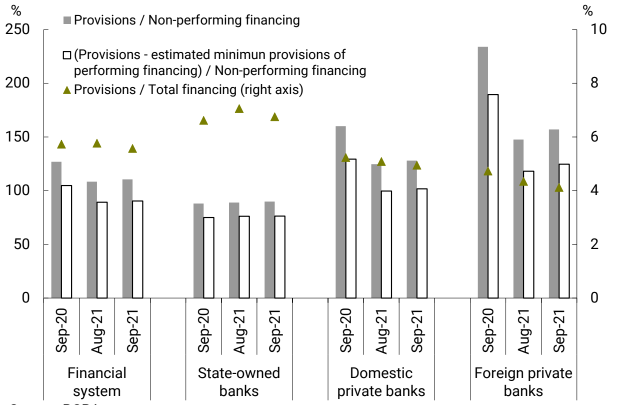
9 The non-performing stock of loans shrank even in nominal values over the month.
10 See Communication "A" 6938, Communication "A" 7107, Communication "A" 7181, Communication "A" 7245 and Item 2.1.1. of the Consolidated Text on "Financial Services in the framework of the Health Emergency provided for 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).

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



Source: BCRA

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



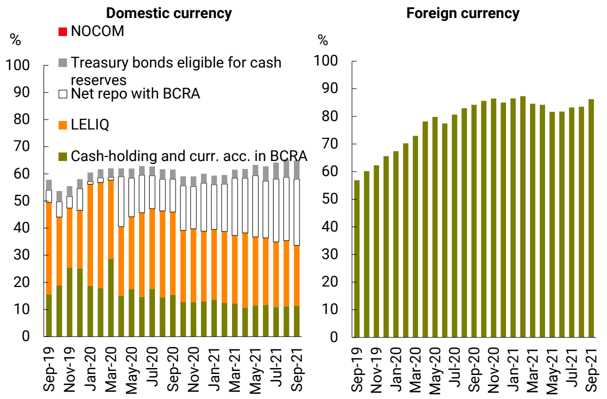
Source: BCRA

exposure) accounted for 90.4% of such portfolio for the ensemble of financial institutions in September.

IV. Liquidity and Solvency

In September, the financial system's broad liquidity ratio[11] went up 0.2 p.p. of total deposits to 68.8% (-0.3 p.p. over the month to 65% for the items in pesos and +2.8 p.p. m.o.m to 86.3% for the segment in foreign currency, see Chart 12). Regarding the composition of liquid assets, between ends of month, there was an increase in the share of net repos with the BCRA and of sovereign bonds for compliance with the regulatory liquidity requirement, while there was a decrease in the share of LELIQ holdings.[12] In year-on-year terms, the broad liquidity ratio increased 2.8 p.p. at systemic level.

Chart 12 | Financial system liquidity
In % of deposits



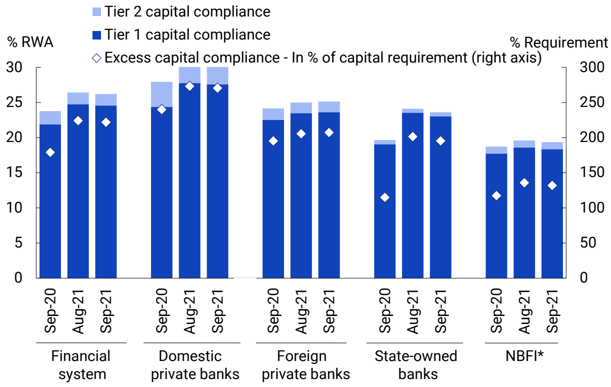
Source: BCRA

In September, the regulatory capital aggregate ratios of the financial system contracted slightly but remained at a high level relative to the average of the last five years. The Regulatory Capital (RC) of the ensemble of institutions decreased 0.2 p.p. in terms of the risk-weighted assets (RWAs) against the figure observed in August, up to 26.2% (+2.4 p.p. y.o.y., see Chart 13). The

11 Liquid assets, compliance with regulatory liquidity requirements, and BCRA instruments, in domestic currency and in foreign currency.
12 It is worth mentioning that, regarding minimum cash, the resolution about the increase in the maximum deduction from the requirement for financing granted under the "Ahora 12" Program, which went from 6% to 8% of deposits, became effective in September (see Communication "A" 7334). In turn, the reduction of the minimum cash requirement for a value equivalent to 60% of the financing granted via the 2021 credit line at zero interest rate for workers under the Simplified Tax Regime (*monotributistas*) also became effective in September (see Communication "A" 7342).

capital surplus position (RC minus the minimum regulatory capital requirement) in terms of the regulatory compliance for the aggregate financial system totaled 222% over the month, down 2 p.p. against August (+42.9 p.p. y.o.y.). In turn, the leverage ratio[13] totaled 13.2% at systemic level in September, up 0.4 p.p. and 1.3 p.p. against the previous quarter and against the same period of 2020, respectively. Consequently, the current leverage ratio continued exceeding sizably the domestically required minimum threshold of 3%, consistent with the international recommendations on the matter.

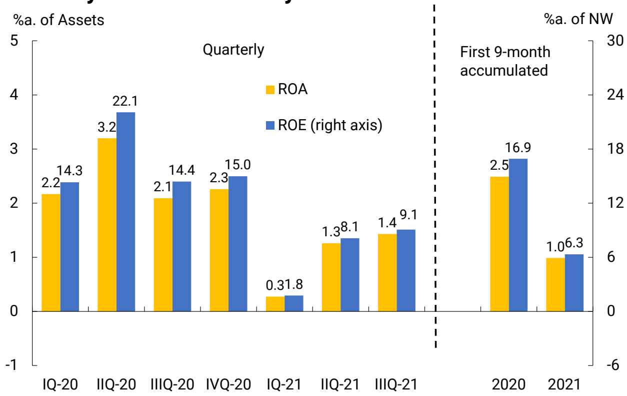
Chart 13 | Compliance with regulatory capital
By group of financial institutions



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

By the closing date of the third quarter, the ensemble of financial institutions continued showing a high level of coverage to face the credit risk assumed. In particular, the ratio of capital surplus position to loans to private sector net of provisions stood at 32.9% for the financial system as a whole over the month, up 7.1 p.p. in a year-on-year comparison and quite above the average of the last 10 years (14.1%).

Chart 14 | Total comprehensive income in homogeneous currency of the financial system



Source: BCRA.

Regarding the financial system's domestic capital generation, the monthly total comprehensive income in homogeneous currency was equivalent to 0.6% annualized (a.) of assets (ROA) and to 4%a. of equity (ROE) and has therefore contracted against the figures recorded in August. For the third quarter, the profitability indicators of the sector stood at slightly higher values than those of the previous quarter, but they have stood below the indicators of 2020 (see Chart 14).

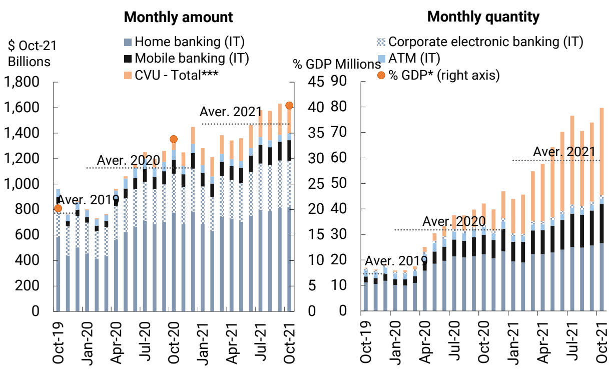
In the first nine months of the year, the financial sector has accrued a ROA of 1%a. and a ROE of 6.3%a., down 1.5 p.p. and 10.6 p.p. against the values recorded in the same period of 2020. The main factors behind this trend were related to higher losses for monetary adjustments (linked to the evolution of the price index), a rise in the cost of funding for deposits in pesos, lower income for interest in pesos and a higher weight of tax burdens. These effects were partially offset by higher income from premiums for repo transactions and securities, as well as by a lower income tax accrued and a reduction of loan loss provisions, among other.

13 Recommended by the Basel Committee and defined as the ratio resulting from dividing Tier 1 regulatory capital by total exposure.

V. Payment System

In recent months, transfers of funds via electronic channels have continued to show a positive performance.

Chart 15 | Instant transfers



Fuente: BCRA. *hree-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.

In October, instant transfers have been on the rise against September, in both number (+7.8%) and amount in real terms (+1.7%). This behaviour was observed in both transactions between accounts opened at financial institutions (between Uniform Banking Codes (CBU)) and transactions involving accounts with Payment Service Providers (PSP, from and/or to Uniform Virtual Codes (CVU)). In year-on-year terms, instant transfers expanded 89% in number and 19.2% in amount in real terms. It is estimated that instant transfers accounted for 40.4% of GDP in October (+6.6 p.p. against the same month of 2020, see Chart 15).[14] Especially remarkable was the year-on-year performance of transfers involving accounts with PSPs (+102% y.o.y. in amount in real terms and +320% y.o.y. in number) as well as transfers via mobile banking (+101% in number and +48% in amount in real terms).[15] The remarkable growth pace of transfers via digital means of payment —such as via Mobile Banking— and a greater use of electronic wallets[16] —via CBU and/or CVU— prove the depth of the digitalization process in the means of payment that has been evident since the onset of the pandemic.[17]

Payments by transfer[18] which, in terms of amount are equivalent to only 5% of the values transacted via instant transfers, went down in October mainly due to transactions with cards. Payments made by QR code rose significantly over the period, thus lessening the effect of the monthly performance of total payments by transfer.[19] Relative to the same month of 2020, (total) payments by transfer increased in number (+104%) and in amount in real terms (+2.4%, see Chart 16). Thus, it is estimated that this payment method rose slightly in terms of GDP in year-on-year terms up to 1.9% (+0.3 p.p. y.o.y.).

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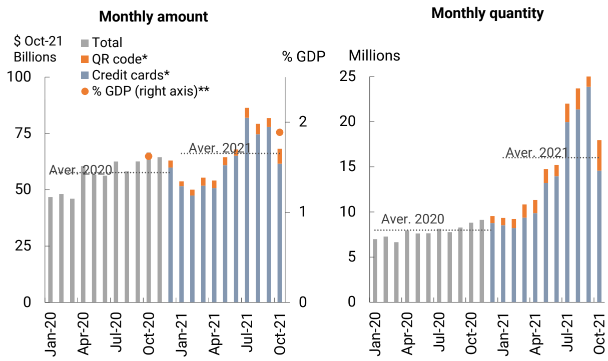
14 When considering annualized amounts of the last three months.
15 Mobile Banking transactions include transfers via electronic wallets.
16 The BCRA established that financial institutions and payment service providers offering payment accounts (PSPOCP) and providing a service known as "digital wallet" or a similar service must allow the holders of these wallets to associate the sight and payment accounts of which they are either holders or joint holders on the basis of their CVU, CBU or ALIAS –indistinctly. See Communication "A" 7363.
17 For further detail, see [Financial Inclusion Report (IIF)](#).
18 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).
19 The BCRA established that financial institutions and payment service providers offering payment accounts (PSPOCP) must enable QR codes for current accounts and payment accounts of legal persons. See Communication "A" 7362.

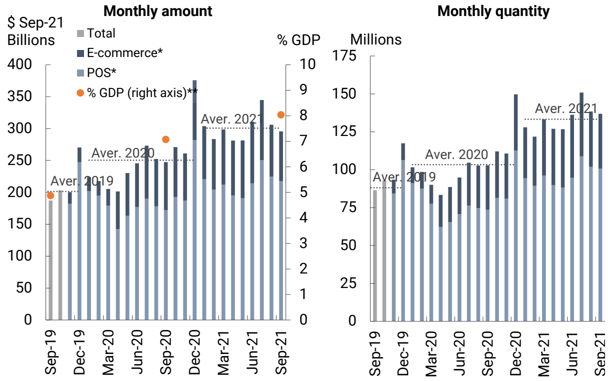
During September (latest information available), there was a decrease in the transactions with debit cards —both onsite and electronic (see Chart 17). However, the monthly performance of transactions with debit cards increased significantly (33% in number and +19.5% in amount in real terms) in year-on-year terms. This evolution was observed in both onsite and electronic transactions.[20] Consequently, as of September, it is estimated that transactions via debit cards accounted for 8% of GDP (up 1 p.p. against the same month of 2020).

Chart 16 | 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.

Chart 17 | Debit card transactions



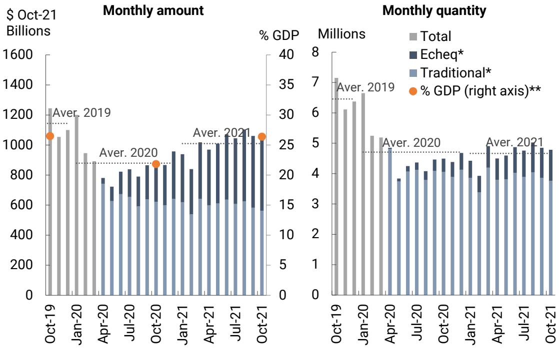
Source: BCRA. *Desegregation available from Nov-19. ** Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

In October, the clearing of checks contracted against September, and exhibited a dissimilar performance across the different types of checks: drop in the number of transactions (and the amounts transacted) with physical instruments and increase in the number of transactions with electronic checks (without significant changes in terms of the amount transacted). Consequently, in October, the share of ECHEQs continued to grow in the total clearing of checks and accounted for 21.3% in number (+11.5 p.p. y.o.y.) and 45.8% in amount in real terms (+17.3 p.p. y.o.y., see Chart 18). Due to the remarkable contribution of ECHEQs along the year (+131% y.o.y. in number and +92.2% in amount in real terms), the total check clearing went up against the same period of 2020 (+6.5% in number and 19.6% in amount in real terms). It is estimated that the amount of checks cleared in terms of GDP has totaled 26.4% as of October (+4.6 p.p. y.o.y.).

In October, the ratio of bouncing of checks for insufficient funds to total cleared checks continued to stand at limited levels.[21] In this context, the ratio increased slightly against September (+0.05 p.p. to 0.54% in number and +0.04 p.p. to 0.42% in amount, see Chart 19), even though it continues to stand at levels lower than the average of 2021. The current levels for this ratio stood below the levels observed one year ago, in terms of both number (-0.12 p.p.) and amount (-0.06 p.p.).

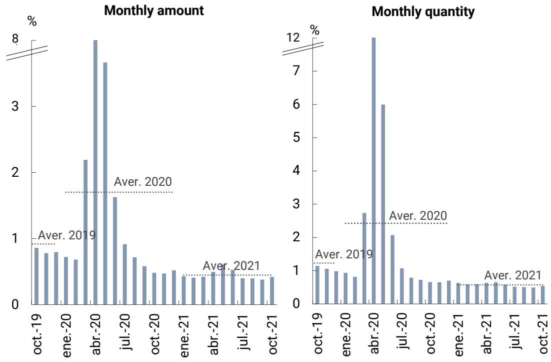
20 The economic reopening due to the easing of the restrictive measures adopted during the COVID-19 pandemic is consistent with a higher relative momentum of onsite transactions.
21 It considers both physical instruments and electronic checks.

Chart 18 | 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.

Chart 19 | Bounced checks for insufficient funds



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