# Monthly Monetary Report

October 2012

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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# Contents



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The closing date for statistics in this report was November 12, 2012. All figures are provisional and subject to review

# 1. Summary[1]

• In October, M3 grew 1.5%, accelerating its year-on-year (y.o.y.) growth rate, boosted by private sector time deposits in pesos. This deposit segment reached a 3% ($4.5 billion) increase for the month, and a 52% increase in the last 12 months.

• Peso loans to the private sector continued explaining most of the growth in the amount of money over the year. In October they rose 2.7% ($8.3 billion), as a result of financing through notes and personal loans. Thus, the y.o.y. change rate of peso loans to the private sector stood at 37.5%.

• An auction was conducted in October within the framework of the Bicentenary Productive Financing Program. On this occasion, the auctioned amount reached $110 million, out of which $105 million were awarded. Hence, the total amount allocated since the start of the program has amounted to $5.128 billion, out of which $3.618 billion have already been disbursed, which represents about 70% of the total amount allocated. Funds have mainly been used to purchase machinery and equipment, and to build and refurbish property for commercial purposes, which taken as a whole, account for almost 85% of disbursed amounts.

• Within the framework of the “Credit Line for Productive Investment” (Communication A 5319), from July to October, financial institutions would have disbursed an amount equivalent to approximately 50% of loans to be allocated ($14.9 billion). Total disbursed amount was distributed in similar parts amongst big companies and micro, small and medium-sized enterprises (MiPyMEs), while the industry sector was the one that received more loans, accounting for 30%, followed by the commercial sector, accounting for 23% share.

• The banking liquidity ratio of the segment in pesos (calculated as the sum of cash in banks, current account at the Central Bank, net repos, and LEBAC and NOBAC holdings in terms of total deposits in pesos) shrunk 0.7 p.p. compared to September, standing at 34.8%.

• In October, the first reformulation stage of the regulation on Minimum Cash Requirements became effective. It is aimed at expanding the geographical reach of the system and customer service within low-economic-potential and less-populated areas. Particularly, as from this month, minimum reserve requirements stratified by zone were implemented.

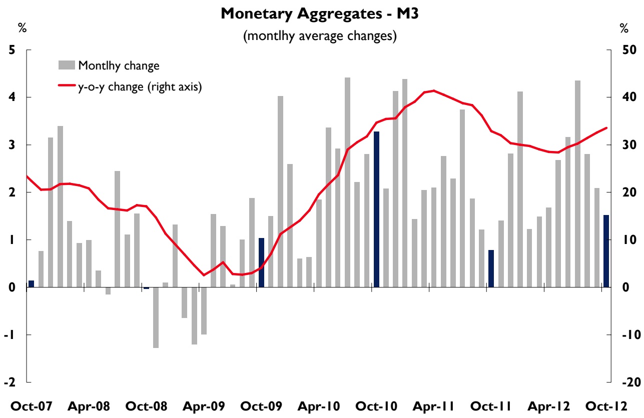
• During the month under analysis, the Central Bank validated a rise in the short end of the yield curve of Lebac auctions on the primary market.

• Short term borrowing rates paid by private financial institutions continued with the upward trend observed in the last months. In the wholesale segment, the BADLAR of private banks – interest rate on time deposits for $1 million and more for 30-35 days – recorded an increase of 0.6 p.p. compared to September, averaging 14.9%. In the retail segment, the interest rate paid by private banks on their time deposits (of up to $100,000 and at up to 35 days) averaged 12.6%, an increase of 0.4 p.p. over the month.

• Lending interest rates exhibited dissimilar behaviours. Interest rate on loans arranged through promissory notes recorded values similar to the previous month (17.9%). The monthly average rate for pledge-backed loans was 20.5%, falling 0.4 p.p. during the month; whereas the interest rate on personal loans dropped 0.7 p.p. in October, averaging 33.6%.

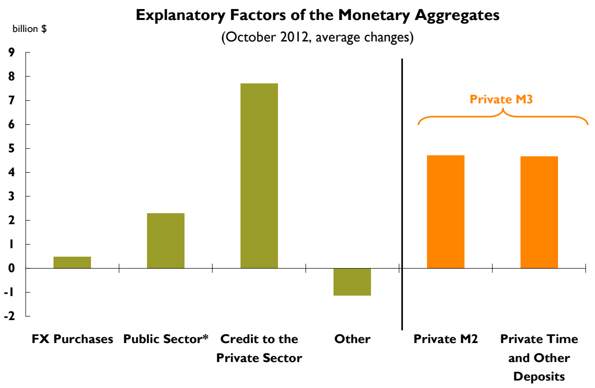
[1] Unless otherwise stated, figures to which reference is made are monthly averages of daily data.

Chart 2.1



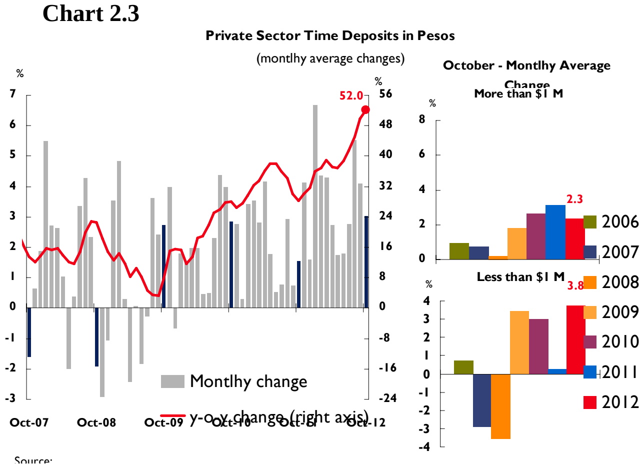

Note: M3 includes cash held by public, settlement checks in pesos and the total amount of deposits in pesos. Source: BCRA.

Chart 2.2




*Includes loans, time and other deposits, and public sector operations with effect on the monetary base.
Source: BCRA

Chart 2.3




# 2. Monetary aggregates[1]

In October, monetary aggregates continued showing a behavior similar to that observed in previous months. The broadest monetary aggregate in pesos (M3[2]) increased 1.5% (see Chart 2.1) amounting to a monthly average balance of $675.29 billion. Fostered by private sector time deposits, M3 exhibited an y.o.y. growth of 33.6%, 1 p.p. higher than in September.

Loans in pesos to the private sector continued explaining most of the increase in private M3[3] in October. Also contributing to their growth, though to a lesser extent, were public sector operations and foreign exchange purchases by the Central Bank (see Chart 2.2). In terms of demand, all private M3 components exhibited increases over the month, with similar increments in means of payment (private M2) and time deposits.

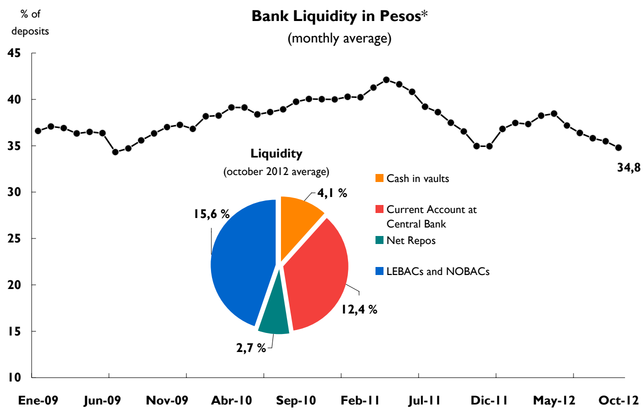
Private sector time deposits in pesos recorded a monthly increase of 3% ($4.5 billion), exhibiting rises in deposits belonging to the segment of $1 million and more ($1.8 billion or 2.3%) as well as in those of less than $1 million ($2.7 billion or 3.8%). The monthly growth rates of both segments, were one of the highest of the last years for October (see Chart 2.3). As a result, it was observed an improvement of the y.o.y. change rate of private sector time deposits in pesos, which reached 52%, 2 p.p. higher than the figure recorded in September.

As regards the foreign currency segment, the monthly average balance of deposits posted an increase of 0.7%. The rise observed in public sector deposits more than offset the fall recorded in the private sector. It should be mentioned that, as a result of the prudential policies introduced in recent years, the Argentine financial system records a low level of dollarization and a very limited foreign currency mismatching, so that there was no difficulty in returning all the deposits that were required.

Finally, the broadest aggregate, M3*, which includes cash held by public, settlement checks and total deposits in pesos and in foreign currency (stated in pesos) posted an increase of 1.5% over the month.

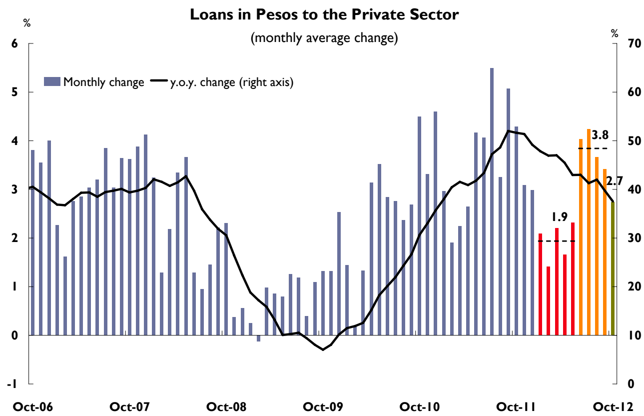
[2] Includes cash held by the public, settlement checks in pesos and deposits in pesos.
[3] Includes cash held by the public, settlement checks in pesos and non-financial private sector deposits in pesos.

**Chart 3.1**




* Includes cash in vaults, current account at Central Bank, net repos with Central Bank and LEBACs and NOBACs holdings stated at fair value.
Source: BCRA

**Chart 4.1**




Source: BCRA

# 3. Bank liquidity[1]

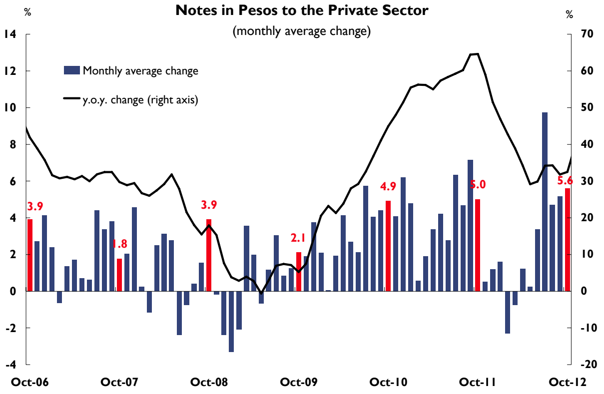
The liquidity ratio (calculated as the sum of cash at banks, bank current accounts at the Central Bank, net repos with the Central Bank and Lebac and Nobac holdings in terms of total deposits in pesos) averaged 34.8% in October, 0.7 p.p. lower than the previous month (see Chart 3.1). All liquidity components evidenced a drop in terms of deposits, although the highest drop was observed in longer term assets (Lebac and Nobac).

In October, the new minimum reserve requirement outlined by Communication A 5356 became effective. On this first stage, the reduction – stratified by zone – of minimum reserve ratios was implemented. The aim of this new regulation is to expand the geographical reach, giving special attention to the zone with less economic potetntial and with a low degree of population density with a view of promoting the unrestricted access of users to financial services. During this month,,the drop recorded in sight deposits was 1 p.p. for zone 1 (large urban agglomerates and highly-developed locations with greater degree of bankarization) and 2 p.p. for the remaining zones. Time deposits recorded a rate reduction of 0.5 p.p. for zone 1 and 1 p.p. for the remaining zones. In addition, the gradual removal of the allowed deduction related to minimum cash requirement[4] was implemented. Thus, in October, 75% deduction was allowed on this ground. The next stage in the modification of the minimum reserve requirement shall be implemented in December, when new reductions to ratios on different types of deposits shall apply, as well as reductions related to the participation of loans to micro, small and medium-sized enterprises (MiPyMEs) in the total amount of loans granted to the private sector.

Concerning the foreign currency segment, institutions continued evidencing liquidity ratio increases, averaging in October 85.9% of deposits in dollars. This means a 5.7 p.p. rise against September, which is explained both by a deceleration of the fall of such deposits and the settlement of loans.

[4] "Eligible cash" shall mean the cash used by financial institutions to meet minimum reserve requirements in March this year; and which as from April, may be deducted from the requirement in pesos.

**Chart 4.2**




Source: BCRA

**Chart 4.3**

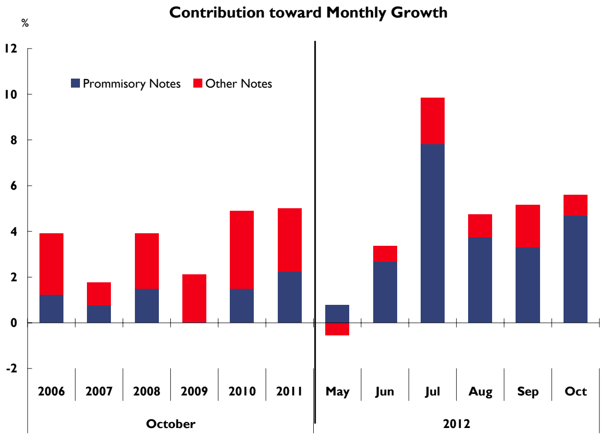
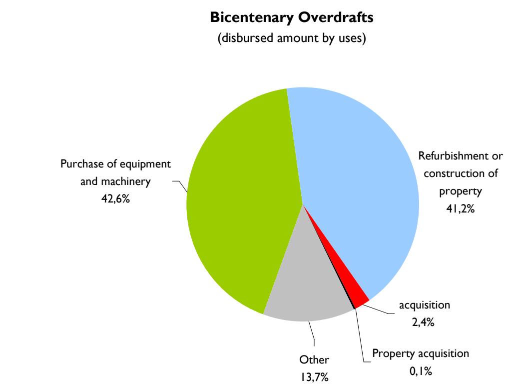



**Chart 4.4**




Source: BCRA

# 4. Loans[1][5]

Loans in pesos granted to the private sector moderated their growth pace, recording a monthly increase of 2.7% ($8.3 billion). Even though they continued growing at a higher pace than that of the first half of the year (from January to May, the monthly growth rate was about 2%), it dropped against the values recorded in June and September (see Chart 4.1). When analyzing the contribution of each line to the monthly increase it can be seen that financing arranged through notes and personal loans made the greatest contribution (1.1 p.p. and 0.8 p.p., respectively). In turn, the y.o.y. change rate continued its downward trend and stood at 37.5%, down 2.3 p.p. against September.

The main commercial lines performed unevenly in October. Financing arranged through notes continued growing at a high rate. The monthly increase of 5.6% ($3.51 billion) was the highest recorded in the last few years for the period. Thus, the y.o.y. change rate of that line increased from 31.8% in September to 32.5% (see Chart 4.2). When establishing the contribution to the monthly growth by type of note, it can be seen that promissory notes continued making a greater contribution than the remaining notes, a performance not seen for the same period in previous years (see Chart 4.3). Several are the elements that seem to be contributing to generating an additional boost for promissory notes; this line is channeling most loans previously granted in foreign currency, as well as those loans related to the Bicentenary Productive Financing Program (PFPB) and the "Credit Lines for Productive Investment" (as per Communication A 5319). In contrast, overdrafts recorded a slight reduction for the month (0.8%; $350 million). As a result, its balance has remained relatively stable since late August. The remaining types of commercial loans (included in "Other Loans") recorded an increase of 1.2% ($300 million).

In October an auction took place under the PFPB. On this occasion, the auctioned amount reached $110 million, out of which $105 million were awarded. The amounts allocated were $51 million to BBVA Banco Francés, $50 million to Banco de la Provincia de Buenos Aires, and $4.5 million to Banco de Inversión y Comercio Exterior. Hence, the total amount allocated since the start of the program has reached $5.128 billion, out of which $3.618 billion have already been disbursed,

[5] Monthly changes for loans are adjusted for accounting movements mainly as a result of transfers of loans in bank portfolios to financial trusts. In the case of "Monetary and Financial Indicators" however, loan figures correspond to statistical information, without adjustment for financial trusts.

**Chart 4.5**

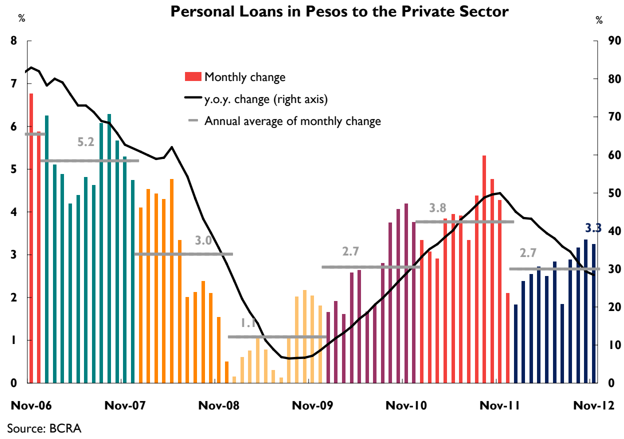



**Chart 4.6**

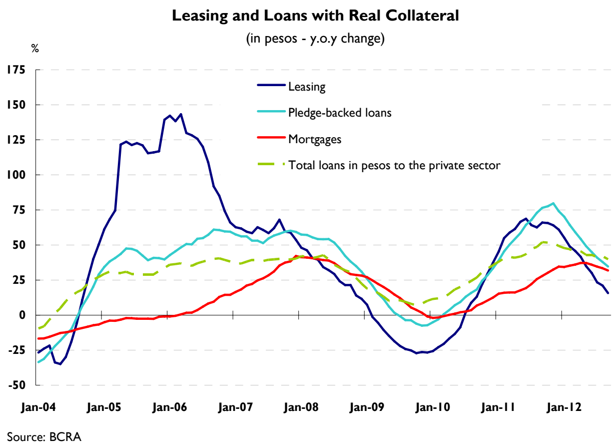
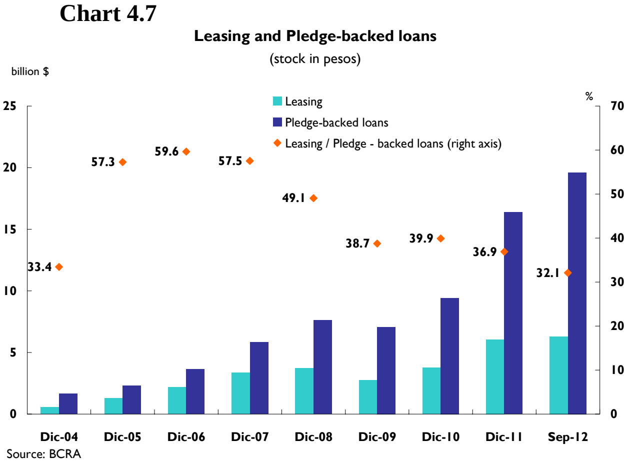



**Chart 4.7**




i.e. about 70% of the total amount allocated. The main intended uses involved the purchase of equipment and machinery, and the refurbishment or construction of property, which taken as a whole, accounted for almost 85% of the total disbursed amount (see Chart 4.4).

Within the framework of “Credit Lines for Productive Investment” (Communication A 5319), from July to October, financial institutions would have disbursed an amount equivalent to aproximately 50% of loans to be allocated ($14.9 billion). The total disbursed amount was evenly distributed among big companies and MiPyMEs. The industrial sector was the one to take out more loans, accounting for 30% of financings, followed by the commercial sector with a 23% share.

Concerning loans aimed at financing households' consumption, personal loans kept their monthly expansion pace with an increase of 3.3% ($2.33 billion) above the annual average (see Chart 4.5). Financing by means of credit cards posted an increase of 2.2% ($1.1 billion). During October, the evolution recorded by this type of financing was in line with anticipated values, especially as a result of the impact of a higher volume of sales on Mother's Day.

In the case of collateralized loans, mortgages continued growing at a pace similar to that of previous months, evidencing a 2.2% increase ($680 million). Moreover, pledge-backed loans continued accelerating their monthly expansion pace, growing 3.5% ($700 million) in October. However, the y.o.y. change rate continued with the downward trend, standing at 32%, 2.7 p.p. lower than in September.

In terms of capital goods financing, leasing contracts have become an alternative to collateralized loans. It is a particularly important tool for Small and Medium sized Enterprises, since they usually find it more difficult to obtain long term financing to use in equipment and/or property.

Loans granted by financial institutions through leasing[6] contracts were, in general terms, in line with the trend recorded by loans to the private sector, particularly, pledged-backed loans. After the strong growth pace observed in 2004 and 2005; in early 2006, they exhibited a marked slowdown which was partially reversed in 2007. However, the crisis faced early that year and its impact on the local economy made the

[6] It includes the value of the capital goods (either personal or real property) rented to a third party, and specially purchased by the institution on their behalf, and for which the leaseholder pays a price on a regular basis throughout the previously agreed upon term, while being able to exercise the unilateral right to a purchase option by paying the residual value previously set forth. Information based on end-of-month data.

**Chart 4.8**

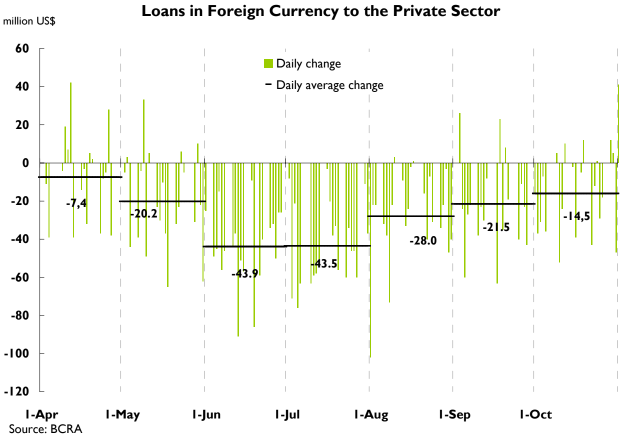



**Chart 5.1**

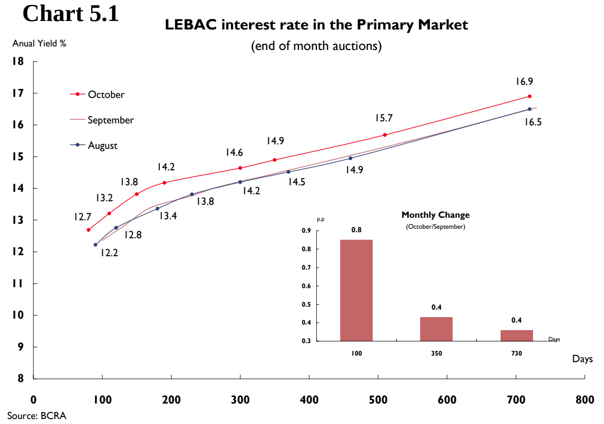
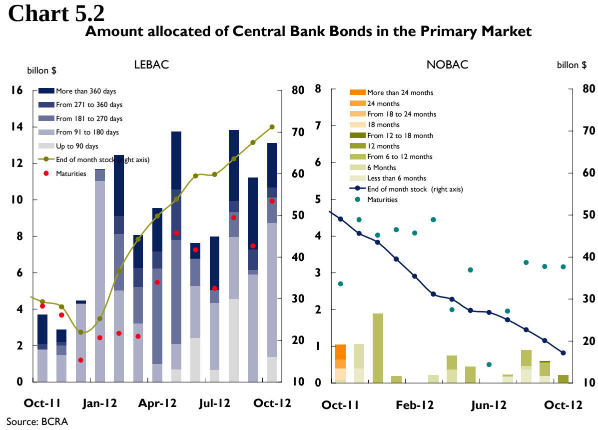



**Chart 5.2**




y.o.y. growth rate go from 78.2% in September 2007 to -25.8% in October 2009. At that time, leasing transactions started to show a gradual and steady recovery, evidencing a growth of 70% in y.o.y. terms by mid 2011. Afterwards, they started a new moderating phase, and in September 2012[7] they recorded a y.o.y. change rate of 15.6% (see Chart 4.6). As a percentage of pledged-back loans, financings through leasing contracts have gained share between 2004 and 2007. In December 2007, such ratio reached a maximum of 56% and, after a meaningful acceleration of the growth rate of pledged-back loans, it dropped to 32.1% in September 2012 (see Chart 4.7).

Finally, loans in foreign currency to the private sector, mainly for export prefinancing purposes, continued to moderate their fall. In October, they fell 4.8% ($300 million). Thus, the daily average reduction, that in the months of June and July reached almost US$44 million, decreased to about US$24 million in August and September, and to US$14.5 million in October (see Chart 4.8). Such slowdown took place in a context of stabilization in the falling pace of deposits in foreign currency. Moreover, as previously indicated, a replacement of financing in foreign currency with loans in pesos is observed.

# 5. Interest rates [8]

## Central Bank securities[9]

In October the Central Bank validated a rate rise through its LEBAC auctions on the primary market, mainly in the short end of the yield curve. In particular, items auctioned with a predetermined cut-off rate showed increases of 0.8 p.p. Following the same trend, although with a more moderated increase, interest rates of securities with a maturity rate of 12 months and 24 months posted increases of around 0.4 p.p. (see Chart 5.1). As in the previous month, NOBAC rates remained relatively unchanged.

In the primary market, LEBAC operations concentrated 98% of the volume awarded. Such amount awarded exceeded maturities and was concentrated in short terms, mainly less than 180 days. In turn, NOBAC's volume awarded continued to be scarce, with few offers throughout the month, and as a result, it turned out to be an amount lower than the maturing amount, therefore the stock continued to decrease (see Chart 5.2).

[7] Lastest information available
[8] Interest rates referred to in this section are stated in annual nominal rates (TNA).
[9] In this section, figures are end-of-month data unless otherwise stated.

Chart 5.3

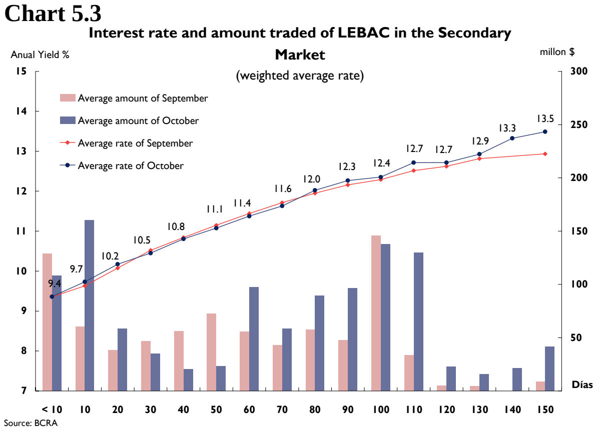



Chart 5.4

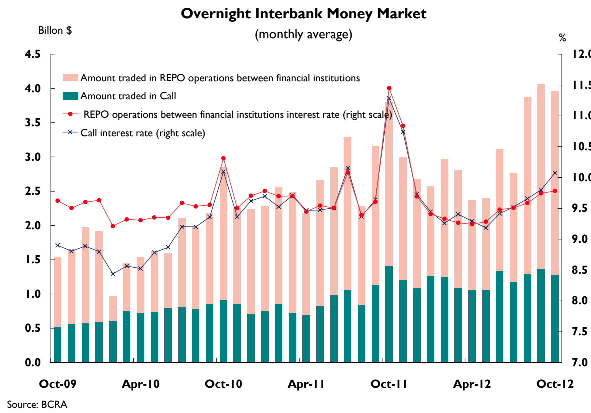
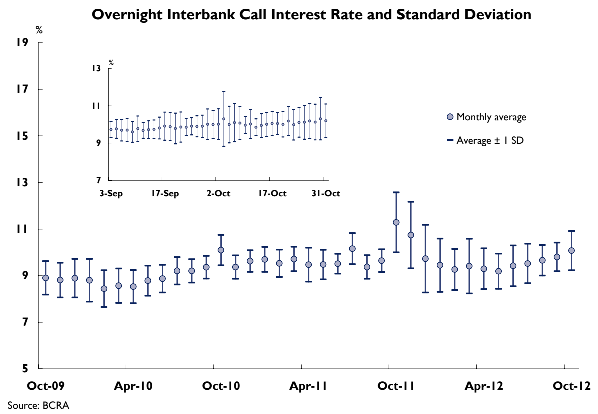



Chart 5.5




Within this context, the monthly average stock (in nominal terms) of Central Bank securities rose 0.6% ($550 million), standing at $91.93 billion. LEBAC transactions accounted for 80% of total balance. Public banks and mutual funds (FCIs) increased, on average, their holdings; whereas private banks recorded a drop.

In the secondary market, the daily average traded volume stood at $730 million. LEBAC transactions concentrated the greatest volume, with values similar to those recorded in previous months, particularly in terms of less than 150 days. The stated amounts were recorded in a context where LEBAC interest rates remained relatively stable (see Chart 5.3). In turn, NOBAC traded volume fell against the previous month, standing at $35 million on a daily basis.

## Central Bank repo transactions[1]

Rates on Central Bank reverse repos for 1 and 7 days stood at 9% and 9.5%, respectively; whereas rates on repo loans were 11% and 11.5% for the same terms. This means that no changes have been recorded since October 2009.

The monthly average stock of reverse repos in all rounds where this institution participates fell 0.7%, standing at $17.13 billion. Meanwhile, no repo loans with the Central Bank were recorded.

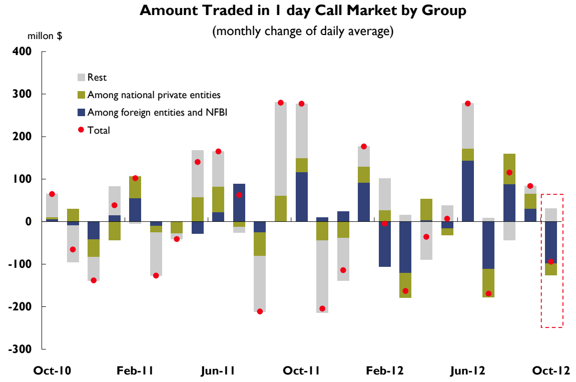
## Call money market[1]

In October, the average interest rate on overnight interbank transactions on the secured market (the REPO round) increased 0.1 p.p. and stood at 9.8%. In a similar manner, interest rate on overnight transactions on the unsecured (call) market went up 0.3 p.p., reaching 10.1% (see Chart 5.4). In October, like in the previous month, the increase recorded in transactions where foreign banks and non-bank financial institutions participate stood out.

The performance recorded in rates on the call money market took place in a context where volatility levels expanded slightly. The average interest rate deviation on overnight call transactions improved 0.2 p.p. (see Chart 5.5).

Call money market daily average traded volume fell slightly, although it remained at historically high levels. In the Repo round, volume remained relatively stable and stood at $2.67 billion. In a similar manner, in the call segment, volume decreased $100 million, standing at $1.39 billion. The decrease recorded by traded volumes amongst foreign institutions and non-bank financial institutions accounted for most of the fall (see Chart 5.6).

**Chart 5.6**




Source: BCRA

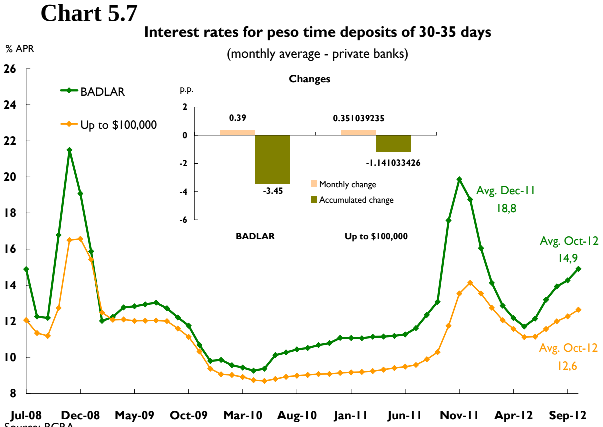
## Borrowing rates[1]

Short term borrowing rates paid by private institutions continued with the upward trend recorded over previous months. In October, the growth rate of interest rates accelerated once again, after the moderation observed in September.

In the wholesale segment, the BADLAR of private banks (interest rate on time deposits of $1 million or over, and up to 30-35 days) averaged 14.9%, recording a 0.6 p.p. increase against September; and 3.2 p.p. higher than the average recorded in May, when there was a change in trends after six months of drops. However, the BADLAR still remains at levels considerably lower than those recorded in December 2011 (down 3.8 p.p.; see Chart 5.7).

As regards the BADLAR futures market, no transactions were recorded during the first two weeks of the month. However, the second half of October recorded a high volume of transactions that exceeded the volume traded on September. As usual, transactions concentrated on instruments with a maturity date of 3 months. The monthly average of the interest rate on contracts maturing on October stood at 14.9%.

**Chart 5.7**




Source: BCRA

In the retail segment, the interest rate paid by private banks on their time deposits (of up to $100,000 and at up to 35 days) averaged 12.6%, thereby exhibiting a 0.4 p.p. monthly rise.

## Lending rates[1] [10]

In October, interest rates on loans to the private sector recorded an uneven performance.

The monthly average rate of discounted documents stood at 18.6%, 0.7 p.p. against the figure recorded the month before. Meanwhile, after the drop recorded in September, the interest rate on unsecured promissory notes remained unchanged at 17.9%. In turn, the interest rate on current account overdrafts averaged 21.4%, evidencing a monthly increase of 0.4 p.p., whereas the

[10] Interest rates mentioned in this section are annual nominal rates and do not include assessment or granting expenses or other expenditures (e.g., insurance) which are taken into account in the total financial cost of loans.

**Chart 5.8**

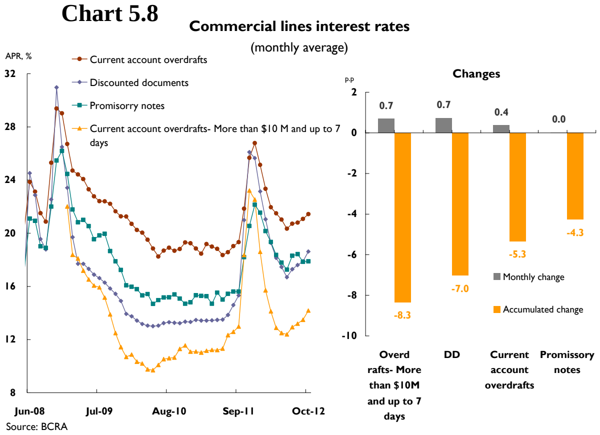



**Chart 5.9**

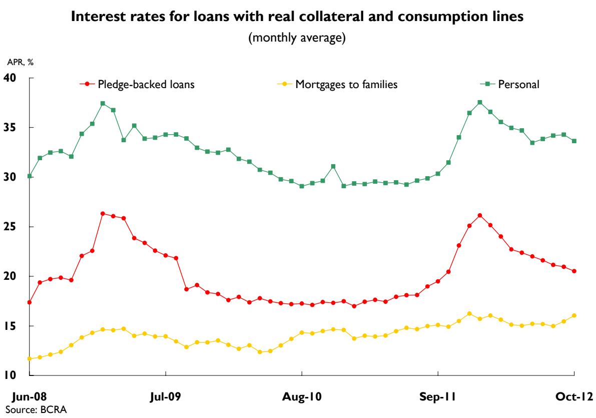
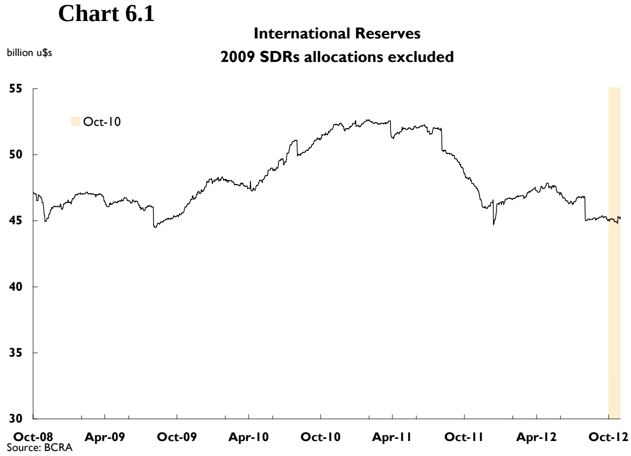



**Chart 6.1**




rate corresponding to current account overdrafts granted to companies for more than $10 million and up to 7 days averaged 14.2%, rising 0.7 p.p. in the month (Chart 5.8).

The monthly average rate of pledged-backed loans stood at 20.5%, down 0.4 p.p. over the month, thus, accumulating throughout the year a drop close to 4.5 p.p. Nevertheless, it should be noted that over the last few months, loans corresponding to the "Credit Line for Productive Investment" and loans granted within the framework of the Bicentenary Productive Financing Program (PFPB) have gained share in traded volumes, mainly among pledged-backed loans and the financing through unsecured promissory notes. As a result, a part of the monthly drop recorded in the rate of pledged-backed loans and the stagnation in unsecured promissory notes can be linked to the higher participation of such lines, granted at relatively low rates (and longer terms).

The interest rate on household mortgages rose 0.6 p.p. over the month, averaging 16%. Interest rates on personal loans fell 0.7 p.p. in October, accumulating a 3 p.p. drop throughout the year, averaging 33.6% (see Chart 5.9).

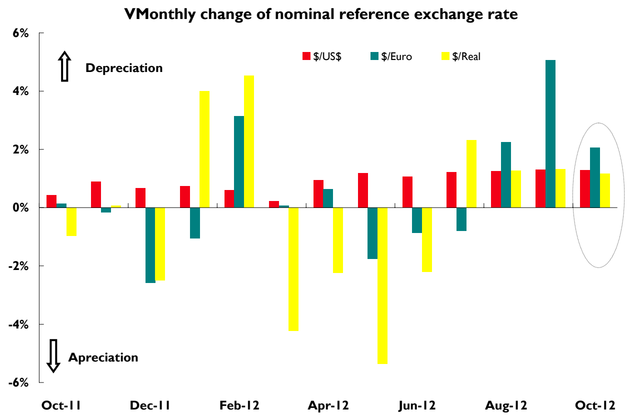
# International reserves and foreign exchange market[11]

International reserves totaled US$45.274 billion on the last day of October (see Chart 6.1), US$264 million up against the figure recorded in September. The increase was mainly explained by the growth in financial entities' current accounts in foreign currency with the Central Bank. This fact more than offset the use of National Treasury accounts at the Central Bank to pay public debts in foreign currency.

Over the last days of the month, in order to comply with the National Budget, US$487 million were allocated to international reserves in order to pay maturity values to international lending institutions, and US$926 million to meet debt service payments to private holders. These amounts were deposited in the National Treasury accounts with the Central Bank (Payment to International Institutions Account and Argentine Debt Relief Fund, respectively).

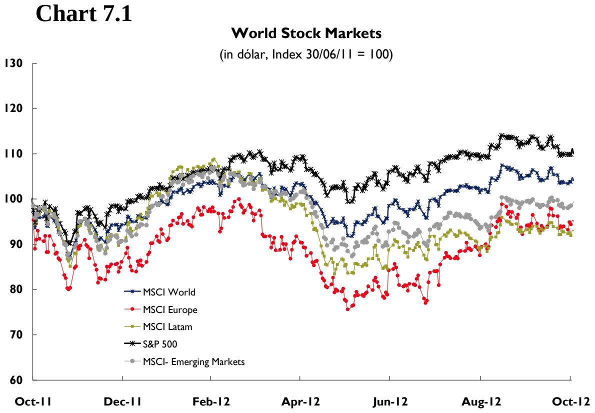
[11] Figures in this section are end of the month data unless otherwise stated.

Chart 6.2



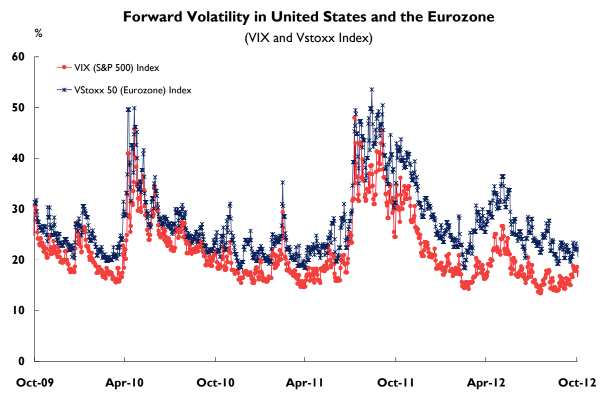

Source: BCRA

Chart 7.1




Source: BCRA from Bloomberg data

Chart 7.2




Source: BCRA from Bloomberg data

Regarding the foreign exchange market, the peso depreciated against the currencies of its main trading partners, although to a lesser extent when compared to September. In the case of the U.S. dollar, the average rate was 4.73 $/US$, 1.3% above the September rate (see Chart 6.2). The rate for the Real increased 1.2% and was 2.33 $/Real, whereas the Euro was 6.14 $/Euro (2.1%). On the futures market (ROFEX) daily average trading volumes were slightly up compared with September (7%). In addition, a slight drop of exchange rates expected for the coming months was observed.

## 7. Capital markets[9]

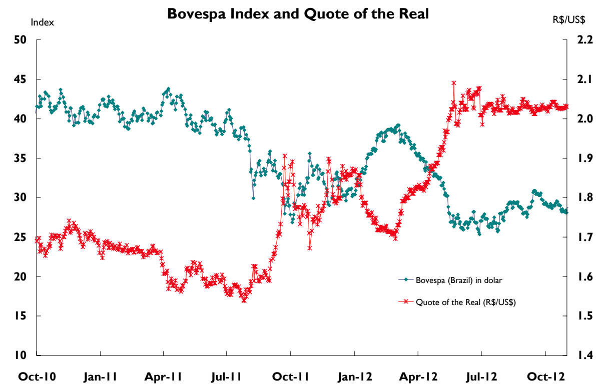
Some caution was observed in investors in October, in a period with no significant news releases impacting on the market. Over the month, both Italy and Spain placed debt issues with good results; while there were numerous speculations in terms of potentially receiving foreign aid and a downward revision of Spain's credit rating. In the case of Greece, European Union and IMF authorities have deferred the possibility of reaching an agreement, while the prospect of introducing new measures to reduce the debt burden of such country has gained prominence. On another note, the time of balance sheets in the United States evidenced a positive trend, and certain economic indicators turned out better than expected. Meanwhile, the risk perceived rose due to a potential impact on tax increases resulting from a set of laws that will expire at the end of this year.

In terms of measures undertaken by central banks, the Bank of Japan (BoJ) decided to increase its assets purchase program in ¥11 trillion, whereas the Central Bank of Brazil (BCB) cut its base reference rate (SELIC) 0.25 p.p., reaching a historical minimum of 7.25%. Drops of a similar magnitud were observed in reference rates from South Korea and Thailand.

### Equity

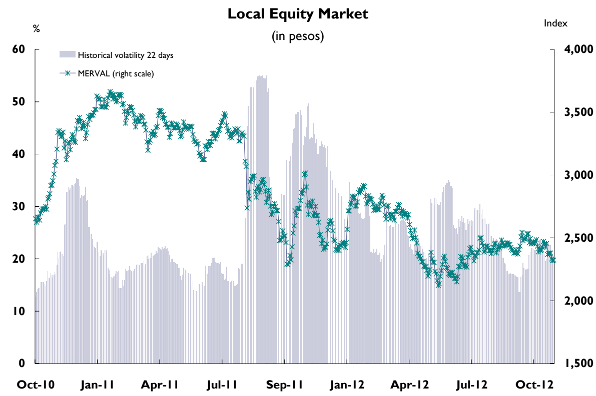
Variable income markets exhibited a combined performance and recorded, in most cases, a reduction in accumulated earnings over the last few months. The global MSCI fell 0.8%. Following the same trend, although with a sharpest drop, the S&P 500 (main index for the US market) fell 2% (the first monthly drop since May 2012). European markets, measured by the MSCI index, were the exception in October, gainig 2.3%, and recording the fifth consecutive month of positive results (see Chart 7.1). Expected volatility levels were in line with indexes' performance. The index that measures the volatility of the Stoxx 50 (the reference index for the euro zone markets) fell 0.8 p.p. to a monthly average of

**Chart 7.3**



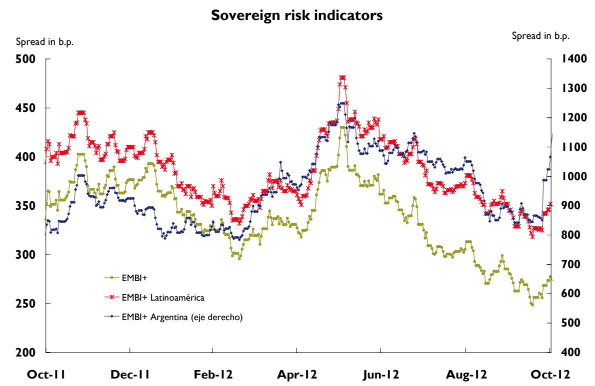

Source: BCRA from Bloomberg data

**Chart 7.4**




Source: BCRA based on Bloomberg

**Chart 7.5**




Source: BCRA from Bloomberg data

21.7%. Meanwhile, expected S&P 500 volatility as measured by the VIX index, increased 1 p.p. standing at 16.4% (see Chart 7.2).

In this context, the emerging markets, measured through the MSCI index, dropped 0.7%. However, results varied in Latin America. The Mexican market, as measured by the IPC index, did not record any changes against the previous month and the IGPA (Chile) rose 0.4%, boosted by the performance of the local currency index, since the Chilean peso depreciated against the dollar 1.3%. In turn, the Bovespa index (Brasil) lost 3.8% in dollars as a result of the performance of the local currency index, offseting the profits recorded in September. Nevertheless, it should be noted that, since July 2012, the real is relatively stable against the U.S. dollar (see Chart 7.3).

In this international context, Argentine equity prices recorded generalized falls. Ending a four month run of consecutive improvements, the MERVAL index recorded a 6.6% loss in dollars as a result of a drops in the local currency index (5.2%; see Chart 7.4) and a depreciation of the Argentine peso against the dollar. The main reductions were recorded in instruments from sectors such as oil/gas, food and beverages, banks, and electrical power generation and distribution. The historical volatility of MERVAL incresed 2.4 p.p. to a monthly average of 22%, and the volume traded on the Buenos Aires Stock Exchange remained at low levels, standing at $29 million.

## Sovereign bonds

In October, emerging fixed income rates remained relatively stable. Thus, spreads between yields on US treasuries, as per the EMBI+, declined by 8 b.p., in a context where rates on 10-year US Treasuries widened by 10 b.p. (see Chart 7.5).

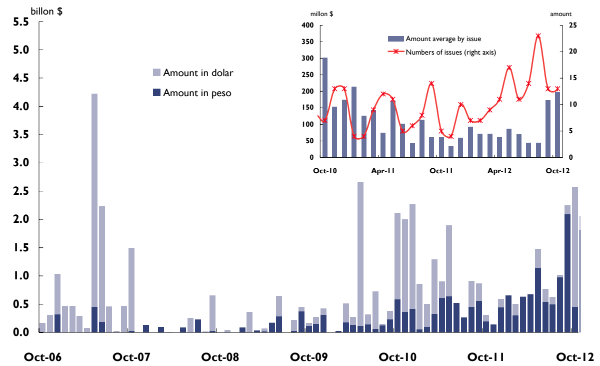
In Latin Amercia, yields required by investors on US treasuries, as per the EMBI+, remained unchanged. As a result of the performance recorded over the last week of the month, the EMBI+ Argentina rose 169 b.p., and stood at 1.066 b.p at the end of the month, counteracting the contraction recorded in September.

## Corporate bonds

Corporate funding through corporate bond (ON) issuance continued showing a good performance. In October, there were 13 issues amounting to $ 2.572 billion, the highest value recorded in 2012 after surpassing the amount evidenced in September (see

**Chart 7.6**

Corporate bonds' total wealth

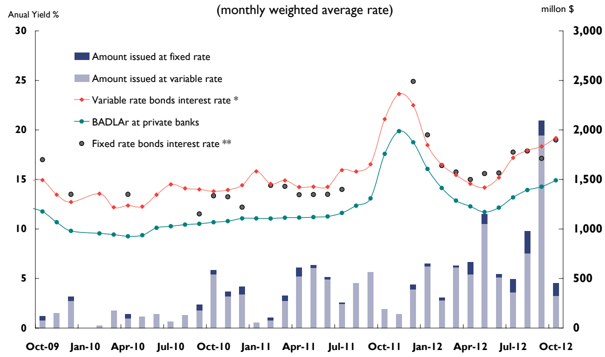



Source: IAMC, CNV, BCBA and Bloomberg.

**Chart 7.7**

Interest rate on Corporate bonds' issuance

(monthly weighted average rate)



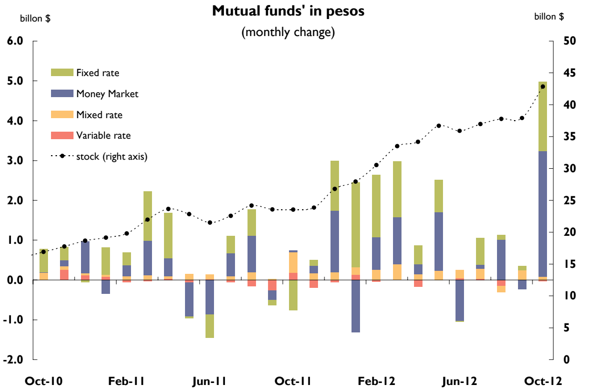

(*) Maturity less than 5 years and BBB+ higher ratings (**) BBB+ higher ratings.

Source: BCRA from CNV, MAE, BCBA and IAMC

**Chart 7.8**

Mutual funds' in pesos

(monthly change)




Source: CAFCI and BCRA

Chart 7.6). The behavior recorded over the month was once again influenced by two YPF issues totaling around $2 billion with terms of 2 and 4 years. Unlike the previous month, the oil company issues were in dollars, but payable in pesos when servicing the debt, accruing interest rates of 5% and 6.25%. In addition, the sector of financial institutions issued a total amount of $194 million over the month, followed by other financial, stock exchange and insurance activities, and the agricultural sector with issues totaling $165 million and $131 million, respectively.

In October most of the issues were once again in domestic currency -although a rise in the amount of dollar linked issuances was observed against previous months-, accruing in 67% of the cases a variable rate equivalent to BADLAR at private banks plus a margin. Only three fixed-rate deposits in pesos were registered with a maturity not exceeding one-year duration.

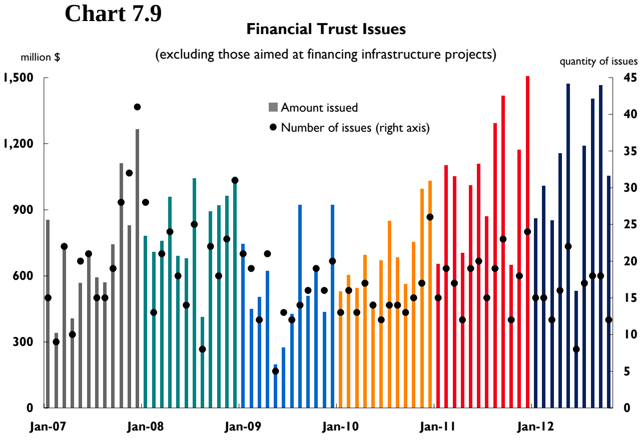
The yield of ON issues required by investors exhibited a slight rise. In fact, following the trend registered in previous months, the cut-off interest rate on securities in pesos at a variable rate (Arg BBB+ rating or over, and a maturity below 5 years) stood at 19.2%, 0.9 p.p. over the level recorded in September. In addition, the average cut-off interest rate on issues at fixed rate (over Arg BBB+ rating) stood at 19%, 1.9 p.p over vis-à-vis the previous month (see Chart 7.7). In this case, the rise was particularly relevant as a result of the exceptionally low level recorded in September due to YPF issues.

## Mutual funds

In October, the equity of Mutual Investment Funds (MF) in domestic and foreign currency showed a sharp rise. By the end of October, it stood at $45.090 billion, 12.2% ($4.920 billion) over compared with the balance recorded in September. This is explained by the MIF performance in pesos, growing 13% ($4.940 billions).

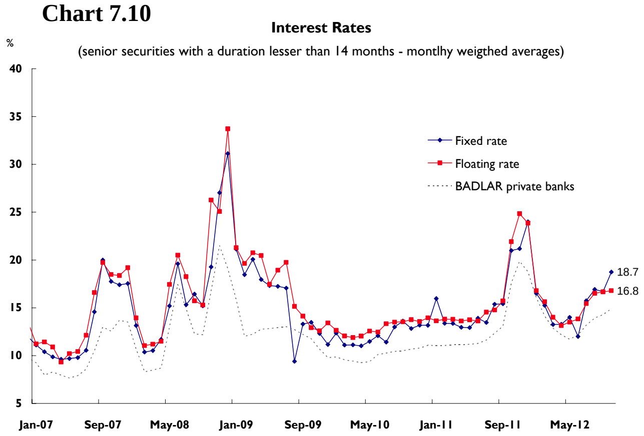
Driven by a rise in the amount of the unit of shares subscribed, Money Market funds contributed to 64% of the monthly growth of MFs in pesos (see Chart 7.8). In October they recorded a 22.8% rise ($3.160 billion) vis-à-vis September, with a positive bearing on term deposits of $1 million or more (see section Monetary Aggregates). After two months of relatively modest performance, MFs at fixed rate expanded 9.6% ($1.740 billion), as boosted by a larger amount of unit shares. The Funds investing in mixed income funds continued, though to a lesser extent, contributing positively to the performance of the sector, increasing 1.6% ($80 million). In turn, the variable rate segment recorded a

Chart 7.9




Source: BCRA based on CNV data

Chart 7.10




Source: BCRA based on CNV data

3.4% drop ($36 million) due to the performance of the stock market.

As regards profitability, fixed income and Money Market funds amounted to 0.8%. In the third place, mixed income funds recorded a 0.6% monthly profit. In addition, variable rate funds exhibited a 3.7% drop, in line with the performance of the Merval index.

The MF equity in foreign currency fell 2.5% (US$10 million) in October, amounting to US$467 million. This drop was largely explained by the performance of fixed income funds.

## Financial trusts[12]

In October the issues of Financial Trusts (FTs) totalled $1.050 billion, excluding those aimed at funding public works and productive projects (see Chart 7.9). This amount was lower than one recorded in the last few months due to the lower amount of issues recorded in the month (12 operations vis-à-vis 17-18 monthly operations recorded since July through September). Moreover, the Ministry of Production of the Province of Chaco issued $25 million in order to boost livestock activity within the framework of the *Plan Ganadero Chaco* (PGCH). It was created in 2010 in order to implement, out of funds from the national budget, a livestock policy for the preservation of young cows (called *retención de vientres*) and for genetic improvement. This issue is an additional funding source for the PGCH.

The main trustors were retailers which issued $400 million, an amount similar to the previous month and considerably lower than the amount recorded in August. On the other hand, financial institutions issued $330 million in October, half of the amount registered in September. Moreover, mutuals, cooperatives, non-bank credit card issuers, and other providers of financial services issued $290 million, slightly below against the previous month. The rest are issues of agricultural sector companies which securitized commercial loans to the tune of $60 million, and public sector FT, whose underlying assets correspond to certain livestock assets, funds and lending that are part of the Trust Fund called *Fondo Fiduciario Ganadero* created by Executive Decree 2582/04. The remaining issues were exclusively backed by personal loans.

The cut-off interest rates on senior securities in pesos recorded an increase, in line with the development of

[12] Publicly-offered funds only.

BADLAR at private banks (see Chart 7.10). In fact, the cut-off rate (weighed average per amount) on securities with variable yield recorded a slight rise of 0.1 p.p., standing at 16.8%. In the segment for fixed income, the cut-off rate (weighed average per amount) stood at 18.7%, showing a 2 p.p increase against September. Such segment comprises the operation carried out by the FT *Producción Ganadera de Chaco*, with a 21.3% cut-off rate, substantially higher than the rest of the fixed-rate issues, in line with the higher average term of this issue, around 1 year.

# 8. Monetary and financial indicators

Figures in millions, expressed in their original currency.

| Main monetary and financial system figures | Montlhy average | | | | Average change in percentage | |
|---|---|---|---|---|---|---|
| | Oct-12 | Sep-12 | Dec-11 | Oct-11 | Monthly | Last 12 months |
| **Monetary base** | **265,214** | **261,624** | **210,100** | **191,897** | **1.4%** | **38.2%** |
| Currency in circulation | 203,874 | 200,992 | 165,181 | 149,277 | 1.4% | 36.6% |
| Held by public | 183,920 | 180,682 | 144,288 | 131,509 | 1.8% | 39.9% |
| Held by financial entities | 19,951 | 20,309 | 20,891 | 17,766 | -1.8% | 12.3% |
| Settlement check | 2 | 1 | 2 | 0 | 79.6% | 0.0% |
| BCRA current account | 61,340 | 60,632 | 44,919 | 42,620 | 1.2% | 43.9% |
| **Repos stock** | | | | | | |
| Reverse repos | 17,134 | 17,261 | 12,071 | 9,860 | -0.7% | 73.8% |
| Repos | 0 | 0 | 0 | 26 | 0.0% | 0.0% |
| **BCRA securities stock (in face value)** | | | | | | |
| **LEBAC** | | | | | | |
| In pesos | 73,836 | 70,134 | 22,782 | 28,717 | 5.3% | 157.1% |
| In dollars | 0 | 0 | 0 | 0 | | |
| **NOBAC** | 18,091 | 21,245 | 44,889 | 50,097 | -14.8% | -63.9% |
| **International reserves excluded 2009 SDRs allocations** | **45,076** | **45,228** | **45,983** | **48,038** | **-0.3%** | **-6.2%** |
| **Private and public sector deposits in pesos (1)** | **491,366** | **484,465** | **382,886** | **374,113** | **1.4%** | **31.3%** |
| Current account (2) | 128,599 | 127,153 | 106,893 | 100,677 | 1.1% | 27.7% |
| Savings account | 91,734 | 91,889 | 73,673 | 68,773 | -0.2% | 33.4% |
| Not CER-adjustable time deposits | 252,271 | 246,815 | 185,534 | 188,691 | 2.2% | 33.7% |
| CER-adjustable time deposits | 8 | 8 | 10 | 10 | -3.2% | -22.6% |
| CEDRO adjusted by CER | 0 | 0 | 0 | 0 | | |
| Other deposits (3) | 18,754 | 18,600 | 16,776 | 15,962 | 0.8% | 17.5% |
| Private sector deposits | 343,583 | 337,453 | 262,112 | 246,930 | 1.8% | 39.1% |
| Public sector deposits | 147,783 | 147,012 | 120,774 | 127,183 | 0.5% | 16.2% |
| **Private and public sector deposits in dollars (1)** | **9,043** | **8,984** | **13,158** | **15,875** | **0.7%** | **-43.0%** |
| **Loans to private and public sector in pesos (1)** | **346,084** | **337,538** | **268,587** | **252,929** | **2.5%** | **36.8%** |
| Loans to private sector | 313,143 | 305,484 | 241,211 | 227,739 | 2.5% | 37.5% |
| Overdrafts | 45,605 | 45,952 | 30,930 | 29,532 | -0.8% | 54.4% |
| Promissory bills | 66,608 | 63,094 | 51,144 | 50,277 | 5.6% | 32.5% |
| Mortgages | 32,398 | 31,716 | 26,835 | 24,971 | 2.2% | 29.7% |
| Pledge-backed loans | 20,311 | 19,616 | 16,397 | 15,389 | 3.5% | 32.0% |
| Personal loans | 71,343 | 69,638 | 58,115 | 55,130 | 2.4% | 29.4% |
| Credit cards | 50,483 | 49,375 | 39,942 | 35,527 | 2.2% | 42.1% |
| Other loans | 26,396 | 26,092 | 17,847 | 16,912 | 1.2% | 56.1% |
| Loans to public sector | 32,941 | 32,054 | 27,377 | 25,190 | 2.8% | 30.8% |
| **Loans to private and public sector in dollars (1)** | **5,925** | **6,337** | **9,607** | **9,725** | **-6.5%** | **-39.1%** |
| **Total monetary aggregates (1)** | | | | | | |
| M1 (currency held by public + settlement check in pesos+ current account in pesos) | 312,522 | 307,836 | 251,183 | 232,188 | 1.5% | 34.6% |
| M2 (M1 + savings account in pesos) | 404,256 | 399,725 | 324,857 | 300,961 | 1.1% | 34.3% |
| M3 (currency held by public + settlement check in pesos + total deposits in pesos) | 675,289 | 665,148 | 527,177 | 505,624 | 1.5% | 33.6% |
| M3* (M3 + total deposits in dollars + settlemente check in foreign curren | 718,061 | 707,103 | 583,612 | 572,666 | 1.5% | 25.4% |
| **Private monetary aggregates** | | | | | | |
| M1 (currency held by public + settlement check in pesos + priv.current account in pesos) | 275,458 | 270,372 | 218,627 | 203,246 | 1.9% | 35.5% |
| M2 (M1 + private savings account in pesos) | 360,910 | 356,202 | 288,231 | 266,876 | 1.3% | 35.2% |
| M3 (currency held by public + settlement check in pesos + priv. total deposits in pesos) | 527,505 | 518,136 | 406,402 | 378,441 | 1.8% | 39.4% |
| M3* (M3 + private total deposits in dollars + settlemente check in foreign currency) | 565,087 | 555,938 | 458,029 | 440,718 | 1.6% | 28.2% |

| Explanatory factors | Average Change | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Monthly | | Quarterly | | YTD 2011 | | Last 12 months | |
| | Nominal | Contribution(4) | Nominal | Contribution(4) | Nominal | Contribution(4) | Nominal | Contribution(4) |
| **Monetary base** | **3,590** | **1.4%** | **13,111** | **5.2%** | **55,114** | **26.2%** | **73,317** | **38.2%** |
| Financial sector | 309 | 0.1% | 2,324 | 0.9% | -2,432 | -1.2% | -4,098 | -2.1% |
| Public sector | 2,190 | 0.8% | 10,671 | 4.2% | 28,131 | 13.4% | 35,283 | 18.4% |
| Private external sector | 494 | 0.2% | 1,412 | 0.6% | 41,562 | 19.8% | 41,100 | 21.4% |
| BCRA securities | 708 | 0.3% | -673 | -0.3% | -10,846 | -5.2% | 2,361 | 1.2% |
| Others | -110 | 0.0% | -623 | -0.2% | -1,301 | -0.6% | -1,330 | -0.7% |
| **International reserves excluded 2009 SDRs allocations** | **-152** | **-0.3%** | **-1,571** | **-3.4%** | **-907** | **-2.0%** | **-2,962** | **-6.2%** |
| Foreign exchange market intervention | 105 | 0.2% | 305 | 0.7% | 9,472 | 20.6% | 9,350 | 19.5% |
| International financial institutions | -90 | -0.2% | -36 | -0.1% | -4 | 0.0% | 151 | 0.3% |
| Other public sector operations | -505 | -1.1% | -832 | -1.8% | -1,171 | -2.5% | -1,155 | -2.4% |
| Dollar liquidity requirements | 527 | 1.2% | 1,015 | 2.2% | -279 | -0.6% | -2,503 | -5.2% |
| Others (incl. change in US$ market value of nondollar assets) | -190 | -0.4% | -2,024 | -4.3% | -8,925 | -19.4% | -8,806 | -18.3% |

1 Excludes financial sector and foreign depositors. Provisory figures.
2 Net of the use of unified funds.
3 Net of deposits pending of swap by public bonds (BODEN).
4 "Contribution" field refers to the percentage of change of each factor versus the main variable corresponding to the month respect which the change is being calculated.
5 Provisory data subjected to changes in valuation.

Sources: BCRA Accounting Department and SISCEN Informative Regime.

## Minimum Cash Requirement and Compliance

| | Oct-12 | Sep-12 | Aug-12 |
|---|---|---|---|
| | (1) | | |
| **Domestic Currency** | *% of total deposits in pesos* | | |
| Requirement | 12.2 | 12.2 | 12.3 |
| Compliance | 12.4 | 12.4 | 12.4 |
| Position (2) | 0.2 | 0.2 | 0.1 |
| *Residual time structure of term deposits used for the calculation of the requirement* (3) | % | | |
| *Up to 29 days* | 63.4 | 62.2 | 59.4 |
| *30 to 59 days* | 22.8 | 24.5 | 26.2 |
| *60 to 89 days* | 7.7 | 6.2 | 7.6 |
| *90 to 179 days* | 4.3 | 5.4 | 4.9 |
| *more than 180 days* | 1.8 | 1.8 | 1.9 |
| **Foreign Currency** | *% of total deposits in foreign currency* | | |
| Requirement | 19.9 | 20.0 | 20.1 |
| Compliance (includes default application resource) | 78.0 | 72.2 | 67.0 |
| Position (2) | 58.1 | 52.1 | 46.9 |
| *Residual time structure of term deposits used for the calculation of the requirement* (3) | % | | |
| *Up to 29 days* | 53.2 | 55.1 | 55.9 |
| *30 to 59 days* | 22.0 | 22.4 | 22.2 |
| *60 to 89 days* | 10.2 | 9.3 | 10.0 |
| *90 to 179 days* | 12.1 | 10.8 | 9.4 |
| *180 to 365 days* | 2.3 | 2.3 | 2.5 |
| more than 365 days | 0.1 | 0.1 | 0.1 |

(1) Estimates data of Requirement, Compliance and Position.

(2) Position= Requirement - Compliance

(3) Excludes judicial time deposits.

Source: BCRA

*Interest rates in annual nominal percentage and traded amounts in million. Monthly averages.*

| Borrowing Interest Rates | Oct-12 | Sep-12 | Aug-12 | Dec-11 | Oct-11 |
|---|---|---|---|---|---|
| **Interbank Loans (overnight)** | | | | | |
| Interest rate | 10.18 | 9.91 | 9.81 | 9.99 | 11.45 |
| Traded volume (million pesos) | 1,386 | 1,491 | 1,405 | 1,126 | 1,452 |
| **Time Deposits** | | | | | |
| In pesos | | | | | |
| 30 days | 13.25 | 11.89 | 12.28 | 14.74 | 12.91 |
| 60 days or more | 14.46 | 13.45 | 13.51 | 16.50 | 14.32 |
| Total BADLAR (more than $1 million, 30-35 days) | 12.91 | 11.60 | 11.15 | 14.76 | 13.95 |
| Private Banks BADLAR (more than $1 million, 30-35 days) | 14.91 | 14.27 | 13.93 | 18.75 | 17.59 |
| In dollars | | | | | |
| 30 days | 0.58 | 0.54 | 0.52 | 0.33 | 0.28 |
| 60 days or more | 1.01 | 1.11 | 1.11 | 0.69 | 0.60 |
| Total BADLAR (more than $1 million, 30-35 days) | 0.78 | 0.75 | 0.64 | 0.43 | 0.40 |
| Private Banks BADLAR (more than $1 million, 30-35 days) | 0.95 | 0.86 | 0.94 | 0.63 | 0.52 |
| **Lending Interest Rates** | **Oct-12** | **Sep-12** | **Aug-12** | **Dec-11** | **Oct-11** |
| **Stock Repos** | | | | | |
| Gross interest rates 30 days | 15.02 | 14.89 | 13.43 | 15.98 | 14.96 |
| Traded volume (all maturities, million pesos) | 238 | 253 | 244 | 226 | 232 |
| **Loans in Pesos** (1) | | | | | |
| Overdrafts | 21.44 | 21.07 | 20.80 | 26.78 | 21.85 |
| Promissory Notes | 17.88 | 17.85 | 18.42 | 22.15 | 18.20 |
| Mortgages | 16.44 | 16.24 | 14.83 | 16.52 | 15.06 |
| Pledge-backed Loans | 20.53 | 20.96 | 21.15 | 25.10 | 20.47 |
| Personal Loans | 33.64 | 34.28 | 34.18 | 36.46 | 31.47 |
| Credit Cards | s/d | 34.58 | 34.70 | 33.15 | 31.74 |
| Overdrafts - 1 to 7 days - more than $10 million | 14.18 | 13.49 | 13.20 | 22.56 | 18.18 |
| **International Interest Rates** | **Oct-12** | **Sep-12** | **Aug-12** | **Dec-11** | **Oct-11** |
| **LIBOR** | | | | | |
| 1 month | 0.21 | 0.22 | 0.24 | 0.28 | 0.24 |
| 6 months | 0.58 | 0.67 | 0.72 | 0.78 | 0.60 |
| **US Treasury Bonds** | | | | | |
| 2 years | 0.27 | 0.25 | 0.26 | 0.25 | 0.27 |
| 10 years | 1.72 | 1.70 | 1.66 | 1.96 | 2.13 |
| **FED Funds Rate** | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| **SELIC (1 year)** | 7.32 | 7.50 | 7.93 | 11.00 | 11.78 |

(1) Observed data from Monthly Informative Regime SISCEN 08 up to April and estimated data based on Daily Informative Regime SISCEN 18 for May and June.

*Interest rates in annual nominal percentage and traded amounts in million. Monthly averages.*

| Reference Interest Rates | Oct-12 | Sep-12 | Aug-12 | Dec-11 | Oct-11 |
|---|---|---|---|---|---|
| **BCRA Repo Interest Rates** | | | | | |
| Overnight reverse repo | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| 7-day reverse repo | 9.50 | 9.50 | 9.50 | 9.50 | 9.50 |
| 7-day repo | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 |
| **Total Repo Interest Rates** | | | | | |
| Overnight | 9.27 | 9.29 | 9.19 | 9.13 | 9.88 |
| 7 days | 9.51 | 9.50 | 9.50 | 9.56 | 9.70 |
| Repo traded volumen (daily average) | 10,459 | 9,299 | 10,309 | 8,454 | 8,052 |
| **Peso LEBAC Interest Rate**[1] | | | | | |
| 1 month | s/o | s/o | s/o | s/o | s/o |
| 2 months | s/o | s/o | 12.00 | s/o | s/o |
| 3 months | 12.44 | 12.33 | 11.90 | s/o | 13.97 |
| 9 months | 14.21 | 14.10 | s/o | s/o | 14.10 |
| 12 months | 14.93 | 14.51 | 14.30 | 14.26 | s/o |
| **Peso NOBAC with variable coupon Spread**[1] | | | | | |
| 9 months BADLAR Private Banks | s/o | -1.99 | -1.94 | s/o | s/o |
| 1 year BADLAR Private Banks | -1.88 | s/o | s/o | s/o | s/o |
| 2 years BADLAR Private Banks | s/o | s/o | s/o | s/o | 1.08 |
| 3 years BADLAR Private Banks | s/o | s/o | s/o | s/o | 1.50 |
| LEBAC and NOBAC traded volume (daily average) | 716 | 662 | 605 | 378 | 451 |
| **Foreign Exchange Market** | **Jul-12** | **Aug-12** | **Sep-12** | **Oct-12** | **Nov-12** |
| **Dollar Spot** | | | | | |
| Exchange agencies | 4.73 | 4.67 | 4.61 | 4.29 | 4.22 |
| BCRA Reference | 4.74 | 4.68 | 4.62 | 4.29 | 4.23 |
| **Future dollar** | | | | | |
| NDF 1 month | 4.82 | 4.75 | 4.71 | 4.36 | 4.32 |
| ROFEX 1 month | 4.80 | 4.73 | 4.68 | 4.33 | 4.25 |
| Traded volume (all maturities, million pesos) | 1,048 | 976 | 1,011 | 904 | 1,581 |
| **Real** (Pesos/Real) | 2.33 | 2.30 | 2.27 | 2.33 | 2.39 |
| **Euro** (Pesos/Euro) | 6.14 | 6.01 | 5.72 | 5.64 | 5.79 |
| **Capital Market** | **Oct-12** | **Sep-12** | **Aug-12** | **Dec-11** | **Oct-11** |
| **MERVAL** | | | | | |
| Index | 2,414 | 2,456 | 2,432 | 2,488 | 2,653 |
| Traded volume (million pesos) | 32 | 41 | 51 | 39 | 89 |
| **Governement Bonds (parity)** | | | | | |
| BODEN 2015 (US$) | 120.82 | 122.68 | 121.56 | 98.40 | 96.59 |
| DISCOUNT (US$ - NY legislation) | 108.83 | 103.11 | 98.47 | 81.40 | 83.01 |
| BODEN 2014 ($) | 93.93 | 93.41 | 93.06 | 86.93 | 84.72 |
| DISCOUNT ($) | 47.78 | 45.64 | 44.83 | 51.96 | 52.59 |
| **Country risk** | | | | | |
| Spread BODEN 2015 vs. US Treasury Bond | 1,121 | 1,090 | 1,261 | 980 | 1,055 |
| EMBI+ Latin America (without Argentina) | 336 | 358 | 370 | 409 | 414 |

1 Corresponds to average results of each month primary auctions.

# Glossary

**ANSES**: *Administración Nacional de Seguridad Social*. Social Security Administration
**APR:** Annual percentage rate.
**BADLAR**: Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial institutions
**BCRA**: *Banco Central de la República Argentina*. Central Bank of Argentina
**BODEN**: Bonos optativos del Estado Nacional. Optional federal bonds
**BOVESPA**: Sao Pablo Stock Exchange Index (Brazil)
**CAFCI:** *Cámara Argentina de Fondos comunes de inversión*
**CDS:** Credit Default Swaps
**CER**: Coeficiente de Estabilización de Referencia. Reference Stabilization Coefficient
**CNV**: Comisión Nacional de Valores. National Securities Commission
**CPI:** Consumer Price Index
**CPI GBA**: Consumer Price Index for the Greater Buenos Aires metropolitan area
**DISC:** Discount Bond
**EMBI**: Emerging Markets Bonds Index
**FCI:** Mutual Funds
**Fed**: Federal Reserve
**FTs**: Financial Trusts
**GBA:** Greater Buenos Aires metropolitan area
**GDP**: Gross Domestic Product
**IGBVL**: Lima Stock Exchange Index (Peru)
**IGPA**: Santiago Stock Exchange Index (Chile)
**LEBAC**: *Letras del Banco Central*. BCRA Bills
**LIBOR**: London Interbank Offered Rate
**M2**: Notes and Coins + Current Accounts and Savings Accounts in $
**M3**: Notes and Coins + Total Deposits in $.
**M3***: Notes and Coins + Total Deposits in $ and US$
**MERVAL**: *Mercado de Valores de Buenos Aires*. Buenos Aires Stock Exchange Index
**MEXBOL**: Mexico Stock Exchange Index
**NDF**: Non Deliverable Forward
**NOBAC**: Notas del Banco Central. BCRA Notes
**NV:** Nominal value
**ONs**: Corporate Bonds
**PyME:** Small and medium enterprises
**ROFEX**: Rosario Futures Exchange Rate Market
**SAFJP:** AFJP Superintendency
**SELIC**: Brazilian Central Bank's Benchmark Interest Rate
**SISCEN**: *Sistema Centralizado de Requerimientos Informativos*. BCRA Centralized Reporting Requirement System
**S&P:** Standard and Poor´s 500 Index
**y.o.y.:** Year-on-year