



# Financial Stability Report

## Second Half 2013



BANCO CENTRAL  
DE LA REPÚBLICA ARGENTINA

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# Preface

*Pursuant to the latest amendment of its Charter, the Central Bank's mandate and objectives were enlarged. Section 3° provides that the purpose of “the Bank is to promote —within the Framework of its powers and the policies set by the National Government— monetary and financial stability, employment, and economic development with social equality”.*

*Financial stability, one of the express objectives of the new mandate, is a critical condition to ensure the financial system contribution towards economic and social development. As widely shown throughout history and ratified by the latest international crisis, there are serious negative externalities which result from an ill-functioning process of financial intermediation. Hence, the protection of financial stability by Central Banks has once more come to the fore.*

*A transparent communication (public-oriented) strategy has been designed with a view to promoting financial stability and complementing regulatory and supervisory powers. In this sense, the **Financial Stability Report (FSR)** gives a comprehensive assessment of the development of financial system conditions. The **FSR** combines several channels of information on the subject gathered by the Central Bank in a single publication. In addition, the Central Bank discloses —between **BEF** half-yearly publications— a monthly **Report on Banks** so as to keep the public informed of the latest developments of the financial system. The Central Bank mainly resorts to these publications to disclose its outlook for the financial sector.*

*Buenos Aires, December 9, 2013*



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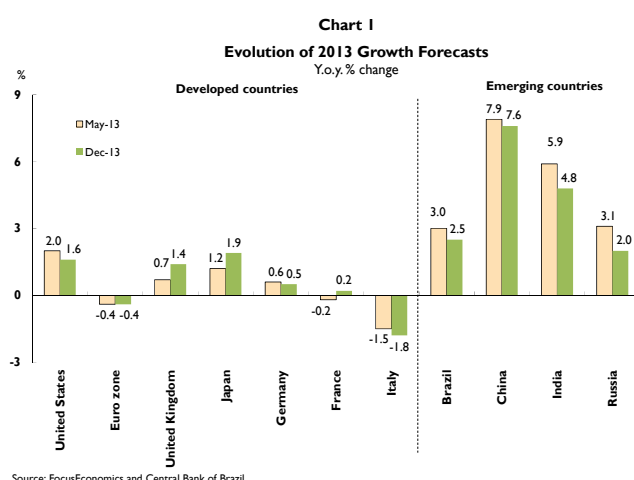
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# Central Bank Outlook



During the second half of 2013, the international financial markets have experienced high volatility levels, which resulted in part from the perception that the US Federal Reserve (FED) would moderate its stimulus policies before the beginning of 2014. Throughout this period, some changes were observed in the portfolios of international investors that impacted adversely on the capital flows to developing countries. As a result, the deterioration of the financial conditions affected the already weak economic performance at global level, particularly in the nations that depend markedly on external financing.

The main advanced nations have kept their expansionary monetary policies during the second half of 2013, while their fiscal policies have maintained the contractionary bias. In turn, most emerging countries failed to use fiscal instruments with countercyclical purpose, even though they have adopted measures tending to reduce the adverse effects of the capital outflows they had to face. In terms of the economic activity, heterogeneity prevailed during this period: while some advanced countries recorded an incipient recovery, the economic activity of emerging economies continued slowing down, though they have managed to keep expansion rates above those of the advanced world.

In the abovementioned context, there were downward revisions in growth forecasts, particularly for emerging nations. Additionally, the international prices of commodities continued to go down and, against this backdrop, the price evolution of Argentina's main export products would continue to be depressed. In short, the global scenario still exhibits a high level of uncertainty.

During the first half of 2013, Argentina regained momentum and accumulated a 5.8% y.o.y (year-on-year) growth of its GDP. The performance of primary production in the first place, and the evolution of the industry together its related services in the second place, have been the main factors behind this recovery. According to the leading indicators, during the second half of 2013, construction would expand its share in total GDP growth. On the demand side, private consumption continued shoring up the economic activity, with a 7.7% annual expansion in the first six-month period of 2013. The combination of stability of the labor market, public income policies and increase of lending has underpinned such evolution. In turn, investment also gained momentum as from the second



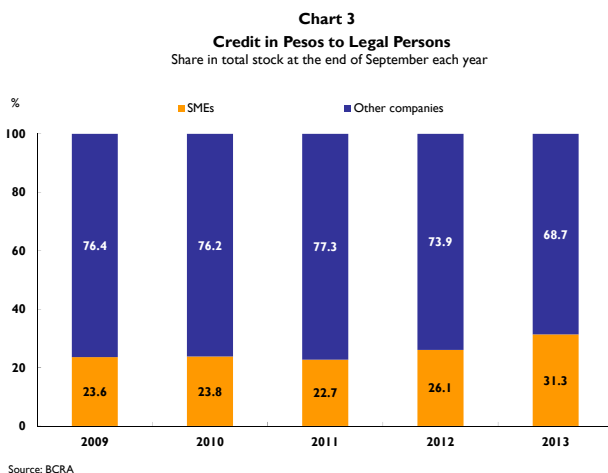
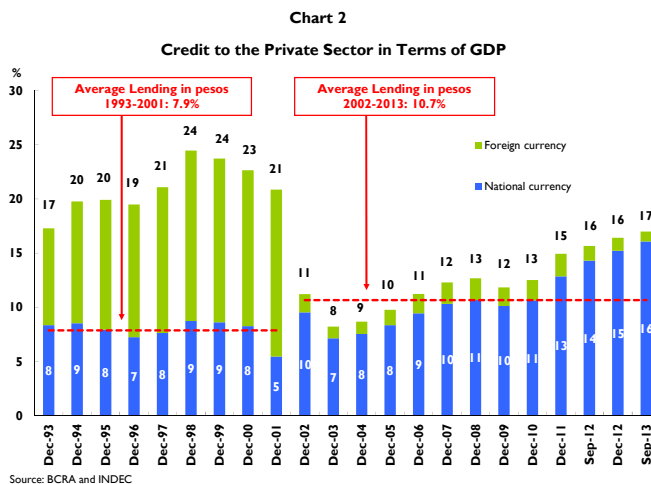
quarter, and levels of around 23% of GDP are currently estimated for the whole year.

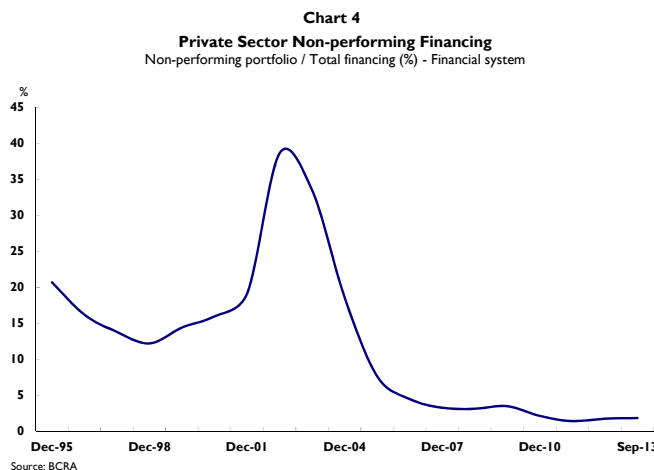
Within this framework, during the first nine months of 2013, the domestic financial system continued expanding its intermediation activity with the private sector and, at the same time, it managed to consolidate the growth of the payment system. Therefore, the year-on-year expansion pace of bank financing to the private sector —both in pesos and in foreign currency— accelerated to 33.3% y.o.y. in September, up 5.4 p.p. against the same month of 2012. Credit deepening consolidated in the economy, reaching around 17% of GDP. Last year, lending to the private sector has also gained weight in the total assets of the aggregate financial system and accounted for 52% of total netted assets. This performance was boosted by loans in pesos, equivalent to 95% of the total stock as at September 2013 and, in particular, by the credit lines for companies, which went up 35.5% y.o.y.

This positive evolution has been due in part to the programs implemented by the Central Bank, such as the “Credit Line for Productive Investment (LCIP)” and the “Bicentennial Productive Financing Program (PFPB)”. Within the framework of the LCIP, from mid-2012 to October 2013, the amount of loans awarded exceeds \$45 billion, out of which \$42 billion have been already disbursed; moreover, 58% of such amount has been provided to micro, small and medium-sized enterprises (MiPyMEs). Complementarily, the Central Bank continued with its auction of funds through the PFPB; as from its launching, \$5.78 billion were effectively disbursed (over 75% of the amount awarded to institutions). It is worth pointing out that more than half of the transactions arranged through this line have been channeled to MiPyMEs.

In line with the goals of the abovementioned measures, the segment of lending to MiPyMEs is gaining weight. The flow of financing to this segment has increased its share in the total amount of loans in pesos granted to legal persons, accounting for 41.4% in the third quarter of 2013, up 11.3 p.p. against the value recorded in the same period of 2012. Loans to small and medium-sized enterprises have also gained ground relative to the total stock of loans (both in pesos and in foreign currency) granted to legal persons and accounted for 31.3% of the total in September 2013.

LCIP and PFPB programs have helped MiPyMEs to effectively improve their productive capacity because, on the one hand, they have access to bank loans and, on the other, the credit conditions are better with





affordable interest rates and extended terms for repayment. In particular, for this group of companies, an increase of the share of longer-term loans in the total lending granted became evident in the last three quarters.

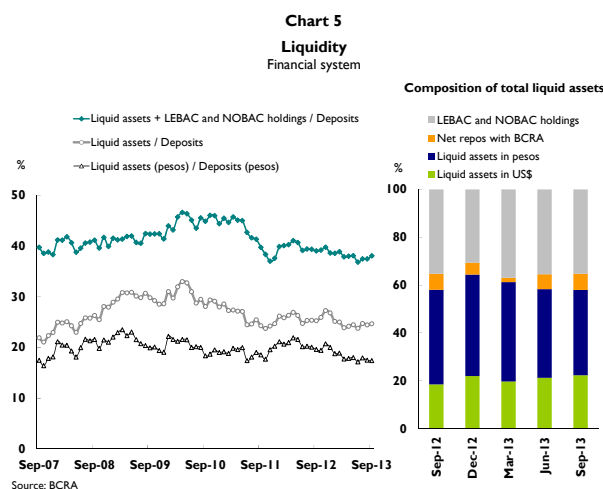
In turn, lending to households increased 31.4% y.o.y. by the end of the third quarter, evidencing some deceleration of its expansion pace if compared to the same period of 2012.

The taking of deposits from the private sector has consolidated as the main funding source for financial institutions. Deposits have jumped 30.6% y.o.y. as at September and have increased their share in the total stock of deposits, accounting for to 71.8%. In turn, time deposits in pesos have experienced a higher growth in recent months (up 40.2% y.o.y.).

In line with the rise of financial intermediation, the use of electronic means of payment (alternative to cash) deepened in 2013. Instant transfers of funds through home banking and mobile banking, business e-banking and ATMs gained ground along the year. In fact, these instant transactions went up 78.5% y.o.y. in amounts and 47% y.o.y. in number as at September 2013. The use of these instruments entails an improvement in terms of security, efficiency and agility for the transactions made in the economy.

In 2013, the map of exposure to, and coverage of, risks inherent in the financial system have remained practically unchanged. First of all, the ensemble of banks has gradually increased its exposure to the private sector and, at the same time, both companies and households have kept their repayment capacity due to a combination of positive evolution of their income and moderate indebtedness levels. As a result, it is estimated that the credit risk faced by the financial system stood at low levels, as evidenced by the reduced delinquency rate of loans throughout the year. In fact, during the third quarter, the non-performance indicator of the loans to households went down, thus reversing the slightly increasing pattern seen since late 2011. Additionally, the accounting provisions for the non-performing portfolio are still sizable.

Secondly and from a systemic perspective, the exposure of banks to liquidity risks continued to be low. Both the term and the concentration of bank funding have not recorded remarkable changes in 2013 and their level is in line with the average of recent years. Additionally, the indicators of coverage with more liquid assets have kept their soundness and the

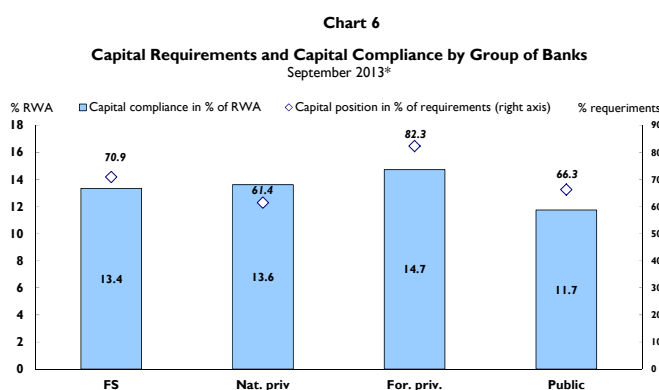


inter-financial markets operated favorably. In turn, the risk that the aggregate financial system may suffer a negative effect due to an increase in the interest rates is still moderate, and this situation is widespread among financial institutions. As from 2013, the Central Bank included this risk in Pillar II according with Basel's standards, and the Superintendence of Financial and Foreign Exchange Institutions (SEFyC) may require banks both a reduction of their exposure and an additional capital amount.

Lastly, market and currency risks' have a low weighting in the financial system's risk map. As regards the former, even though there was a slight increase in the position of institutions in bonds in dollars during 2013 —the segment that exhibited the highest volatility—, the amount and complexity of the assets portfolio at market value are still moderate against the levels observed in previous years. As a result, this reduces the risk that price fluctuations in the main instruments may have a significant impact on the sector. On the currency risk front, aggregate bank balance sheets evidenced low and decreasing dollarization levels, due in part to the macroprudential measures timely introduced by the Central Bank of Argentina. Besides, the sector as a whole has kept a positive foreign currency mismatching (assets in excess of liabilities), a situation that only exposes them to a potential nominal appreciation of the peso.

Within a context of limited risks, the financial system is strengthening its solvency position. Based on the book profits resulting from their transactions, the ensemble of banks continued exhibiting high capitalization levels throughout 2013. In these sense, the sector's leverage went down slightly in 2013 and stood below the average recorded in the countries of the region. The ensemble of banks' regulatory capital compliance accounted for 13.4% of the risk-weighted assets (RWA), with a share of almost 90% of the capital with a better capacity to absorb losses (Tier 1). In turn, the compliance in excess of the requirement reached 70.9% of the regulatory requirement at systemic level by September 2013.

In terms of banks' regulation and supervision, the Central Bank has made a remarkable progress in recent years regarding the convergence with international standards defined in Basel II, 2.5 and III. With a view to the future, the Central Bank will continue working to complete such process within the terms and conditions considered appropriate for the specific characteristics of our financial and economic system and our legal framework in force, and also taking into account the



\* According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.

Source: BCRA

experience gained from the crises suffered by Argentina. Specially, the BCRA is considering the implementation of an information disclosure requirement for the banks to describe in detail the development of their processes for the assessment of their economic capital adequacy based on the risk profile (Internal Capital Adequacy Assessment Process – ICAAP). In addition, a preliminary review of the ICAAP processes of the institutions which already have internal assessment procedures in place will be developed. The agenda also includes the definitions of the Argentine methodology guidelines to determine the entities considered to be systemically important at domestic level as well as to establish special requirements and follow-up procedures for this group. In this sense, during 2014, the Central Bank will also make progress in the process of incorporating the liquidity coverage ratio (LCR) and the leverage ratio (LR).

By early 2014, the domestic financial system is expected to keep its credit expansion pace especially with reference to loans devoted to the productive sector, taking account of the boost given by the measures adopted by the Central Bank. Besides, the growing activity of the ensemble of financial institutions is expected to develop within a framework of limited risks and high coverage levels in terms of liquidity and solvency.



# I. International Context

## Summary

During the second half of 2013, the international financial market's volatility stood at high levels. This situation started by the end of the first half of 2013 due to the perception —at that time— that the US Federal Reserve (FED) would moderate its monetary stimulus pace by the end of that year. As a result, the last months of 2013 have witnessed a remarkable expansion of US long-term debt yield within a framework in which the information released about the decisions by the FED and its perception as regards the evolution of the US economy started to have a higher impact on the financial markets' evolution.

The expectations about the FED's decisions translated into changes in the investors' portfolios at global level. In this sense, the capital flows into emerging countries, their financial asset prices and the value of their currencies were affected by these decisions, even though they have recovered slightly as from September 2013. Although the negative effect was widespread, the countries with higher levels of exposure to external financing suffered the most. As a result, this situation reopened the debate about the appropriate policy tools to cope with the fluctuations of short-term financial capital flows. In this sense, the role of supervision and regulation systems, both for capital-receiving and capital-originating countries, should be especially highlighted.

Within this framework, the economic activity experienced a reduced momentum at global levels with mixed performances among nations.

While the activity levels of some advanced nations exhibited an incipient improvement, emerging countries as a whole experienced an ongoing deceleration of their growth pace, even though they have managed to keep expansion rates above those of the advanced world in aggregate terms. As a result, the deterioration of the international financial conditions and the limited global momentum led to new downward revisions in the growth forecast for 2013 and 2014, especially for emerging economies.

Vis-à-vis the weak economic performance, the leading advanced nations kept and, in some cases even intensified, their expansionary monetary policies. At the same time, they continued applying fiscal adjustment measures that limit aggregate demand. In turn, emerging countries did not resort to relevant countercyclical fiscal instruments but adopted several measures aimed at reducing the adverse effects of the sudden capital outflow that took place during the period under analysis.

The international prices of commodities continued to decrease in aggregate terms. In addition to the factors that were already present in the first half of 2013, speculative investors reduced their positions in the most important grains, leading to downward pressures on their prices. The forecast of a high agricultural supply and the weak economic performance worldwide would contribute to keep the price evolution of the main commodities exported by Argentina depressed.

As a result, the international scenario is still relatively adverse, with high levels of uncertainty for Argentina and its main trading partners.

Chart I.1  
10-year Sovereign Bonds Yields and Expected Volatility

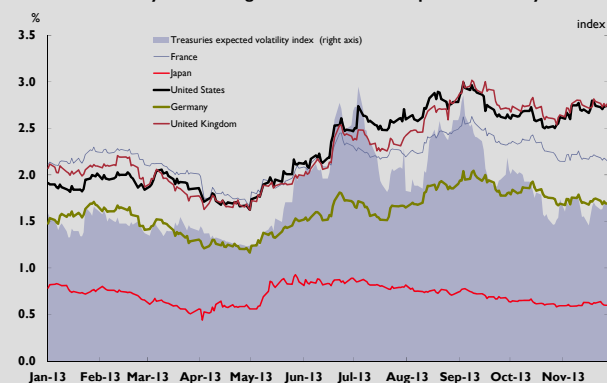


Chart I.2  
Global Evolution of 2013 Growth Forecasts  
Variation y.o.y.



## International Context

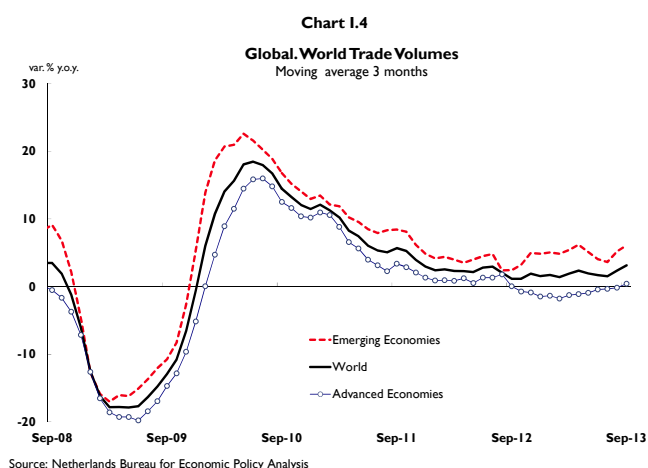
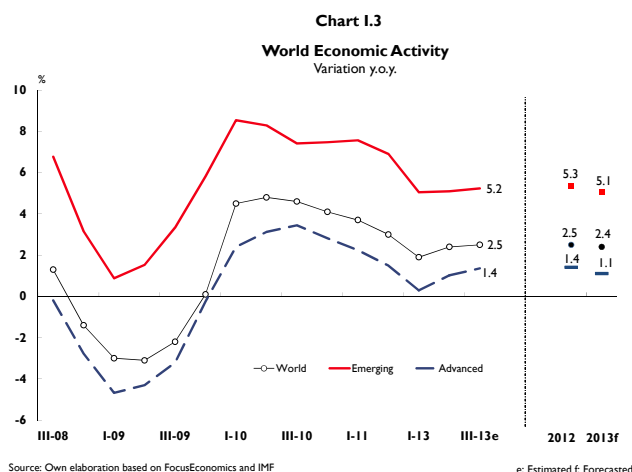
*As from May 2013, the scenario was characterized by uncertainty regarding eventual changes in the US monetary policy and added to a weak economic performance at global level*

As from May, the US monetary policy impacted significantly once again on the performance of the global economy due to the uncertainty over potential changes in its monetary stimulus pace. Consequently, some communicational aspects of the FED's monetary policy decisions and its outlook over the evolution of the US economy became highly relevant.

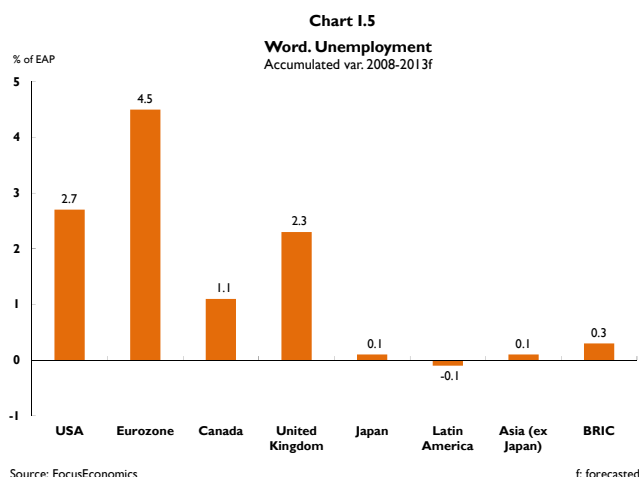
Vis-à-vis the possibility of a concrete change in the US monetary policy, the financial marketplaces operated in a context of high volatility, and a remarkable increase of long-term interest rate was recorded at global level. These events were accompanied by a sharp shift in capital flows, leading to marked depreciations of the currencies and more adverse financing conditions for emerging countries (see Box I). This situation especially affected some emerging economies that were already moderating their expansion pace and had high levels of exposure to external financing conditions (such as India, Brazil, Indonesia, South Africa and Turkey).

Anyway, for the time being, the FED has kept all its stimulus policies until more information about a sound economic recovery<sup>1</sup> is gathered. Likewise, the monetary authority has shown some concern about the lack of political consensus on public finance and also about economic performance if the inflation rate persistently stands below the target defined. Nevertheless, in agreement with the minutes of the last meeting held by the Federal Open Market Committee (FOMC), if the expectations of its members hold true, the moderation of the asset purchase pace could start in December 2013 or in early 2014.

The deterioration of the international financial conditions impacted on an already-weak global economic performance. Therefore, market volatility has impacted adversely on the evolution of GDP, trade transactions worldwide and the labor markets, all of which have experienced a limited momentum and mixed performances among economies (see Charts I.3 and I.4). In turn, the activity levels of some advanced nations recorded an incipient improvement while emerging countries have moderated their growth pace.



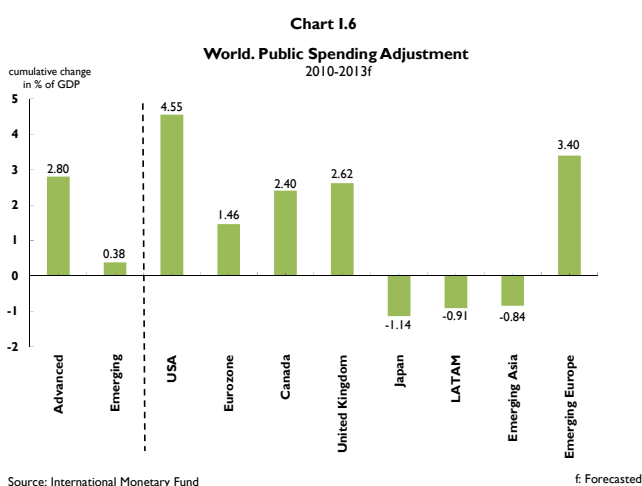
<sup>1</sup> It is worth pointing out that in recent months Janet Yellen was appointed to succeed Bernanke as Head of the Federal Reserve. Her appointment was interpreted by the market as signal that the bias towards the application of policies devoted to boosting growth would be preserved.



The world economy is estimated to continue expanding at a limited pace, with a 2.4% year-on-year (y.o.y.) growth rate for 2013, similar to that of 2012. The rise of the production stocks of developed countries would continue improving on the margin (see Chart I.2), even though they would go up only 1.1% during the year, within a context where the Euro Zone economy would shrink 0.4% and the remaining countries would continue growing at low rates. On the other hand, after the sizable moderation recorded throughout 2012, the activity level of emerging economies is expected to expand 5.1% y.o.y.

Within this framework, according to the World Trade Organization (WTO), global trade flows would exhibit a 2.5% y.o.y. growth rate (down 0.8 percentage points — p.p.— against April 2013 forecast), thus mirroring a trade growth moderation down to levels close to the minimum figures recorded during the last decade (excluding 2009, when it contracted almost 13%).

During 2013, the labor conditions of most developed countries continued deteriorating and even reached unemployment levels that are significantly above those prior to the crisis. Particularly in the Euro Zone, the unemployment rate kept going up, and a level over 11% has been estimated for the average of the region in 2013 (see Chart I.5). Instead, the labor markets of most emerging economies have managed to keep a sound path.

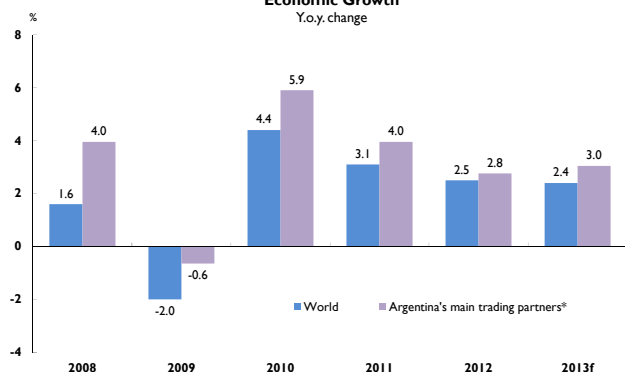


Most advanced economies have maintained or even intensified their monetary stimulus and, at the same time, they continued applying fiscal adjustment measures that put a ceiling to the increase of aggregate demand (see Chart I.6). At the beginning of October, there was a remarkable lack of political consensus in the United States over the strengthening of public finance, which led to the partial shutdown of the federal public administration. Meanwhile, emerging economies did not resort to new relevant fiscal stimulus programs since they focused their measures on lessening the adverse effects generated by capital flow reversal.

The economic evolution of the main trading partners of Argentina was similar to that of the global economy, and a slightly higher growth is expected for 2013 against 2012 figures (see Chart I.7). Particularly, Brazil's GDP growth would stand at around 2.5% y.o.y. in 2013, above the 0.9% y.o.y. recorded in 2012, mainly boosted by consumption and investment. The Central Bank of Brazil (BCB) continued increasing its benchmark interest rate mainly to respond to the price variation that had exceeded the target range established in its inflation targeting regime. This increase in the interest rate could reduce the economic growth of the country.

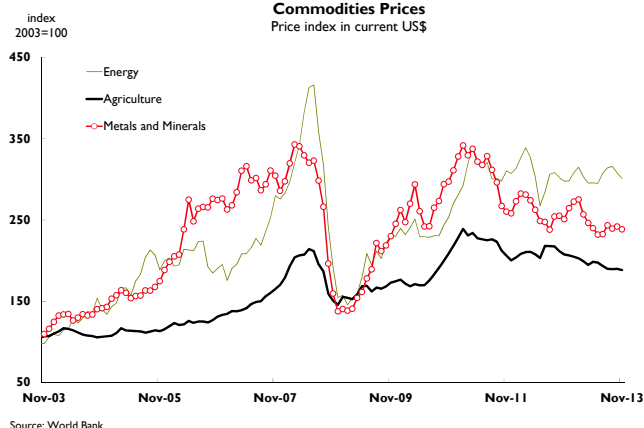


**Chart I.7**  
**Economic Growth**  
Y.o.y. change

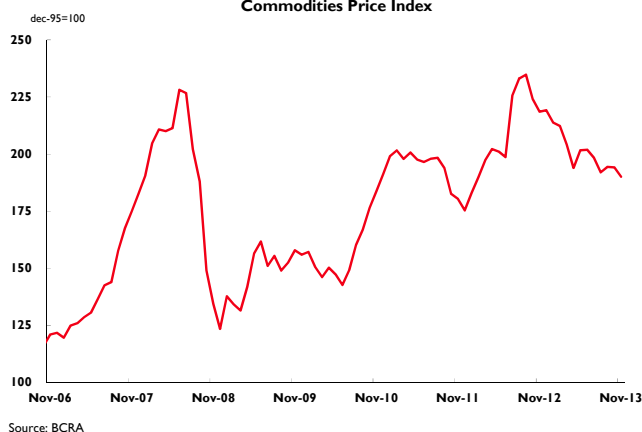


\*Weighted by their share in Argentine exports. These partners represented 80% of Argentine total exports.  
Source: Own elaboration based on FocusEconomics and IMF f: Forecasted

**Chart I.8**  
**Commodities Prices**  
Price index in current US\$



**Chart I.9**  
**Commodities Price Index**



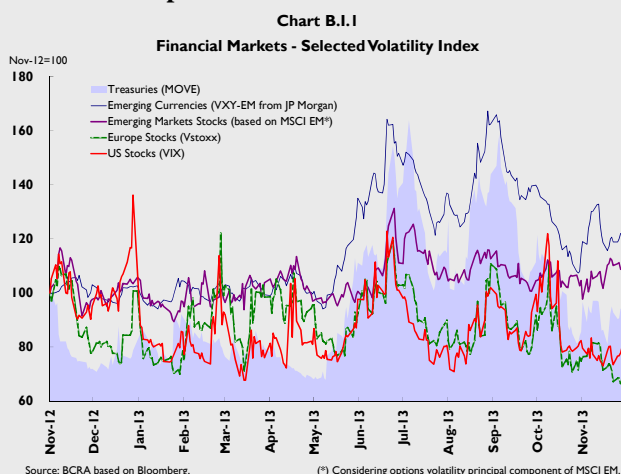
In turn, in the third quarter of the year, the Chinese economy recovered some momentum, mainly due to domestic demand. For 2013, specialized analysts expect an expansion rate close to 7.6%, slightly below the rate of 2012 but above the target defined by the government (7%). The Chinese authorities kept implementing measures to liberalize capital flows and to make progress in the internationalization of the use of the renminbi. These measures were adopted within a framework where inflationary pressures, a high domestic indebtedness level, the risk of creation of a speculative real estate bubble and the current conditions of the financial sector are the main vulnerability factors for the Chinese economy. Consequently, the monetary authority might resort to new contractionary adjustments in the credit policy, and this might lead to a new risk in terms of a potentially more marked moderation of the Asian economic expansion pace.

Commodity prices continued exhibiting downward revisions from the levels close to the maximum values in historical terms recorded at the beginning of 2011 (see Chart I.8). In recent months, agricultural commodity prices have kept falling, mainly due to the reductions observed in the positions held by speculative investors on the main grains within a context of an abundant US supply of soybean and corn. This trend would continue if South American crops progress favorably. Meanwhile, the international prices of metals and minerals stood slightly below the level of the same period of 2012 and their performance resulted from a weak growth pace of global industrial production. On the other hand, the leading index for energy prices increased in y.o.y. terms, mainly boosted by the geopolitical conflicts in the Middle East and North of Africa, which impacted adversely on crude oil global supply expectations.

Within this context, the Commodity Price Index (IPMP) prepared by the Central Bank of Argentina accumulated a 15% fall in y.o.y. terms between July and November 2013, after going up 5% y.o.y. on average during the first half. In November, the IPMP, that follows the evolution of the international prices of the most relevant commodities for Argentina's exports, stood 13% below the figure recorded in the same period of 2012, when the index reached its maximum historical peak (see Chart I.9).

## Box 1 / Emerging Economies' Assets and Volatility in the International Markets

The uncertainty over a potential moderation in the assets purchase pace by the Federal Reserve has resulted in new episodes of volatility in international markets. The perspectives of changes to the US monetary policy have affected the portfolio decisions of investors, which have impacted on a wide range of assets such as the financial instruments of emerging economies. Although volatility tended to decline in recent times, if the latent expectations about potential adjustments in the Federal Reserve's stimulus policies hold true, the emerging markets might be subject to additional pressures. This situation highlights the need for moving forward in the adoption of macroprudential regulatory measures that include short-term capital flows



Since early May, the international markets have experienced a more marked and widespread volatility, directly related to the expectation that the Federal Reserve might slow down its asset purchase pace (a process known as tapering)<sup>2</sup>. Vis-à-vis these signals, different groups of investors reacted by reducing their positions in US Treasuries<sup>3</sup> which, in turn, led to an increase in the yield of the US 10-year Treasury bonds, which exceeded 130 b.p. (basis points) between the end

of April and the first week of September. This sudden change was accompanied by clear rises in the Treasuries volatility index (MOVE index), with a similar trend observed in the US stock market (VIX index, usually considered as an indicator of risk appetite at global level). Other markets, such as the stock markets of other developed nations, those related to emerging economies' assets and currency markets in general (see Chart B.1.1.), have also operated in a more volatile environment.

The reduction of Treasuries holdings in the investors' portfolios was accompanied by changes in the positioning of emerging economies' instruments. For instance, the high frequency data on investment funds that specialize in assets of this type of economies (information that is usually used as proxy of the capital flows related to changes in portfolios) have evidenced sizable outflows since late May, both for equities and fixed income instruments. In perspective, these data indicate that flows are very sensitive to changes in the conditions of international markets, i.e., they are highly sensitive to exogenous factors from the perspective of emerging economies<sup>4</sup>. Thus, after the peak of the 2008-2009 international financial crisis, there was a considerable increase in the inflows to funds specialized in emerging economies' assets<sup>5</sup>, resuming the trend that had been observed before. However, in 2013, outflows started to be seen. As regards the sharp market volatility episode that started in early May and extended to early September –if compared to what happened in previous scenarios of this sort–the impact on fixed income funds is highly remarkable, both in terms of the size of the outflows and of their persistence over time<sup>6</sup>.

The abovementioned portfolio movements translated into marked pressures on the prices of emerging economies' assets, which, in turn, clearly impacted on the exchange rate. In fact, in the period May-September, the aggregate

<sup>2</sup> The FED purchases US\$45 billion worth of long-term Treasuries and US\$40 billion of mortgage-backed securities (MBS) on a monthly basis.

<sup>3</sup> According to information of the Federal Reserve on funds flows, during Q2-2013 (latest information available) there was an unwinding of positions in Treasury instruments from sectors such as banks, brokers and dealers of Treasuries, households and, to a lesser extent, Mutual Funds (in this case, foreign holdings continued to go up even though at a slower pace than before). On the other hand, in the same quarter, these agents also experienced a rise in credits in the call money markets and in miscellaneous investments (in the case of banks and brokers-dealers) as well as increases in deposits (time and sight deposits), Mutual Funds and money market funds for families.

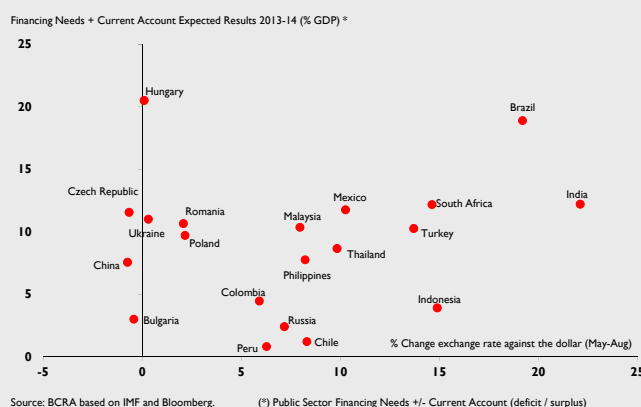
<sup>4</sup> The impact of domestic factors (push) and exogenous factors (pull) on capital flows is analyzed in the Boxes "Monetary policy in developed countries and capital flows: the most recent evidence" and "New evidence on the relationship between advanced nations' monetary policy and capital flows" corresponding to the Macroeconomic and Monetary Policy Report of July and October 2013, respectively.

<sup>5</sup> With record inflows for funds specialized in assets during 2010 (and strong inflows in 2009 and 2012) and for those specialized in bonds more recently (2012).

<sup>6</sup> While the outflow of funds specialized in equities of emerging economies declined in September (in October those funds recorded inflows), the redemption of funds specialized in fixed income assets remained.

of emerging countries' equities measured in dollars through the MSCI EM index fell nearly 17%<sup>7</sup>. In the case of government bonds in foreign currency, and according to EMBIG, the sharpest price fall in aggregate terms was 13%<sup>8</sup>, while in the case of bonds in domestic currency (according to GBI index in dollars), the deterioration reached 16%. It is worth pointing out that in the special case of these fixed income indexes, the drops were higher than those observed in previous volatility periods in international markets, such as those related to the European debt crisis (for instance, in the period August-November 2011). In turn, emerging economies' currencies averaged depreciations of 7% against the US dollar in the period May-September 2013.

**Chart B.1.2**  
**Exchange Rate and Macroeconomic Fundamentals**



Even though there was a widespread impact on the financial instruments of all emerging economies, the pressures were not homogenous among countries. In the special case of exchange rates, there were cases of extreme currency depreciations against the US dollar within a range of 15%-30% since early May<sup>9</sup>. The sharpest depreciations occurred in economies that, in relative terms, are more vulnerable in the external front (see Chart B.1.2). In this sense, the sharpest depreciations unleashed in countries with relatively high current account deficits as percentage of GDP while in other cases it also coincided with public financing needs above the median of emerging nations<sup>10</sup>. These sizable currency depreciations occurred in large economies such as Brazil and India, where different types of measures

were adopted to limit the volatility of the foreign exchange market<sup>11</sup>.

The pressure exerted on emerging economies' assets started to lessen as from September, mainly due to two factors that led to a revision of the existing expectations over the potential beginning of the tapering process in the United States. On the one hand, by early September, worse-than-expected economic indicators were released and at the FED's monetary policy meeting held by end of this month, the US authority did not report any changes to its policy<sup>12</sup>. On the other hand, some problems associated to the negotiation of the US debt ceiling and the fiscal situation of the country (including the partial shutdown of the public sector activities during a good part of October) led investors to adjust their expectations at the beginning of fourth quarter, convinced that any potential change in the FED's assets purchase pace would occur towards the first quarter of 2014. The outlook became more uncertain after the FOMC's meeting by late October and, more recently, on the basis of the publication of economic indicators that exceeded the expectations. Consequently, the possibility that the moderation in the asset purchase pace might start before March 2014 cannot be ruled out.

In short, the ongoing adjustment of expectations, in line with a process in which the decisions by the FED fully depend on economic data within a still uncertain context, have led investors to make changes in their portfolios, including "overreactions" that impact on the prices of emerging economies' assets and on their volatility level. This type of volatility, which might be seen again in the short-term, has potential macroeconomic effects on emerging economies, including aspects such as growth and financial stability. In this sense, given the importance of emerging countries for the global economic performance, there is space to seek for better policy coordination at international level, so as to avoid the potential adverse effects that policy decisions made by advanced countries may have on the macroeconomic situation of other nations. The events of recent months reinforce the need for moving forward in the adoption of macroprudential regulatory measures that include short-term capital flows, taking into account both capital-receiving and capital-originating countries.

<sup>7</sup> Along the period under analysis, the US Stock Exchange (S&P500) recorded a maximum deterioration below 6% (between May and July).

<sup>8</sup> The spread between sovereign bonds and the US Treasuries for comparable terms (as measured by EMBI+ EM) widened nearly 130 b.p.

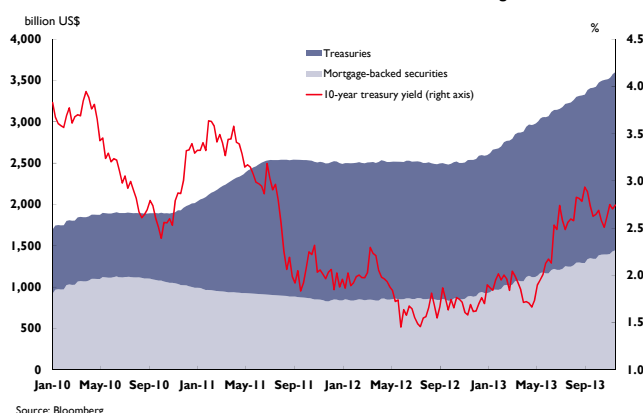
<sup>9</sup> In general, the sharpest depreciations took place by the end of August and early September. In several economies with sharper depreciations, there were also sizable increases of the interest rate and the returns of sovereign bonds in local currency (including also long-term bonds). In some cases, this also coincided with a considerable external share in debt holdings.

<sup>10</sup> Data from World Economic Outlook and IMF's Fiscal Monitor.

<sup>11</sup> This includes the direct and indirect (through derivatives) intervention in the foreign exchange market, modifications to regulations related to the exchange market, changes to the financing conditions for exporters, etc.

<sup>12</sup> At that time there was some consensus among market participants – for instance, according to the survey of Primary Dealers of the New York Federal Reserve or the surveys made by information services such as Bloomberg and Reuters among investment banks – that the FED would announce the beginning of the tapering process.

**Chart I.10**  
Federal Reserve. Balance Sheet Securities Holdings

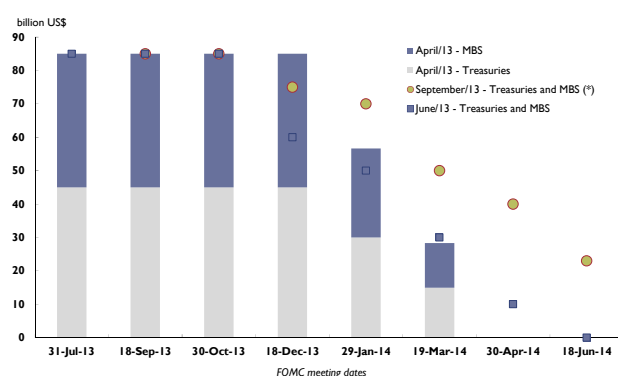


Source: Bloomberg

Looking into the future, several vulnerability factors will still prevail: in addition to the factors related to the eventual US tapering, there are also institutional, macroeconomic and financial challenges in the heterogeneous Euro Zone whose resolution is still pending. The need for implementing a sustainable path for Japan's economy is also relevant if we take into account that it still depends on extraordinary stimulus measures. In the meantime, the evolution of the political consensus regarding the adjustment of the US public accounts will continue impacting on the markets. Lastly, the capacity of the largest emerging economies to sustain high growth economic rates will also be a critical factor.

*The financial markets performance has been characterized by a context of uncertainty, mainly due to the expectations about the future decisions to be made by the FED*

**Chart I.11**  
Federal Reserve Treasuries Purchase Program. Primary Dealers Expectations

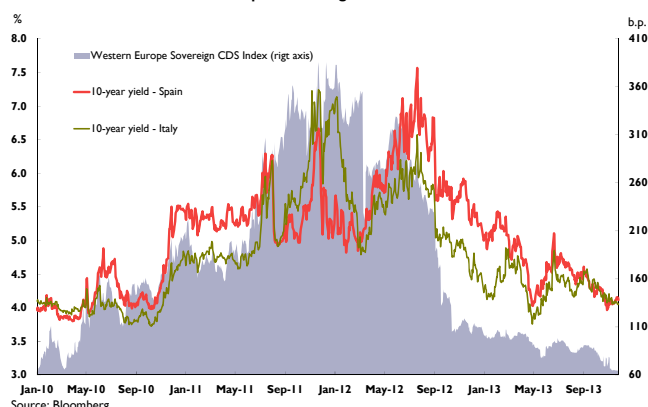


(\*) data released after the FOMC meeting of that month.  
Source: Federal Reserve

Since May 2013, international financial markets have operated within a context of higher volatility levels due to the expectations over a moderation of the monthly assets purchases<sup>13</sup> by the FED —standing at present at US\$85 billion in Treasuries and mortgage-backed instruments (see Charts I.10 and I.11)— before the end of 2013. Additionally, in October, the effects of the US negotiations as regards the federal indebtedness ceiling and the government's budget financing have led to changes in the perceived risk of its sovereign debt<sup>14</sup>.

In turn, the tensions in European sovereign debt markets continued to be contained if compared to the 2010-2012 period (see Chart I.12). Particularly, the yields of long-term debts of large but vulnerable economies (such as Italy and Spain) either narrowed or widened scarcely in relative terms.

**Chart I.12**  
European Sovereign Debt Markets



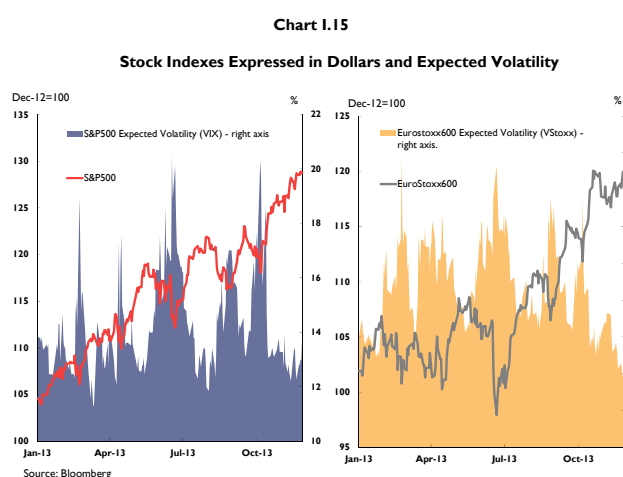
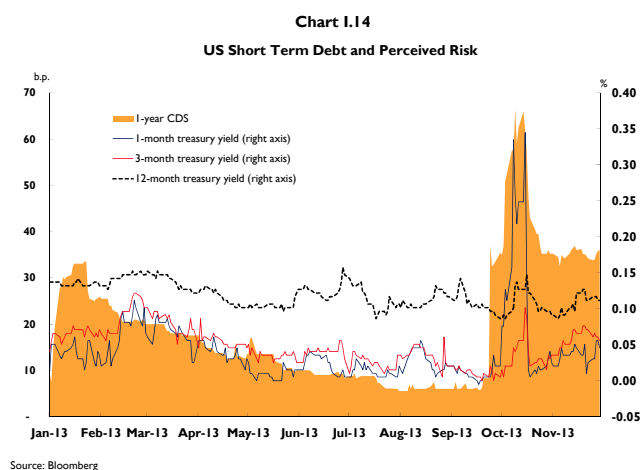
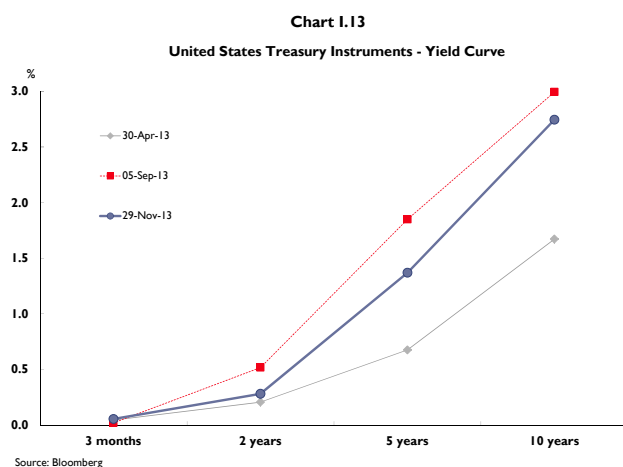
Source: Bloomberg

As regards short-term markets, both the European Central Bank (ECB) and the Bank of England (BoE) started to provide a guideline on the future evolution of the monetary policy rates emphasizing that, in the medium term, the current low interest rates will be maintained<sup>15</sup>. Other factors that have impacted on financial markets in recent months were related to geopolitical issues (including the possibility of a US military intervention in the Middle East) and to some concern about the situation in China (growth perspectives, interbank market conditions, etc.).

<sup>13</sup> Added, in the medium term, to the possibility of potential changes to the policies of interest rate, now standing at low levels (although most members of FOMC do not expect changes to the interest rates at least until 2015).

<sup>14</sup> In October, the credit rating agency Fitch downgraded to negative outlook the AAA rating of the United States' long-term sovereign debt.

<sup>15</sup> Most recently, the ECB reduced its benchmark interest rate to a historical minimum of 0.25% and new measures regarding the maintenance of the liquidity conditions in the market cannot be ruled out.



In recent months, the most remarkable changes in the financial markets of advanced nations have been related to the Treasuries market, with long-term yields increasing markedly in May and June and keeping an upward trend until early September. Simultaneously, the volatility expected for the US Treasury instruments also went up sharply during that period (see Chart I.1). Consequently, the US 10-year Treasury bond yield widened around 130 b.p. between the end of April and early September, with a subsequent correction of over 20 b.p. Increases were more marginal in the short section of the curve, leading to a remarkable increase in its slope (see Chart I.13). Nevertheless, it is worth stating that the yields of shorter-term instruments also went up temporarily within a context characterized by negotiations about the fiscal issue and more uncertainty regarding the credit risk associated to Treasuries (see Chart I.14). In turn, the rise of US long-term yields was accompanied by yields for the same term of other countries' debts such as Germany, France and England, which widened in the range of 40-110 b.p. from late April to late November.

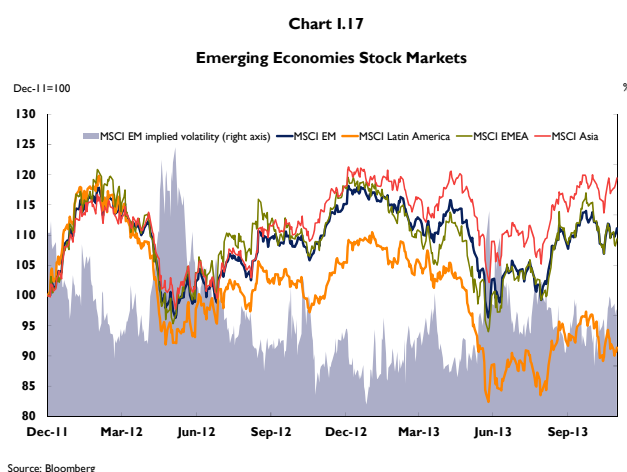
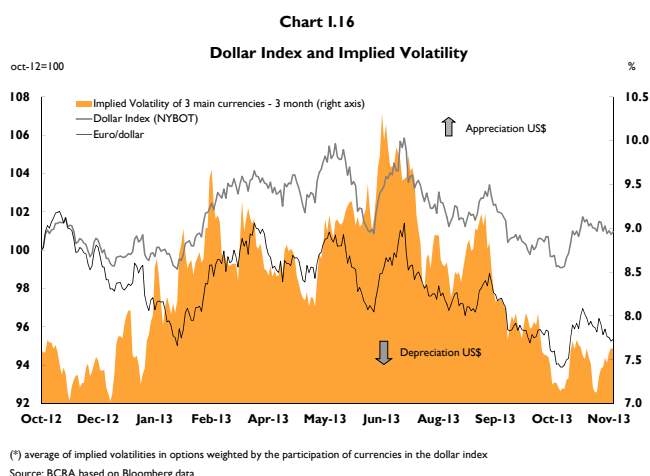
Although the stock markets of leading developed nations have shown a heterogeneous performance in recent months, a largely positive trend in prices was observed (see Chart I.15). In the United States, despite the deterioration seen in May-June, August and part of September-October, the S&P500 Index accumulated a 13% increase from late April to late November, up almost 27% so far in 2013. In Europe, the EuroStoxx600 went up 13% measured in dollars since late April, widening its expansion to 20% so far this year. In terms of expected volatility, even though there were relative peaks that coincided with times of heightened tension related to the change of expectations over the FED policy and the fiscal negotiations in the United States, in recent months the US VIX index and the European Vstoxx index evidenced limited increases on average if compared to the levels observed in the first four-month period of the year.

As a result of the changes in the assets markets, the dollar exhibited a fluctuating performance in recent months, with volatility peaks in May-June<sup>16</sup> (see Chart I.16). In perspective, the dollar tended to depreciate against the currencies of the main advanced nations. The US Dollar Index, that averages the exchange rate between the US dollar and a basket of currencies of the countries with which the United States has intense trade activities<sup>17</sup>, shows an accumulated depreciation of over 1% since late April. As regards the dollar/euro exchange rate, the US currency has depreciated over 3% in the last

<sup>16</sup> The three-month volatility of the main currencies in this period reached its maximum level towards mid-June and then went down in line with the continuous postponements of a moderation in the assets purchase pace by the FED.

<sup>17</sup> The euro, British pound, yen, Swiss franc, Canadian dollar and Swedish krona.





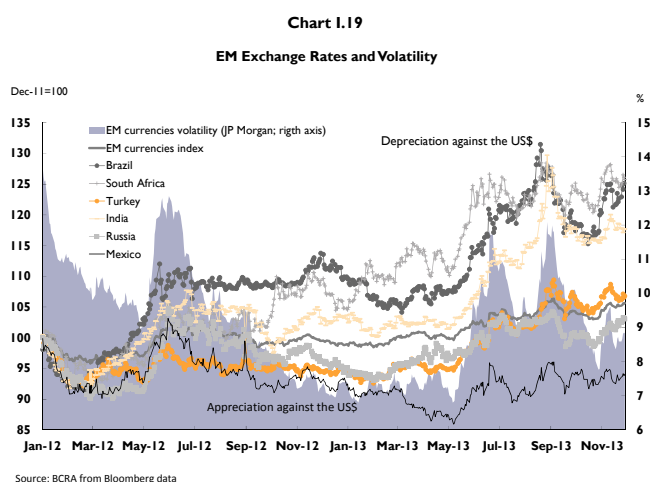
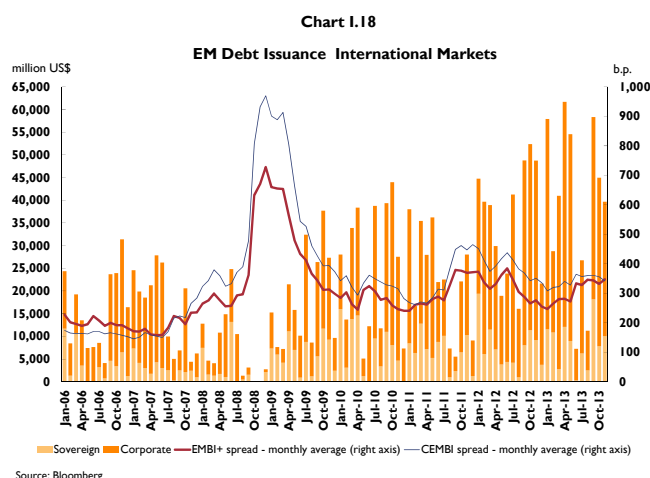
three months, particularly due to the performance observed between mid-July and mid-October. On the other hand, after appreciating markedly against the yen from the end of the third quarter of 2012<sup>18</sup> to mid-May 2013, the US dollar started to exhibit a more stable performance against the Japanese currency. Nevertheless, in November, the trend towards appreciation seemed to be back. Thus, since late April, the US dollar has accumulated an appreciation of over 5% against the yen.

The uncertainty in international markets has had a clearly adverse impact on emerging economies' assets, even though the trend has partially reversed in recent months. In the case of the stock markets, the stock indexes of emerging nations measured in dollars exhibited a sharp drop in May and June, oscillations in good part of July and August, a recovery from late August to late October and some sort relapse in November (see Chart I.17). As a result, the Morgan Stanley Capital International Index for the ensemble of emerging countries (Emerging MSCI) has accumulated a decrease of 2% in dollars since late April. Meanwhile, the Latin American Markets MSCI exhibited a more deteriorated performance (down almost 13%) and was the regional component with the worst performance of the period, in part due to the depreciation of the region's currencies against the US dollar. The price drop peaks were accompanied by important increases in the volatility expected for the shares and reached levels that had not been seen since mid-2012, within the framework of tensions caused by the European debt crisis. In terms of portfolio flows, from late May to early September<sup>19</sup>, there was a sustained outflow from investment funds specialized in emerging economies' equities. Although largely positive variations for these funds were recorded later on, by the end of October new redemptions became evident.

The sovereign bonds of emerging economies have also evidenced a mixed performance in recent months, including a sizable initial deterioration and some level of improvement as from September, which came to an end once again in November. The spread of the JP Morgan's EMBI+, which measures the differential between the emerging economies' sovereign bonds yields and those of the US Treasury instruments with similar terms, has widened over 80 b.p. since late April; this performance is representative for the Latin American Markets index (widening by almost 100 b.p.). In the case of corporate bonds, the widening accumulated in recent months was less significant. The changes in these spreads showed a clear correlation with the remarkable fluctuations in

<sup>18</sup> Based on the Bank of Japan's monetary policies.

<sup>19</sup> Most outflows took place in June, late August and early September. On the basis of data from funds specialized in emerging economies' assets, which are usually used as proxy for portfolio flows.



bond issues of emerging economies' agents in international markets (see Chart I.18). Sovereign and corporate debt transactions in emerging economies exhibited important drops in June and July but then regained the momentum they had shown before. Consequently, the total amount of this type of debt issued in the last seven months contracted 22% against the same number of previous months, even though the drop is more marginal if compared to the same period of 2012<sup>20</sup>. As regards portfolio flows, the investment funds specialized in emerging economies' debts, which recorded record-high inflows in the second half of 2012 and the first months of 2013, started to experience sharp and sustained outflows since late May 2013.

The changes in portfolio flows and in the assets' prices exerted pressures on the emerging countries' currencies. As a result, these currencies depreciated 6% on average against the US dollar since late April and, at the same time, there were sizable peaks in their expected volatility (see Chart I.19). In regional terms, Latin American currencies depreciated the most, averaging 12% against the US dollar. In this sense, Brazil stood out with a 17% depreciation (which even reached 22% in August). Within this context, the Central Bank of Brazil decided to intensify its intervention in the foreign exchange market<sup>21</sup> so as to reduce the volatility in the real price.

Despite the improvements observed as from September for emerging economies' assets, the return of a more negative bias towards November proves that there are still risk factors that may endanger their evolution in the next few months. Particularly, the changing expectations about the decisions to be made by the US Federal Reserve will continue playing a key role in the evolution of international financial markets. The potential effect of future negotiations regarding the fiscal issue and the debt ceiling in the United States (considering that the agreements reached in October are temporary<sup>22</sup>) may also affect the evolution of global markets. In turn, even though the situation of European markets remained under control in recent months, the economic evolution of the region, the situation of its banks and its financial markets will be closely followed-up. Moreover, the implementation of the agenda of measures defined (progresses towards the creation of a unified banking supervision mechanism and the abandonment of official financial aid schemes by some vulnerable economies,

<sup>20</sup> Corporate transactions, which account for the largest part of the amount issued, went down both against the previous seven months as well as in year-on-year terms, despite the fact that a higher weight of Latin American companies' issues was observed. As regards the sovereign debt, the amount issued between May and November contracted 12% against the previous seven months while it went up almost one third against the figures recorded one year ago.

<sup>21</sup> As from August 2013, when the real reached a R/US\$2.44 exchange rate, Brazil implemented a daily auction program of foreign exchange swaps for US\$500 million and a weekly sale of dollars with future repurchase commitments (repos) for US\$1 billion. There were also transactions related to the renewal of pre-existing positions.

<sup>22</sup> Between December and January, the US Congress must come to an agreement as regards the financing guidelines for fiscal year 2014 budget and between early February and mid-March 2014, the restriction related to the federal indebtedness limit will become effective.

etc.) will also be followed in detail. In more general terms, the focus will be placed on the evolution of growth pace worldwide, including the performance of large economies, such as China's.





## II. Local Context

### Summary

In 2013, the Argentine economy accelerated its growth rate, boosted by a better performance of all services — trade, transportation and financial intermediation gaining the greatest momentum— which accompanied the increase in agricultural production, the greater supply of some industrial sectors and, more recently, a rebound in construction activity levels (see Chart II.1).

The performance of private consumption, amounting to 7.7% annually, stood out in the first half of 2013. Such demand component would keep exhibiting a similar pace in the second half of 2013, consolidating as the main driver of economic activity. In turn, investment gathered pace in the second quarter, mainly as a result of the dynamism observed in construction. Thus, the investment rate would stand at around 23% of the GDP for the whole 2013, remaining at high historical levels.

With new jobs in 2013, the unemployment rate contracted in y.o.y. terms, standing at 6.8% of the labor force in the third quarter. Good labor conditions, which were also evidenced by salary improvements, together with positive credit performance and the maintenance of income policies aimed at the lowest-income sectors were the main factors behind household consumption.

Exports of goods exhibited a moderate growth throughout 2013, mainly due to the weak economic performance of our main trading partners. In turn,

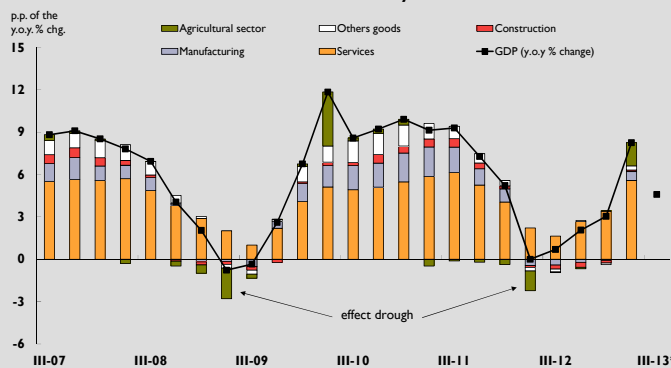
imports gained momentum, in line with increased economic activity. This trend in imports and exports caused a y.o.y. reduction of the trade surplus, which nevertheless continued recording historically high levels and quite a moderate deficit in the current account balance.

In general, as from the end of April 2013, the prices of financial assets in local markets continued following the upward trend evidenced during the first few months of the year, although some episodes of volatility were reported. Thus, the most liquid sovereign bonds experienced a reduction in yields, whereas the prices of shares in the domestic market improved, with Merval increasing almost 50% between May and November (25% in dollars). Such a performance was accompanied by a greater traded volume in equity and fixed-income markets.

In terms of access to financing through capital markets, issues continued exhibiting a growing trend. In particular, financial trusts associated to loans for infrastructure, housing and consumption purposes, as well as financial sector corporate bonds should be highlighted.

Chart II.1

Contribution to GDP Growth by Economic Sector

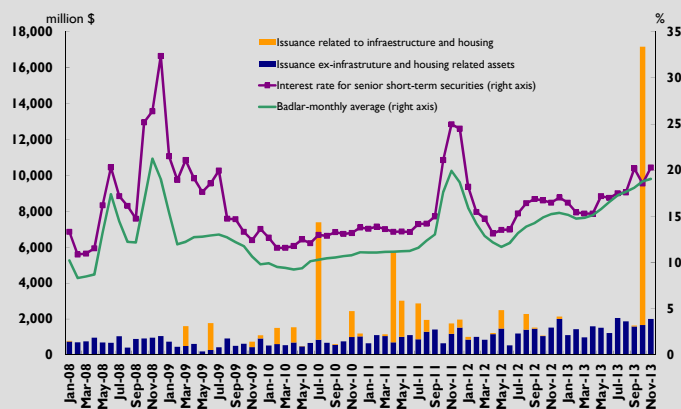


Note: The agricultural sector's contribution corresponds only to the direct effect. Indirect effects are not included eg those related to transport and trade. The difference between the sectoral contribution and the interannual change of GDP is due to taxes and indirectly measured financial intermediation. Source: INDEC

\*EMAE data

Chart II.2

Issuance of Financial Trusts and Financing Cost



Source: BCRA based on CNV, BCBA and BCRA

## II.1 Macroeconomic context

### *Economic activity accelerated its expansion pace in 2013*

In the first half of 2013 GDP expanded, on average, 5.8% y.o.y., accelerating its growth pace compared to the previous half (see Chart II.3). This greater momentum of the economic activity in the first half of the year was mainly associated with a better performance evidenced by services —particularly, trade, transportation and financial intermediation— which was built upon a rise in agricultural production and a greater supply from industrial sectors driven by foreign demand. In recent months, and in line with the evolution of the trade flows of emerging economies, exporting sectors moderated their growth rate, whereas a rebound was observed in construction activity and other sectors related to internal demand. Thus, GDP growth pace recorded in the first half of the year remained stable.

Internal demand gained momentum throughout 2013. Private consumption rose considerably during the first half of the year, with an average growth rate of 7.7% y.o.y. (see Chart II.4). Gross domestic fixed investment (IBIF) reversed the drops recorded until late 2012, with a 9% y.o.y. rise during the first half of the year, standing at high levels compared to GDP (21.9% over the period). Partial indicators, both in terms of household consumption and capital expenditure, anticipate that both components of the aggregate demand would keep the upward trend during the second half of 2013.

Net exports of goods and services impacted negatively on GDP growth in year to date terms, deepening the trend seen by the end of 2012. Limited increases were recorded in amounts of goods exported in the first half of the year (+2% y.o.y. on average) in line with the weak economic performance posted by our main trading partners. However, according to foreign trade data, between July and October, foreign sale volumes accelerated their growth reaching 6.8% y.o.y. Such improvement was driven by better performance of the manufactures of agricultural origin —led by the soybean sector— which increased on average 23% y.o.y., after having recorded a 4.7% drop in the first half of the year.

Since the beginning of 2013, there has been an improvement in the volumes of goods and services imported, although according to foreign trade data, their y.o.y. expansion rate showed some deceleration in the last few months of the year. Thus, imports of goods have accumulated a 7% y.o.y. increase in the first ten months of 2013.

Chart II.3

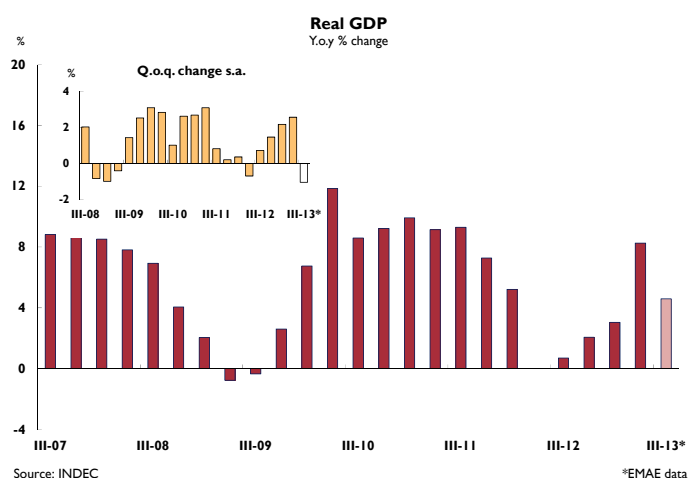


Chart II.4

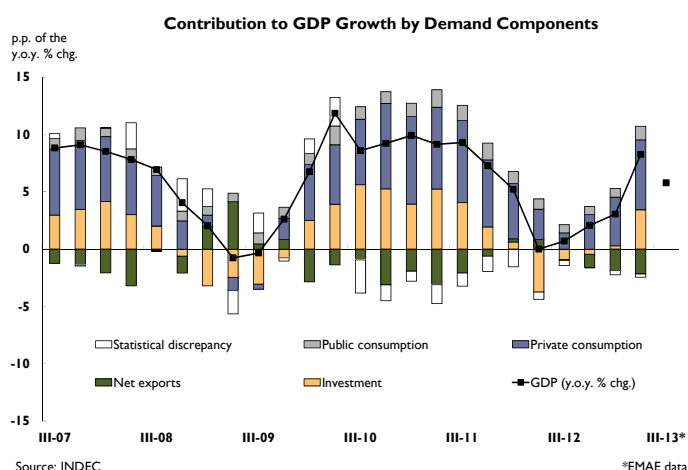
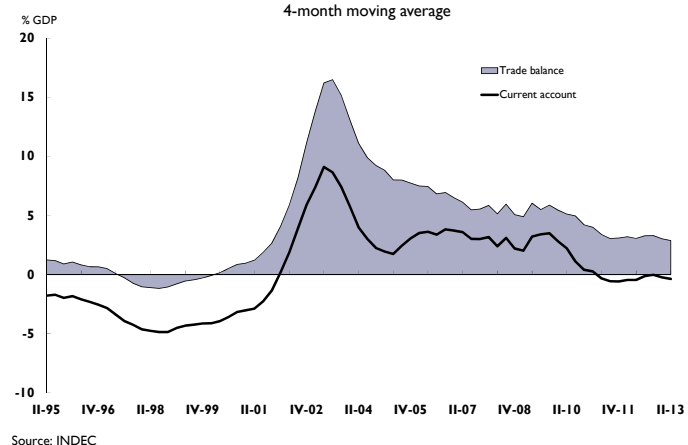
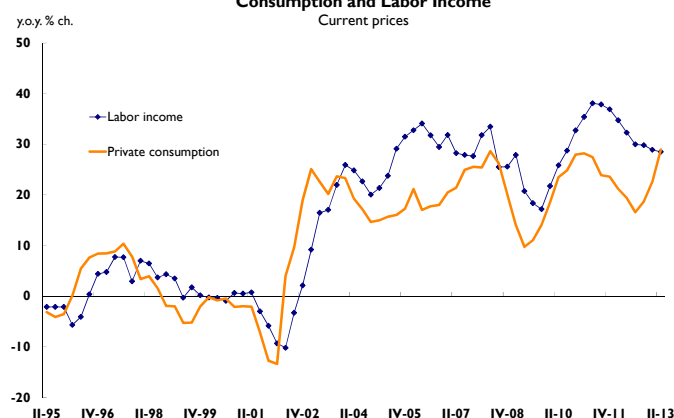


Chart II.5  
**Current Account Balance Evolution**  
4-month moving average

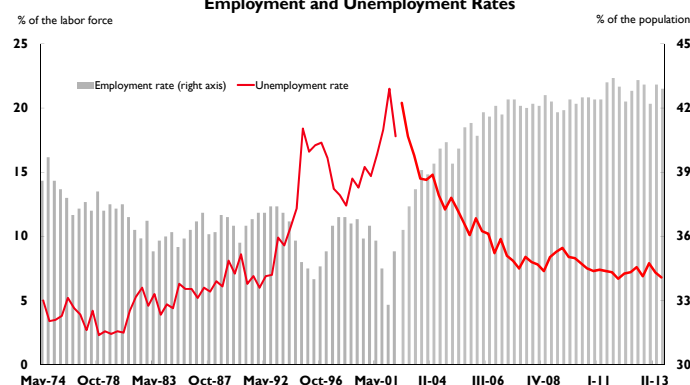


**Chart II.6**  
**Consumption and Labor Income**  
Current prices



Source: BCRA from INDEC data

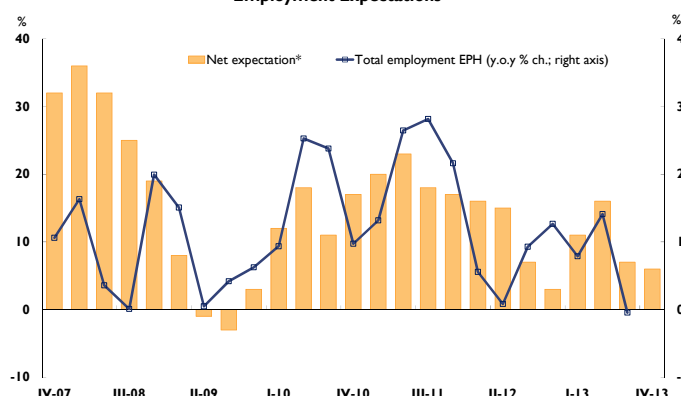
**Chart II.7**  
**Employment and Unemployment Rates**



The EPH currently covers 31 urban agglomerations, after a progressive incorporation since the beginning of the series in 1974. Since 1974 up to May 2003 the data corresponds to the discrete survey and then onwards to the continuous survey.

Source: INDEC

**Chart II.8**  
**Employment Expectations**



\*Survey performed based on a representative sample of 800 employers.

Source: Manpower and SIPA

The trend of imports and exports in terms of volumes, and their prices resulted in a lower trade surplus in y.o.y. terms. In the last twelve months, as of October 2013, the trade balance reached US\$9.5 billion mainly supporting, once again, the current account, which kept in balance (see Chart II.5).

During the second half of 2013, greater household spending was supported by increasing wage mass at sustained high levels (see Chart II.6). This took place in a context of sound labor conditions throughout the last few years. According to the Permanent Household Survey, in the 31 urban agglomerations surveyed, job creation continued on the rise, allowing the unemployment rate to stand at levels similar to those recorded in the previous year —6.8% of the labor force— (see Chart II.7). For the rest of the year, perspectives<sup>23</sup> seem to indicate that employment levels would remain stable (see Chart II.8).

During 2013, bank lending growth rate<sup>24</sup>, together with a solid labor market environment and sustained public transfers of income to lowest-income sectors allowed to underpin the growth in private sector consumption. The most relevant measures implemented include raises in Universal Child Allowance and Pregnancy Allowance for Social Protection as from June 2013, as well as adjustments on pensions in March and September, within the framework of the Social Security Mobility Law. Furthermore, the minimum wage was increased and income tax categories were adjusted to improve wage earners' net income and social security pension income.

## II.2 Monetary context

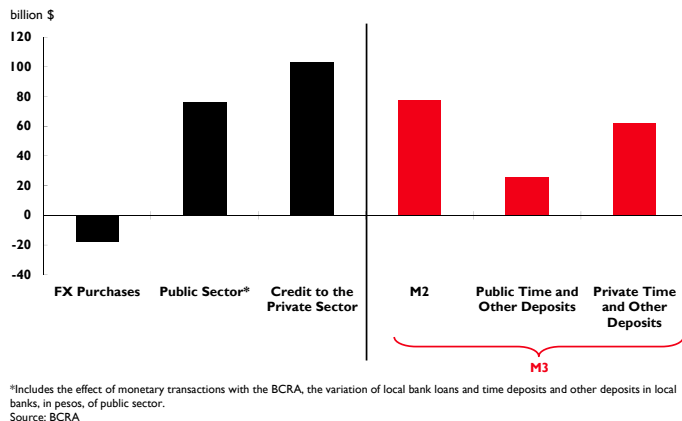
*The BCRA continues promoting long term financing to the productive sector, further encouraging economic activity and job creation*

During 2013, within the framework of the policies implemented by the BCRA, loans granted to the private sector continued to be the main driver of growth in monetary aggregates (see Chart II.9). In this regard, policies developed to encourage financing for productive purposes, through the Bicentennial Productive Financing Program and the Credit Line for Productive Investment, helped support a high growth rate of loans in pesos to the private sector, particularly, longer term loans and loans granted to micro, small and medium sized enterprises (MiPyMEs).

<sup>23</sup> As per Manpower: Survey on Employment Expectations conducted on an unbiased sample of 800 employers across the country, who were asked if they foresaw any changes in staff for the ongoing quarter.

<sup>24</sup> See Chapter IV for further information on the evolution of bank lending to companies and households.

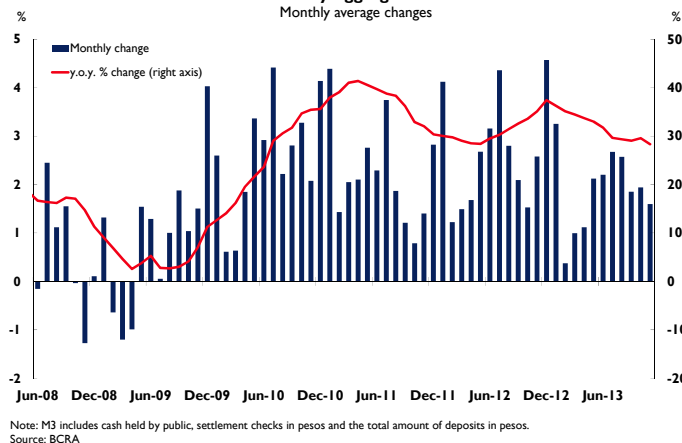
**Chart II.9**  
**Monetary Aggregates Explanatory Factors**  
(January-November 2013, in average)



The broadest monetary aggregate in pesos, M3<sup>25</sup>, posted a 28.3% y.o.y. growth in November. Following a 37.4% increase in December 2012, the M3 started to moderate its growth in the first half of 2013, keeping a steady expansion pace since midyear (see Chart II.10). Its share in relation to GDP stood at 31.3% in November, posting a cumulative growth of 1.3 p.p. over last year.

In turn, the private M3<sup>26</sup> accumulated a 30.1% rise in the past twelve months. The performance of private sector time deposits—which posted a rise close to 39.2%—is one of the M3 components that should be highlighted (see Chart II.11). Increases were observed in deposits under \$1 million (30.8% y.o.y.) and in deposits of \$1 million and more (47% y.o.y.). The historically high rate of growth evidenced by time deposits has made that this type of deposits continue increasing its share within the private M3, until reaching nearly 31.5%, the highest level achieved in the last few years.

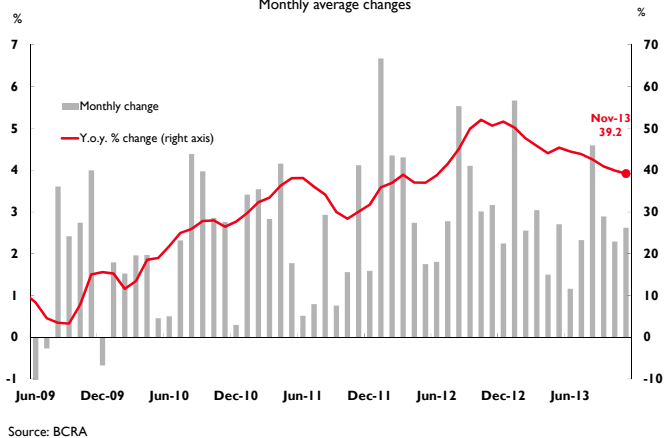
**Chart II.10**  
**Monetary Aggregates - M3**  
Monthly average changes



As regards the foreign currency segment, private sector deposits continued contracting virtually throughout 2013, except for September, when deposits increased as boosted by the payment of BONAR VII. In addition, it is worth pointing out that the Argentine financial system maintains high dollar liquidity levels and low dollarization and currency mismatching levels. This was possible as a result of macroprudential policies implemented over the last few years, which allowed coping with the return of all the deposits when required.

As of November 30, 2013, the balance of international reserves totaled US\$30.8 billion (see Chart II.12). After recording net purchases in the Free and Single Foreign Exchange Market (MULC) in the first half of the year, the BCRA intervened in the market by selling foreign currency in order to ease exchange rate fluctuations. Moreover, throughout the year, public sector debt in foreign currency continued to be repaid within the framework of the foreign debt relief policy.

**Chart II.11**  
**Private Sector Time Deposits**  
Monthly average changes



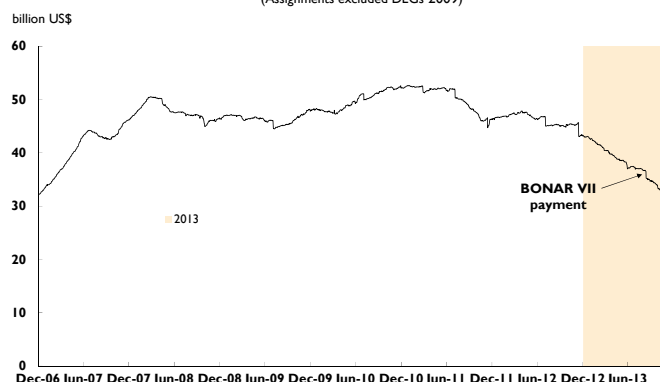
## II.2 Capital markets

Argentine financial assets mostly recorded positive year to date performance, with a marked upward trend in prices which was momentarily interrupted in May and June in line with the rising tension levels observed in emerging countries. Improvements in the prices of more liquid instruments were accompanied by higher trading volumes, both in terms of fixed income assets as well as stocks. In turn, financing through capital markets kept a solid pace; especially, in the last few months, financial

<sup>25</sup> It includes cash held by the public, settlement checks in pesos and deposits in pesos.

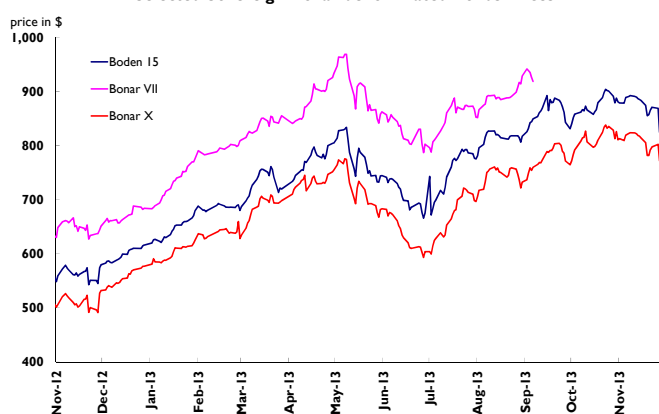
<sup>26</sup> It includes cash held by the public, settlement checks in pesos and deposits in pesos of the non-financial private sector.

**Chart II.12**  
**BCRA International Reserves**  
(Assignments excluded DEGs 2009)



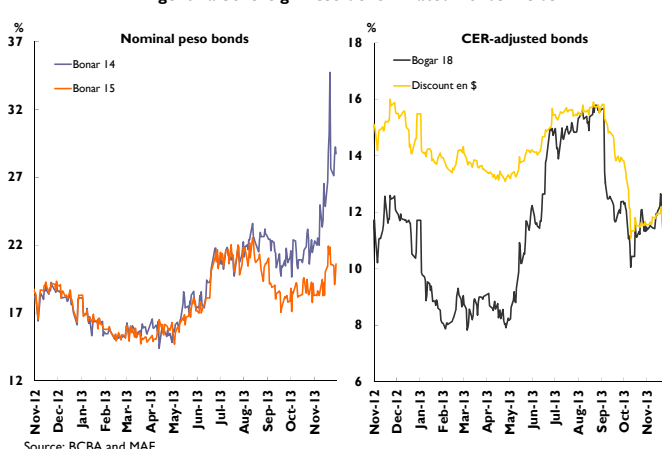
Source: BCRA

**Chart II.13**  
**Selected Sovereign Dollar-denominated Bonds Prices**



Source: BCBA and MAE

**Chart II.14**  
**Argentina Sovereign Peso-denominated Bonds Yields**



Source: BCBA and MAE

trust issues associated to loans for infrastructure and housing, and the new funding obtained by banks through corporate bonds should be underscored. Looking into the future, the upward trend in prices of high liquid sovereign bonds and domestic stocks recorded over the last few months will continue as long as no new volatility episodes arise in international markets.

***Sovereign bonds with greater liquidity kept evidencing a positive trend although they recorded temporary interruptions***

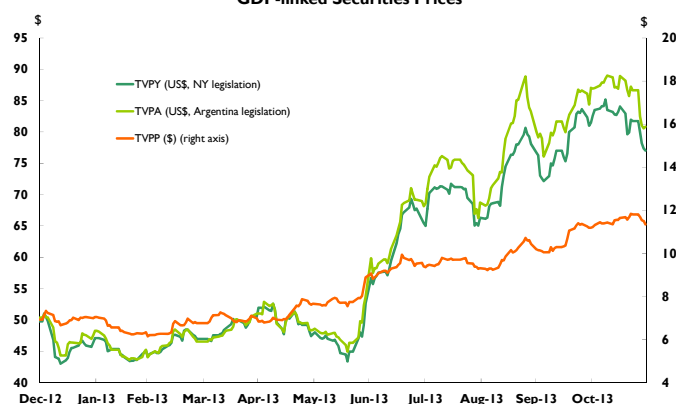
Prices of the most liquid sovereign bonds —instruments in the shortest segment of the curve in US dollars— extended, from May to November, the favorable trend that had been observed since the end of 2012, even though a downward pressure was recorded in most of the second quarter of 2013; signs of recovery were subsequently noticed (see Chart II.13)<sup>27</sup>. The price of bonds in pesos exhibited a heterogeneous performance with a trend towards the expansion of yields. Regarding coupon bonds with nominal value in pesos at BADLAR rate at Private Banks, yields expanded over 500 b.p. for Bonar 15 from late April to late November (see Chart II.14). This rise in yields was recorded in a context where the BADLAR rate at private banks increased almost 390 b.p. In turn, CER-adjusted securities posted mixed performance in their yields, with an average expansion close to 160 b.p. since late April. Regarding GDP-linked units, their prices increased over 50% in the past seven months, especially due to improvements observed as from June thereby reflecting higher growth in activity level<sup>28</sup> (see Chart II.15).

Contrary to the performance observed in early 2013, prices of Argentine sovereign bonds in US dollars subject to foreign legislation in international markets posted a positive balance since late April, which resulted in a contraction of sovereign spreads. Indeed, considering the developments in the lawsuit between the Argentine Republic and the holdouts in New York courts, the spread of the EMBI for Argentina shrank over 400 b.p. in the last seven months (see Chart II.16), unlike the situation recorded for the Latin American EMBI. In turn, prices of Argentina's CDS at a 5-year period decreased almost 800 b.p. during the period. The most significant downward adjustment in both the Argentine EMBI and CDS occurred in the past three months.

<sup>27</sup> Regarding this segment, the final amortization of the Bonar VII was formalized by mid-September for an amount exceeding US\$2 billion.

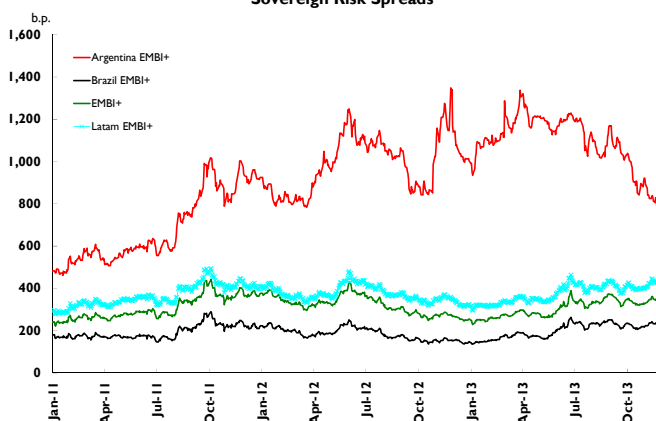
<sup>28</sup> It may imply the coupon payment in 2014.

**Chart II.15**  
**GDP-linked Securities Prices**



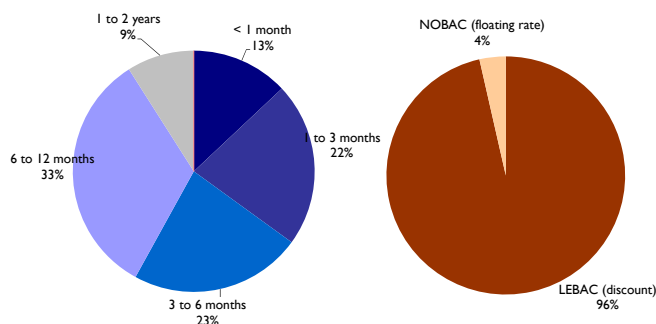
Source: Bloomberg based on domestic brokers

**Chart II.16**  
**Sovereign Risk Spreads**



Source: Bloomberg

**Chart II.17**  
**LEBAC and NOBAC Stock Composition**  
Outstanding stock by maturity and type of interest rate as of end of Nov-13



Source: BCRA

***Rates on LEBAC bills increased in primary and secondary markets in May and June and subsequently exhibited a more stable performance***

The stock of outstanding BCRA instruments at the end of the first quarter of 2013 climbed almost 6% reaching \$114.9 billion at the end of November. As previously observed, the hike was driven by LEBAC issues, which increased 11%, whereas the stock of NOBACs continued shrinking. Thus, the share of LEBAC bills in the stock of outstanding BCRA instruments continued rising until accounting for almost 96% of the total (see Chart II.17). In turn, as instruments were issued at shorter terms, the weighted average term by amount of bills fell, standing close to 175 days. Thus, 58% of the outstanding stock is accounted for by instruments having a remaining term of up to 180 days. Meanwhile, cut-off rates on bills improved almost 160 b.p. up to the first auctions in June and then remained stable at the level reached (see Chart II.18).

Regarding the performance of these instruments in the secondary market, a rise in the amounts traded has been observed since April; this hike was consolidated in the past few months. As it has happened since the start of the year, transactions in bills continued to prevail. Rates of return on these bills have expanded around 240 b.p. since April (see Chart II.19), with greater hikes being observed between May and June in line with the performance registered in the primary market. In turn, transactions with notes kept on falling, occasionally being recorded as from August.

***The volume of transactions in fixed income instruments in the domestic market reached its maximum level in the year***

The amount traded in fixed income assets over the past seven months reached a daily average level of nearly \$3.8 billion (including transactions with BCRA bills and notes as well as sovereign bonds), hikes observed in September and October being particularly underscored. This implied a 20% improvement compared to the previous seven months, and over a 60% rise in y.o.y. terms. There was an increase in transactions with BCRA instruments and sovereign bonds in the past seven months. With respect to sovereign bonds, transactions mainly involved instruments denominated in dollars (over 65% of the total traded in the Electronic Open Market —MAE—), such as Boden 15, Bonar VII (up to its maturity, in September) and Bonar X (see Chart II.20). In turn, transactions in bonds denominated in domestic currency have increased since the maturity of Bonar VII. Amongst these kinds of bonds, Bonar 14 and



Chart II.18  
LEBAC Auctions

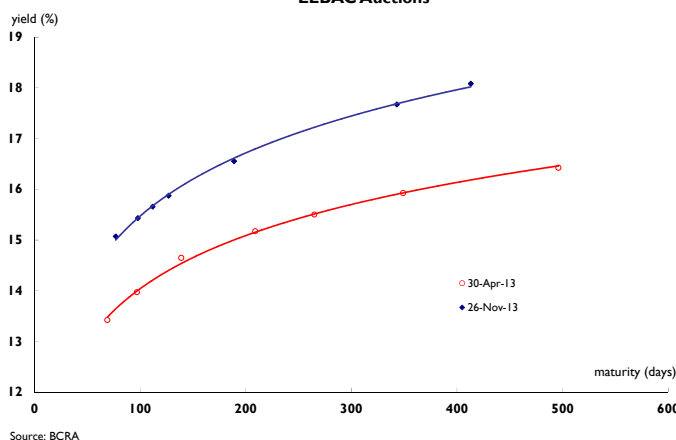


Chart II.19  
BCRA Secondary Market Yield Curves (Lebacs)

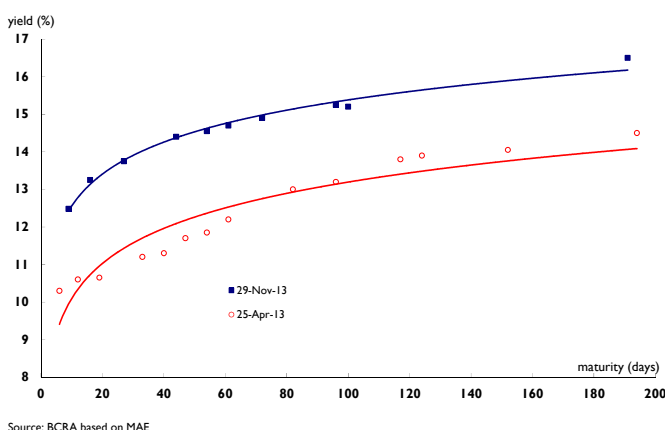
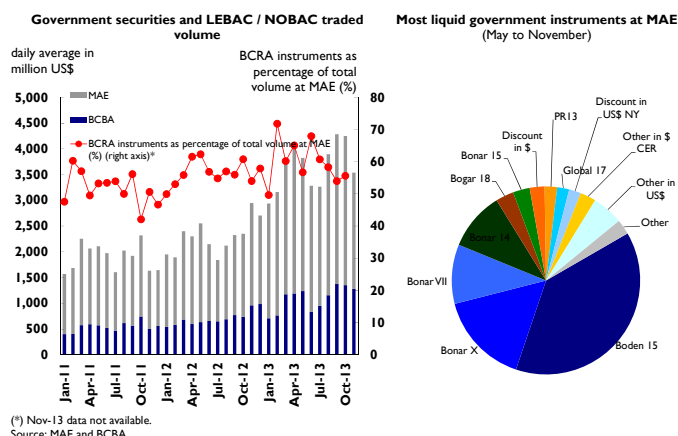


Chart II.20  
Fixed Income Instruments- Traded Volume



Bonar 15 should be highlighted along with CER-adjusted instruments, such as Bogar 18 and Discount bond in pesos.

*Regarding financing through instruments from the capital market, trusts for infrastructure and housing purposes should be highlighted as well as corporate bonds from the financial sector*

Financing to the private sector and for infrastructure and housing purposes through instruments from the capital market continued growing since late April. Lending exceeded \$45 billion<sup>29</sup> from May to November, going up 31% against the previous seven months and 84% y.o.y. The new Law on Capital Markets (see Box 2) is expected to continue stressing the role of markets as financing source in the medium term.

From May to November, financing through trusts were to the tune of \$27.4 billion, well above \$9.9 billion against the previous period (see Chart II.2). A significant part of this rise was linked to securitization for financing infrastructure and housing, particularly the transaction regarding the Pro.Cre.Ar program for \$15.5 billion should be highlighted. In turn, the amount of financing not related to infrastructure and housing totaled around \$11.8 billion between May and November 2013, going up 21% against the previous seven months. The cut-off rate on these instruments increased since May, in symphony with the BADLAR rate at Private Banks; the cost climbed by 220 b.p. on average against the previous seven months.

Companies obtained financing through corporate bonds for around \$15.1 billion from May to November<sup>30</sup>, with a significant amount of issues being recorded over the period. Nevertheless, this amount fell 35% compared to the previous seven months due to the number of YPF's shares issued from October 2012 to April 2013 (see Chart II.21). Leaving aside YPF issues, a 13% rise was observed between these two periods. In turn, 74% of the total amount issued in the last few months corresponded to bonds in domestic currency with shorter terms<sup>31</sup>. Financial sector issues prevailed, concentrating 42% of the volume recorded in the period, followed by those of the oil sector (on the basis of YPF issues) which accounted for 30% of the total. As regards financial sector issues, a 23% increase in volume was recorded compared to the previous period as a result of an increase in bank issues. Banks and financial institutions obtained longer

<sup>29</sup> Excluding loans for infrastructure and housing purposes (associated to financial trusts), the amount rises to almost \$29.5 billion in the months between May and November, compared to almost \$34.2 billion recorded in the previous seven months.

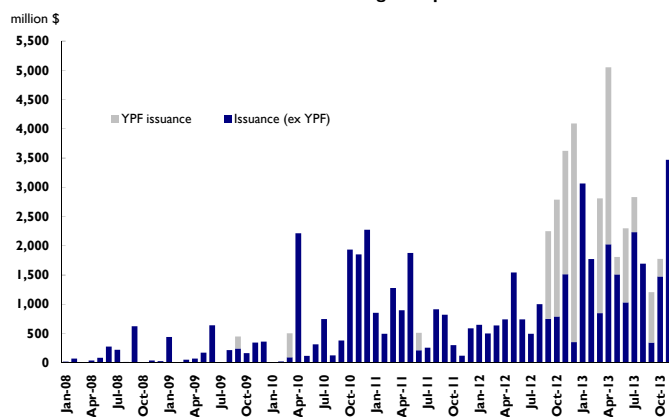
<sup>30</sup> It includes an YPF issue in international debt markets amounting to US\$150 million.

<sup>31</sup> The average term classified by amount of issues in pesos was 30 months between May and November 2013, as opposed to the 45 months recorded in the previous seven months.



Chart II.21

## Private Sector Financing - Corporate Bonds



Source: BCRA based on IAMC, CNV and BCBA

Table II.1

## Financial Sector Bonds Placed in the Local Market

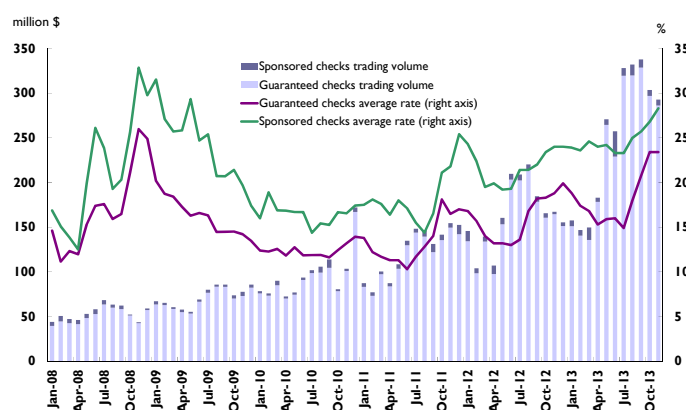
Financial Services Companies (based on the local market)						
	Banks					
	Volume (million \$)	Number of issues	Currency		Average maturity of peso-bonds (months)	Cost* of peso-bonds (%)
			\$ (%)	dollar-linked (%)		
Oct-12 to Apr-13	1,776.3	18	100%	0%	19.97	19.8
May-13 to Nov-13	3,502.7	29	89.4%	10.6%	24.76	22.1
Financial Services Companies						
Oct-12 to Apr-13	3,416.7	46	97.9%	2.1%	17.3	19.9
May-13 to Nov-13	2,865.5	37	100%	0%	18.8	21.3

(\*) amount weighted average

Source: BCRA based on BCBA and CNV.

Chart II.22

## Trading of Deferred Payment Checks



Source: BCRA based on IAMC

term financing than those they had been issuing in the past (see Table II.1), albeit at a higher cost, in line with the increase of the BADLAR rate at private banks.

With more than \$2.1 billion of deferred payment checks negotiated between May and November 2013, the volume recorded by this segment virtually doubled in relation to the previous seven months (see Chart II.22). Moreover, the average maturity of issues reached a record level of almost seven months<sup>32</sup>. Weighted average rates required for the guaranteed checks segment kept a rising trend since May, although a 100 b.p. increase was observed (on average) against the previous period.

***The rise in share prices was accompanied by a strong increase in trading volumes***

Shares also improved substantially in the past few months, despite the downward pressure recorded in May and June. The Merval index broke a new historical record in pesos, accumulating since late April an increase of almost 50% measured in pesos (25% in dollars at the wholesale exchange rate). On a sector-by-sector basis, shares of the banking, electric energy, and gas supply industries recorded the greatest hikes, ranging from 75% to 100%<sup>33</sup> on average. In turn, traded volume in the domestic market increased 67%, reaching between May and November an average of \$79 million against the \$47 million recorded in the previous seven months, whereas in y.o.y. terms the growth exceeded 136%<sup>34</sup>.

***Transactions in foreign exchange and interest rate derivatives markets continued contracting***

Amounts traded in exchange rate derivatives fell 8.5% y.o.y. between May and October 2013<sup>35</sup>. This contraction was mainly due to the amount of derivatives traded in the MAE, which recorded a 24% drop against the same period of 2012. Despite implicit rates on futures contracts in dollars with the nearest maturity date expanded in the abovementioned period, especially, as from August, the sustained growth posted by the BADLAR rate at private banks led to a relatively stable spread. During the past seven months, transactions with interest rate derivatives on the BADLAR rate at private banks recorded an 87% y.o.y. drop; likewise, contracts negotiated on a y.o.y. basis fell in the last few months.

<sup>32</sup> Average term increased from 158 days in the period between October 2012 and April 2013, to more than 200 days in the period between May and November 2013.

<sup>33</sup> Average return of main listed companies.

<sup>34</sup> In October, average daily traded volumes recorded their highest peak in over 5 years, with rounds of volumes exceeding \$170 million.

<sup>35</sup> Last month with available information.

## *Box 2 / New Law and Regulation on Capital Markets*

**The main aspects of the new Law on Capital Markets passed in late 2012 include, among others, the consolidation of the role played by the Argentine Securities Commission (CNV) as a regulatory body, the progress made in achieving an integrated and national market scheme and the entrance of new participants to the market. The regulation of this Law established the specific requirements that each category of agents will have to comply with and also drafted a work agenda which will gain special relevance in 2014. Next year, markets will have to be fully interconnected, all agents will have to be recorded with the CNV, and regulatory capital requirements along with the requirement of listing the shares traded should be underway**

The new Law on Capital Markets (No. 26,831), which was passed in late 2012, updates the structure established in the Law on Public Offerings of 1968 (No. 17,811), as amended by Decree No. 677/01 (Transparency Regime). The explicit goals of this new Law include promoting new participants in the market, strengthening mechanisms for the protection of small investors, promoting access of small and medium-sized companies to the capital market, fostering the creation of a nationally integrated capital market, and encouraging simpler trading procedures. The Law was subsequently regulated as under Decree No. 1,023/13 and General Resolution No. 622/13 of the CNV<sup>36</sup>, published in early August and September 2013, respectively.

The main changes introduced by this Law include, among others, the strengthening of the role played by the CNV as regulator and supervisor of capital markets as a whole. In practice, this implies a significant change in the market self-regulated paradigm, and reflects the trend observed at an international level in the last few years towards building stronger and more comprehensive regulatory schemes that may allow coping with more complex and interconnected markets. The Law empowered the CNV with new functions; therefore, the CNV has now the power to supervise, regulate, inspect, control and impose a penalty on all agents performing activities related to the public offering of tradable securities. This includes keeping a registry and having the power to grant, suspend and withdraw the license of any natural and legal persons whose activities are related to capital markets.

<sup>36</sup> This gave rise to a new consolidated text of CNV rules, available in its institutional website.

Moreover, the CNV shall issue the regulations that all agents must comply with for registration purposes and those required for the authorization of tradable securities<sup>37</sup>; the CNV will also establish the regulatory capital requirements for all agents. In turn, CNV functions now explicitly include, among others, the promotion and protection of the interests of small investors, and the promotion of capital market development, as well as the promotion of the creation of products deemed necessary for such purpose.

In line with its new functions, the CNV has currently more powers, resources and territorial coverage. In terms of the supervisory and control power of the Commission, new measures are added to the existing courses of action, including mechanisms for the protection of the interests of small investors<sup>38</sup>. Additionally, the Law sets forth that registered agents shall be subject to the sole disciplinary jurisdiction of the CNV. In terms of the CNV's economic funds, in addition to the funds assigned by the Law on Budget, the Commission receives funds from the fines imposed<sup>39</sup>, and from inspection and monitoring fees and authorization fees. Lastly, in line with the goal of interconnecting capital markets at a national level, the CNV is authorized to have regional offices<sup>40</sup>.

As regards markets in particular, aspects related to their composition come along with the abandonment of the self-regulated paradigm. Also, in line with international trends, the new Law promotes a demutualization process. It establishes that markets will necessarily have to be corporations governed by the public offering scheme. In turn, markets will no longer require agents to be shareholders of their own markets as a condition to trade. As regards the first aspect mentioned, the regulation has set forth that before the end of 2014,

<sup>37</sup> The CNV shall be the sole regulatory body in charge of controlling public offerings.

<sup>38</sup> The ability of issuing summons, requesting searches and any and all kinds of information have been added to already existing actions (such as requesting reports, carrying out inspections and investigations, asking for the help of the public force, filing lawsuits and criminal complaints, and becoming a plaintiff). Should it be determined that the interests of minority shareholders and/or holders of securities (their share in total outstanding holdings representing not less than 2%) have been affected, the Law sets forth that the CNV may appoint inspectors with power to veto any resolutions adopted by the entity's management bodies or remove members of the entity's management bodies for a period not exceeding 180 days.

<sup>39</sup> The amounts of fines have also been updated.

<sup>40</sup> The regulation sets forth that the CNV shall determine the powers to be delegated to the regional offices. Moreover, the Commission shall submit to the Ministry of Economy and Public Finance (MECON) the proposed geographical jurisdiction of any such office.

shares must be authorized for public offering and listed in an authorized market (see Table B.2.1). Additionally, the CNV determined that no shareholder shall, whether directly or indirectly, hold more than 20% of a market's equity in order to avoid the existence of controlling groups.

**Table B.2.1**  
Regulation of Law 26,831. Planned Schedule.

Date	Issue
Dec-1-13	agents (brokers, producers, etc.) must request an appointment with the Security National Commission (CNV) to submit documentation for authorization and registration
Jan-1-14	markets must submit audit plans, manuals and schedule for first half of 2014
Mar-1-14	all trading sessions must be through computer systems authorized by CNV
	markets must implement order routing between different authorized systems and for clearing and settlement must use interconnected systems
	deadline for registration of agents with the CNV and beginning of operations under Law 26,831
	Registry of Suitable begins to rule
	compliance of 50% of minimum capital requirements for different agents
Jun-30-14	deadline for adaptation of agents operating structure to new market guidelines
Sep-1-14	full compliance of minimum capital requirements for different agents
Dec-31-14	securities markets must have public offering and listing of shares

Source: NT2013 Título XVII and interpretations notes

Another main aspect introduced by the Law is that all markets will have to be interconnected, keeping a shared order book. This measure seeks to put an end to previously existing market fragmentation in the interest of a nationwide scheme, with improvements in transparency and liquidity. This Law's regulation sets forth that markets should comply with the requirements of interconnection and disclosure of order information and transactions since October 2013. In turn, by March 2014, the process of interconnecting markets will have to be completed and fully functional.

In view of the new functions of the CNV, all agents will have to be registered with such institution no later than March 1, 2014. The new Law includes an exhaustive list classified by type of agent, which may eventually be modified by the CNV in the future. In turn, the regulation of the Law establishes the requirements for each one of the categories developed. On the one hand, the minimum net worth requirement per type of agent is set; and, on the other hand, the percentage to be built into liquid assets is established. This adjustment shall be gradually implemented: by March 1, 2014, 50% of the net worth requirement shall have to be fulfilled, while the total amount required having to be fulfilled by September 1, 2014.

The regulation also establishes non-economic requirements per category of agent. Such requirements include legal form, internal organization, management and supervisory bodies, IT requirements and external audits of annual processes, standards and codes of conduct,

information reporting systems, among others.<sup>41</sup> In this regard, two new functions are established for many categories of agents: regulatory compliance and public relations<sup>42</sup>. Moreover, a public registry of qualified individuals, managed by the CNV is established. Enrollment is required for all individuals carrying out sale, promotion or advisory related activities (valid for 5 years, renewable). In addition, agents trading in the market shall establish a Guarantee Fund to satisfy Customer Claims. Lastly, it is worth mentioning that CNV non-economic requirements include ceilings to commissions, fees and charges collected by certain agents<sup>43</sup>.

As it has already been mentioned, one of the goals of the Law is to promote the participation of new agents in the market<sup>44</sup>. A specific case is that of risk rating agencies, authorized public universities being now eligible to conduct rating tasks<sup>45</sup>. As for rating agencies, the regulation of the Law also establishes a rotation scheme; agreements between rating agencies and contracting parts shall be valid for a maximum term of 4 years. Once this term has elapsed, the rating agency will no longer be able to issue reports on the same contracting part for at least 4 years. In turn, rating agencies are required to inform if more than 10% of their annual income comes from a single contracting body.

Summing up, besides the reform of the regulation of the banking sector brought about by the amendments made to the BCRA Charter, the new Law on Capital Markets highlights the strengthening of the role of the public sector as regulator and supervisor of markets. Thus, the implementation of this Law in the coming months will pave the way to a more approachable, integrated, efficient, transparent and fair capital market, ensuring its depth and channeling savings towards productive investment with a view to minimizing market systemic risk.

<sup>41</sup> The criteria for interpreting markets and agents were released in November. They introduced greater flexibility in terms of already existing agents.

<sup>42</sup> The first case is about an independent agent assessing compliance with the Law and Regulation on Capital Markets, and following up on the systems, internal control mechanisms and procedures. The second case is about someone in charge of channeling questions from the public and market agents. In both cases, the corresponding agent submits, on a regular basis, performance reports to the CNV.

<sup>43</sup> Additionally, agents will have to publish a detailed list of commissions, fees and charges they apply to their services.

<sup>44</sup> The regulation sets forth that several types of economic agents (union associations, industry groups and trade associations, professional associations, notaries, professionals enrolled in Boards of Accountancy, lawyers, etc.) complying with the requirements of each category of agent shall be entitled to perform the relevant duties.

<sup>45</sup> For the role of risk rating agencies in financial markets in general, conflicts of interest, and issues normally related to the structure of rating markets, see Box 2 of the Financial Stability Report corresponding to the first half of 2012.

# III. Debtors Performance

## Summary

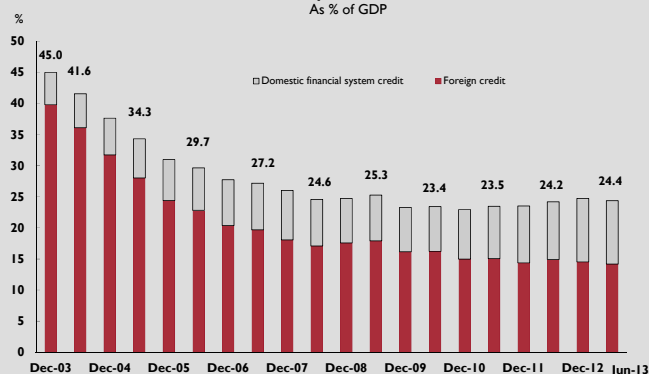
Throughout the first half of 2013, the indebtedness of the corporate sector in GDP terms did not show significant changes, reaching 24.4% in June. This evolution took place within a context of expansion of the amount of debt and the product. Domestic financial system weighting increased, driven in part by the Bicentennial Productive Financing Program and the Credit Line for Productive Investment.

At the sectorial level, companies related to the industrial activity and, to a lesser extent, to trade, recorded an increase in their indebtedness levels in the first half of 2013. Industrial companies exhibited a rise in terms of use of funds from the domestic financial system, with an increased share of resources obtained from non-residents in total funding, mainly reflecting the effects of higher nominal peso-dollar exchange rate in the period. In turn, primary production of goods and, to a lesser extent, service and construction companies reduced their aggregate leverage levels over the second six-month period of 2013. Thus, in general, the different productive sectors maintained their financial capacity.

Throughout 2013, households' indebtedness level, as measured in terms of the annual wage mass, remained unchanged. Until September, indebtedness stood at around 31% due to similar percentage changes in the sector's income and outstanding debt. Low indebtedness together with a stable labor market have contributed towards building households' payment capacity.

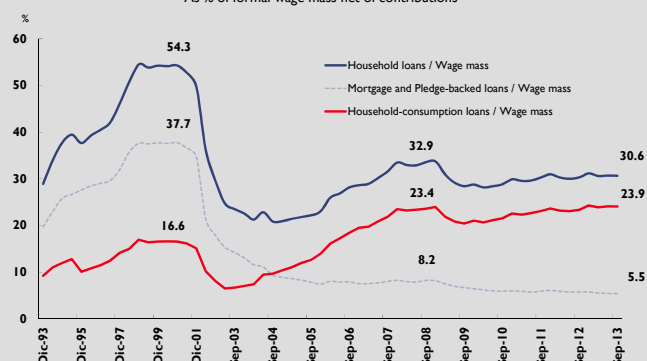
As regards the National Public Sector, tax revenue kept a high expansion rate. Likewise, income and primary spending continued growing at similar rates, enabling an almost balanced primary result. It is worth mentioning that domestic demand was supported by the major segments which boosted spending. The National Public Debt held by the private sector continued contracting until reaching 12.3% of the GDP as of June 2013. Out of such total, 9.3 p.p. were liabilities in foreign currency.

**Chart III.1**  
**Corporate Debt**  
As % of GDP

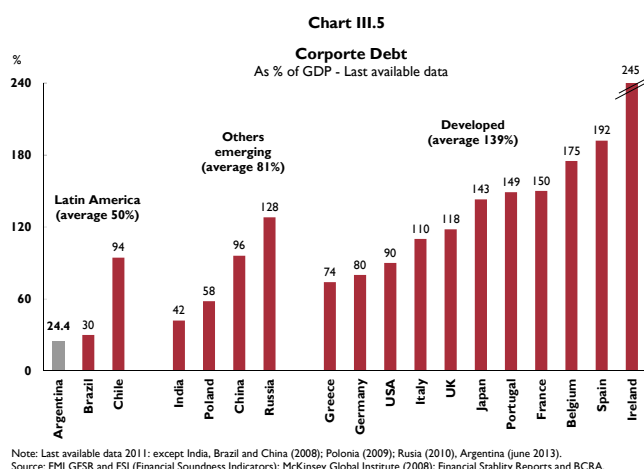
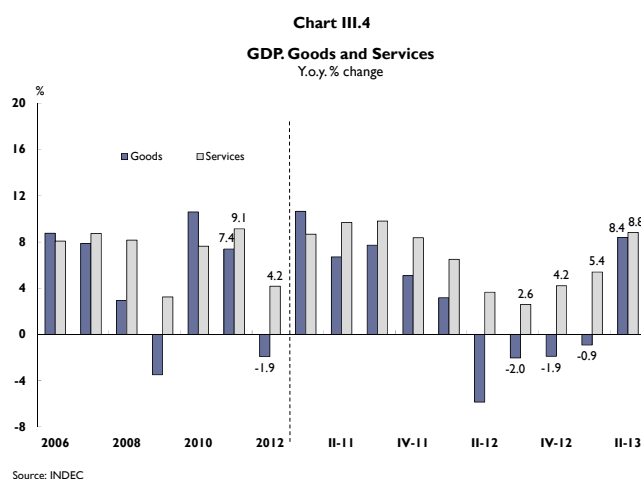
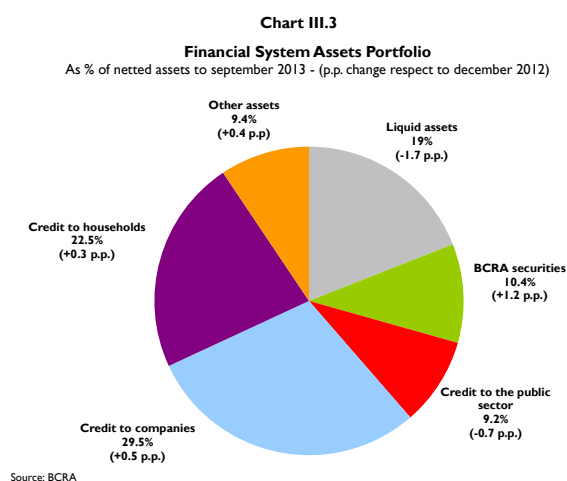


Note: Data subject to subsequent changes.  
Source: BCRA and INDEC

**Chart III.2**  
**Household Debt**  
As % of formal wage mass net of contributions



Note: Loans to households include financial system financing, financial trusts for consumption loans as underlying assets (credit cards and personal loans) and the stock of non-bank credit cards. Data subject to subsequent changes. Source: BCRA, INDEC and SIPA.



### III.1 Financial System Debtors

*Weighting of bank assets to finance the private sector increased, especially credit lines channeled to companies, whereas public sector exposure levels decreased*

The share of lending to the private sector in the financial system assets rose in 2013 to date (see Chart III.3) following the trend observed over the last few years. The greatest relative weight of this item in the balance sheet of institutions resulted from the remarkable relative growth of lending to the corporate sector, accounting for almost 30% of bank assets, 7 p.p. over the weight of credit lines to households. In turn, there was a drop in the share of liquid assets—in a broad sense (including LEBACs and NOBACs)—and in the financial system exposure to the public sector.

### III.2 Corporate Sector

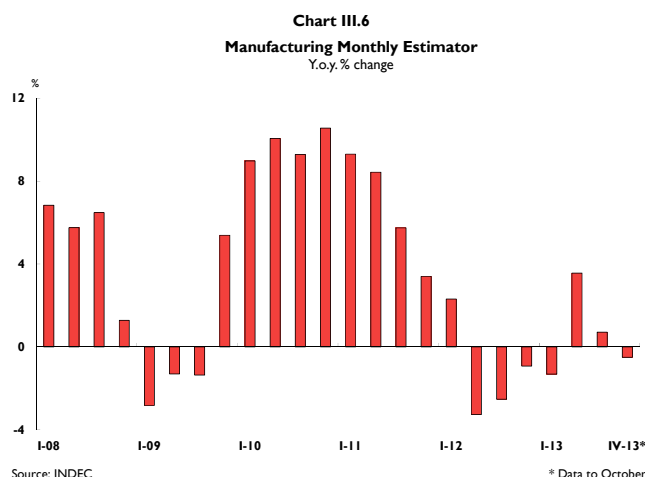
*The activity of companies producing goods and services has been growing in a context of moderate indebtedness levels. Thus, business sector payment capacity remained practically unchanged*

GDP continued growing during the second half of 2013, driven by a rise in the production of goods and services. Moreover, the construction sector continued recording y.o.y. increases, whereas the pace of expansion in the industrial sector stabilized. The agricultural sector also recorded increases, mainly explained by a hike in livestock and agricultural activities, associated to the end of the 2012/13 cycle and the beginning of the 2013/14 cycle.

Service sector recorded a positive performance showing an expansion rate in 2013 (see Chart III.4). Wholesale and retail trade, as well as communications and transport hit once again the highest growth rate, remarkably contributing to the improvement of the economic activity.

Aggregate indebtedness<sup>46</sup> levels of companies producing goods and services slightly dropped by 0.4 p.p. in the first half of 2013, to 24.4% in June (see Chart III.1). It is worth highlighting that the indebtedness level of the corporate sector in Argentina stands below those seen in other emerging and developed countries (see Chart III.5). Out of the total indebtedness of companies in Argentina, funds channeled through the financial sector

<sup>46</sup> It includes financings granted by the domestic financial system and by lenders abroad.



accounted for almost 42% by mid-2013, a weighting that has grown by 11 p.p. since 2007.

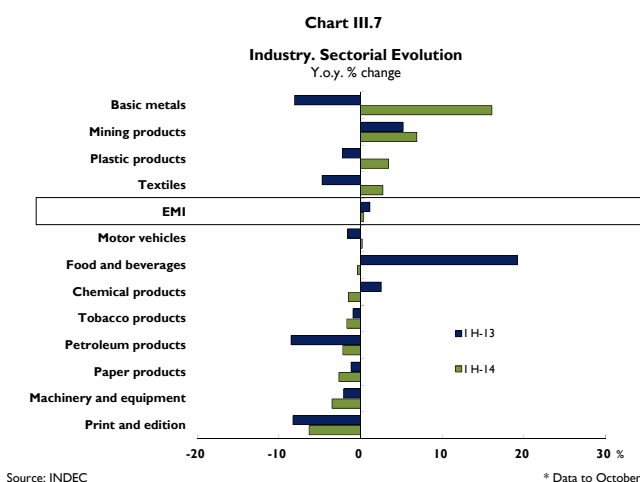
When broken down by productive sector, financing channeled to the industry continues to have a greater share in total lending to companies (accounting for almost 39.9% of the total), followed by services (20.8%) and the primary production of goods (18.1%) (see Chart IV.8).

## Productive Sectors

### Industry

*Industry's aggregate indebtedness showed a minor rise in a context of gradual improvement of industrial activities*

In y.o.y. terms, industrial activity levels went up in the year to date; although, in the last few months, a reduction in the expansion pace was observed (see Chart III.6). The manufacturing sector was mainly boosted by non-metallic mineral products and basic metals in the second half of the year. In turn, the downward momentum experienced by the industry over the last few months largely derived from the performance of the automotive sector (see Chart III.7), given the drop of exports to Brazil. The slowdown observed in the production of both the metal-mechanical and the chemical industries also impacted on the industry's performance. In this context, the use of installed capacity (UCI) posted a year-on-year drop in 2013, though at a slower pace in the second half of 2013.



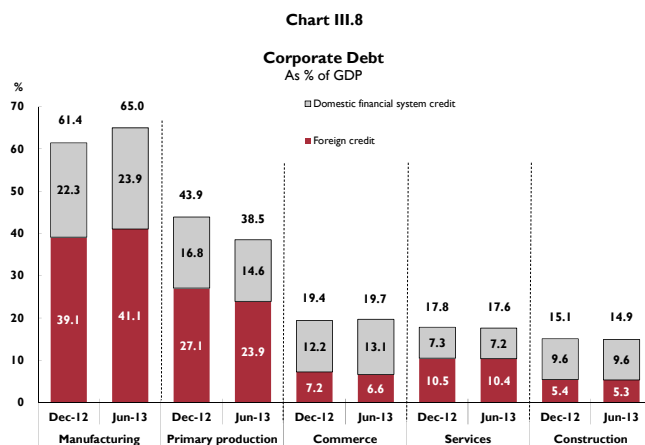
The estimated level of indebtedness by industrial companies totaled 65% of GDP by mid-2013 (see Chart III.8), having grown by slightly over 3.5 p.p. in the first half of the year. This performance was mainly the result of financing channeled through the domestic financial system, which accounted for almost 37% of the total, boosted by the Credit Line for Productive Investment and the Bicentennial Productive Financing Program. External indebtedness<sup>47</sup> also increased its weighting in the GDP, mainly due to the evolution of the nominal peso-dollar exchange rate in the period.

### Agricultural sector

*There was a recovery in agricultural production over the last few months with a lower relative level of debt, which contributed to the consolidation of the financial position*

<sup>47</sup> It should be noted that around two thirds of total external indebtedness is mostly associated to lending to trade-related activities —liabilities from imports and exports— and, to a lesser extent, to financial facilities —financial loans and debt securities, among others—.





Note: Data subject to subsequent changes.  
Source: BCRA and INDEC

The agricultural sector recorded increases in the past few months as a result of activities associated to the end of the 2012/13 cycle, and the beginning of the 2013/14 one. Particularly, last year's cycle ended with a record harvest of about 106 million tons (+15.1%)<sup>48</sup>, due to high corn production levels — 32.1 million tons — and a rise in soybean harvest amounting to 49.3 million tons (see Table III.1). In terms of the new cycle, wheat sowing areas increased, stretching across 3.3 million hectares. In turn, planting of corn continued, although the estimated sown area is smaller than that of the previous cycle; the soybean sowing area is estimated to reach 20.7 million hectares.

The livestock sector's activity continued increasing over the year. Bovine slaughtering posted a hike of about 13% y.o.y. in the third quarter, after rising approximately 12% y.o.y. in the first half of 2013. Poultry slaughtering gained momentum during the year, growing 4.7% y.o.y. between July and September; whereas dairy production exhibited a fall, albeit recording an improvement in the last few months.

Indebtedness of the primary sector's companies declined slightly over 5 p.p. in the first half of 2013, reaching 38.5% of GDP (see Chart III.8). Both, the external indebtedness segment, and to a lesser extent, the domestic indebtedness segment were the main reasons behind this performance over the first half of the year<sup>49</sup>. Moreover, in the last few months, companies' performance together with lower leverage levels had a positive impact on financial perspectives.

### Service sector

*The aggregate payment capacity of service companies seems to remain practically unchanged as a result of their increased levels of activity and moderated debt ratios*

Public services consumption continued to show a positive trend during 2013, accelerating its growth pace in the second half of the year (see Chart III.9). Once again, telephone services expanded at an aggressive pace, largely contributing to the increase posted by services.

The rest of the segments showed an improvement throughout the year. Cargo transportation and passenger transportation reversed their downward trends of the last

**Table III.1**

**Grain Production - Major Crops**

	2008-09 thousands tns	2009-10 thousands tns	2010-11 thousands tns	2011-12 thousands tns	2012-13* thousands tns (e)	% Change 2011-12 vs. 2010-11	Diff. in thousands tns 2012-13 vs. 2011-12
<b>Cereals</b>	<b>26,750</b>	<b>38,277</b>	<b>49,709</b>	<b>46,219</b>	<b>51,196</b>	<b>10.8</b>	<b>4,977</b>
Corn	13,121	22,680	23,800	21,200	32,100	51.4	10,900
Wheat	8,373	9,000	15,900	14,500	8,200	-43.4	-6,300
Others	5,256	6,597	10,009	10,519	10,896	3.6	377
<b>Oilseeds</b>	<b>34,222</b>	<b>55,724</b>	<b>53,381</b>	<b>44,306</b>	<b>53,621</b>	<b>21.0</b>	<b>9,315</b>
Soybean	31,000	52,680	48,900	40,100	49,300	22.9	9,200
Others	3,222	3,044	4,481	4,206	4,321	2.7	115
<b>Rest</b>	<b>702</b>	<b>1,098</b>	<b>1,372</b>	<b>1,070</b>	<b>639</b>	<b>-40.3</b>	<b>-431</b>
<b>Total</b>	<b>61,674</b>	<b>95,099</b>	<b>104,462</b>	<b>91,595</b>	<b>105,456</b>	<b>15.1</b>	<b>13,861</b>

e: Estimated

\* Includes methodological change in the estimate of corn

Source: MAGyP data

<sup>48</sup> Figures for the 2012/13 cycle include the change in methodology applied to corn estimates; thus, in the strict sense of the word, production levels cannot be compared to previous cycles.

<sup>49</sup> It should be noted that the stock of foreign loans for the primary sector is predominantly made up by financial debt — financial loans and debt securities, among others — which is mostly concentrated in companies related to oil extraction and mining activities.

few months. The latter recorded an increase in the number of passengers traveling on domestic commercial flights. Water and power supplies remained on the rise during the second half of the year led by consumption; however, natural gas consumption recorded a slight contraction.

In this context, the leverage level of the service sector — one of the lowest at a sectorial level— slightly declined in the first half of 2013, until reaching 17.6% of the sector GDP (see Chart III.8). This development coupled with the recent evolution of the activity help consolidate the economic and financial position of the companies in the sector which are thus in better condition to meet financing requirements.

### Commercial sector

*Commercial companies increased their activity levels in the past few months. And low indebtedness levels helped position the segment in a relatively good financial standing*

Commercial activities grew in y.o.y. terms during the year, showing signs of acceleration in the past few months. Sales at supermarkets and malls increased the most between July and October compared to the first half of 2013 (see Chart III.10). Sales of household appliances and other electronic products, along with vehicles in the domestic market also recorded higher increases in the last few months.

Rising from low levels, commercial companies slightly increased their aggregate indebtedness levels in the first few months of 2013, totaling 19.7% of the GDP (see Chart III.8). This trend was mainly explained by a rise in the use of funds from the domestic financial system, which increased their share in the total.

### Construction

*In a context of low indebtedness levels, the construction activity started to show signs of recovery*

During 2013, the construction sector reversed the negative trend followed in 2012, exhibiting higher activity levels in the second half of 2013, which exceeded the values recorded in the previous months (see Chart III.11). Except for construction in the oil sector, the remaining segments expanded; the segment of public work construction —such as infrastructure and road works— posting the biggest hike.

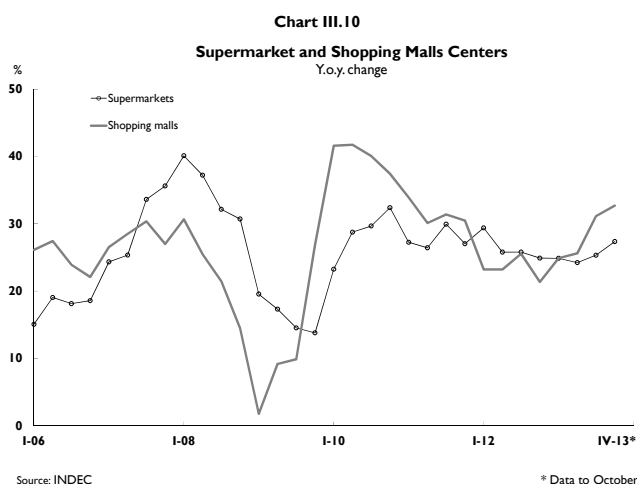
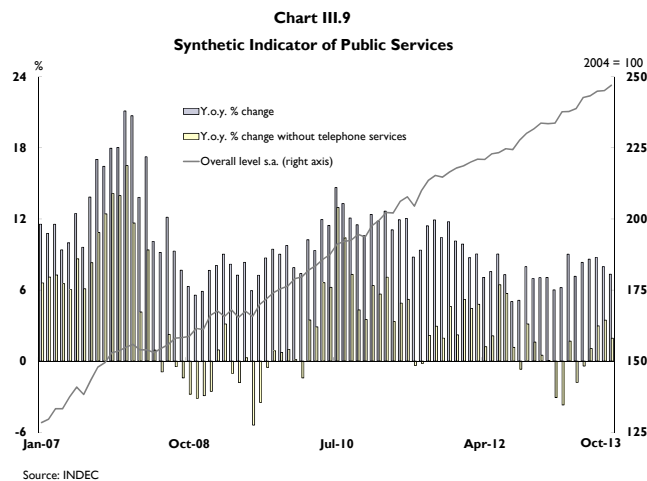
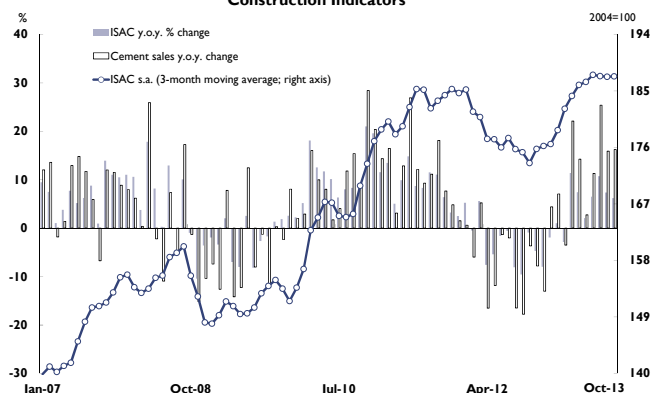




Chart III.11

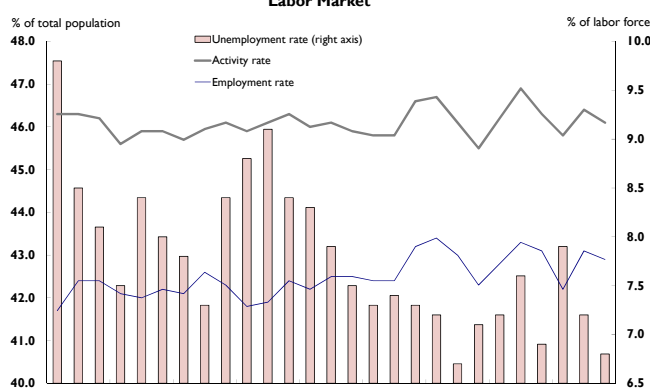
## Construction Indicators



Source: INDEC and AFCEP

Chart III.12

## Labor Market

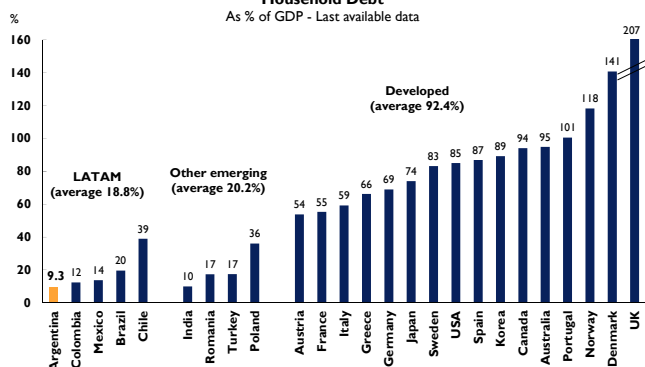


Source: INDEC

Chart III.13

## Household Debt

As % of GDP - Last available data



Note: 2008 data for India; 2009 for Mexico; 2010 for Colombia, Chile, Germany and Japan; 2011 for the rest of countries; 2012 for Austria, Brazil, Canada, Turkey, Greece, Sweden, Romania, USA, Australia, Portugal and Denmark. 2013 data for Argentina (subject to subsequent changes).  
Source: FMI, McKinsey Global Institute (year 2008), Financial Stability Reports and BCRA.

The leverage level of construction companies fell slightly in the first half of 2013, reaching 14.9% of the GDP —down 0.2 p.p. against December 2012— (see Chart III.8). In such a context, the consolidation of the Pro.Cre.Ar program, together with different government measures adopted for the promotion of private construction are expected to continue favoring the economic and financial conditions of the companies of this sector.

### III.3 Households

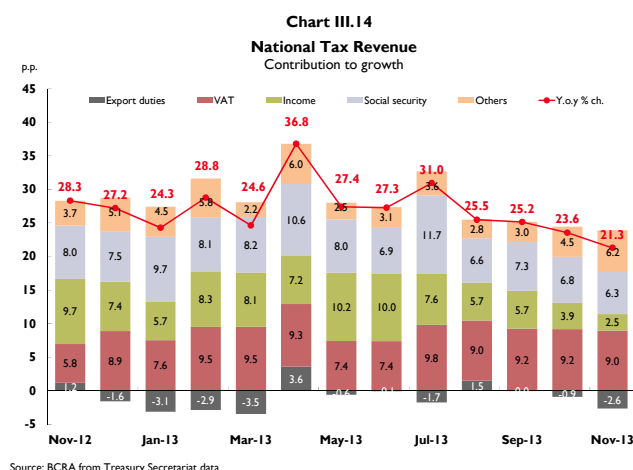
*Households' indebtedness levels<sup>50</sup> in terms of the formal wage mass —net of social security contributions— remained practically unchanged throughout the first 9 months of 2013. This factor, together with the performance of the labor market, helped consolidate households' payment capacity*

So far this year, households' income kept on the rise, in a context of stable labor market conditions and sustained public policies aimed at the lowest-income sectors. The availability of bank financing also stimulated household consumption during 2013.

The labor market continued to post high levels of employment, which allowed the employment rate to stand, in the third quarter of 2013, at the same levels recorded on average last year (42.9%; see Chart III.12). In turn, there was an improvement in the quality of employment throughout 2013 with some shift of underemployment to full-time positions. Meanwhile, so far this year, the unemployment rate stood at a level similar to that observed a year ago, amounting to 6.8% in the third quarter. Employment levels coupled with an increase in wages —about 25.5% y.o.y. based on the salary index prepared by the INDEC— resulted in a rise in the wage mass in terms of GDP.

Public policies also contributed to increase income in 2013. The Universal Child Allowance and the Pregnancy Allowance for Social Protection were raised to 35.3% in June. Within the framework of the implementation of the Law on Social Security Mobility, retirements and pensions posted an increase of 15.18% in March and of 14.41% in September. New increases were set for Minimum Wages, amounting to \$2,875 per month in February (+25% y.o.y.) and to \$3,300 as from the first day of August (+43.5% y.o.y.). In turn, the

<sup>50</sup> Household debt burden includes loans granted by the financial system to individuals for consumption purposes, financial trusts that use consumer credit as their underlying assets (credit cards and personal loans) as well as collateralized lending to households (mortgage and pledge-backed loans), and the stock of loans on non-bank credit cards.



changes to income tax<sup>51</sup> introduced last September helped improve employees' and retirees' purchasing power.

In this scenario, by the end of the third quarter of 2013, household indebtedness levels stood at about 31% of the annual wage mass —net of social security contributions— a level comparable to the one recorded in the previous two quarters (see Chart III.2). In particular, household's consumer loans —with shorter relative terms on average compared to collateralized loans— maintained their relative share, reaching almost 24 p.p. of total indebtedness. It should be noted that household indebtedness levels continued below those observed in other countries (see Chart III.13).

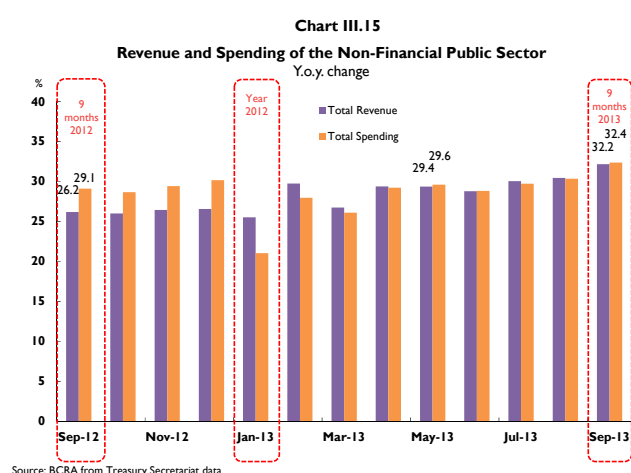
### III.4 Public sector

*Non-financial national public sector spending and revenue continued growing at a similar rate during 2013, whereas National Public Debt with the private sector continued decreasing in terms of GDP*

In the first ten months of 2013 the national tax revenue continued to exhibit a high expansion rate (27% y.o.y.), basically driven by domestic taxes: social security funds, Income tax and Value Added Tax (VAT) (see Chart III.14). In turn, non-financial national public sector (NFPS) spending and revenue expanded at a similar rate in the year to date (see Chart III.15). Social security benefits continue being the item that contributed most to the year-on-year national spending rise, followed by relative order of importance by current transfers to the private sector for Family Allowances —including Universal Child Allowance for social protection (AUH)— capital expenditure and public employees' wages.

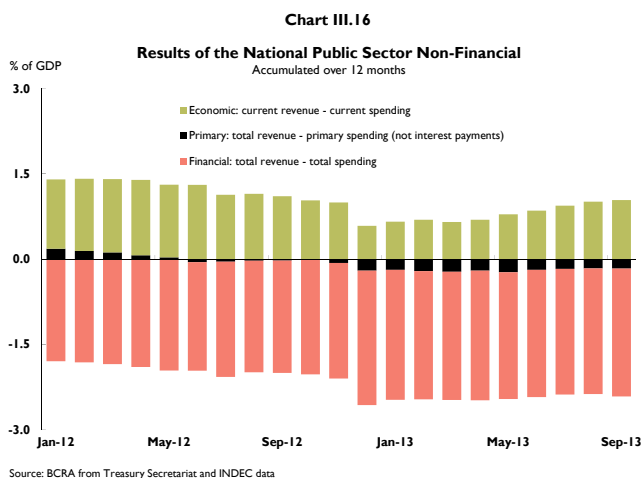
During 2013 the recovery in public savings enabled to finance higher capital spending without affecting the primary result that kept in balance in terms of GDP. As a consequence of debt service payments, the NFPS financial deficit over the past twelve months was 2.4% of GDP (see Chart III.16).

In a context where revenue experienced sustained momentum, the National Congress passed the National Budget Law No 26,895 for 2014 which moderates the growth pace in spending, anticipating a balanced financial result for the next year<sup>52</sup>.

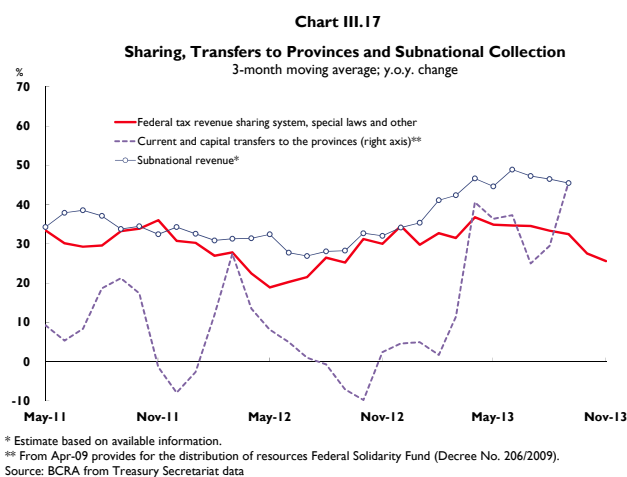


<sup>51</sup> For more details, see Macroeconomic and Monetary Policy Report, October 2013.

<sup>52</sup> For more details, see Box 4 "Mains Aspects of the 2014 National Budget Bill" from Macroeconomics and Monetary Report, October 2013.



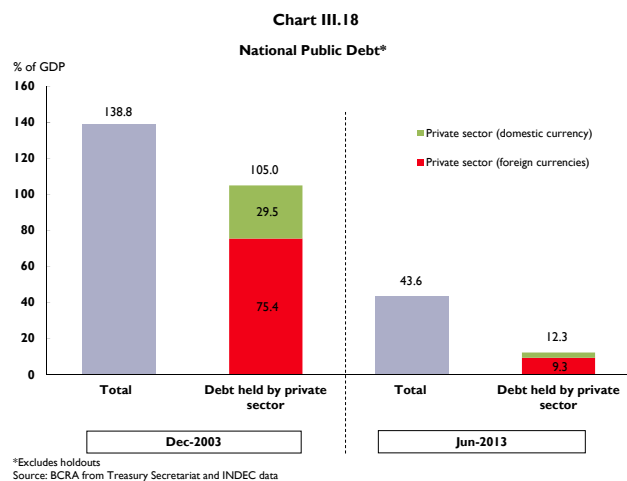
National tax revenue transferred to provinces —federal tax-revenue sharing system, special laws and other automatic distribution funds— exhibited a slight slowdown in the expansion pace, in line with the development of national revenue collected from the main taxes related to such transfers (basically Income tax and VAT). In turn, budget transfers to subnational districts exhibited a sharp increase —in y.o.y. terms— during the first nine months of the year. This increase in the subnational revenue was reinforced by the implementation of various tax-increase packages, which boosted provinces' tax resources (see Chart III.17). Despite such increase, the consolidated primary result of subnational districts would have continued evidencing a slight deficit.



The National Treasury met part of its financing needs through financial investments and loans from other non-financial public institutions, a strategy having been implemented throughout 2012. This was accompanied by Temporary Advances (TAs) from the BCRA, loans granted by Banco de la Nación Argentina and Freely Available Reserves to service public debt contracted with private holders and international institutions.

Intra-public sector funding allowed once again a reduction in the public debt refinancing risk as a result of decreased obligations with the private sector which represented only 12.3% of GDP as of June 2013 (see Chart III.18). Particularly, debt with private holders in foreign currency stood at 9.3% of GDP by mid-2013, seemingly decreasing below 9% by September 2013.

The National Congress passed Law No 26,886 aimed to conclude the process of debt restructuring for holdouts, investors that did not participate in debt swaps in 2005 and 2010. Under this law, the financial terms and conditions offered to holdouts cannot be better than the ones enjoyed by restructured creditors.



Moreover, within the framework of the International Centre for Settlement of Investment Disputes (ICSID) and the United Nations Commission on International Trade Law (UNCITRAL), Argentina entered into five agreements with companies that had obtained favorable arbitral awards, which allowed for debt regularization for US\$677 million, thus redounding to the interest of this country (a 25% debt relief against the total amount claimed, equal to US\$171 million tax savings). The implementation of these agreements enabled to make long term payments in the form of two bonds in US dollars: BONAR X (maturing in 2017) for principal and BODEN 2015 for interest, at a 7% annual rate in both cases.

**Table III.2**  
**Debt Placements in Dollar of the Subnational Jurisdictions**  
(year 2013)

Date	Jurisdiction	Market	Amount in million (currency of origin)	Term (years)	Annual rate of return
12-Mar-13	CABA	domestic	100.0	5.0	4.0%
17-May-13	CABA	domestic	216.0	6.0	4.0%
22-May-13	Mendoza	domestic	94.6	3.0	3.0%
12-Jun-13	Neuquén	domestic	131.4	3.0	3.0%
25-Jul-13	Entre Ríos	domestic	89.0	3.0	4.8%
8-Aug-13	Buenos Aires	domestic	200.0	1.5	4.2%
7-Oct-13	Neuquén	domestic	198.6	5.0	3.9%
15-Oct-13	Chubut	domestic	220.0	5.8	4.0%
25-Oct-13	Mendoza	domestic	55.4	5.0	2.8%
Total jan-13/nov-13			1,305.0		

Source: BCRA from Provinces data.

Regarding sub-national financing<sup>53</sup>, the provinces continued issuing debt in the domestic market over the last few months. Debt service of bonds was mainly payable in pesos linked to the US dollar. The Autonomous City of Buenos Aires and the provinces of Buenos Aires, Entre Ríos, Mendoza, Neuquén and Chubut recorded bond issues on the domestic market during 2013 (see Table III.2).

<sup>53</sup> It is worth mentioning that the grace period granted to provinces to reimburse principal and interest to the Nation, under the framework of the Federal Program of Debt Reduction of the Argentine Provinces, remains in force over 2013. This measure entails a financial relief of around \$6.8 billion for such jurisdictions during this year.



## IV. Financial Sector

### Summary

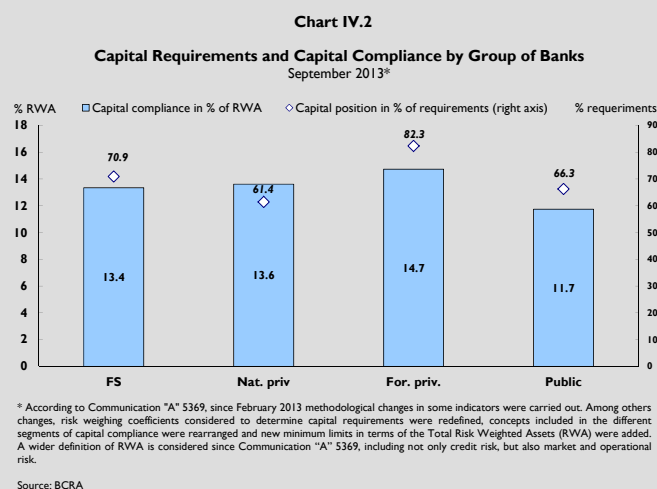
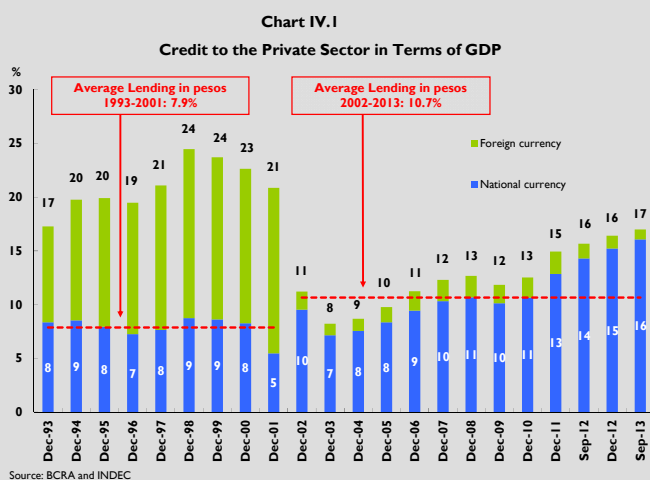
The intermediation activity recorded between the financial system and the private sector continued growing during the first nine months of 2013. The stock of total loans granted by the ensemble of financial institutions to companies and households expanded 33.3% y.o.y. in September, up 5.4 p.p. This performance was driven by financing in pesos granted to the private sector which, by the end of the third quarter, accounted for almost 95% of total loans to such sector. Thus, bank financing continued increasing its depth in the economy, reaching about 17% of the GDP.

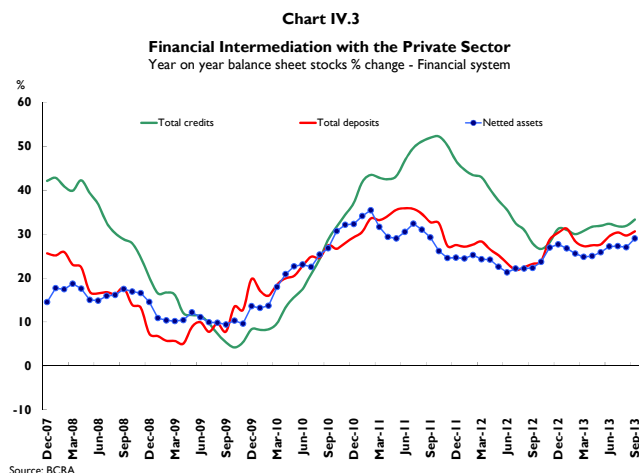
Throughout 2013, lending to companies was instrumental in the expansion of total lending, showing a growth of 28%a (35.5% y.o.y.), up almost 6 p.p. against the changes recorded in the same period of 2012. This positive performance was partly associated to the initiatives developed by the BCRA with the aim of encouraging loans for productive purposes through the Bicentennial Productive Financing Program and the Credit Line for Productive Investment. In the context of the latter, more than \$45 billion loans were awarded (\$42 billion have already been disbursed), out of which approximately 58% were given to micro, small and medium-sized enterprises (MiPyMEs). In this sense, it should be mentioned that these two initiatives are helping improve the access to credit sources and the terms of such credits for MiPyMEs. Thus, loans have increased their dynamism in 2013, leading to a rise in their relative share in the total stock of loans to legal persons. So far this year, household lending rose 27.7%a. (31.4% y.o.y.).

The stock of deposits continued to rise, particularly in the private sector which grew 30.6% y.o.y. and hence their share in the stock of total deposits reached 71.8%. The performance of term deposits in pesos over the year should be underscored. They increased 40.2% y.o.y. as of September, accounting for 42% of total deposits.

Throughout the year, the ensemble of banks continued improving its solvency levels, mainly from higher accrued book profits and, to a lesser extent, from new capital contributions. As of September 2013, the financial system net worth expanded 30.5% y.o.y., leading to a reduction of the financial system leverage, which stands below the average recorded by the countries of the region and other emerging and developed economies. In turn, by the end of the third quarter, regulatory capital compliance reached 13.4% of total risk-weighted assets accounting for almost 90% of Tier 1 capital — with a better ability to absorb losses—. All groups of banks complied in excess of the capital requirement, reaching 70.9% of the legal requirement at a systemic level by September 2013.

Between the months of January and September, the financial system's ROA stood at 3.1%a., a figure similar to the one recorded in 2012. In a context of credit growth, income from interest became the main income source as shown in the income statement.



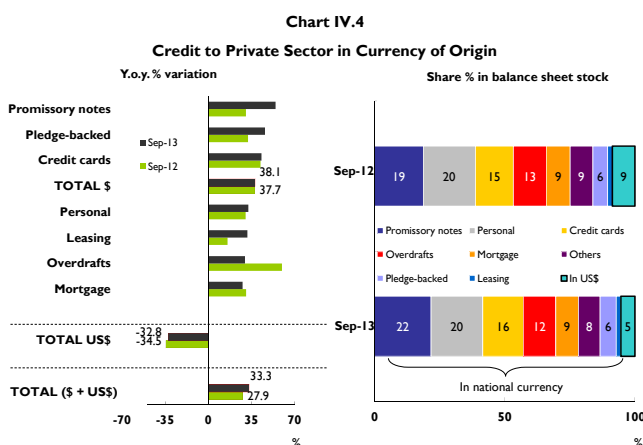


**Table IV.1**  
**Balance sheet**

Financial system - As % of netted assets							
	Sep-12	Dec-12	Sep-13	Change in p.p.		Stock variation*	
				Sep-13 vs. Dec-12	Sep-13 vs. Sep-12	Sep-13 vs. Dec-12 (% a.)	Last 12 months (%)
<b>Assets</b>	100	100	100				
Liquid assets	20	21	19	-1.7	-0.5	11	26
BCRA securities	11	9	10	1.2	-0.3	47	26
Total credit to the public sector	10	10	9	-0.7	-1.1	13	16
Total credit to the private sector	50	51	52	0.8	1.7	28	33
Credit in \$ to the private sector	46	47	49	1.7	3.2	31	38
Credit in US\$ to the private sector*	4	4	3	-0.9	-1.5	-31	-33
Other assets	9	9	10	0.5	0.2	33	31
<b>Liabilities + Net Worth</b>	100	100	100				
Public sector deposits	22	21	21	-0.1	-0.8	24	24
Private sector deposits	55	56	55	-0.2	0.7	24	31
Outs. bonds, sub. debt and foreign lines of credits	2	2	2	0.0	-0.2	29	17
Other liabilities	9	10	10	-0.2	0.2	22	32
Net worth	11	11	11	0.4	0.1	32	30

\*Variations in currency of origin

Source: BCRA



## IV.1 Financial institutions<sup>54</sup>

### IV.1.1 Activity

*Financial intermediation with the private sector increased its momentum, with a higher share of lending in the sector's total assets*

During the first nine months of 2013, bank financial intermediation with the private sector continued to grow. Loans and total deposits (both in pesos and in foreign currency) of companies and households accelerated their growth pace, recording increases of 32.7% a. and 23.5% a., respectively (33.3% y.o.y. and 30.6% y.o.y.) by the end of the third quarter of 2013, exceeding the values reported for the same period in 2012 (see Chart IV.3).

In the year-to-date, netted assets<sup>55</sup> of the ensemble of financial institutions rose 25% a. (29% y.o.y.), up 1.7 p.p. against the value recorded a year ago. This performance was mainly driven by public banks, which accounted for 45% of the growth of the financial system's assets in the first nine months of the year, followed by national and foreign private banks. Total financing to the private sector gained momentum during this period, increasing their share of netted assets by 52% in September 2013, up 0.8 p.p. against the end of 2012 and 1.7 p.p. in y.o.y. terms (see Table IV.1). In particular, loans in pesos granted to companies and households exhibited the highest relative growth in total assets, while the proportion of foreign currency loans declined. In recent months, assets with greater liquidity and lending to the public sector also declined their relative share in total loans.

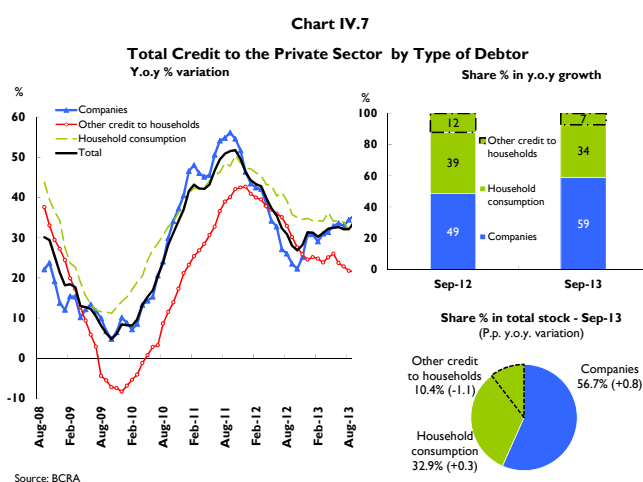
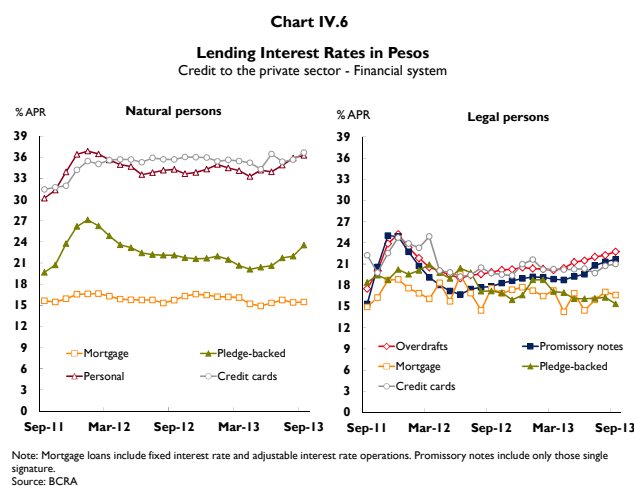
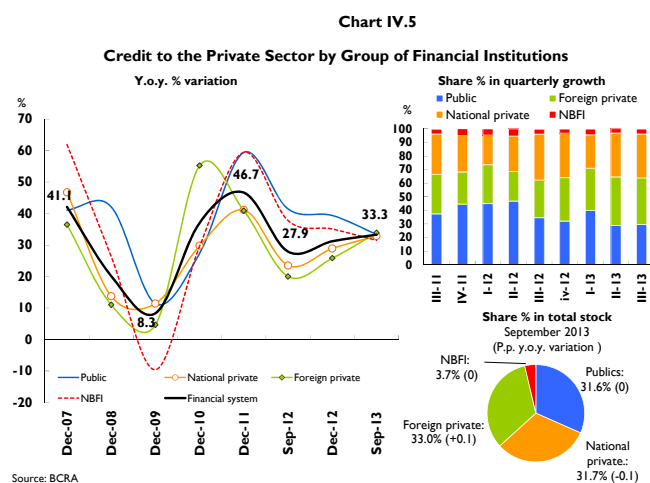
*Bank credit to the private sector gained depth in terms of GDP, especially loans denominated in local currency*

So far in 2013 the credit-to-GDP ratio reached 17%, keeping the expansion pace which has been observed since 2010, thus growing by 1.3 p.p. against the value recorded a year ago (see Chart IV.1). Even though this indicator remains low —both in historical terms and in an international comparison— a marked change was observed in the composition of currency, resulting in a significant reduction in the weight of foreign currency funding.

<sup>54</sup> The analysis of this section includes financial institutions supervised and regulated by the BCRA exclusively (Law N° 21,526).

<sup>55</sup> Assets are net of accounting duplications inherent to the recording of repurchase agreements, term transactions and unsettled spot transactions.





### *Growth in total lending to the private sector was driven by public and private banks through credit lines in pesos*

As in recent years, total financing to companies and households is being driven by credit lines in pesos. In particular, in September loans in pesos to the private sector grew 38.1% y.o.y., exceeding by 0.4 p.p. the value observed in the same period of 2012 (see Chart IV.4). This development evidences a higher growth pace over the third quarter. During this period these financings posted a 38.5% a. increase, up 3 p.p. against the second quarter of the year and 18.5 p.p. above the value recorded in the first three months of 2013. Among loans in pesos, financing through promissory notes, pledge-backed loans and credit cards had the highest relative growth y.o.y., outpacing the change rate recorded a year ago. Meanwhile, foreign currency loans continued to decline so far in 2013 at a more moderate pace than in the same period of 2012. In the aggregate, in September the balance of loans (both in pesos and dollars) to the private sector increased 33.3% y.o.y. (27.6% a.).

Throughout 2013 lending to companies and households had a positive performance in all groups of financial institutions. In particular, a higher relative growth of credit extended by public banks is highlighted (see Chart IV.5). In turn, in recent months, foreign private banks and, to a lesser extent, national private banks began to gain momentum in lending to the private sector, increasing 33.9% y.o.y. and 32.9% y.o.y., respectively in September. Thus, the performance of loans granted by private banks was similar to the one recorded by public banks.

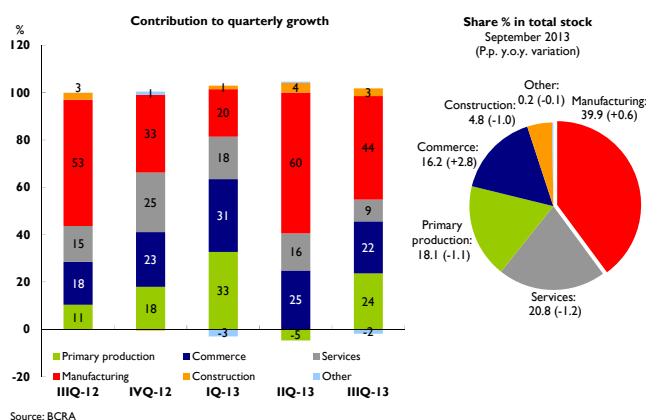
So far this year, lending rates of loans in pesos showed slight rises in most lines of credit. However, in the case of interest rates on loans to households, declines were observed in mortgage-backed loans, and in the case of loans to companies, a reduction was recorded across all collateralized loans —mortgage and pledge-backed loans— (see Chart IV.6).

### *During 2013, loans to companies accounted for most of the growth in lending to the private sector*

In year-to-date terms, corporate loans expanded 28% a., up almost 6 p.p. against the value recorded a year ago. In recent months an acceleration was observed in the y.o.y. growth rate of loans to companies, up to 35.5% y.o.y. in September (35.3% a. in the third quarter), easily exceeding the increase recorded in the same period of 2012, and slightly above the values posted by



**Chart IV.8**  
Credit to Companies



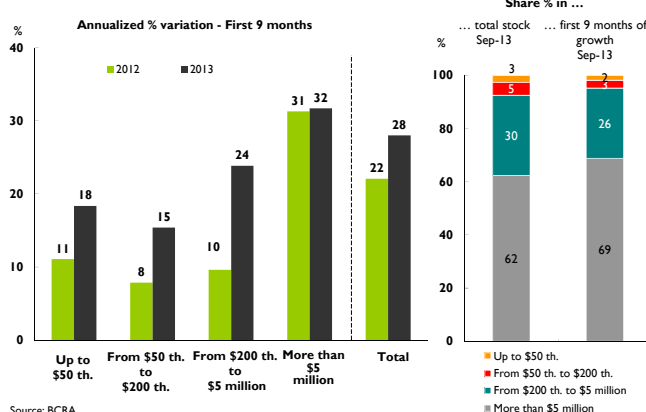
loans to households (see Chart IV.7). Thus, in year-to-date terms, loans to companies accounted for 59% of the y.o.y. increase in total loans to the private sector, and represented 56.7% of the total stock of loans.

Bank lending expanded in almost all productive sectors throughout 2013. A significant increase in loans for commercial and manufacturing purposes was observed, which grew 64.1% y.o.y. and 37.5% y.o.y. as of September, thus increasing their share in the total stock of loans channeled to companies (see Chart IV.8). Meanwhile, in the third quarter of 2013, loans to primary production reversed the slight fall they recorded in the second quarter, and accounted for almost one-fourth of the increase reported for the period.

***Within the framework of credit policies implemented by the BCRA, loans to SMEs gained share in the total stock of loans to companies***

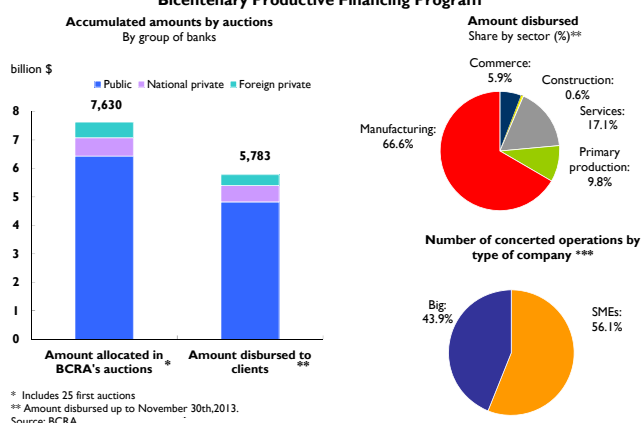
The segment of loans to companies with a lower relative residual stock (under \$5 million) increased its growth rate in the first 9 months of 2013 in y.o.y. terms (see Chart IV.9). Particularly, loans with a residual stock between \$200,000 and \$5 million had the highest relative increase (24% a.). However, in year-to-date terms in 2013, loans with a higher relative stock accounted for 62.4% of the total stock of loans to companies, explaining nearly 69% of the increase in the period.

**Chart IV.9**  
Credit to Companies by Residual Stock Range



In the first 9 months of the year, the BCRA continued stimulating bank lending to encourage productive investment. Thus, as a result of the positive performance evidenced by the Credit Line for Productive Investment (LCIP)<sup>56</sup> since its 2012 mid-year implementation, the BCRA decided to extend this credit line to the second half of 2013<sup>57</sup>. In this third stage, the same general conditions apply<sup>58</sup> with a benchmark rate of 5% of the stock of private sector deposits as of May 2013. Moreover, in this third tranche of the LCIP, MiPyMEs will be allowed to allocate up to 20% of their loans to finance working capital. At least half of the quota should be channeled to this group of companies. Thus, the new amount of loans to be allocated would amount to \$20 billion. It should be mentioned that since the implementation of the LCIP, more than \$45 billion loans have been awarded (out of which \$42 billion have already been disbursed), and 58% were given to MiPyMEs (see Box 3).

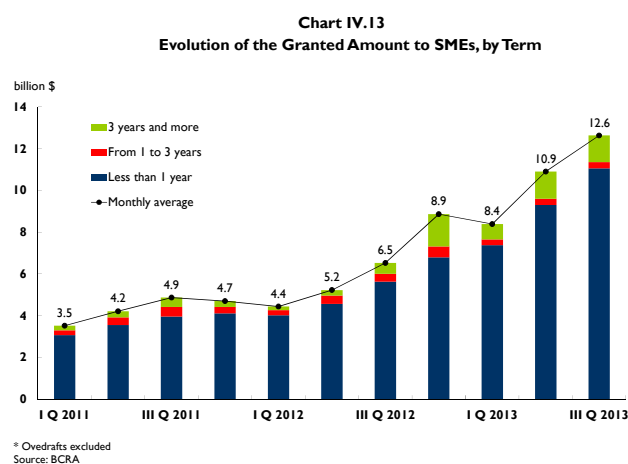
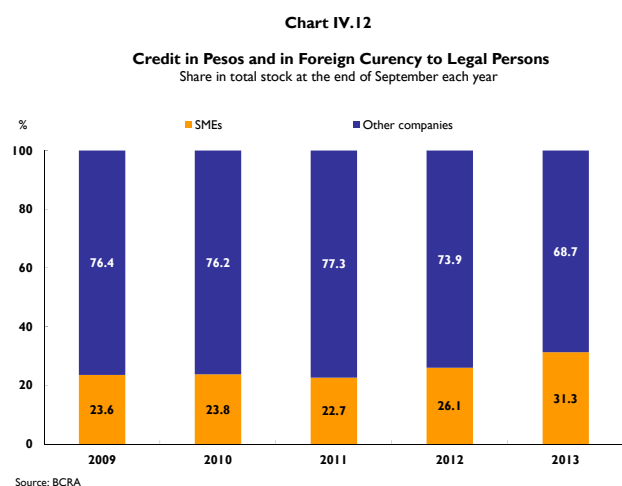
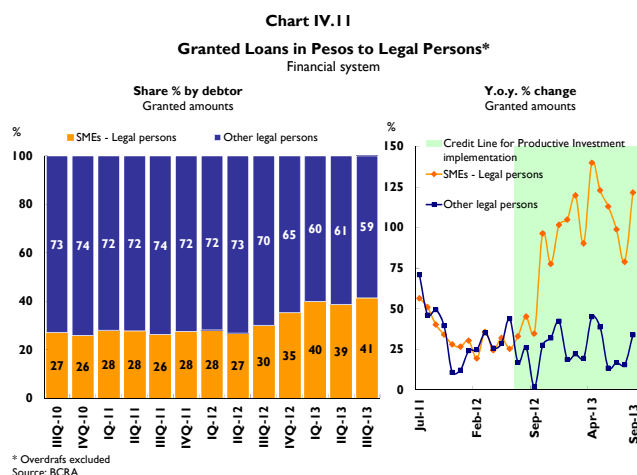
**Chart IV.10**  
Bicentenary Productive Financing Program



<sup>56</sup> Communication "A" 5319 and 5338.

<sup>57</sup> Communication "A" 5449.

<sup>58</sup> Loans channeled through the LCIP shall be granted in pesos and for a minimum term of 3 years at a maximum fixed nominal annual interest rate of 15.25% over the first 3 years. Thereafter, in absence of such rate, a floating rate may be applied but it will not exceed the total BADLAR in pesos over 400 b.p. Facilities shall be granted in pesos at a minimum 3-year term.



So far this year, the BCRA continued auctioning funds through the Bicentennial Productive Financing Program (PFPB)<sup>59</sup>. In particular, six auctions were conducted for a total amount of almost \$1.8 billion over the first nine months of 2013. Consequently, since the implementation of the PFPB in 2010, the BCRA has effectively disbursed \$5.8 billion among 14 financing institutions (more than 75% of the total amount awarded) (see Chart IV.10). Out of the total amount disbursed, almost 67% was granted to the industrial sector, followed by service providers (17.1%). In 2013, the PFPB continued to expand throughout the Argentine territory. By the end of 2012 the total resources of the PFPB had been distributed among 19 provinces, mounting by midyear this year to 22, thus covering almost the entire country. It is worth noting that more than half of the transactions performed through the PFPB corresponded to loans granted to MiPyMES.

Both the PFPB and the LCIP have boosted lending to MiPyMEs in recent quarters. Particularly since the implementation of the LCIP, a significant increase in loans channeled to this type of companies was observed (see Chart IV.11). Thus, lending to MiPyMEs<sup>60</sup> was gradually gaining share in the total amount of loans granted in pesos to legal persons, until accounting for 41.4% in the third quarter of 2013, up 11.3 p.p. in y.o.y. terms, and 14.2 p.p. more than 3 years ago. This outstanding dynamism was also reflected in an increase in the weighting of loans to SMEs in the stock of total loans (in pesos and in foreign currency) to legal persons, accounting for 31.3% in September 2013 (see Chart IV.12).

Additionally, in this context, improvements in credit conditions were recorded, and terms of repayment for loans granted to companies were extended, especially those channeled to MiPyMEs. In particular, for this subset of companies in recent quarters an increased participation of longer-term credits in the total amount of loans granted was observed (see Chart IV.13).

In the first nine months of the year, loans to households increased 27.7%a. (31.4% y.o.y.), evidencing some deceleration of their expansion pace if compared to the same period of 2012. Even though in the past twelve months Non-Banking Financial Institutions (NBFI) and public banks had the highest relative growth, they still maintained a relatively lower share in the total stock of

<sup>59</sup> Communication "A" 5089.

<sup>60</sup> As from late April, through Resolution No. 50/13, the Secretary of Small and Medium Enterprises and Regional Development established a new classification for MiPyMEs. Consequently, in general, micro, small and medium enterprises will be deemed as such according to their maximum annual total sales, the limits being, by type of activity, as follows: \$54 million for the agricultural sector, \$183 million for manufacturing and mining sectors, \$250 million for commerce, \$63 million for the service sector, and \$84 million for construction.

## Box 3 / Credit Line for Productive Investment and Financing to SMEs

**The Credit Line for Productive Investment (LCIP) facilitated the channeling of bank financing to nearly 50,000 companies, 93% of which are SMEs. Since its implementation until October this year, major banks granted more than \$45 billion loans to expand productive capacity, out of which \$42 billion have already been disbursed**

In mid-2012, the BCRA promoted the use of this tool for a period of six months, under a set of policies adopted to foster productive credit and to regulate financing conditions. The LCIP established that larger entities in the financial system had to allocate 5% of their deposits to lending for productive investment. The LCIP regulation included some additional requirements: 1) allocate at least 50% of the quota to SMEs; 2) offer repayment terms of 36 months or more; and 3) ensure an interest rate of 15%. Due to the success of the measure, a second stage—very similar to the previous one—was launched during the first half of 2013. Thereafter, a third stage was implemented, which will amount to \$55 billion in terms of productive loans, out of which about \$30 billion will be directed to SMEs.

Thus, credit encouraged by the BCRA through the LCIP boosted financing for investment purposes, since it offered long-term loans with interest rates below the market rate. Additionally, the regulation of credit conditions and the requirement to allocate at least 50% of the target of lending to SMEs helped to improve access to credit by relatively smaller firms.

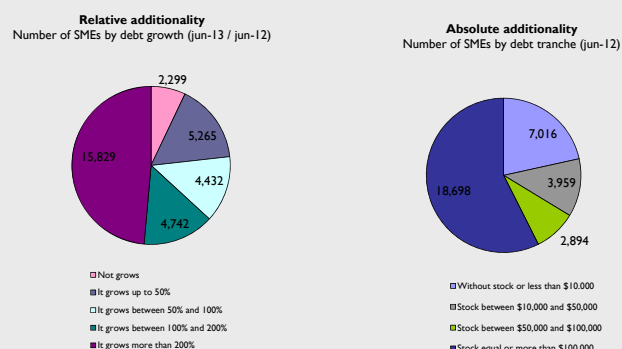
The LCIP had an impact on the expansion of financing granted to SMEs on two accounts. On the one hand, it multiplied the funds granted to companies which already had access to bank credit, allowing them to apply for new loans on more favorable terms; a phenomenon commonly referred to in specialized literature as “relative additionality”. On the other hand, the LCIP greatly contributed to the “absolute additionality”, since it granted loans to companies that had no previous access to loans from financial institutions. Through both channels, the LCIP facilitated increased access to the financial system to an underserved segment of the economy.

The impact of the LCIP in terms of “relative additionality” was evident in that the indebtedness level of most companies receiving financial aid increased dramatically between June 2012 and June 2013. Two-

thirds (20,500 companies) of the 32,500 SMEs that joined the production line until June 2013, at least doubled their debt balance; and about half (15,800 companies) at least tripled bank financing.

Even more important was the effect of the LCIP in the generation of “absolute additionality”: 7,000 SMEs that before the implementation of the facility lacked bank financing (or for which it was insignificant), obtained credit using this tool (see Chart B.3.1). Thus, these companies accounted for 22% of all SMEs that received aid for a total of \$3.5 billion.

**Chart B.3.1**  
Relative and Absolute Additionality Effects of the LCIP



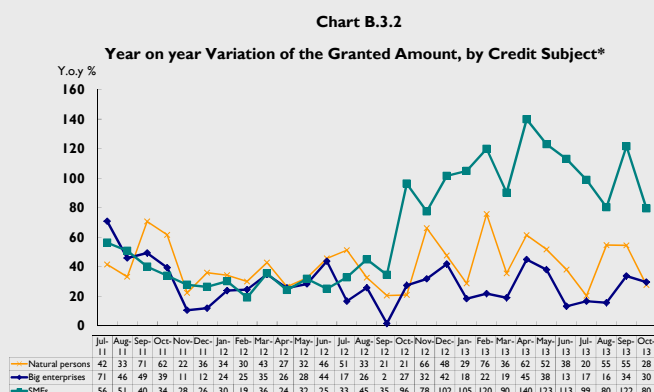
Source: BCRA

Another aspect worth noting is that the effects of “relative and absolute additionality” of the LCIP were observed in all regions of Argentina. In each of the extra-pampeana areas (Cuyo, Patagonia, Northwestern and Northeastern regions) nearly 1,000 SMEs stand out because they at least doubled their indebtedness between June 2012 and June 2013<sup>61</sup>, and now have access through this instrument to more than \$3 billion in bank financing. “Absolute additionality” is confirmed by the fact that 1,400 firms from these areas that could not resort to bank lending in the past, have been able to access this credit line since its implementation.

Moreover, the result of the “additionality” of the LCIP is observed since its inception in the dynamics of loans granted to SME in the aggregate of the financial system. Thus, the amounts granted to relatively smaller companies experienced exponential growth as from the

<sup>61</sup> Bank credit to the private sector nationwide grew 32.6% during this period.

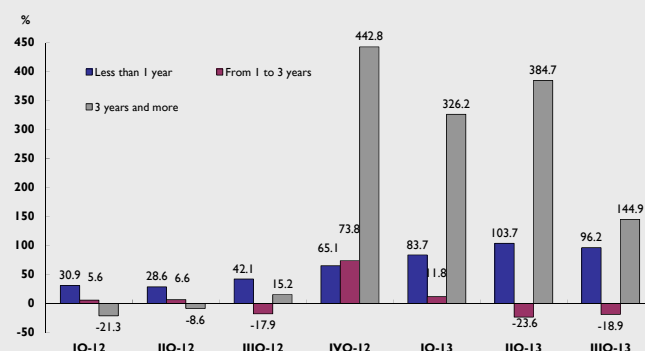
fourth quarter of 2012, with annual variations ranging between 80% and 140% every month, posting rates much higher than those observed for other bank borrowers (see Chart B.3.2).



\*Overdrafts excluded. Source: BCRA

With the implementation of this line, a new financing channel becomes available to SMEs, enabling them to increase their productive capacity with maturities in line with the evolution of an investment project. The influence of the LCIP was crucial for financial institutions to increase funding available to SMEs through the granting of loans for a minimum term of three years. Since its introduction, and for three consecutive quarters, the y.o.y. change rate of loans with longer terms exceeded 300% and in the third quarter of 2013 came close to 150% (see Chart B.3.3). This fact is evident, not only as a contribution in terms of accessibility, but also as an improvement in repayment conditions, a critical aspect when deciding on whether to start an investment project.

**Chart B.3.3**  
Year on year Variation of the Granted Amount to SMEs, by Amortization Term\*



\*Overdrafts excluded  
Source: BCRA

In short, the LCIP requires banks to grant loans to SMEs to enable them to make investments under more favorable terms —both as regards interest rate and financing terms—. Furthermore, the LCIP has also enabled companies with very limited or no access to credit at high rates and at short terms to have bank financing for expanding their productive capacity.

Consequently, the implementation of the LCIP served as a new funding source for companies, giving way to profitable investment projects that could not be performed due to lack of funding. Thus, companies may abandon self-financing to expand their installed capacity and begin to increase their investment leverage levels by having access to new loans through the LCIP.

### Credit to Househ



*So far in 2013, time deposits in pesos increased their relative importance in the total stock of private sector deposits*

Public sector total deposits expanded about 24%. (24.3% y.o.y.) in September this year, showing a slight decrease in their growth rate against the value recorded by the end of 2012. In y.o.y. terms, these deposits lost relative share in the total stock of deposits, accounting for 27.5% in September 2013.

In this context, total deposits (in domestic and foreign currency corresponding to the private and public sector) increased over 24%a. (28.9% y.o.y.) in the first nine months of 2013 in line with the value recorded a year ago. It should be noted that by the end of the third quarter of 2013, some acceleration was observed in the growth rate of total deposits in the financial system. Thus, between June and September 2013, deposits increased 34.1%a., up 8.6 p.p. against the second quarter, and up 19.7 p.p. against the value recorded in the first three months of the year. This momentum was

**Chart IV.15**



<sup>62</sup> Considering variations in currency of origin.

driven mostly by household and company deposits which increased 1 p.p. their share in the total stock, accounting for 71.8% (see Chart IV.16).

### ***Private sector deposits in pesos have consolidated as the main funding source for the ensemble of banks***

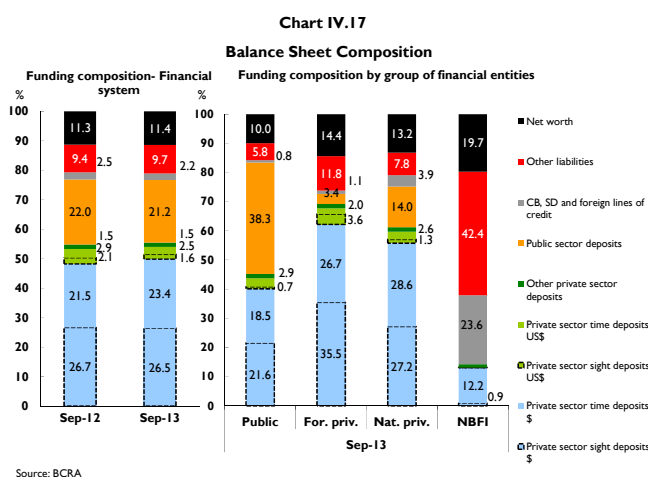
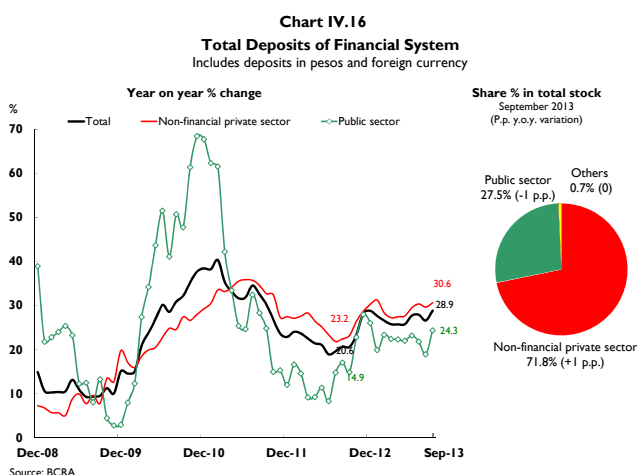
The aforementioned performance of deposits led private sector deposits in pesos to account for almost 50% of the share in total funding of financial institutions as a whole (liabilities plus net worth) in September 2013, up 1.6 p.p. compared to the same period last year (see Chart IV.17). In particular, household and company time deposits in pesos showed the highest relative rise in total funding, increasing 23.4%, nearly 2 p.p. above the value recorded in September 2012. In turn, deposits in foreign currency and those made by the public sector have reduced their weighting in total funding.

The funding of financial institutions through corporate bonds and short-term securities continued increasing in 2013. Thus, in the first nine months of the year 20 financial institutions issued corporate bonds and short-term securities totaling \$6 billion, 67.2% more than the value recorded for the same period a year ago. Following the same trend of 2012, virtually 97% of issues have been made in pesos. Thus, the balance of corporate bonds, subordinated debt and credit lines from abroad in the aggregate financial system increased 28.7% a. during 2013 (17% y.o.y.), maintaining a 2% share in total assets, which is similar to that recorded by the end of last year.

Throughout the year, the estimated funding cost<sup>63</sup> of deposits in pesos increased across all groups of financial institutions; however, the highest relative increase was recorded by foreign private banks (see Chart IV.18). This performance largely responded to the verified dynamics in interest rates for term deposits of the private sector.

### ***In 2013 there was an improvement in the country's financial infrastructure, especially in areas with limited service availability***

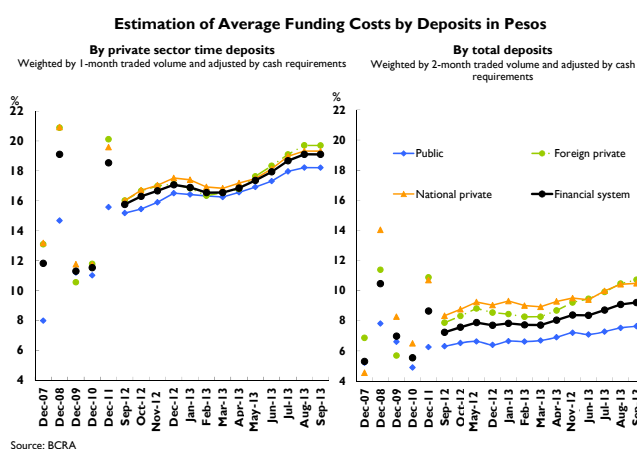
The number of branches and ATMs continued growing during 2013, further contributing to the growth of financial intermediation in Argentina. Thus, in y.o.y. terms, the number of branches increased 1.6% in September (totaling 4,329 units), a performance observed in all groups of financial institutions, with



<sup>63</sup> Both sight and time deposits in pesos of the private and public sectors are considered. The volume of deposits over two months is weighted and adjusted based on the minimum cash requirement.



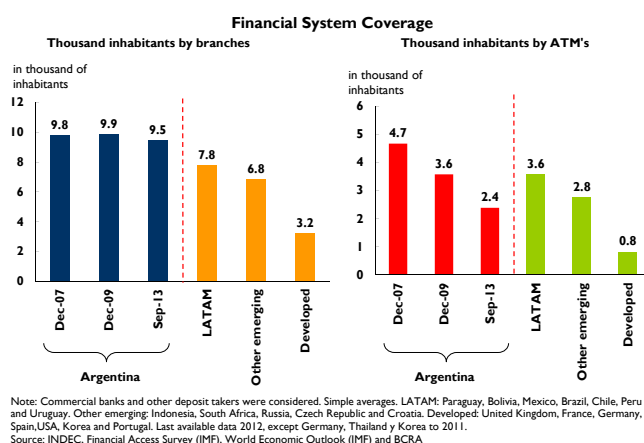
Chart IV.18



foreign private banks having the highest relative growth (2.2% y.o.y.). In turn, ATMs expanded 8.5% y.o.y. (totaling 17,518 units) over the same period.

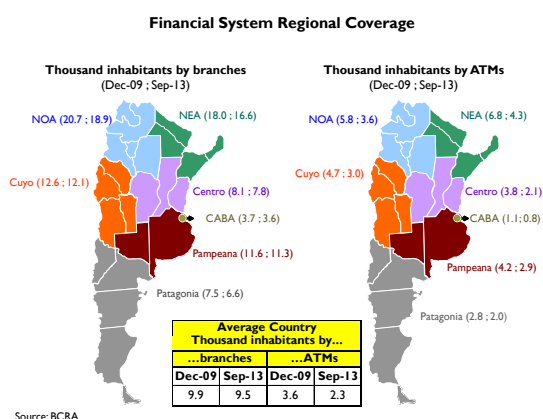
Improvements observed in financial services rendered and in the participation of the population in banking services were motivated in part by a set of measures promoted by the BCRA over the last few years. Particularly, since the beginning of 2011 the BCRA has been introducing changes to the mechanisms used for the authorization of new branches<sup>64</sup>, promoting the creation of new branches in regions with limited financial coverage. As a result of these measures, in the first half of 2013, the opening of 14 new branches was authorized in areas that had less banking services, accounting for 40% of the total increase of branches in the period and accumulating a total of 102 new branches in the last two years and a half. Despite these improvements in the supply of financial services, there are still disparities both within the country and in comparison with other emerging and developed economies.

Chart IV.19



The growth in the number of branches and ATMs resulted in better access by the population to various financial services throughout the country. Thus, both the number of inhabitants per branch or ATM dropped in the last three and a half years (see Chart IV.19). Note that although this improvement was widely spread across all the Argentine territory, major progress was made in the scope of the financial system's infrastructure in regions with less banking coverage (NOA and NEA) (see Chart IV.20). Thus, in the northern part of the country the number of inhabitants per branch contracted, on average, 8.3% (8.8% and 7.7% in NOA and NEA, respectively) since late 2009, significantly exceeding the drop recorded at an aggregate level (4%).

Chart IV.20



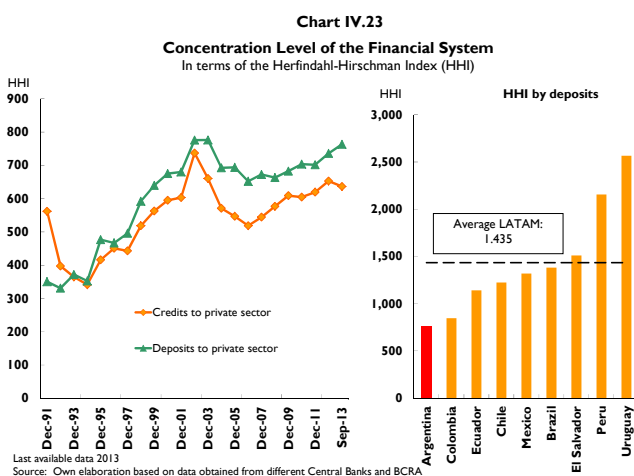
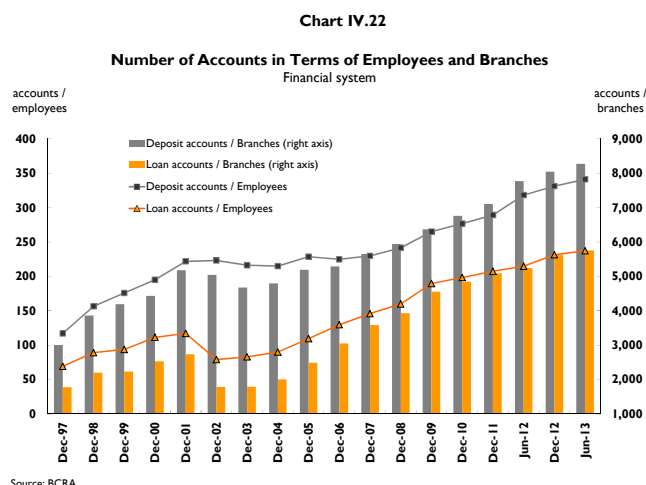
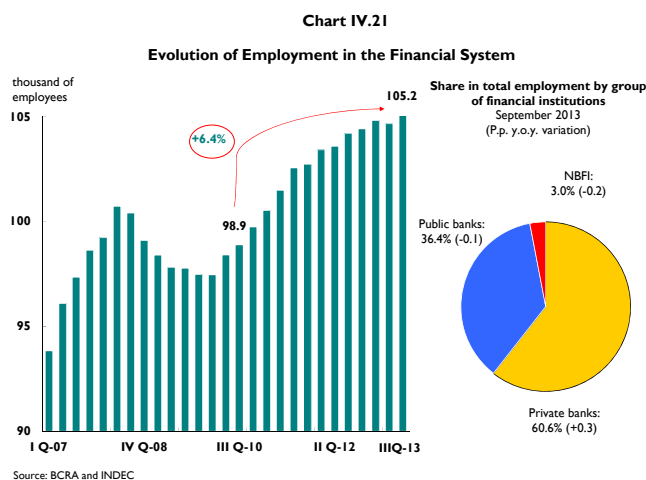
In recent years, there has been a gradual improvement in the financial system's payroll (see Chart IV.21). According to the latest information available<sup>65</sup>, in y.o.y. terms, the number of employees from this sector rose 1%, reaching 105,235 employees at the end of the second quarter of 2013. Thus, the level of employment in the financial system expanded 6.4% in the last three years, up 2.7 p.p. against the growth rate of overall economy<sup>66</sup>.

Changes in the structure of the financial sector were accompanied by improvements in the level of operational efficiency. This is reflected in the gradual

<sup>64</sup> Communication "A" 5168 and Communication "A" 5355.

<sup>65</sup> Information available as of September 2013.

<sup>66</sup> Considering changes in employed population in all the 31 urban agglomerations between the third quarter of 2010 and the third quarter of 2013.



increase in the number of deposit accounts and credit transactions with respect to the number of branches and employees of the financial system (see Chart IV.22). In particular, the ratio of credit transactions / employees increased 10.5% y.o.y., more than doubling the change recorded a year ago.

So far in 2013, the levels of banking concentration continued low compared to other economies in the region (see Chart IV.23). So the Herfindahl-Hirschman Index on deposits in Argentina accounts for almost half of the value posted, on average, by several Latin American countries.

## IV.1.2 Capital Position

*Bank's net worth continued growing at a steady pace in recent months, leading to a decrease in the system's leverage level*

The consolidated financial system net worth continued expanding throughout 2013. With an acceleration in the growth pace over the third quarter —36.4%a.— this balance sheet item reached a 30.5% y.o.y. change rate in September. The growth pace in net worth was primarily driven by accrued book profits and, to a lesser extent, by new capital contributions. So far this year, the new capital contributions received by the ensemble of banks totaled \$1.3 billion (see Chart IV.24), being channeled mostly to public banks and foreign private banks. In turn, in the first 9 months of the year some financial institutions decided to distribute dividends for \$461 million; this process was in line with BCRA rules on composition of the capital conservation buffer<sup>67</sup>.

After the slight increase observed at the end of 2012, financial system leverage levels (defined as assets / net worth) declined in 2013, up to 8.7 times in September (see Chart IV.25). This evolution was explained by the higher relative growth of the net worth in terms of assets. In an international comparison, the leverage ratio of the local financial system stands below the average recorded for the countries in the region and other economies, both emerging and developed.

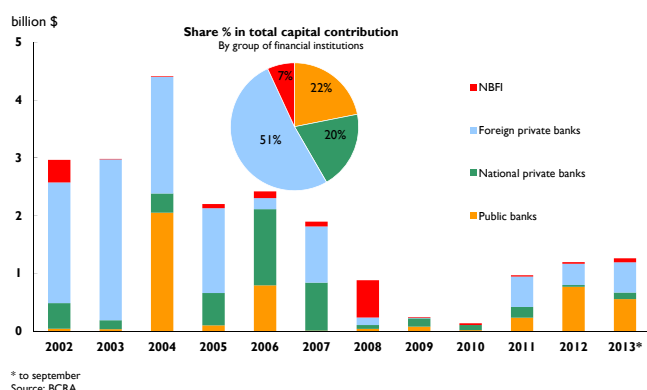
*The financial system retained a comfortable capital position, a situation that replicated across all groups of financial institutions*

The financial system regulatory capital compliance reached 13.4% of total risk-weighted assets (RWA) in September, remaining slightly below the values recorded

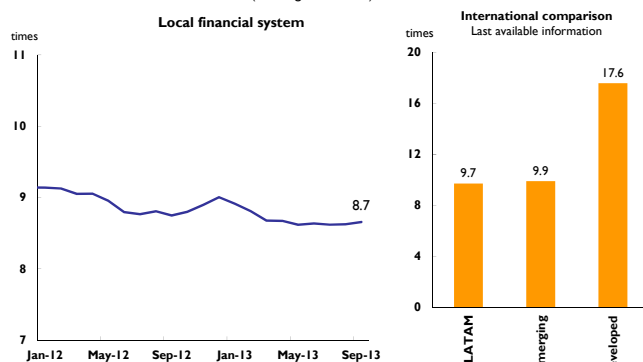
<sup>67</sup> Consolidated text on "Distribution of Profits".



**Chart IV.24**  
**Capital Contributions**  
2002-2013



**Chart IV.25**  
**Financial System Leverage**  
Assets (no weighted to risk) / Net worth



**Table IV.2**  
**Profitability Structure: Financial System**  
Annualized indicators as % average netted assets

	Accumulated 9 months			Quarter		
	201 I	2012	2013	I-13	II-13	III-13
Financial margin	7.4	9.2	9.9	9.5	8.9	11.2
Net interest income	4.3	5.7	5.9	5.8	5.8	6.0
CER and CVS adjustments	0.3	0.3	0.3	0.3	0.2	0.2
Gains on securities	2.3	2.7	2.6	2.7	1.9	3.3
Foreign exchange price adjustments	0.6	0.5	1.0	0.7	1.0	1.3
Other financial income	-0.1	0.0	0.1	-0.1	0.0	0.3
Service income margin	3.9	4.1	4.3	4.1	4.4	4.4
Operating costs	-6.6	-7.0	-7.1	-7.0	-7.4	-7.0
Loan loss provision	-0.7	-0.9	-1.0	-1.0	-1.0	-1.0
Effects of the 2001-2002 crisis (*)	-0.1	-0.1	-0.1	-0.1	0.0	-0.1
Tax charges	-1.0	-1.3	-1.6	-1.5	-1.6	-1.9
Other	0.6	0.4	0.3	0.3	0.5	0.2
Total results before income taxes	3.4	4.5	4.7	4.4	3.8	5.8
Income tax	-1.0	-1.5	-1.7	-1.6	-1.3	-2.1
<b>ROA</b>	<b>2.4</b>	<b>3.0</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>3.7</b>
<b>Adjusted ROA (**)</b>	<b>2.5</b>	<b>3.0</b>	<b>3.1</b>	<b>2.9</b>	<b>2.6</b>	<b>3.7</b>
ROE	22.4	26.4	26.5	24.9	22.2	31.9
ROE (before income tax)	32.2	40.0	41.0	38.7	33.1	50.3

(\*) Includes amortization payments for court-ordered and adjustment of public sector assets.

(\*\*) Excluding the effects of the 2001-2002 crisis.

Source: BCRA

<sup>68</sup> In comparison to February 2013, when the latest regulatory change on minimum capital requirements became effective. For further information see BEF I-13, page 56.

<sup>69</sup> Idem note 1.

<sup>70</sup> Throughout this section and unless otherwise stated, the analysis excludes income statements and netted assets headings related to shares and participation in other local financial institutions. To perform this adjustment, information available as of January 2008 is taken into account.

earlier this year<sup>68</sup>. It should be noted that Tier 1 capital<sup>69</sup>, with better quality in terms of ability to absorb losses, accounted for 12% of RWA (almost 90% of total compliance), a value slightly below that observed at the beginning of the year. In turn, in September 2013 the excess of capital compliance —compliance minus regulatory requirement— of the financial system stood at 70.9% of the total regulatory requirement (see Chart IV.2), and accumulated an increase of 9.3 p.p. y.o.y. All groups of banks exhibited compliance in excess of the requirement.

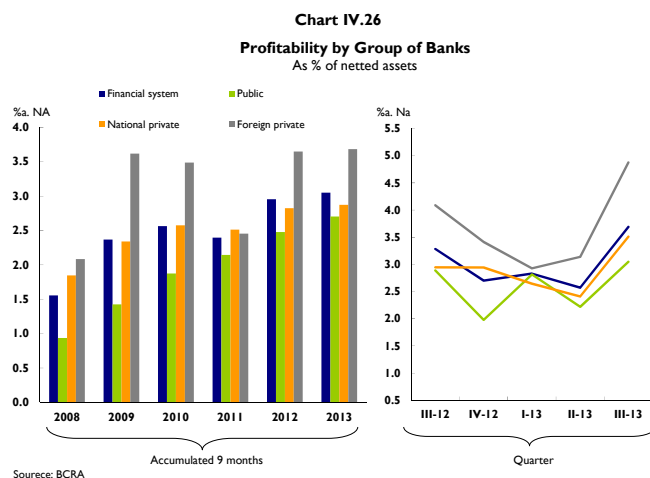
*So far in 2013 the financial system showed a slight increase in profitability levels over the previous year, a performance replicated across all groups of banks*

The financial system ended the first nine months of the year with book profits totaling \$18.9 billion, and exhibited a rise over 30% compared to the same period of 2012. Thus, between January and September 2013, all banks recorded a ROA of 3.1%a.<sup>70</sup>, a figure slightly above the one recorded in the first 9 months of 2012 (see Table IV.2). Accumulated book profits were explained by higher income from interest, services and foreign exchange rate differences —particularly in private banks— which were partially offset by the performance of taxes, loan loss provisions and operating costs. So far in 2013, all groups of banks have increased their ROA levels against the same period of 2012 (see Chart IV.26), a growth driven primarily by the performance observed in the third quarter.

Banks' financial margin stood at 9.9%a. of assets in year-to-date terms in 2013 —up 0.7 p.p. against the same period of 2012— with acceleration in the third quarter of 2013. This was mainly explained by the increase of foreign exchange rate differences and, to a lesser extent, by income from interest (see Chart IV.27). In y.o.y. terms all groups of banks, and foreign private banks in particular, improved their financial margin levels.

*Income from interest was the main source of income for the sector*

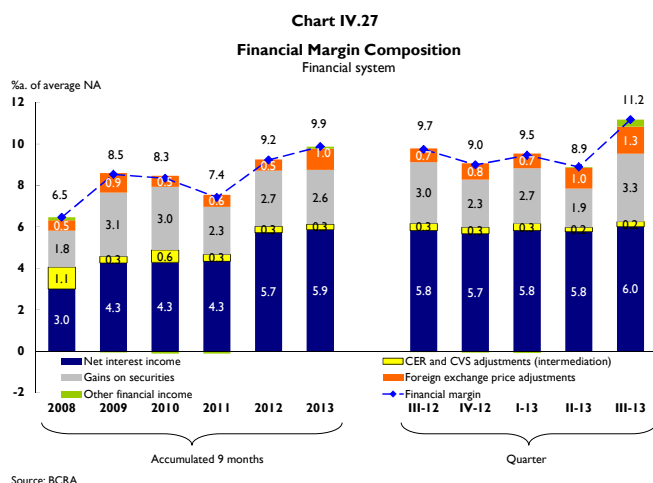
So far in 2013, the financial system's net income from interest increased 0.2 p.p. of assets in y.o.y. terms, until reaching 5.9%a. (see Chart IV.28). This rise was mainly



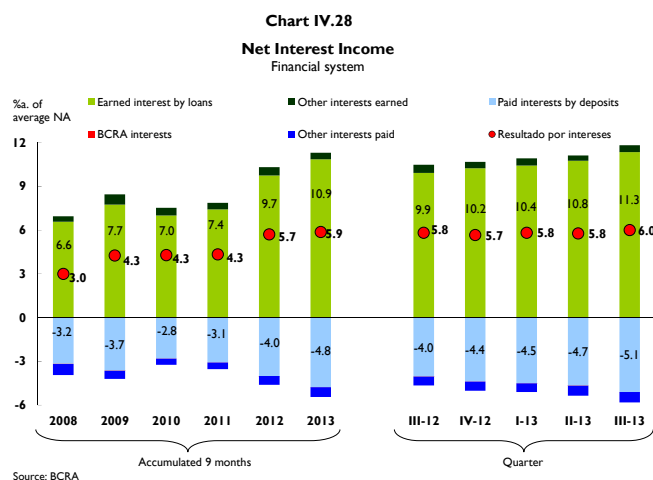
due to increased income from loans, which was higher than the interest paid on deposits in line with the rise observed in financial intermediation and the evolution of spreads (see Chart IV.29). Foreign private banks posted the highest relative increase in income from interest and the highest level in terms of assets.

Given the active position of banks versus foreign currency mismatch (see Chapter V) and recent changes in nominal peso-dollar exchange rate, accumulated results from exchange rate differences stood at 1%a. of assets, up 0.5 p.p. against the first nine months of 2012. Public banks showed the most outstanding performance in this segment on the income statement, but foreign private banks had a higher relative weight.

In year-to-date terms in 2013, income derived from securities stood at 2.6%a. of assets, a figure slightly below the one recorded a year ago. The slight increase posted by these results in the case of public banks was practically off-set by the fall observed in private banks. It is worth noting that in the third quarter of the year, income derived from securities increased significantly to 3.3%a. of assets, a rise resulting from the widespread recovery in the prices of securities held in bank portfolios, primarily those in foreign currency, and to a lesser extent, in local currency.



Income from CER-adjusted items stood at 0.3%a. of assets in-year-to-date terms in 2013, remaining stable compared to the same period of 2011 and 2012. The low weight of this income in the financial system's income statement is consistent with a lower mismatching between assets and liabilities adjusted by CER coefficient. When breaking down by group of banks, public banks posted a greater weight of such income in their income statements (see Table IV.3).



### *Net income from services continued growing in year-to-date terms, driven mainly by private banks*

Throughout the year, income from services of the financial system totaled 4.3%a. of assets (see Chart IV.30), up 0.2 p.p. against the first nine months of 2012. As regards its composition, income from insurance policies and credit card issues, among others, continue to gradually gain share in the total. This trend was especially evident in national and foreign private banks.

In this context, it is worth pointing out that the BCRA has recently approved a set of guidelines intended to protect financial services users<sup>71</sup> (see Box 4).

<sup>71</sup> Communication "A" 5388, Communication "A" 5446 and Communication "A" 5460.

Chart IV.29

### Interest Rates Spreads for Operations in Pesos

Difference between lending interest rate and deposit cost\*

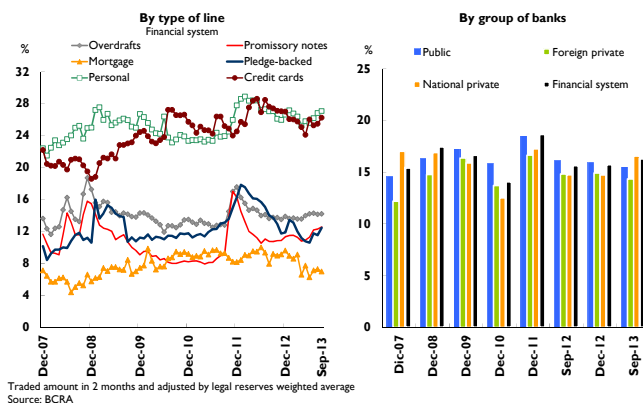


Table IV.3

### Profitability Structure by Type of Banks

Accumulated 9 months of 2013 - Annualized indicators as % average netted assets

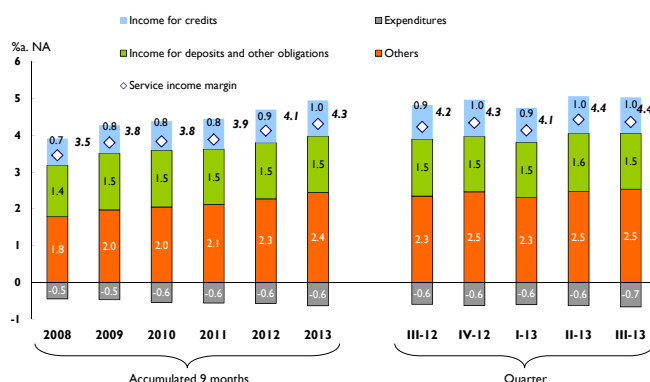
	Private banks			Public banks	NFBI
	Total	National	Foreign		
Financial margin	10.9	10.1	11.7	8.4	9.3
Net interest income	7.7	7.1	8.2	3.3	8.9
CER and CVS adjustment	0.1	0.0	0.1	0.5	0.0
Gains on securities	1.9	2.3	1.4	3.7	0.2
Foreign exchange price adjustments	1.0	0.6	1.5	1.0	0.4
Other financial income	0.3	0.1	0.4	-0.1	-0.1
Service income margin	5.6	5.5	5.7	2.5	5.8
Operating costs	-8.5	-8.7	-8.3	-5.2	-6.8
Loan loss provisions	-1.3	-1.2	-1.3	-0.5	-2.2
Effects of the 2001-2002 crisis (*)	0.0	0.0	0.0	-0.1	0.0
Tax charges	-2.1	-2.2	-2.0	-1.1	-1.8
Others	0.5	0.7	0.3	0.1	0.6
Monetary	0.0	0.0	0.0	0.0	0.6
Total result before income tax	5.1	4.2	5.9	4.2	4.8
Income tax	-1.8	-1.4	-2.3	-1.5	-1.7
<b>ROA</b>	<b>3.3</b>	<b>2.9</b>	<b>3.7</b>	<b>2.7</b>	<b>3.1</b>
<b>Adjusted ROA (**)</b>	<b>3.3</b>	<b>2.9</b>	<b>3.7</b>	<b>2.8</b>	<b>3.1</b>
ROE	25.9	25.4	26.3	28.1	15.4
ROE (before income tax)	40.3	37.5	42.5	43.2	23.8

(\*) Includes amortization payments for court-ordered and adjustment of public sector assets.

(\*\*) Excluding the effects of the 2001-2002 crisis.

Source: BCRA

Chart IV.30  
Service Income Margin  
As % of netted assets



Particularly since the end of September 2013, the collection of fees and/or commissions started to be regulated. As a result, no charge could be collected thereafter on transactions carried out by individuals over the counter, on the taking out and/or administration of insurance, on the generation of account statements or mailing of account statements via virtual resources, among other.

In 2013, more volatile income maintained their weight within the financial system's income statement, introducing a change in its composition: there was a drop in the share of income derived from securities, while exchange rate differences linked to the evolution of the nominal exchange rate gained share. Income derived from securities and from exchange rate differences amounted to 25% of total sources of funds in the sector. In turn, more stable net income, i.e. income from interest and from services accounted for 71% of the total (see Chart IV.31).

### Operating costs and loan loss provisions moderated their growth in terms of financial system assets

In y.o.y. terms, financial system operating costs increased slightly during 2013, until reaching 7.1%a. (see Chart IV.32). This increase was reflected in private banks, whereas public banks slightly reduced their weight in terms of assets. The rise observed in these expenses was primarily driven by staff-related items (remuneration and social security contributions), which currently account for over 61% of total expenditures in the financial system.

Financial system loan loss provisions stood at 1%a. of assets in the year-to-date, posting a slight increase when compared to the values recorded in y.o.y. terms; such a performance was mainly driven by foreign private banks (see Chart IV.33). Thus, the slight increase recorded by non-performing loans at the beginning of 2013 translated into higher loan loss provisions by the financial system.

The coverage level of operating costs through income from interest and from services (net of charges for loan loss provisions) stood at 129% for the group of banks in the first nine months of 2013, increasing slightly in y.o.y. terms. Such y.o.y. rise was mostly observed in public banks, while private banks evidenced the highest coverage level.

## *Box 4 / Protection of Financial Services Users within the Scope of the BCRA*

**The legal protection of consumers and users has become a priority in the national and international agenda. While this protection goes back to the early sixties, the global financial crisis highlighted the need to develop and heighten the attention paid to the protection of users of financial services. Different international organizations and countries have worked on the idea of strengthening the protection offered to financial services users. Particularly in Argentina, major regulatory changes in this area were introduced in recent years**

The 2012 amendments to the BCRA Charter<sup>72</sup> included, within the functions and powers of the Institution, the protection of competition and of the rights of financial services users<sup>73</sup>. Thus, consistent with the current regulatory framework<sup>74</sup>, the approach that kept the BCRA away from the relation between financial institutions and their customers was abandoned.

In compliance with the changes introduced by the new law, the BCRA issued in early 2013 Communication "A" 5388 relating to the protection of financial services users. This regulation joins the efforts of countries like Peru, Spain, Brazil, Colombia, Mexico, Chile, among others, that also provide adequate regulatory frameworks to protect users of financial services.

With this new BCRA regulation, both basic rights of all financial users as well as the obligations of parties required to report (mainly banks and non-financial credit cards issuers) are acknowledged. These include protecting the safety and economic interests of users, adequate and accurate information regarding the services offered to and paid for by users, freedom of choice among different products and/or services available in the market, and fair and decent treatment conditions.

Additionally, financial institutions must implement regulatory measures to enhance the security of those financial service users who are at a disadvantage (physically and visually impaired, pregnant women, etc.).

Similarly, banks should have a customer service available to users in order to quickly respond to

enquiries or complaints, following a precise and uniform process as determined by the BCRA. Also, the new regulation requires each institution to appoint an officer who will be responsible for the full operation of such a service.

Additionally, the role of the BCRA was set, in particular in terms of its call center available to users of financial services, intended for the general public to satisfy different enquiries on regulations and information issued by this Institution. The BCRA shall be responsible for guiding how eventual claims should be channeled to institutions. Also, the BCRA shall follow a specific procedure in order to make available a channel to users in case of absence of response from banks or whenever their answers to claims filed by users individually or by way of groups of consumers and users seeking to protect the public interest are not satisfactory. This mechanism is intended to ensure a rapid and expedient resolution for all users.

Finally, it is further determined that upon non-compliance with the regulations established by this Institution, both the officer responsible for customer service and the institution involved will be subject to the penalties provided for under the Law on Financial Institutions.

More recently, by mid-year the BCRA issued Communication "A" 5460, as an additional step towards shaping the legislative framework governing the protection of users of financial services. Such Communication establishes minimum requirements for all banking and/or financial products contracted. Additionally, financial institutions are required to provide a copy of the signed contract to the users at the time of hiring a service, as well as to draft contracts in a minimum font size for easier reading and understanding. Moreover, the Communication also provided that all banking and/or financial contracts must include a "revocation clause", whereby the user may reject the product or service within ten working days of having received the contract or a product or service, whichever occurs last.

In terms of fees and/or commissions it is established that, except for interest rates, all charges that banks

<sup>72</sup> Law No. 26,739.

<sup>73</sup> Section 4 (h) of the new Charter of the BCRA.

<sup>74</sup> National Constitution and Consumer Protection Act.

intend to collect from users<sup>75</sup> must be real, direct and provable costs, and they are to be applied to services effectively rendered. Also, any third party's ancillary services necessary for the provision of the main service shall be charged at the cost set by such third party, and that price cannot be higher than that charged to their own customers. Simultaneously, prohibited fees and/or commissions are defined, such as those charged on the taking out and/or administration of insurance, on the generation of account statements or mailing of account statements via virtual resources, on transactions carried out over the counter and those charged in relation to origination, assessment, granting, administration or settlement of credits in advance. The local initiative to regulate the fees that users are charged with is inscribed in the measures adopted by other financial regulators in other economies such as the US and the European Union.

The new standard defines a set of terms considered unfair, for example, those involving a waiver or restriction of user rights, or those expanding or denaturing the rights of the parties required to report, and even if the institution includes them in the contracts of sale of financial products or services, such terms will be deemed not to have been written. Furthermore, the mechanism to be adopted by banks in order to make potential changes to the conditions timely agreed to by users is also specified.

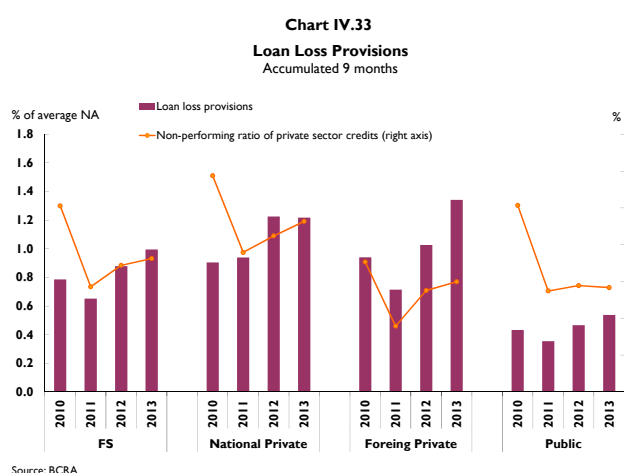
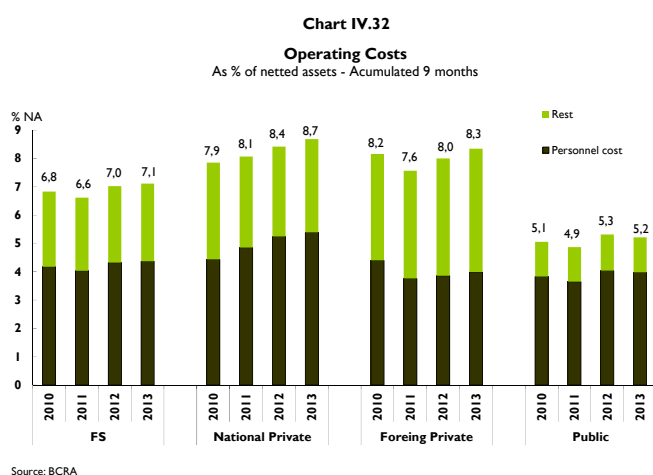
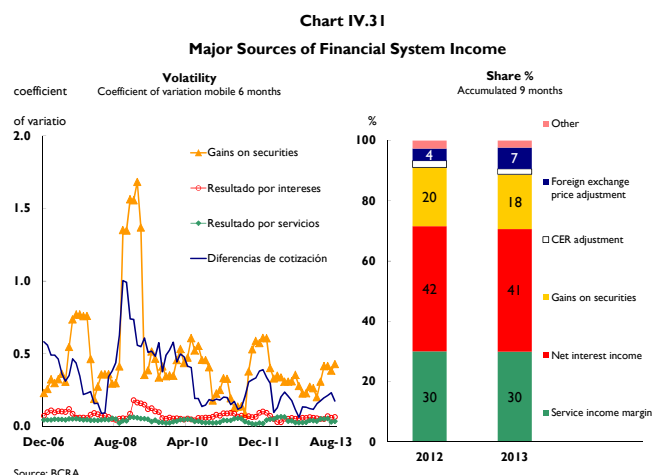
As a result, it is reasonable to say that in recent years, progress has been made towards the protection of users of financial services at domestic level, facilitating transparency, accountability and fairness in relationships between users and banks.

Finally, it is worth noting that regulations issued by the BCRA as well as the entire legislative background of the National Legal System comply with international standards and best practices. In this regard, the World Bank has defined a set of thirty-nine (39) "Good Practices for Financial Consumer Protection"<sup>76</sup>, which establish a minimum level of protection or adequacy for each sovereign state regarding the protection of users of financial services. The actions taken by the BCRA are in line with these guidelines.

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<sup>75</sup> Communication "A" 5482 sets forth that financial services users are all natural persons and legal persons not acquiring or using financial products or services being offered by parties required to report in order to include them in their normal business activity. Provided, however, that the parties required to report do not reasonably determine that they should receive a different treatment.

<sup>76</sup> "Good Practices for Financial Consumer Protection". June 2012. International Bank for Reconstruction and Development / The World Bank. [www.worldbank.org](http://www.worldbank.org).



Finally, so far in 2013 tax-related expenditures of the financial system (income tax and other taxes) amounted to 3.3% a. of assets, up 0.5 p.p. in y.o.y. terms, in line with the performance posted by the income of banks. Even though a similar expansion was observed by all groups of banks, in terms of amounts, these expenditures were more relevant in the case of private banks.

## IV.2 Institutional Investors

### *Portfolios managed by institutional investors continued increasing*

By mid-year, the main groups of domestic institutional investors within the Argentine financial sector —the Guarantee Sustainability Fund (FGS), insurance companies and mutual funds— managed an asset portfolio for almost \$416 billion in aggregate terms<sup>77</sup>, equivalent to 15.4% of GDP. This implies a 14% increase in nominal terms and a 0.2 p.p. rise in terms of GDP so far in 2013. Within this aggregate portfolio, fixed income instruments accounted for 55% of the total, with no substantial changes observed in such a weighting so far this year.

FGS continues to be the major institutional investor in the domestic market, with a portfolio amounting to \$292.2 billion by August 2013<sup>78</sup>. So far this year, this portfolio increased 19% (36% compared to mid-2012, see Table IV.4). In line with the trend observed on a half-year basis, most of the increase in the portfolio in 2013 was given by rises in its main component: national sovereign bonds, which account for 63% of the total portfolio. The increase posted by national sovereign bonds explains almost 70% of the change in the portfolio balance accumulated so far this year, according to the combined effect of an improvement in the prices of these instruments<sup>79</sup> and, to a lesser extent, new issues. Shares —evidencing the highest percentage growth so far in 2013, an increase of 49%<sup>80</sup>— as well as productive and infrastructure projects were the portfolio segments that posted significant variation so far this year. In the latter case, it should be noted that the amounts of projects in the portfolio in recent months gained greater dynamism with respect to the values observed in 2012. A lower increase was observed in the category of corporate bonds and provincial bonds, which had exhibited the greatest growth in the second half of last year (partly due to the investment in YPF corporate bonds). On the contrary, an unwinding of positions in

<sup>77</sup> Latest information available at the aggregate level. The amount is expressed in terms of the aggregate unconsolidated portfolios.

<sup>78</sup> Based on the latest available information.

<sup>79</sup> Cumulative price improvements in 2013 were more marked in the case of sovereign bonds in dollars.

<sup>80</sup> In the same period, Merval increased 38%.



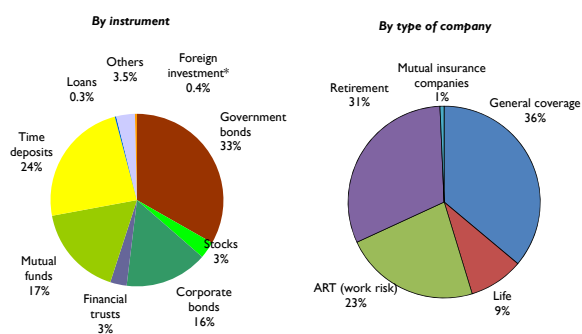
**Table IV.4**  
**Evolution of Social Security Fund (FGS) Investment Portfolio**

in million \$

Instrument	Dec-11	Jun-12	Sep-12	Dec-12	Aug-13	Y.o.y (%)	Change since Jun-12 (%)
<b>Total FGS</b>	<b>199,490</b>	<b>215,135</b>	<b>227,544</b>	<b>244,799</b>	<b>292,172</b>	<b>19%</b>	<b>36%</b>
Cash, sight deposits and other <sup>a</sup>	14,356	22,020	19,108	22,631	23,037	2%	5%
Time deposits	23,437	19,142	17,301	14,908	14,082	-6%	-26%
Sovereign bonds	115,131	126,069	140,395	151,111	183,411	21%	45%
Stocks	16,462	14,804	13,877	15,905	23,688	49%	60%
Corporate and subnational governments bonds	2,278	2,205	4,052	8,323	9,989	20%	353%
Productive and Infrastructure projects	27,827	30,895	32,810	31,921	37,965	19%	23%

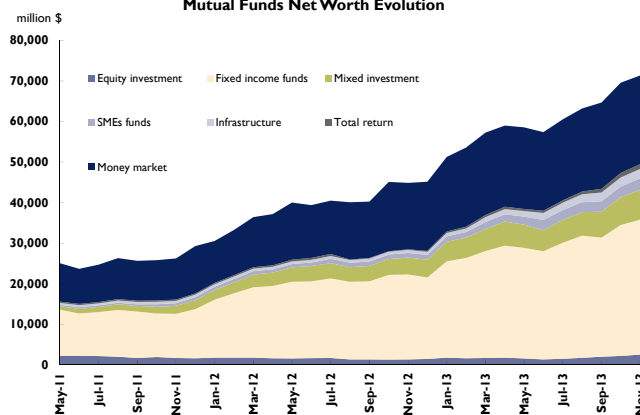
(\*) "Other" includes Mutual Funds, Direct Investment Funds, Foreign Securities, Futures and Options, among others.  
Source: ANSES-FGS

**Chart IV.34**  
**Breakdown of Insurance Companies Portfolio**  
June 2013 - Total: \$85.3 billion



(\*) Foreign investment includes Government and corporate bonds, stocks, mutual funds, time deposits and other equity investments.  
Source: Superintendencia de Seguros de la Nación

**Chart IV.35**  
**Mutual Funds Net Worth Evolution**



Source: Cámara Argentina de Fondos Comunes de Inversión

FGS time deposits was observed, however, with less force than in 2012<sup>81</sup>. This implies a reduction in the weighting of FGS's deposits in the total system.

Meanwhile, in June 2013<sup>82</sup>, the investment portfolio of insurance companies amounted to \$85.3 billion, an increase of 14% so far this year and 26% in y.o.y. terms. In this case the increase in the portfolio so far in 2013 is mainly explained by corporate bonds and other investments. The amounts of corporate bonds, which had already recorded a strong performance in the previous 6-month period<sup>83</sup>, grew nearly 70% so far in 2013; its weighting in the total portfolio increased from nearly 10% in late 2012 to more than 15% six months later (see Chart IV.34). Moreover, increases were recorded in terms of much more limited amounts in time deposits, Mutual Funds and, even to a lesser extent, in financial trusts. On the contrary, shares exhibited significant losses (accounting for 3% of the portfolio, nearly half their share by late 2012) along with less significant contractions in the positions of government securities (which currently account for a third of the total portfolio; however, until mid-2011 they accounted for more than half).

Net worth managed by Mutual Funds rose 21% in the last seven months, until reaching nearly \$71.5 billion at the end of November. While progress was consistent across the different types of Mutual Funds (see Chart IV.35), net worth increase was led by fixed income funds and money market funds, which accumulated the greatest share in the total<sup>84</sup>; such funds account for almost two-thirds of the 6-month variation. Indeed, in the first case a net worth increase close to 20% was recorded between late April and November, while for money market funds a 9% rise was observed in the period. Mixed income funds and infrastructure funds also recorded significant progress in managed portfolios<sup>85</sup>, followed by SME funds (with a 59% increase, until reaching 4% of total)

<sup>81</sup> As of August, time deposits accounted for 5%, whereas by early 2012, their weighting in the total portfolio was over 10%.

<sup>82</sup> Latest available information.

<sup>83</sup> In accordance with Resolution No. 37,163/2012 adopted by the National Superintendence of Insurance, the amounts of funds allocated to finance productive or infrastructure projects were changed.

<sup>84</sup> These two types of funds (fixed income and money market) continue explaining most of the managed resources, amounting to almost 80% of the total portfolio.

<sup>85</sup> In the second case, the percentage increase was 82%, but it only accounts for 3% of total Mutual Funds.

## V. Financial System Risks

### Summary

Considering the sustained growth recorded in lending, the financial system's exposure to the private sector rose in 2013. This momentum was accompanied by a favorable evolution in companies and households' income within a framework of low indebtedness aggregate levels, thereby contributing to keeping bank debtors' payment capacity without significant changes. Thus, institutions' credit risk remained at moderate levels. Financing non-performance did not change significantly in year-to-date terms, standing at historically low levels. It should be noted that the non-performing ratio of lending to households went down in the third quarter, thus changing the slightly upward trend that had been recorded since late 2011. The non-performing portfolio as a whole continued being covered with loan loss provisions exceeding regulatory requirements.

Financial institutions as a whole kept a low exposure to liquidity risk. Some of the main indicators to measure this risk—deposit concentration and share of short-term liabilities in funding—did not change sizably in 2013. In addition, the sector kept evidencing a comfortable level of coverage of its short-term liabilities.

The risk faced by banks of recording losses resulting from failures in processes, personnel and systems or due to external events has remained limited in year-to-date terms. An additional capital requirement became effective in February 2012 to cover the operational risk; such requirement was applied gradually and entered in full effect in late 2012 in the case of large financial

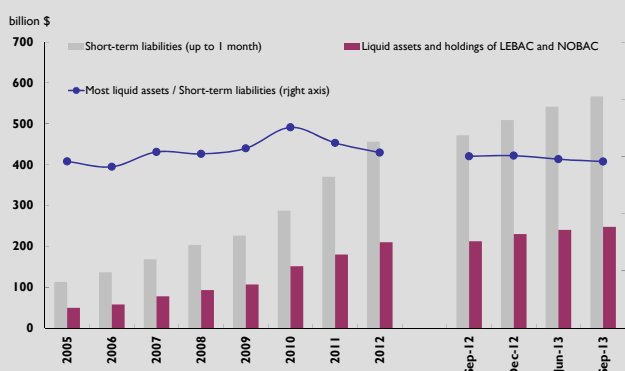
institutions and in December 2014 in the case of smaller institutions.

In turn, the risk that price fluctuations in financial assets may have a negative effect on the financial system increased slightly in 2013, though it remained at relatively low levels. Such rise was mainly explained by holdings of bonds in dollars in line with the higher weighting of these instruments' position valued at market price in the system's total assets in a context of improvement in prices with some volatility increase.

Banks' aggregate balance sheets recorded low and falling dollarization levels, limited by the macro-prudential policies implemented in due time by the BCRA. A positive mismatching of foreign currency was recorded and this implies that only a nominal appreciation of the peso against the US dollar would lead to a potential materialization of currency risk.

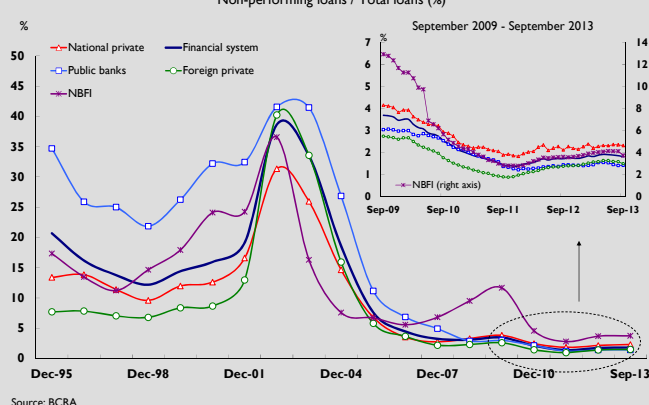
The financial system has kept limited exposure to interest rate risk, which is concentrated in the segment of transactions at a fixed rate in pesos. Under the local regulation, this risk became part of Pillar II as per Basel standards since 2013, in a context where the Superintendence of Financial and Exchange Institutions (SEFyC) may demand from banks it may deem necessary a reduction of this risk and/or a rise in capital. It has been calculated that, as of September, potential disturbances in the interest rate would generate a low negative net worth effect and this situation may be observed amongst institutions in general.

**Chart V.1**  
Most Liquid Asset in Terms of Short Term Liabilities\*



\* Depending on the residual term.  
Note: The annual information corresponds to the quarterly average of each period.  
Source: BCRA

**Chart V.2**  
Non-performing Financing to the Private Sector  
Non-performing loans / Total loans (%)

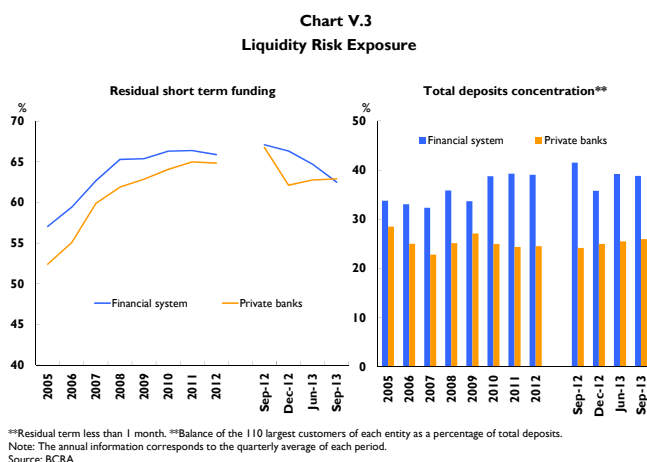


Source: BCRA



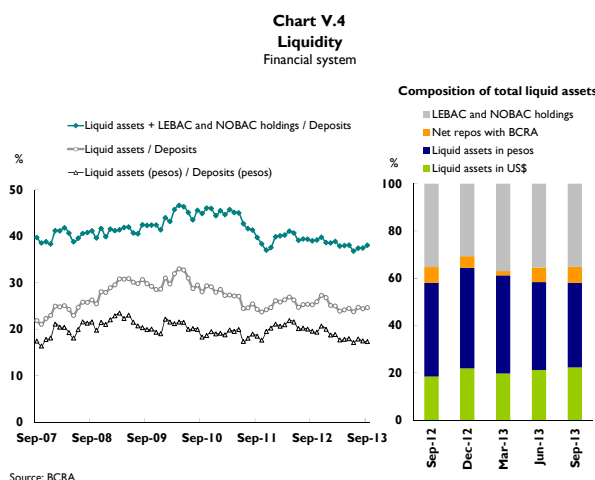
## V.1 Liquidity risk

### *The ensemble of banks evidences limited exposure to liquidity risk*



Indicators of exposure by the ensemble of banks to liquidity risk did not post significant changes throughout 2013 and remained at moderate levels. On the one hand, the share of short-term liabilities in total funding fell slightly in year-to-date terms (see Chart V.3). This performance was observed in a context where there was an increase in the relative share of deposits at a term exceeding 30 days<sup>86</sup> in total deposits and where a rise was also observed in the amount issued through corporate bonds by financial institutions. On the other hand, total deposits' concentration levels rose slightly since the start of 2013, even though they stand below the figures recorded twelve months ago and are in line with the average of the past few years.

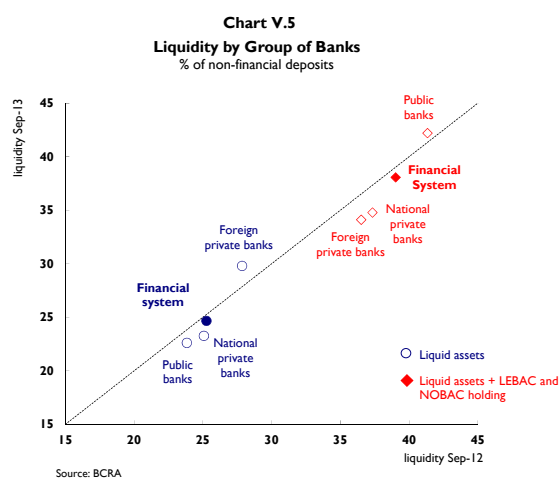
### *The sector holds a sound coverage against this risk*



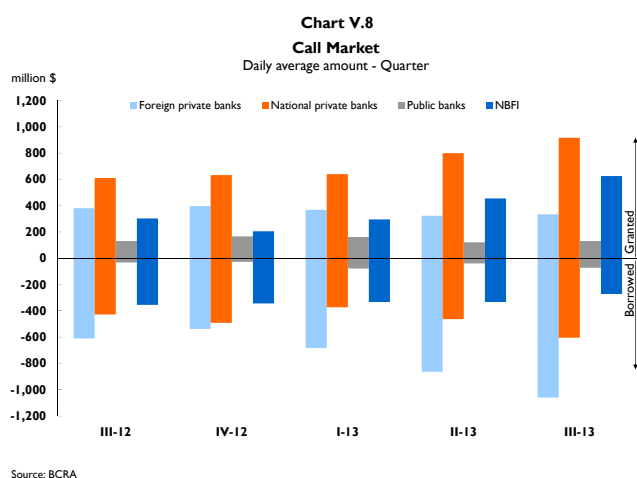
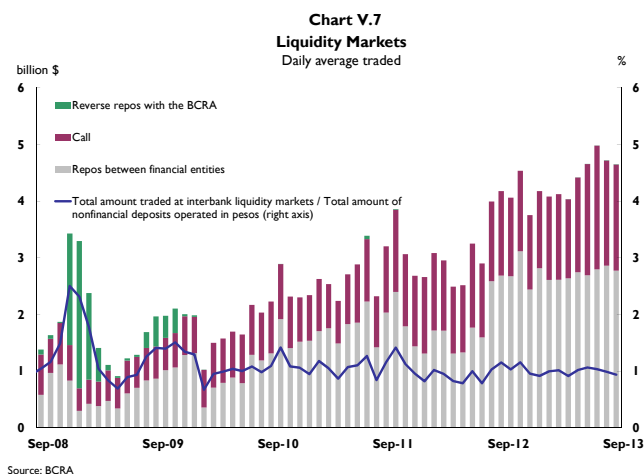
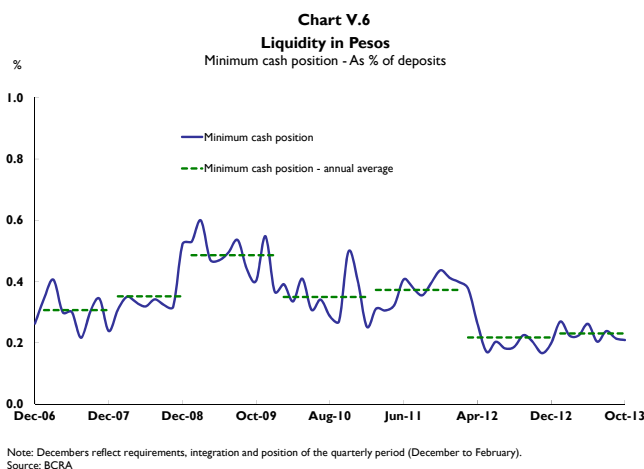
The domestic financial system recorded adequate levels of coverage of short-term liabilities with liquid assets, accounting for 43.7% by the end of the third quarter of the year. Even though this indicator fell slightly in y.o.y. terms, it is similar to the average recorded in the past eight years (see Chart V.1).

In line with the momentum exhibited by lending to the private sector, the growth pace of liquid assets moderated in the past twelve months. Thus, liquidity indicators considering only items in pesos and those including domestic and foreign currency dropped in y.o.y. terms (see Chart V.4). Likewise, the broad liquidity ratio—including LEBAC and NOBAC holdings not related to repo transactions—decreased in the last year and such decline was explained by private banks (see Chart V.5). By breaking down the different items making up liquid assets, liquid assets in dollars increased their weighting against September 2012 whilst the balance of liquid assets in pesos went down. In turn, a slight rise in bank liquidity indicators was observed in the third quarter of the year.

The financial system kept a sound position regarding compliance with minimum cash requirements. In the domestic currency segment, the ensemble of institutions recorded an excess in liquidity compliance of around



<sup>86</sup> Considering the residual term.



0.2% of deposits<sup>87</sup> along the third quarter of 2013 (see Chart V.6).

A rise in the amount traded was recorded in the call money market and in the repo market amongst financial institutions in year-to-date terms (see Chart V.7). The higher volume of inter-financial transactions was accounted for by repo transactions among banks. Over the period, and particularly in the past few months, foreign private banks were the main borrowers of funds in the call money market (see Chart V.8), thereby recording a net borrowing position. Supply in the call money market was mainly covered by national private banks and non-banking financial institutions (NBFIs) which, together with public banks, evidenced a net lending position in the last quarters. Meanwhile, after the hike observed at the beginning of the year, interest rates agreed upon for loans amongst banks reversed the trend and started to gradually fall —especially in the third quarter of 2013—.

## V.2 Credit risk

### V.2.1 Private sector

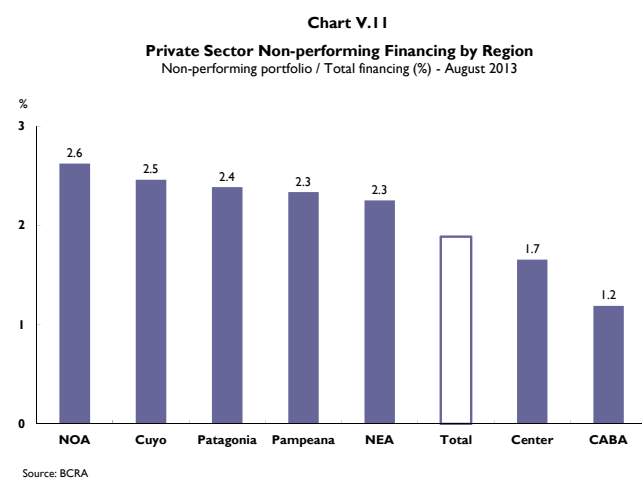
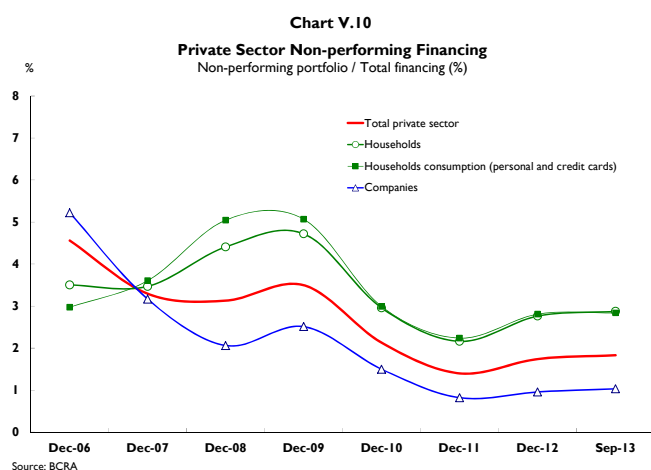
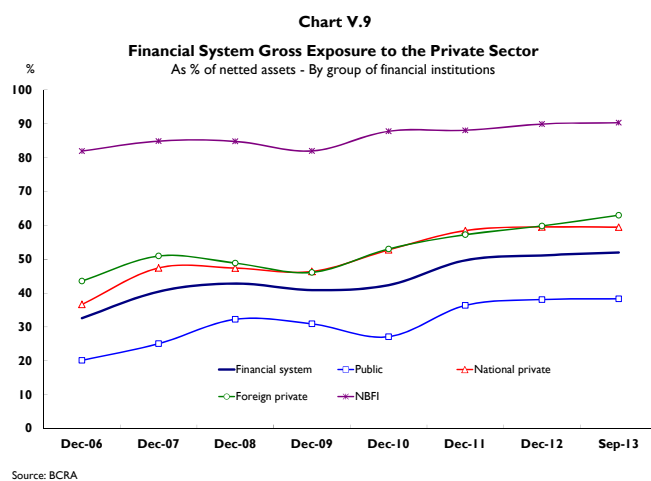
*Low levels of balance sheet exposure to credit risk still prevail in a context of gradual rise in the share of lending to the private sector in bank assets*

Throughout 2013, financial system's gross exposure to the private sector rose slightly (see Chart V.9), mainly due to the performance of foreign private banks. The weighting of lending to the private sector in total netted assets went up almost 1 p.p. in the first nine months of the year, accounting for 52% of the total. This sector's credit risk was still limited in a context where companies and households recorded a positive evolution in their income and did not evidence significant changes in their moderate indebtedness levels (see Chapter III). Proof of this is that credit delinquency remains at low levels whilst the financial system continued exhibiting sound coverage with provisions for the non-performing portfolio.

*Non-performing loans to the private sector remained within a range of historically low values*

Non-performing loans to the private sector accounted for 1.8% of total lending by the end of the third quarter without evidencing significant changes against late 2012 and exhibiting a minor reduction on the margin. These

<sup>87</sup> Considering average daily data.



delinquency levels are low in historical and in international terms (see Chart V.2). Non-performance of loans to the private sector covered with preferred guarantees<sup>88</sup> remained at 1.2%, whilst non-performance corresponding to lending without such coverage stayed at 1.9%, evidencing in both cases, levels similar to those of December 2012. Delinquency in financing posted a similar performance in all groups of financial institutions in year-to-date terms with NBFIs and national private banks recording a ratio that was slightly higher than that shown by the remaining institutions.

Lending to both companies and households, and loans for consumption purposes within the latter, kept evidencing non-performance levels that were in line with those recorded at the end of 2012 (see Chart V.10). In terms of geography, delinquency posted some heterogeneity (see Chart V.11) and mixed performances: while in the center region a fall in the ratio was observed, slight rises were recorded in other regions.

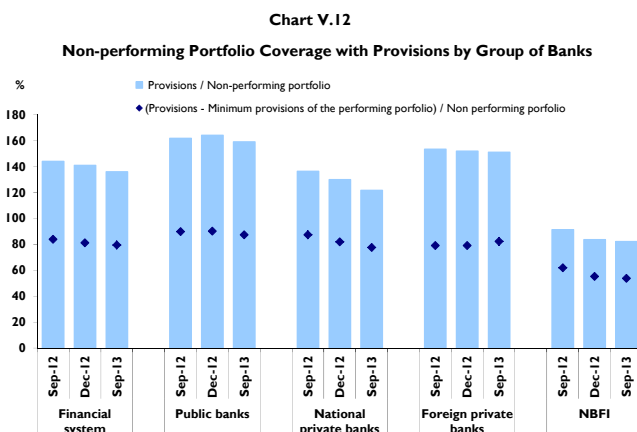
### ***Non-performing loans to the private sector continued being covered with provisions that exceeded regulatory requirements***

Coverage with provisions of the non-performing private sector portfolio reached 136% by the end of the third quarter of 2013, exceeding 100% in the case of public banks and foreign and national private banks. If minimum provisions required on the performing portfolio were excluded, the coverage ratio would reach 79.5% at an aggregate level, a value that easily exceeds the minimum regulatory provisions required for non-performing loans (48.6%) (see Chart V.12).

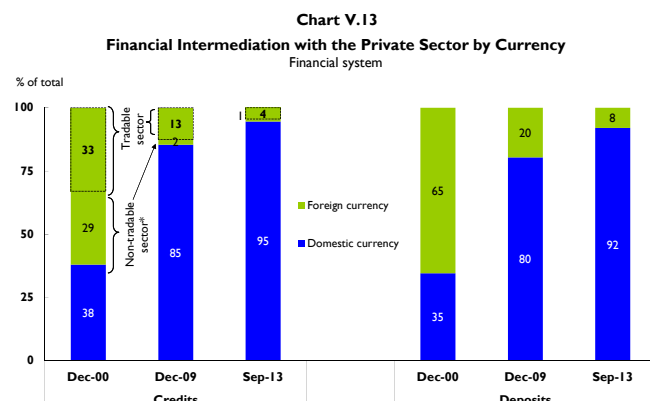
### ***The financial system has kept its soundness against credit risk derived from exchange rate fluctuations***

As of the third quarter of 2013, only 5% of the stock of loans to the non-financial private sector was denominated in foreign currency, a third of the percentage recorded by late 2009 and well below the rate of the year 2000 (see Chart V.13). Regarding funding, by mid-2013, only 8% of the stock of private sector deposits corresponded to those denominated in foreign currency. All this took place within the macro-prudential regime that limits financing in foreign currency to those agents whose income is in that currency—or agents whose incomes are related to the exchange rate evolution—thereby reducing risks for borrowers and for the financial system alike.

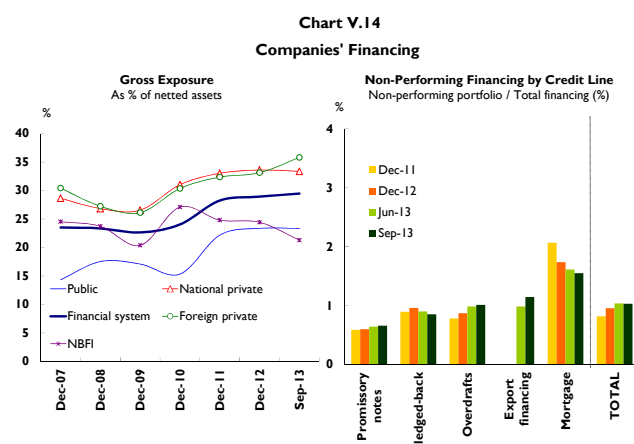
<sup>88</sup> Financing with preferred guarantees accounted for 16.7% of the total as of September 2013, a value similar to that of late 2012.



Source: BCRA



\*Note: Non-tradable sector financing estimation considers loans in foreign currency to households, construction sector, utilities and other services.  
Source: BCRA



Note: Export financing credit line's information is available from 2013.  
Source: BCRA

## Companies

### *The gross exposure of the financial system to the productive sector rose slightly in 2013*

The share of lending to companies in financial system netted assets stood at 29.5% by the end of the third quarter of 2013, surpassing the value recorded at the end of the previous year. While foreign private banks recorded a slight rise in their gross exposure to the productive sector, the remaining groups of institutions evidenced small reductions in such indicator (see Chart V.14). Companies' indebtedness remained at low levels—at both historical and international terms—recording a limited repayment risk by the sector (see Chapter III).

### *Non-performing loans to companies remained at low levels*

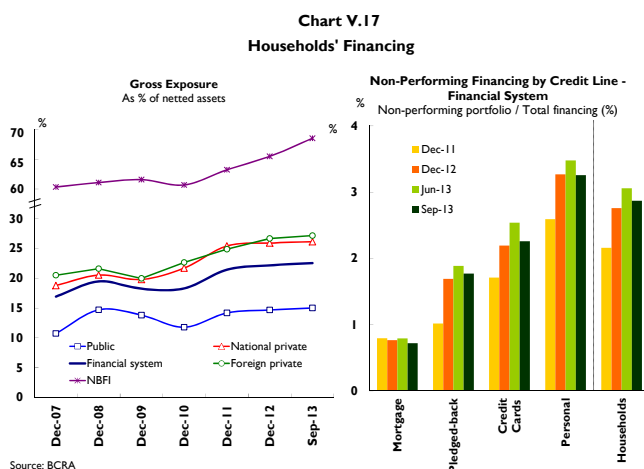
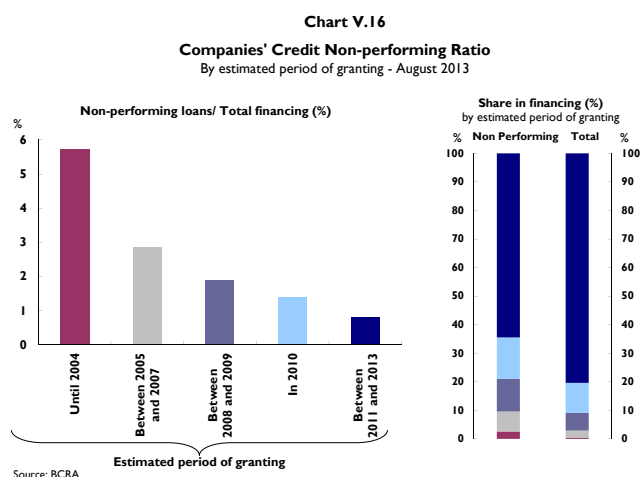
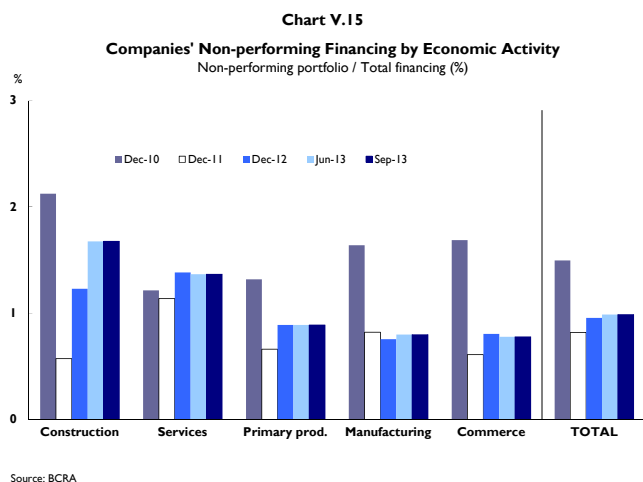
In September 2013, delinquency in loans granted to companies stood at 1% of the total portfolio, a level similar to that of December 2012. Credit lines with the greatest share in this sector—overdrafts and promissory notes—continued evidencing lower delinquency levels than the aggregate of lending (see Chart V.14). All productive sectors, with the exception of construction—which only accounts for 5% of total financing to companies—kept their non-performing levels unchanged in year-to-date terms. Manufacturing, trade and primary production, which as a whole accounted for 74% of loans to companies, recorded delinquency levels below the total in September 2013 (see Chart V.15).

It has been estimated that over 80% of the outstanding stock of loans to companies in August 2013—as per the latest information available—corresponded to loans granted as from 2011. These loans would exhibit a non-performing level below that of those granted in previous periods (see Chart V.16).

## Households

### *The banking sector increased its balance sheet exposure to households*

Aggregate financial system gross exposure to households stood at 23% of netted assets by the end of the third quarter of 2013 (see Chart V.17), evidencing a slight rise in relation to December 2012. Even though the share of lending to households in assets increased in all groups of institutions, the rise observed in the NBFIs and foreign private banks should be underscored. The slight increase of gross exposure to households was boosted by lending for consumption purposes—credit



cards and personal loans—, which accounted for almost 81% of the hike in financial system lending to households in year-to-date terms. This rise took place within the framework of a sound labor market—in terms of employment and income— (see Chapter II) and low households' indebtedness levels—e.g., in terms of wage mass— which helped maintain their financial position and payment capacity without significant changes (see Chapter III).

### *Household lending non-performance fell in the third quarter of 2013*

The delinquency ratio observed in loans granted to households reached 2.9% of the total portfolio as of September 2013, a level that is slightly above that of late 2012. It should be noted that this indicator exhibited a change in its trend in the third quarter in relation to the minor upward evolution it posted since the end of 2011, ending the period under study 0.2 p.p. below the value recorded in June (see Chart V.17). This reduction in the delinquency ratio was observed in a context of sustained growth in lending in this segment (see Chapter IV), together with a slowdown in the expansion rate of the stock of non-performing loans. This dynamics was mainly recorded in foreign private banks and in NBFIs.

### *V.2.2 Public sector*

#### *Financial system gross exposure to the public sector continued falling*

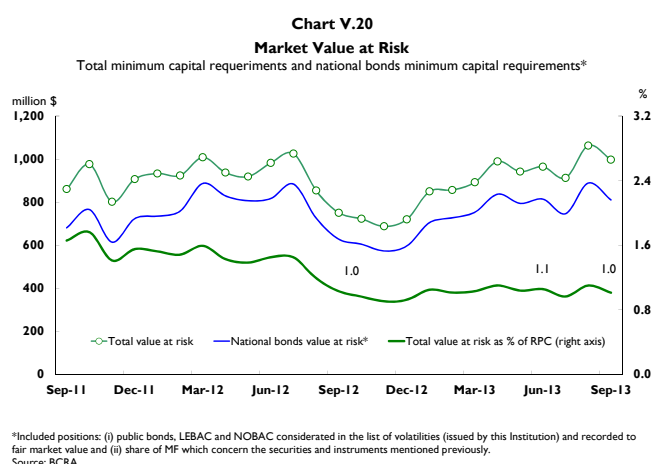
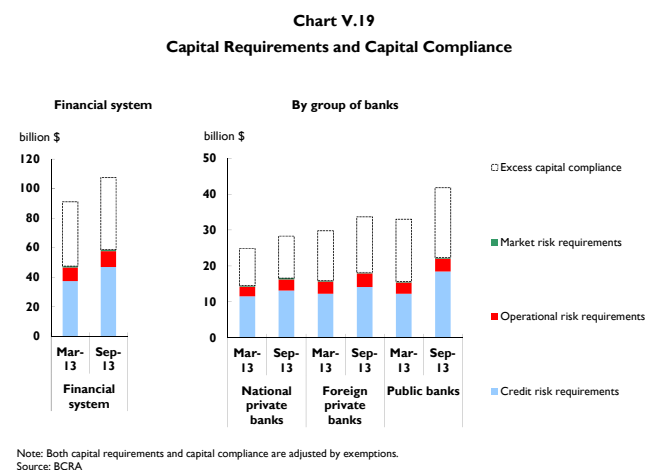
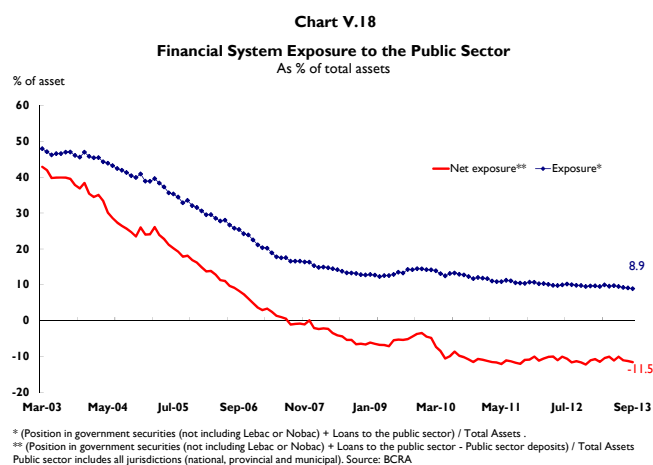
At the end of the third quarter of the year, the gross exposure of the financial system to the public sector stood below 9% of total assets, falling 0.8 p.p. against December 2012. The stock of total public sector deposits in the financial system—considering the three government levels— continued exceeding the stock of loans granted to this segment. Thus, the public sector kept its positioning as net creditor of the financial system, at a level equal to 11.5% of total bank assets (see Chart V.18).

### *V.3 Operational risk*

#### *The minimum capital requirement to cover operational risks rises gradually, in line with the improvement observed in financial intermediation levels*

Following international recommendations, a capital requirement regulation was implemented as from February 2012 to cover operational risk<sup>89</sup> faced by banks

<sup>89</sup> Communication "A" 5272.



on account of their operations. The purpose is for institutions to hold sufficient reserves to face potential unexpected losses resulting from failures in processes, personnel and systems or derived from external events. The additional capital requirement to cover operational risks is equivalent to 15% of the average positive gross income recorded in the past three years<sup>90</sup> by institutions and started being applied gradually, entering fully in force as from December 2012 in the case of large financial institutions (Group “A”)<sup>91</sup> and as from December 2014 in the case of smaller institutions (Groups “B” and “C”)<sup>92</sup>.

The capital requirement to cover operational risks supplemented other measures taken in due time: guidelines to manage this risk<sup>93</sup> were published in April 2008 and the creation of a database<sup>94</sup> to be managed by the BCRA was ordered in February 2009; institutions have been contributing to such database since early 2010 by providing information on their events resulting from external reasons or failures in their internal processes.

As of September 2013, the capital requirement for the aggregate financial system to cover operational risk equaled 16.9% of the total regulatory requirement and 10.5% of total compliance (adjusted stockholders’ equity) (see Chart V.19). Given the criterion chosen to calculate this regulatory requirement —Basel II basic indicator—, these requirement relative levels are slightly above those recorded six months ago; this rise was observed within a context of gradual improvement in the weighting of financial intermediation activity with the private sector and of a slight rise in implicit spreads. These trends are mirrored in a relative rise in profits from interest and services by the sector (see Chapter IV), which boost banks’ gross income.

## V.4 Market risk

### *Market risk faced by the financial system continued at moderate levels*

The risk that fluctuations in prices of the main financial assets may have a significant impact on the banking sector stood at low levels. Particularly, the value at market risk determined in accordance with the regulation on minimum capital stood at 1% of adjusted stockholders’ equity of aggregate banks in September 2013 (see Chart V.20). Thus, this risk’s share in the map of exposures and coverages stayed low: capital

<sup>90</sup> A Basic Indicator was chosen at a local level: a percentage on income, considered proxy of activity levels (more activity raises banks’ exposure to greater chances of suffering this risk).

<sup>91</sup> Communication “A” 5346.

<sup>92</sup> Communication “A” 5469.

<sup>93</sup> Communication “A” 4793.

<sup>94</sup> Communication “A” 4904.



requirement for this item only represented 1.6% of the total capital requirement at the end of the third quarter of 2013 (see Box 5).

Almost 81% of the minimum capital requirement to cover market risk was accounted for by requirements for the domestic bond portfolio —mainly sovereign bonds and LEBAC and NOBAC, and to a lesser extent, investments in mutual funds—. Absolute values corresponding to these requirements rose from reduced levels over the past 12 months. When considering types of position, such rise was derived from the segment in dollars (see Chart V.21), in the short section of the yield curve<sup>95</sup> and in the long segment and, to a lesser extent, in the short-term peso segment. Regarding the ensemble of banks, national private and public banks mirrored these changes.

This dynamics was in line with the rise observed in the position of instruments in dollars in total bonds recorded by the financial system based on the improvement in prices. In addition, the share counted at market value rose within this segment, while volatility in most security prices in foreign currency posted a slight rise against September 2012 (see Chart V.22).

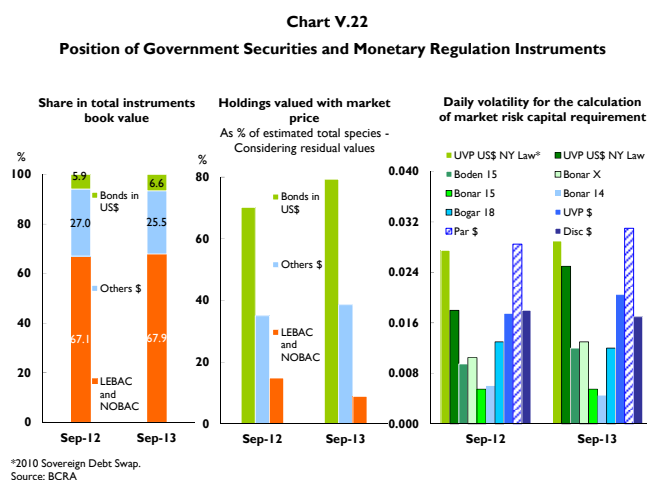
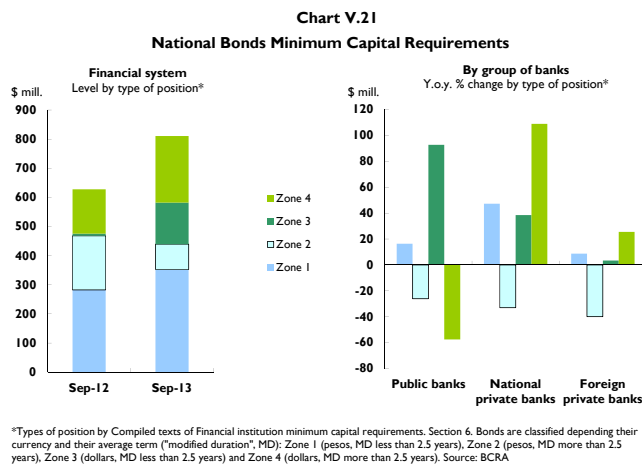
## V.5 Currency risk

### *Low and falling dollarization levels in banks' balance sheets were observed*

Dollarization of the aggregate balance sheet corresponding to the ensemble of banks stood at historically low levels: it reached 12.1% of total assets denominated in foreign currency (5.4% in the case of loans to the private sector) and 8.9% of liabilities (8% for private sector deposits) as of September 2013. Weighting of items in foreign currency fell in the past twelve months, standing below the average figures recorded in the past two decades (see Chart V.23).

### *The financial system is exhibiting a moderate positive mismatching of foreign currency*

The financial system continued exhibiting a positive mismatching of foreign currency (assets exceed liabilities in that currency) within this framework of low dollarization levels. Particularly, this mismatching in a broad sense<sup>96</sup> stood at 51.9% of adjusted stockholders' equity, going up moderately against late 2012 (see Chart V.23). This rise was mainly accounted for by the effect

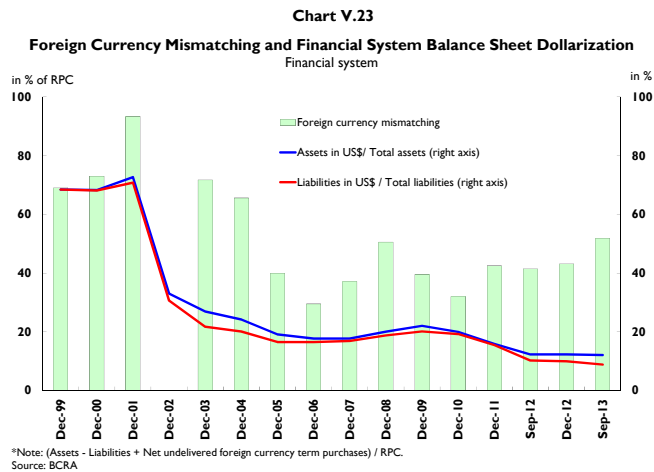


<sup>95</sup> Considering the estimated modified duration.

<sup>96</sup> Considering assets in foreign currency net of liabilities in the same currency as well as net undelivered foreign currency forward purchases in memorandum accounts.



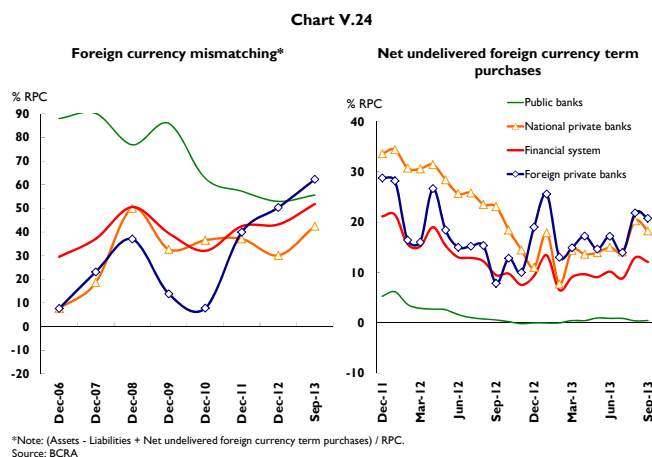
of higher net foreign currency forward purchases. Even though the currency mismatching rose in all groups of banks, it was mainly driven by foreign private banks (see Chart V.24).



Net forward purchases of foreign currency expanded in the first nine months of 2013, almost entirely in private banks (see Chart V.25), slightly increasing their share within broad currency mismatching. In turn, the share of the difference between assets and liabilities in foreign currency fell to 77% of the total mismatching as of September.

The presence of a positive foreign currency mismatching is a general situation among local financial institutions. In August 2013, 78 out of 82 financial institutions (99.7% of total assets) exhibited this kind of mismatching. Given the positive position in terms of currency mismatching and the gradual nominal depreciation of the peso against the US dollar, profits have accrued over the past few years for the sector under the heading of differences arising from foreign exchange adjustments and from foreign currency forward purchases (see Chart IV).

### *Currency risk reduces its share in the risk map for the ensemble of banks*



Given that the financial system currently holds a positive position in foreign currency (assets exceeding liabilities) and that the credit risk derived from a potential exchange rate fluctuation is limited, the potential risk in terms of solvency for banks would only be present in a context of nominal appreciation of the peso.

The current situation is partly the result of the measures implemented by the BCRA, recognizing the relevance of currency risk for financial systems, especially in emerging economies. Particularly, the set of regulations governing this issue have a macro and a micro prudential purpose. In this regard, together with other rules (capital requirements and restrictions to the position in foreign currency), the Argentine financial system imposes limits to the use of financial institutions' credit capacity in foreign currency. These rules intend to avoid solvency problems in banks on an individual basis and in the system as a whole, arising from events of sudden changes in the peso-dollar exchange rate. Thus, foreign currency deposits may only be used for loans in foreign currency to companies whose income is in the same currency (or expressed in domestic currency but closely related to the peso-dollar exchange rate evolution).

## *Box 5 / Regulatory Progress on Banking Structure in Developed Economies*

**Considering the significant impact of the international financial crisis on several economies, especially on developed economies, and the causes deemed to have led to such crisis, various alternatives came up to regulate the structure and size of universal banks. One of the common elements present in these initiatives is the mandatory separation of commercial bank activities from certain investment activities, given that the latter proved to be a sizeable source of risks for financial stability and, therefore, for countries' economic development**

Restrictions on the business lines that banks could develop began being eased worldwide as from the '70s; this process took place together with the progress recorded in the deregulation of financial markets<sup>97</sup>. This easing was grounded on the rationale that a broader supply of financial services by banks would finally have positive effects on economies' growth. In addition, it was argued that there were effective mechanisms to mitigate risks generated by the fast expansion of banks having more diversified activities (generally identified as universal banks). Part of these mechanisms consisted in the drive given to business line diversification, the introduction of innovation in tools aimed at risk management, the valuation of the latter based on market evolution and the enhancement of monitoring carried out by the private sector —commonly referred to as market discipline—. Thus, it was believed that a suitable framework was provided to promote productive investment and to strengthen financial stability conditions and, ultimately, sustainable economic development<sup>98</sup>.

In this context of minimum regulation, many universal banks transferred significant funds to their investment portfolios given the existence of low funding costs obtained from households, companies and wholesale sources. These reduced funding costs were partly explained by the effect of deposit insurance mechanisms, funds that were increasingly used to finance risky financial investment transactions<sup>99</sup>, of high

complexity and little transparency on many occasions, instead of being channeled towards productive activities. Thus, after several decades of growth in financial markets, decoupled from the real economy evolution, the size and persistence of the adverse effect derived from the international financial crisis, that started in 2007, led to an international review of economic costs and benefits related to the existence of universal banks —particularly those involved in financial investment activities on their own behalf (proprietary trading)—.

The complexity of the structure and operations of many of these banks weakened the possibility of monitoring by clients, thereby impacting on the performance related to risk exposure. On the other hand, the high level of interconnection with other agents from the real and financial sector contributed to the fast contagion of problems, thereby giving rise to systemic risk events. This situation was intensified by the widespread perception that many of these banks had become significantly large and that, therefore, governments would rescue them in case of financial problems resulting from their increasingly risky profiles (a phenomenon known as “too big to fail”). This scenario finally held in practice (with the exception of Lehman Brothers) and gave rise to successive government bailout processes, thereby imposing a heavy burden on taxpayers.

Consequently, proposals that imply a considerable change to the current regulatory paradigm applied to bank activity started to be discussed over the past few years. The main initiatives that propose different separation degrees amongst bank activities come from the US with the so-called Volcker Rule<sup>100</sup>, from Europe with the Liikanen Report by the European Commission<sup>101</sup> and from the UK with the proposals by the Vickers Commission<sup>102</sup> to which specific initiatives for France, Germany<sup>103</sup>, and Belgium<sup>104</sup> are added (in

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of the EU banking sector, at the Bank of Finland SUERF Conference, Helsinki, June 2013.

<sup>100</sup> Section 619 of the law entitled “Dodd-Frank Wall Street Reform and Consumer Protection Act”, July 2010.

<sup>101</sup> Report made in 2012 by a Group of Experts aimed at reforming the European banking sector structure, chaired by Michel Barnier, European Union Commissioner.

<sup>102</sup> Bill entitled “The Banking Reform Bill” sent to the UK Parliament in February 2013 and based on recommendations by an Independent Banking Commission chaired by Sir John Vickers.

<sup>103</sup> In May 2013, the German Parliament passed a law whereby banks are required to separate their trading risky activities from traditional

<sup>97</sup> For a thorough analysis of the deregulation process in the American financial system and its effects on market concentration, see “The \$100 Billion Question”, Andrew G. Haldane, Bank of England (2010).

<sup>98</sup> Working Paper N412, BIS, “Structural bank regulation initiatives: approaches and implications”, by Gambacorta and van Rixtel (2013).

<sup>99</sup> See, for example, “Banking after the regulatory reforms – business as usual?”, Speech by Mr Erkki Liikanen Governor of the Bank of Finland and Chairman of the Highlevel Expert Group on the structure

each case, with different degrees of progress on the legislative and/or regulatory framework). These measures are designed to supplement capital requirements based on risks included in Basel recommendations.

The main objective of these proposals is to protect financial activities deemed as important for financial service consumers and for productive development of economies, of those potentially more risky and related to investments in securities markets. Thus, the universal banking model is limited. In addition, the schemes aimed at providing aid to traditional intermediation activities—such as the deposit insurance mechanism—are prevented from reducing the cost of assuming institutions' risks and, therefore, promoting their excessive inclusion. Furthermore, banks' complexity is reduced (in terms of business and interconnections) as well as their size, making them easier for management, regulation and supervision purposes. At the same time, there are benefits in terms of transparency while complexity is reduced in cases of institutions' closure—crisis resolution—. To sum up, these structural reforms could help decrease the cost faced by taxpayers in events of bank bailouts by States<sup>105</sup>.

**Volcker Rule.** Within this framework, commercial banks operating in the US are forbidden to participate in investment activities on their own behalf (proprietary trading). It also prohibits investments in institutions that may expose banks to equivalent risks, like in hedge and/or private capital funds, as well as sponsoring of such companies. These forbidden activities may not be carried out in subsidiaries within the same financial group. On the other hand, very few additional restrictions are imposed on potential transactions by banks with other financial institutions on a more general basis, and all transactions with US Treasury bonds and from other federal agencies are exempted from any prohibition. Market making activity is allowed provided it is on clients' behalf.

**Liikanen Report (Europe).** The report proposes splitting proprietary trading activities from those of market making pertaining to the bank institution that is taking deposits and channeling loans to companies and households. Thus, this gives rise to a separate institution

that concentrates these riskier operations<sup>106</sup>. This new institution mainly engaged in investment activities in securities must be self-sufficient in terms of capital and liquidity, cannot be funded with deposits or provide retail financial services but it may belong to the same group made up by the retail bank<sup>107</sup>. The idea that this new institution devoted to security trading continues to be part of the financial group seeks to prevent these activities from remaining outside the scope of consolidated supervision and regulation (for example, via a transfer to the so-called shadow banking), and that they become a potential systemic risk factor.

**Vickers Commission (UK).** Under this set of initiatives, retail bank activities whose potential interruption may have a significant negative impact on households and SMEs are placed in an institution separated from the remaining activities. This new institution would carry out retail financial intermediation by taking retail deposits and making advances to natural persons and providing lending to SMEs whilst it could also carry out other activities. Under no circumstances can this institution perform transactions with securities or derivatives, be a market maker or participate in the purchase of loans and other financial instruments in the secondary market, amongst others. In order to keep some degree of activity diversification in the financial group, the existence of other subsidiary companies that will carry out more risky investment activities is allowed; however, restrictions to the links among companies making up the financial groups are established.

Within this framework, these structural measures raise a set of potential costs and benefits. From the viewpoint of benefits for financial stability, some authors argue that preliminary evidence would suggest that the cost of potential bankruptcy processes of universal banks tend to be higher than those of specialized retail institutions given that the former have incentives to grow in size and significantly increase their complexity. In addition, it would also be observed that universal banks exhibit more income volatility, which could put them in a situation of higher relative risk. Thus, proposals to split traditional bank activities could reduce the occurrence of bank runs since these institutions would be considered less risky as they do not carry out investment operations.

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transactions with clients as from 2015. This requirement is mainly aimed at larger banks.

<sup>104</sup> "Structural banking reforms in Belgium: final report", National Bank of Belgium, July 2013.

<sup>105</sup> "Creating a Safer Financial System: Will the Volcker, Vickers and Liikanen Structural Measures Help?", Viñals, Pazarbasioglu, Surti, Narain, Erbenova&Chow, IMF Staff Discussion Note 13/4, May 2013.

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<sup>106</sup> Unlike the US case, according to all European initiatives, the separation of activities would be mandatory only if they exceed certain threshold or level.

<sup>107</sup> The French, German, and Belgian reform proposals may be considered, in general, as adaptations of the Liikanen Report.

From the potential cost standpoint, the creation of institutions specialized in investment activities with wholesale funding (less stable) may make these institutions become a systemic risk factor, which could potentially be passed onto retail banks even though they are separate institutions. The debate on the effectiveness of measures aimed at the split of retail and investment activities may arise in practice, especially in those cases when they are still within the same financial group (European initiatives). This might pose a challenge in contexts of financial difficulties, a situation where the separation of activities could turn more blurry.

It should be noted that the bank structure regulation would affect, in a more direct manner, large universal banks operating at an international level, mostly identified as systemic from a global stance (Global Systemically Important Banks or G-SIB<sup>108</sup>). Even though these institutions could continue being involved with diversified activities at a group level, individual institutions should limit their range of activities, a situation that could adversely impact on profit levels. More reliance by the subsidiaries of these international banks on every country's domestic funding could also be observed, creating discouragement towards global banking and a reduction of investment activities and securities trading—at domestic and international levels—potentially reducing securities markets' liquidity. Nevertheless, this could create incentives for new participants to enter the system and provide liquidity to the market, thereby improving, in part, this situation in the medium-term.

Reforms would also potentially lead to a trend towards the existence of smaller banks—at least at a first instance—and would make institutions accept higher operating costs as a result of the separation of their activities (for example, those related to the split of different funding sources)<sup>109</sup>. Nevertheless, banks will continue having incentives to grow in size in the medium-term, which could still generate, albeit more moderately, risks related to the phenomenon of being “too big to fail”.

The size and the direction of the impact of these measures on developed economies would depend, among other factors, on how structural regulation will affect the relative profitability of specific activities, a situation that becomes relevant given the existing intense competition contexts that give rise to relatively

narrow margins. It should be noted that this kind of regulations would not probably have significant effects on scarcely developed financial systems though they could be used with prevention purposes to avoid the potential development of risks derived from growing levels of investment activity in securities and/or complexity in operations.

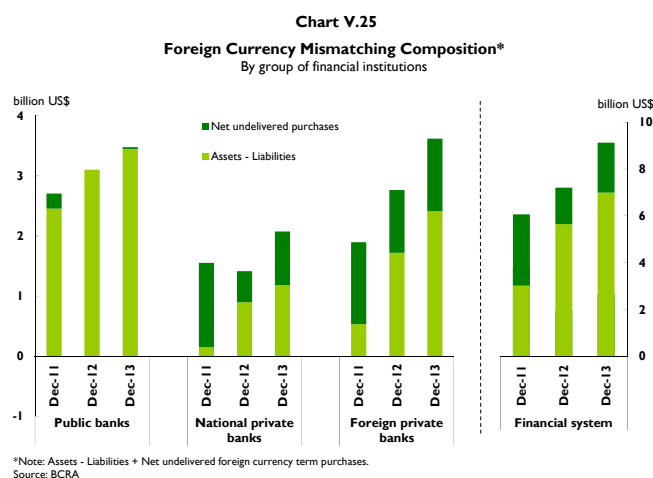
In this regard, the Argentine financial system, as well as that of other emerging countries, mainly carries out traditional financial intermediation operations with companies and households obtaining its income from such sources. Risks arising from institutions' proprietary trading with securities are very limited compared to advanced economies' financial systems, and the low volume of transactions recorded are mainly carried out with sovereign or Central Bank bonds. This is mirrored in low levels of capital requirements to cover market risks in the financial system (see Chapter V) and in reduced positions of securities for trading in terms of bank assets. In turn, more risky activities, such as investments in hedge funds, market making, the subscription of securities, among others, are virtually not performed at a local level.

<sup>108</sup> For further information, see Box 4 from the Financial Stability Report, Second Half, 2012.

<sup>109</sup> Andrew G. Halden 2010, quoted before, raises the debate about the relation of this kind of regulations and those commonly known as economies of scale and scope in bank activity.

## V.6 Interest rate risk

*The financial system has kept a limited exposure to interest rate risk*



The interest rate risk faced by banks on account of the nature of their intermediation activity is usually created by the generally slower pace in the adjustment of their assets against changes in the interest rate, compared to their liabilities' sensitivity. This risk may hold in practice in a context of a hike in the interest rate leading to a negative effect on the income statement, through net interest income.

When breaking down different portfolios of assets net of liabilities of the banking book for the domestic financial system —by kind of currency and interest rate agreed— the main focus for this risk is in the segment in pesos at a fixed interest rate. This segment clearly evidences that assets have longer terms than liabilities.

It should be noted that, under the local regulation, the interest rate risk became part of Pillar II, as per Basel<sup>110</sup> standards, as from 2013. Thus, and within the framework of this risk management, it was ordered that the Superintendence of Financial and Exchange Institutions (SEFyC) may require the institutions it deems as necessary to reduce this risk and increase the additional amount of capital or a combination of both alternatives. Therefore, special focus is placed on the capital adequacy of institutions where the economic value falls in excess of 20% of their adjusted stockholders' equity due to a rise in the relevant interest rates<sup>111</sup>. To determine this rise, two criteria were set: an increase in the relevant interest rates by 200 basis points and a 99° percentile of the distribution of changes in interest rates recorded over a year (240 working days) taking into account a minimum observation period of five years.

<sup>110</sup> Communication "A" 5369.

<sup>111</sup> Communication "A" 5398, Section 5.



## VI. Payment System

### Summary

Following the trend in recent years, the use of electronic means of payment (alternative to cash) kept on growing during 2013. In particular, there was a remarkable use of immediate bank transfers, which were made through home banking and mobile banking, business e-banking and ATMs. From January to September 2013, these immediate bank transfers posted a 78.5% y.o.y. rise in terms of amount, and a 47% y.o.y. growth in terms of number, and they gained share in the aggregate number of electronic transfers performed. The use of this tool shows an improvement in terms of safety, efficiency and rapidness for economy transactions.

The issue of new debit and credit cards kept growing in recent months, and this performance is mostly explained by private banks' transactions. Thus, with a contribution to the growing trend in the use of these means, the average number of debit and credit cards per inhabitant more than doubled in the last decade.

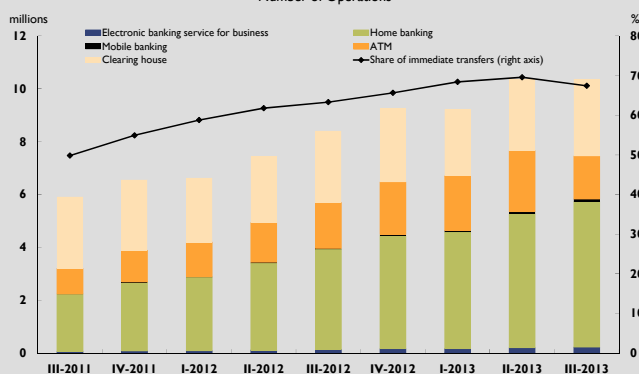
While the total amount of cleared checks went up during 2013, their number remained relatively unchanged, and this effect may be partly a result of the increase in the use of electronic means of payment.

The number of Free Universal Bank Accounts (CGU) continued to be on the rise during 2013, and they reached a total of 151,000 by the end of the third quarter of 2013, and this entails a 26.6% a. growth pace so far this year. Most of the evolution of such accounts is still explained by public banks, with 73.5% of the growth shown during 2013.

Transactions in pesos through the Electronic Means of Payment (MEP) —a high value payment system— performed very well during the first nine months of 2013, and they even accounted for 3 times the GDP. In terms of the number of transactions, there has been a 6.2% y.o.y. increase during the first three quarters of 2013.

Chart VI.1

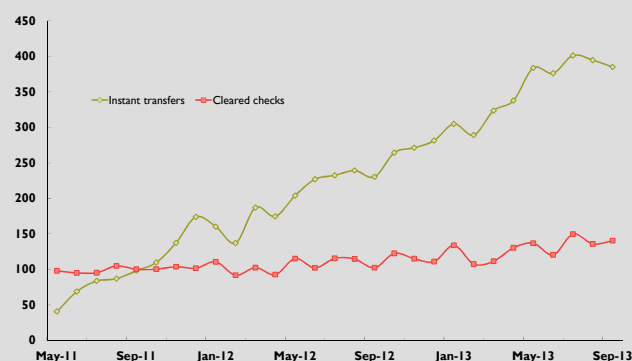
Third Party Transfers by Channel  
Number of Operations



Source: BCRA

Chart VI.2

Use of Means of Payment's Evolution  
In value / base: average May-December 2011 = 100



Source: BCRA



## VI.1 The National Payment System

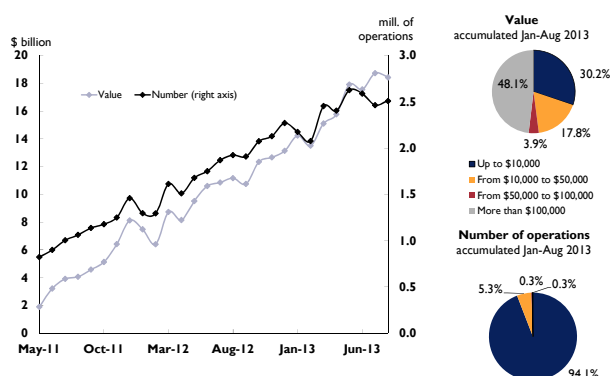
Throughout this year, the BCRA implemented several measures intended to expand the use of electronic means of payment, which consist in relatively safer, faster and more efficient tools to carry out economy transactions. In this context, the National Payment System (NPS) kept on evolving towards more access to financial services by the population.

So far in 2013, third party transfers<sup>112</sup> continued to be on the rise, both in terms of amount (38% y.o.y. in the aggregate of the year) and in terms of the number of transactions performed (31.9% y.o.y.). Among this type of transfers immediate ones stand out<sup>113</sup>, which are conducted through home banking and mobile banking, ATMs or business e-banking, which as a whole posted a 47% y.o.y. growth in the number of transactions—very much above the 8% y.o.y. rise posted by non-immediate bank transfers—and a 78.5% y.o.y. rise in the total transferred value—vs. a 35.8% y.o.y. growth for non-immediate transfers—. Thus, the weighing of the modality of immediate wire transfers boosted by the BCRA<sup>114</sup> kept on increasing within the total number of third party transactions, and it even reached a 67.4% share during this third quarter of the year (see Chart VI.1).

The division into segments of immediate transfers posted a significant share of transfers in the low amount segment, which according to the provisions of the BCRA are made free of charge. Until August 2013, this segment comprised up to \$10,000 per day, and this limit was extended to \$20,000 as from September 2013<sup>115</sup>. In the aggregate from January to August, 94.1% of immediate transactions, in terms of number, were made at no cost—segment up to \$10,000—and this corresponds to 30.2% of the amount transferred through this modality (see Chart VI.3). In September, as from the changes in regulations, the proportion of transactions that must be made at no cost climbed to 37% in terms of amount and to 97% in terms of number of immediate transfers.

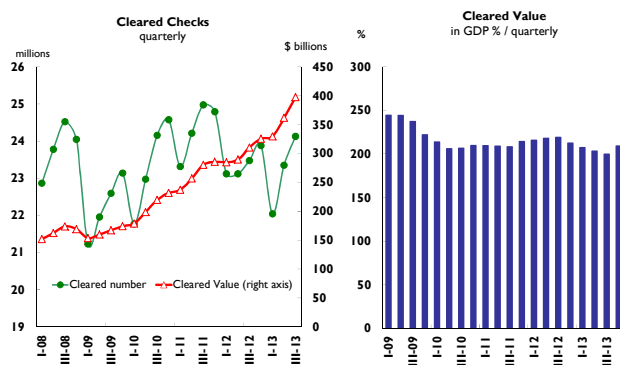
The total value of checks cleared continued to be on the rise so far in 2013 (23.1% y.o.y.), and the number of cleared checks stood at relatively stable levels, as compensation for the increasing use observed in

Chart VI.3  
Instant Transfers



Source: BCRA

Chart VI.4  
Checks



Source: BCRA

<sup>112</sup> Third-party transfers are transfers made by banks on behalf and to the order of their clients. They do not include transfers between financial entities, or payment of salaries and wages, payments to suppliers, retirements and pensions or any other payments related to the Argentine Social Security Administration (ANSES).

<sup>113</sup> Among third-party transfers, “immediate transfers” are those with are credited in the system on a real-time basis. Any other transfers are “non-immediate” transfers, i.e. they are made through clearing houses and they are credited within a longer term—in general, 24 hours—.

<sup>114</sup> Communication “A” 5194.

<sup>115</sup> Communication “A” 5473.

electronic means of payment. The higher value of cleared checks was recorded in particular in the last two quarters, and this performance managed to revert on the margin the slightly decreasing trend in relation to GDP (see Chart VI.4). This situation took place in a context of stability of the ratio of bounced checks for insufficient funds over the total of cleared checks, ratio that stood at 0.6% in terms of amount (1% in terms of number of checks).

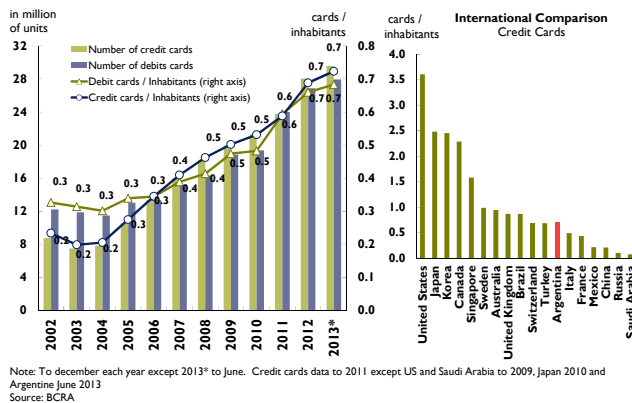
During 2013, the increasing trend was maintained in the number of direct debits —transactions mainly associated with payment of public services, tax liabilities, credit cards, among others— even though the total amount of debits went down in year-on-year terms<sup>116</sup>, accounting for 2.5% of GDP in the 12-month aggregate.

A comparison of the evolution of the different means of payment as from the second half of 2011 shows the significant growth of tools boosted by the BCRA in recent years —i.e. immediate transfers— which would explain, in part, the lower levels of relative growth of other means of payment as an alternative to cash held by the public, such as checks. A comparison in the medium term indicates that whereas the amount of immediate transfers rose 385% with respect to their average amount in 2011, the total amount of cleared checks went up only 140% (see Chart VI.2).

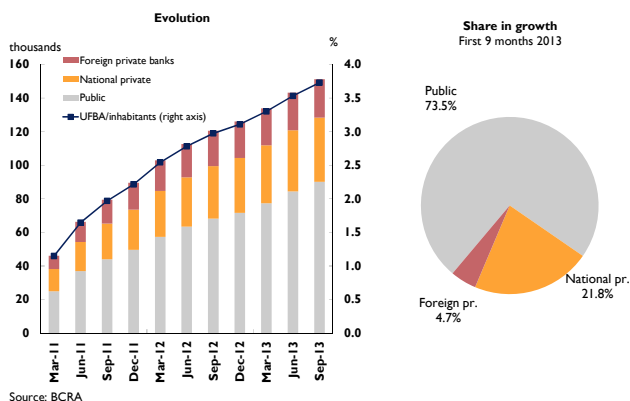
As a sign of the progressive diversification of means of payment, the number of cards (both credit and debit) continued to be on the rise during 2013, even though with a slight deceleration with respect to the high rates shown in previous six-month periods. From December 2012 to June 2013, the number rose 9.7%a., mainly driven by credit cards (11.2%a.) and by private banks (12%a.), since these entities have the larger proportion of cards in circulation (73.2%). In turn, debit cards expanded 8.1%a. during this half, which performance is also due, mostly, to private banks' activity. The proportion of credit cards with respect to population stood at relatively stable levels during the first half, at 0.7 per inhabitant —as well as debit cards— and there is still room for expansion if compared to other emerging and developed economies (see Chart VI.5).

For the purpose of continue increasing the use of banking services by the population, in September 2010, the Central Bank provided for the creation of the Free Universal Bank Account (CGU). During 2013, the use of CGUs kept on expanding, both in terms of number of accounts activated and in the proportion with respect to

**Chart VI.5**  
**Credit and Debit Cards**



**Chart VI.6**  
**Universal Free Bank Accounts**



<sup>116</sup> The drop in the amount of direct debits is partly due to the end of some financing plans which had been granted by the Federal Administration of Public Revenue (AFIP) for the regularization of debts.

the population, and by September there was a total of over 151,000<sup>117</sup> accounts, which entails a 26.6% a. rise in year-to-date-terms. The evolution of such accounts continued to be mostly driven by public banks, explaining 73.5% of their growth during 2013 (see Chart VI.6).

Transactions in pesos made through Electronic Means of Payment (MEP)<sup>118</sup> —high value payment system— rose 33% y.o.y. in terms of amount from January to September 2013, and their share rose 18 p.p. up to 304% of GDP (see Chart VI.7). In terms of number of transactions, they grew 6.2% y.o.y. during the first three quarters of 2013.

## VI.2 Payment System Modernization

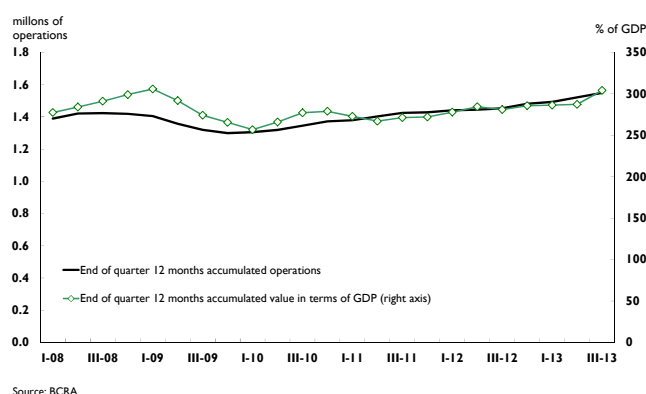
*The BCRA continued to promote measures to increase the access to banking services by the population and to make the National Payment System more agile and efficient*

In the context of the changes made to the Central Bank of Argentina's Charter by means of Law No. 26,739, deeper actions are being taken to oversee the level of operating efficiency of settlement and clearing houses, ATMs networks, remittance agencies, armored funds and securities carriers and other activities related to payment systems. In this regard, progress is being made in the implementation of reporting procedures for the control and follow-up of operations and the evolution of means of payment used.

With respect to international standards, the BCRA continues to participate in international permanent working forums such as the “Western Hemisphere Payments and Securities Settlement and Clearance Initiative”, coordinated by the CEMLA, and the BCRA also actively collaborates in the discussion of new principles for the infrastructure of financial markets promoted by the CPSS (Committee on Payment and Settlement Systems) and the IOSCO (International Organization of Securities Commissions). In this respect, the BCRA is conducting the assessment of the adjustment of the Financial Market Infrastructures to the principles established, in compliance with the method guidelines communicated by the above-stated entities, for the purposes of detecting any possibilities of improvement or needs of adjustment to new conditions.

Chart VI.7

Electronic Mean of Payment - Peso Transactions Cleared



Source: BCRA

<sup>117</sup> Out of them, 26,000 are still to be validated.

<sup>118</sup> Electronic Means of Payment (MEP) is a system that makes it possible for financial entities and clearing houses to operate on a real-time basis with their checking accounts in the BCRA.

## Statistics Annex\* – Financial System

**Chart 1 | Financial Soundness Indicators**

In %	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Sep 12	Dec 12	Sep 13
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.7	25.3	26.8	24.7
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.1	10.7	9.9	9.7	8.9
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	47.4	48.0	49.5	49.8
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.4	1.7	1.7	1.8
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-3.1	-2.8
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.7	3.0	2.9	3.1
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	25.3	26.4	25.7	26.5
8.- Efficiency	151	167	160	167	185	179	179	190	190	199
9a.- Capital compliance	-	-	-	-	-	-	-	-	-	13.4
9b.- Capital compliance (credit risk)	15.3	16.9	16.9	16.9	18.8	17.7	15.6	16.6	17.1	-
10a.- Capital compliance Tier I	-	-	-	-	-	-	-	-	-	12.0
10b.- Capital compliance Tier I (credit risk)	14.1	14.1	14.6	14.2	14.5	13.1	10.9	12.9	11.9	-
11.- Excess capital compliance	173.5	134.0	92.8	89.8	99.8	86.9	68.6	61.6	58.7	70.9

Note: According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.

Data subject to changes

Source: BCRA

### Methodological note (chart 1)

1.- (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by LEBAC and NOBAC repo operations against the BCRA) / Total deposits; 2.- (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; 3.- (Loans to the private sector + Leases) / Total assets; 4.- Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; 5.- (Total nonperforming private sector financing – Private sector financing loss provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; 6.- Accumulated annual results / Average monthly netted assets - % Annualized; 7.- Accumulated annual results / Average monthly net worth - % Annualized; 8.- (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; 9a.- Capital compliance / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369). Includes exemptions; 9b.- Capital compliance / Credit risk weighted assets. Includes exemptions; 10a.- Capital compliance Tier 1 (net of deductions) / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369); 10b.- Capital compliance Tier 1 (net of total deductions) / Credit risk weighted assets; 11.- (Capital compliance - Capital requirement) / Capital requirement. Exemptions are

\*Note | Data available in Excel in [www.bcra.gov.ar](http://www.bcra.gov.ar)

# Statistics Annex\* – Financial System (cont.)

Chart 2 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13	Change (in %)		
									Lasts 6 months	II-Q-13	III-Q-13
<b>Assets</b>	<b>346,762</b>	<b>387,381</b>	<b>510,304</b>	<b>628,381</b>	<b>790,026</b>	<b>812,195</b>	<b>866,694</b>	<b>942,719</b>	<b>16.1</b>	<b>6.7</b>	<b>8.8</b>
Cash disposal <sup>1</sup>	58,676	71,067	93,085	104,389	148,254	142,926	140,046	154,947	8.4	-2.0	10.6
Public bonds	65,255	86,318	117,951	112,906	123,491	135,720	147,165	161,029	18.6	8.4	9.4
Lebac/Nobac	37,093	43,867	76,948	71,050	84,057	92,167	102,136	114,109	23.8	10.8	11.7
Portfolio	25,652	34,748	61,855	59,664	70,569	86,197	85,121	94,088	9.2	-1.2	10.5
Repo <sup>2</sup>	11,442	9,119	15,093	11,386	13,488	5,971	17,014	20,021	235.3	185.0	17.7
Private bonds	203	307	209	212	251	285	426	442	55.4	49.6	3.9
Loans	154,719	169,868	230,127	332,317	433,925	450,018	483,012	514,735	14.4	7.3	6.6
Public sector	17,083	20,570	25,907	31,346	39,951	40,270	41,653	41,632	3.4	3.4	-0.1
Private sector	132,844	145,247	199,202	291,708	383,674	399,498	429,220	460,952	15.4	7.4	7.4
Financial sector	4,793	4,052	5,018	9,263	10,299	10,249	12,139	12,150	18.5	18.4	0.1
Provisions over loans	-4,744	-5,824	-6,232	-7,173	-9,596	-10,139	-10,957	-11,620	14.6	8.1	6.0
Other netted credits due to financial intermediation	38,152	33,498	39,009	40,805	38,769	34,638	47,868	59,777	72.6	38.2	24.9
Corporate bonds and subordinated debt	912	1,146	1,433	1,657	2,255	2,183	2,922	3,709	69.9	33.8	26.9
Unquoted trusts	5,714	5,942	6,824	7,967	10,822	11,539	11,563	12,080	4.7	0.2	4.5
Leasing	3,935	2,933	3,936	6,222	7,203	7,294	8,059	8,383	14.9	10.5	4.0
Shares in other companies	7,236	6,711	7,921	9,123	11,682	12,509	12,811	13,855	10.8	2.4	8.1
Fixed assets and miscellaneous	7,903	8,239	9,071	10,111	11,251	11,468	11,761	13,021	13.5	2.5	10.7
Foreign branches	3,153	3,926	3,283	3,525	4,354	4,540	4,686	5,065	11.6	3.2	8.1
Other assets	12,275	10,337	11,943	15,944	20,441	22,936	21,819	23,086	0.7	-4.9	5.8
<b>Liabilities</b>	<b>305,382</b>	<b>339,047</b>	<b>452,752</b>	<b>558,264</b>	<b>699,205</b>	<b>714,690</b>	<b>763,659</b>	<b>831,499</b>	<b>16.3</b>	<b>6.9</b>	<b>8.9</b>
Deposits	236,217	271,853	376,344	462,517	595,764	616,098	652,070	701,635	13.9	5.8	7.6
Public sector <sup>3</sup>	67,151	69,143	115,954	129,885	163,691	165,556	169,507	192,752	16.4	2.4	13.7
Private sector <sup>3</sup>	166,378	199,278	257,595	328,463	427,857	445,254	477,700	503,571	13.1	7.3	5.4
Current account	39,619	45,752	61,306	76,804	103,192	101,696	110,337	114,330	12.4	8.5	3.6
Savings account	50,966	62,807	82,575	103,636	125,210	126,087	141,473	140,721	11.6	12.2	-0.5
Time deposits	69,484	83,967	104,492	135,082	183,736	202,492	209,690	230,796	14.0	3.6	10.1
Other netted liabilities due to financial intermediation	57,662	52,114	60,029	76,038	75,106	67,409	85,318	96,890	43.7	26.6	13.6
Interbanking obligations	3,895	3,251	4,201	7,947	8,329	8,120	9,821	9,831	21.1	20.9	0.1
BCRA lines	1,885	270	262	1,920	3,535	3,927	4,236	4,658	18.6	7.9	10.0
Outstanding bonds	5,984	5,033	3,432	6,856	9,101	9,551	10,658	12,311	28.9	11.6	15.5
Foreign lines of credit	4,541	3,369	3,897	6,467	4,992	4,485	5,131	4,838	7.9	14.4	-5.7
Other	13,974	14,891	17,426	24,137	26,280	23,947	25,587	28,384	18.5	6.8	10.9
Subordinated debts	1,763	1,922	2,165	2,065	2,647	2,462	2,732	3,076	24.9	10.9	12.6
Other liabilities	9,740	13,159	14,213	17,644	25,688	28,721	23,539	29,899	4.1	-18.0	27.0
<b>Net worth</b>	<b>41,380</b>	<b>48,335</b>	<b>57,552</b>	<b>70,117</b>	<b>90,820</b>	<b>97,505</b>	<b>103,035</b>	<b>111,220</b>	<b>14.1</b>	<b>5.7</b>	<b>7.9</b>
<b>Memo</b>											
<b>Netted assets</b>	321,075	364,726	482,532	601,380	767,744	795,553	837,921	907,427	14.1	5.3	8.3
<b>Consolidated netted assets</b>	312,002	357,118	472,934	586,805	750,598	777,979	818,445	887,496	14.1	5.2	8.4

(1) Includes margin accounts with the BCRA. (2) Booked value from balance sheet (it includes all the counterparts). (3) Does not include accrual on interest or CER.

Source: BCRA

\*Note | Data available in Excel in [www.bcra.gov.ar](http://www.bcra.gov.ar)

# Statistics Annex\* – Financial System (cont.)

Chart 3 | Profitability Structure

Amount in million of pesos	Annual					Acum. 9m. 2013	Quarterly		
	2008	2009	2010	2011	2012		I-13	II-13	III-13
Financial margin	20,462	28,937	35,490	43,670	61,667	61,057	18,458	18,180	24,419
Net interest income	9,573	14,488	17,963	24,903	38,365	36,270	11,355	11,797	13,118
CER and CVS adjustments	2,822	1,196	2,434	1,725	2,080	1,599	660	408	531
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	4,127	6,316	1,392	2,061	2,862
Gains on securities	4,398	11,004	13,449	14,228	17,356	16,230	5,213	3,844	7,173
Other financial income	1,362	-339	-457	-211	-261	643	-161	70	734
Service income margin	10,870	13,052	16,089	21,391	28,172	26,676	8,072	9,061	9,543
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-6,127	-6,156	-1,920	-2,058	-2,177
Operating costs	-18,767	-22,710	-28,756	-36,365	-47,318	-44,010	-13,586	-15,117	-15,307
Tax charges	-2,318	-3,272	-4,120	-6,047	-8,981	-10,184	-2,957	-3,183	-4,044
Adjust. to the valuation of government securities <sup>2</sup>	-1,757	-262	-214	-336	-338	-277	-105	-77	-95
Amort. payments for court-ordered releases	-994	-703	-635	-290	-274	-84	-35	-25	-23
Other	1,441	918	2,079	2,963	2,475	2,143	664	1,057	422
Total results before tax <sup>3</sup>	6,100	12,145	16,665	21,251	29,276	29,166	8,591	7,837	12,737
Income tax	-1,342	-4,226	-4,904	-6,531	-9,861	-10,305	-3,063	-2,574	-4,668
<b>ROA<sup>3</sup></b>	<b>4,757</b>	<b>7,920</b>	<b>11,761</b>	<b>14,720</b>	<b>19,415</b>	<b>18,861</b>	<b>5,528</b>	<b>5,263</b>	<b>8,070</b>
ROA adjusted <sup>4</sup>	7,508	8,885	12,610	15,345	20,027	19,221	5,668	5,365	8,188
Annualized indicators - As % of netted assets									
Financial margin	6.7	8.6	8.5	8.0	9.2	9.9	9.5	8.9	11.2
Net interest income	3.1	4.3	4.3	4.6	5.7	5.9	5.8	5.8	6.0
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.3	0.2	0.2
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	1.0	0.7	1.0	1.3
Gains on securities	1.4	3.3	3.2	2.6	2.6	2.6	2.7	1.9	3.3
Other financial income	0.4	-0.1	-0.1	0.0	0.0	0.1	-0.1	0.0	0.3
Service income margin	3.6	3.9	3.8	3.9	4.2	4.3	4.1	4.4	4.4
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.9	-1.0	-1.0	-1.0	-1.0
Operating costs	-6.1	-6.7	-6.9	-6.7	-7.0	-7.1	-7.0	-7.4	-7.0
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.3	-1.6	-1.5	-1.6	-1.9
Adjust. to the valuation of gov. securities <sup>2</sup>	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.3	0.5	0.5	0.4	0.3	0.3	0.5	0.2
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total results before tax <sup>3</sup>	2.0	3.6	4.0	3.9	4.3	4.7	4.4	3.8	5.8
Income tax	-0.4	-1.3	-1.2	-1.2	-1.5	-1.7	-1.6	-1.3	-2.1
<b>ROA<sup>3</sup></b>	<b>1.6</b>	<b>2.3</b>	<b>2.8</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>3.7</b>
ROA adjusted <sup>4</sup>	2.5	2.6	3.0	2.8	3.0	3.1	2.9	2.6	3.7
ROE before tax <sup>3</sup>	17.2	29.5	34.5	36.5	38.8	41.0	38.7	33.1	50.3
ROE <sup>3</sup>	13.4	19.2	24.4	25.3	25.7	26.5	24.9	22.2	31.9

(2) Com. "A" 391 I. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(3) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities

(4) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 391 I and 4084.

Source: BCRA

Chart 4 | Portfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Sep 12	Dec 12	Sep-13
<b>Non-performing loans (overall)</b>	<b>5.2</b>	<b>3.4</b>	<b>2.7</b>	<b>2.7</b>	<b>3.0</b>	<b>1.8</b>	<b>1.2</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>
Provisions / Non-performing loans	115	108	115	117	115	148	176	148	144	138
(Total non-performing - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.7	-0.7	-0.6
(Total non-performing - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.6	-3.4	-3.4	-3.0
<b>Non-performing loans to the non-financial private sector</b>	<b>7.6</b>	<b>4.5</b>	<b>3.2</b>	<b>3.1</b>	<b>3.5</b>	<b>2.1</b>	<b>1.4</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>
Provisions / Non-performing loans	115	108	114	116	112	143	171	144	141	136
(Total non-performing - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-1.0	-0.8	-0.7	-0.6
(Total non-performing - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-3.1	-2.8

Source: BCRA

\*Note | Data available in Excel in [www.bcr.gov.ar](http://www.bcr.gov.ar)

## Statistics Annex\* – Private Banks

**Chart 5 | Financial Soundness Indicators**

In %	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Sep 12	Dec 12	Sep 13
1.- Liquidity	21.5	23.7	25.7	34.1	29.8	26.0	26.7	26.4	27.6	26.4
2.- Credit to the public sector	28.5	16.3	9.5	6.3	6.1	4.7	3.4	3.1	3.1	3.1
3.- Credit to the private sector	31.1	37.9	46.6	44.0	43.3	50.3	54.5	56.4	58.4	58.5
4.- Private non-performing loans	6.3	3.6	2.5	2.8	3.3	2.0	1.4	1.7	1.8	1.9
5.- Net worth exposure to the private sector	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-4.4	-3.3	-3.1	-2.8
6.- ROA	0.5	2.2	1.6	1.9	3.0	3.2	3.0	3.2	3.2	3.3
7.- ROE	4.1	15.3	10.9	15.2	22.9	24.5	25.6	26.7	26.4	25.9
8.- Efficiency	136	158	152	166	195	176	178	189	189	193
9a.- Capital compliance	-	-	-	-	-	-	-	-	-	14.2
9b.- Capital compliance (credit risk)	17.8	18.7	19.2	18.4	22.6	20.3	16.8	18.5	18.3	-
10a.- Capital compliance Tier I	-	-	-	-	-	-	-	-	-	13.1
10b.- Capital compliance Tier I (credit risk)	16.1	15.4	16.8	15.0	17.2	15.2	12.5	14.7	13.4	-
11.- Excess capital compliance	155.0	116.6	87.4	87.2	121.3	101.5	72.2	67.0	57.5	72.2

Note: According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.

Data subject to changes

Source: BCRA

### Methodological note (chart 5)

1.- (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by LEBAC and NOBAC repo operations against the BCRA) / Total deposits; 2.- (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; 3.- (Loans to the private sector + Leases) / Total assets; 4.- Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; 5.- (Total nonperforming private sector financing – Private sector financing loss provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; 6.- Accumulated annual results / Average monthly netted assets - % Annualized; 7.- Accumulated annual results / Average monthly net worth - % Annualized; 8.- (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; 9a.- Capital compliance / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369). Includes exemptions; 9b.- Capital compliance / Credit risk weighted assets. Includes exemptions; 10a.- Capital compliance Tier 1 (net of deductions) / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369); 10b.- Capital compliance Tier 1 (net of total deductions) / Credit risk weighted assets; 11.- (Capital compliance - Capital requirement) / Capital requirement. Exemptions are

\*Note | Data available in Excel in [www.bcr.gov.ar](http://www.bcr.gov.ar)



# Statistics Annex\* – Private Banks (cont.)

**Chart 6 | Balance Sheet**

In million of current pesos	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13	Change (in %)		
									Last 6 months	II-Q-13	III-Q-13
<b>Assets</b>	<b>208,888</b>	<b>229,549</b>	<b>280,025</b>	<b>364,122</b>	<b>432,994</b>	<b>452,083</b>	<b>481,484</b>	<b>519,139</b>	<b>14.8</b>	<b>6.5</b>	<b>7.8</b>
Cash disposal <sup>1</sup>	37,044	43,562	49,730	58,877	85,717	84,774	84,456	89,178	5.2	-0.4	5.6
Public bonds	29,552	47,949	48,903	50,055	43,350	49,339	51,154	55,121	11.7	3.7	7.8
Lebac/Nobac	23,457	31,575	34,422	34,246	30,531	35,088	35,362	40,097	14.3	0.8	13.4
Portfolio	12,858	27,413	31,148	23,908	27,656	30,941	28,492	29,834	-3.6	-7.9	4.7
Repo <sup>2</sup>	10,598	4,161	3,274	10,338	2,874	4,147	6,870	10,263	147.5	65.7	49.4
Private bonds	127	233	184	164	188	197	232	163	-17.3	18.0	-29.9
Loans	98,529	101,722	143,202	202,117	256,708	265,510	286,934	307,447	15.8	8.1	7.1
Public sector	6,249	1,694	1,625	1,215	1,601	1,566	1,740	1,619	3.4	11.1	-6.9
Private sector	88,426	96,790	137,308	193,126	246,560	255,310	275,330	296,421	16.1	7.8	7.7
Financial sector	3,854	3,238	4,270	7,777	8,546	8,634	9,864	9,407	8.9	14.3	-4.6
Provisions over loans	-2,871	-3,653	-3,926	-4,574	-6,193	-6,532	-7,099	-7,584	16.1	8.7	6.8
Other netted credits due to financial intermediation	25,265	21,258	20,241	29,338	18,646	22,320	27,548	34,273	53.6	23.4	24.4
Corporate bonds and subordinated debt	699	734	757	796	988	871	1,555	2,239	157.0	78.5	44.0
Unquoted trusts	3,869	4,198	4,500	5,268	7,084	7,553	7,396	7,475	-1.0	-2.1	1.1
Leasing	3,451	2,569	3,519	5,452	6,287	6,377	7,090	7,382	15.8	11.2	4.1
Shares in other companies	4,538	4,067	4,934	5,998	7,920	8,504	8,899	9,684	13.9	4.7	8.8
Fixed assets and miscellaneous	4,926	5,096	5,808	6,663	7,592	7,756	8,026	9,170	18.2	3.5	14.2
Foreign branches	-178	-202	-215	-240	0	0	0	0	-	-	-
Other assets	8,505	6,946	7,646	10,271	12,778	13,839	14,242	14,307	3.4	2.9	0.5
<b>Liabilities</b>	<b>182,596</b>	<b>198,438</b>	<b>243,766</b>	<b>321,123</b>	<b>376,774</b>	<b>392,048</b>	<b>417,955</b>	<b>450,506</b>	<b>14.9</b>	<b>6.6</b>	<b>7.8</b>
Deposits	135,711	154,387	198,662	253,705	317,443	331,767	350,949	371,631	12.0	5.8	5.9
Public sector <sup>3</sup>	19,600	17,757	23,598	27,664	33,232	38,795	39,890	43,690	12.6	2.8	9.5
Private sector <sup>3</sup>	114,176	134,426	173,203	223,141	281,698	290,064	308,347	324,884	12.0	6.3	5.4
Current account	30,188	35,127	46,297	57,586	77,269	75,595	83,018	85,960	13.7	9.8	3.5
Savings account	32,778	40,999	53,085	66,891	76,130	75,475	82,814	82,082	8.8	9.7	-0.9
Time deposit	46,990	54,058	67,568	89,924	117,888	128,546	131,895	146,181	13.7	2.6	10.8
Other netted liabilities due to financial intermediation	39,298	34,235	34,427	53,973	41,780	41,530	49,884	58,549	41.0	20.1	17.4
Interbanking obligations	1,160	1,668	1,903	3,524	3,473	3,210	4,455	4,558	42.0	38.8	2.3
BCRA lines	649	41	57	456	694	682	666	688	1.0	-2.3	3.4
Outstanding bonds	5,672	4,626	2,802	5,119	6,001	6,085	6,708	7,734	27.1	10.2	15.3
Foreign lines of credit	2,261	1,262	1,716	4,252	2,168	1,763	2,257	1,800	2.1	28.0	-20.2
Other	11,125	12,015	13,849	19,059	21,087	18,812	20,204	22,178	17.9	7.4	9.8
Subordinated debts	1,759	1,918	2,148	1,948	2,253	2,436	2,706	3,053	25.3	11.1	12.8
Other liabilities	5,828	7,897	8,528	11,497	15,297	16,315	14,415	17,272	5.9	-11.6	19.8
<b>Net worth</b>	<b>26,292</b>	<b>31,111</b>	<b>36,259</b>	<b>42,999</b>	<b>56,220</b>	<b>60,032</b>	<b>63,529</b>	<b>68,633</b>	<b>14.3</b>	<b>5.8</b>	<b>8.0</b>
<b>Memo</b>											
<b>Netted assets</b>	<b>192,074</b>	<b>216,100</b>	<b>267,364</b>	<b>344,101</b>	<b>425,181</b>	<b>441,629</b>	<b>466,535</b>	<b>498,585</b>	<b>12.9</b>	<b>5.6</b>	<b>6.9</b>

(1) Includes margin accounts with the BCRA. (2) Booked value from balance sheet (it includes all the counterparties). (3) Does not include accrual on interest or CER.

Source: BCRA

Note | Data available in Excel in [www.bcr.gov.ar](http://www.bcr.gov.ar)

## Statistics Annex\* – Private Banks (cont.)

**Chart 7 | Profitability Structure**

Amount in million of pesos	Annual					Acum.	Quarterly		
	2008	2009	2010	2011	2012	9m. 2013	I-13	II-13	III-13
Financial margin	12,964	19,724	21,837	27,234	38,151	37,080	11,156	11,370	14,554
Net interest income	7,727	10,572	12,842	18,518	27,893	26,037	8,079	8,634	9,323
CER and CVS adjustments	651	185	244	288	350	260	105	72	83
Foreign exchange price adjustments	1,620	1,646	1,493	2,064	2,451	3,533	812	1,135	1,586
Gains on securities	1,637	7,343	7,464	6,358	7,426	6,342	2,224	1,381	2,737
Other financial income	1,329	-22	-205	6	31	909	-64	147	826
Service income margin	7,632	9,198	11,345	15,243	20,081	18,957	5,748	6,428	6,781
Loan loss provisions	-1,863	-2,751	-2,253	-2,633	-4,416	-4,352	-1,359	-1,472	-1,521
Operating costs	-12,401	-14,807	-18,819	-23,821	-30,858	-28,983	-9,103	-9,812	-10,069
Tax charges	-1,715	-2,380	-2,927	-4,300	-6,450	-7,076	-2,116	-2,281	-2,680
Adjust. to the valuation of government securities <sup>2</sup>	-267	0	47	-40	0	0	0	0	0
Amort. payments for court-ordered releases	-688	-367	-441	-133	-199	-41	-18	-12	-11
Other	916	398	1,382	1,723	1,867	1,726	413	693	620
Total results before tax <sup>3</sup>	4,579	9,014	10,171	13,272	18,176	17,310	4,723	4,913	7,674
Income tax	-1,168	-3,001	-2,733	-4,293	-6,089	-6,161	-1,729	-1,777	-2,654
<b>ROA<sup>3</sup></b>	<b>3,412</b>	<b>6,014</b>	<b>7,438</b>	<b>8,980</b>	<b>12,086</b>	<b>11,150</b>	<b>2,994</b>	<b>3,136</b>	<b>5,020</b>
ROA adjusted <sup>4</sup>	4,367	6,381	7,832	9,153	12,285	11,190	3,012	3,148	5,031
<b>Annualized indicators - As % of netted assets</b>									
Financial margin	7.3	9.8	9.3	9.0	10.2	10.9	10.4	10.1	12.2
Net interest income	4.4	5.3	5.5	6.1	7.4	7.7	7.5	7.6	7.8
CER and CVS adjustments	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign exchange price adjustments	0.9	0.8	0.6	0.7	0.7	1.0	0.8	1.0	1.3
Gains on securities	0.9	3.7	3.2	2.1	2.0	1.9	2.1	1.2	2.3
Other financial income	0.8	0.0	-0.1	0.0	0.0	0.3	-0.1	0.1	0.7
Service income margin	4.3	4.6	4.8	5.0	5.4	5.6	5.4	5.7	5.7
Loan loss provisions	-1.1	-1.4	-1.0	-0.9	-1.2	-1.3	-1.3	-1.3	-1.3
Operating costs	-7.0	-7.4	-8.0	-7.8	-8.2	-8.5	-8.5	-8.7	-8.4
Tax charges	-1.0	-1.2	-1.2	-1.4	-1.7	-2.1	-2.0	-2.0	-2.2
Adjust. to the valuation of gov. securities <sup>2</sup>	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amort. payments for court-ordered releases	-0.4	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0
Other	0.5	0.2	0.6	0.6	0.5	0.5	0.4	0.6	0.5
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total results before tax <sup>3</sup>	2.6	4.5	4.3	4.4	4.9	5.1	4.4	4.3	6.4
Income tax	-0.7	-1.5	-1.2	-1.4	-1.6	-1.8	-1.6	-1.6	-2.2
<b>ROA<sup>3</sup></b>	<b>1.9</b>	<b>3.0</b>	<b>3.2</b>	<b>3.0</b>	<b>3.2</b>	<b>3.3</b>	<b>2.8</b>	<b>2.8</b>	<b>4.2</b>
ROA adjusted <sup>4</sup>	2.5	3.2	3.3	3.0	3.3	3.3	2.8	2.8	4.2
ROE before tax <sup>3</sup>	20.4	34.4	33.5	37.8	39.8	40.3	35.1	34.4	50.2
ROE <sup>3</sup>	15.2	22.9	24.5	25.6	26.4	25.9	22.3	21.9	32.9

(2) Com. "A" 391 I. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(3) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.

(4) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 391 I and 4084.

Source: BCRA

**Chart 8 | Portfolio Quality**

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Sep 12	Dec 12	Sep-13
<b>Non-performing loans (overall)</b>	<b>4.4</b>	<b>2.9</b>	<b>2.2</b>	<b>2.5</b>	<b>3.1</b>	<b>1.9</b>	<b>1.3</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>
Provisions / Non-performing loans	103	114	123	119	116	144	168	145	140	134
(Total non-performing - Provisions) / Overall financing	-0.1	-0.4	-0.5	-0.5	-0.5	-0.8	-0.9	-0.7	-0.7	-0.6
(Total non-performing - Provisions) / Net worth	-0.4	-1.4	-2.1	-1.9	-1.7	-3.4	-4.4	-3.4	-3.2	-2.9
<b>Non-performing loans to the non-financial private sector</b>	<b>6.3</b>	<b>3.6</b>	<b>2.5</b>	<b>2.8</b>	<b>3.3</b>	<b>2.0</b>	<b>1.4</b>	<b>1.7</b>	<b>1.8</b>	<b>1.9</b>
Provisions / Non-performing loans	102	114	123	118	115	143	167	143	139	133
(Total non-performing - Provisions) / Overall financing	-0.1	-0.5	-0.6	-0.5	-0.5	-0.9	-0.9	-0.8	-0.7	-0.6
(Total non-performing - Provisions) / Net worth	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-4.4	-3.3	-3.1	-2.8

Source: BCRA

\*Note | Data available in Excel in [www.bcr.gov.ar](http://www.bcr.gov.ar)

# Abbreviations and Acronyms

**AEIRR:** Annual Effective Internal Rate of Return

**AFJP:** *Administradora de Fondos de Jubilaciones y Pensiones.*

**ANSES:** *Administración Nacional de Seguridad Social.* National Social Security Administration.

**APE:** *Acuerdos Preventivos Extra-judiciales.* Preliminary out-of-court agreements.

**APR:** Annual Percentage Rate.

**b.p.:** basis points.

**BADLAR:** Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial institutions.

**BCBA:** *Bolsa de Comercio de Buenos Aires.* Buenos Aires Stock Exchange.

**BCRA:** *Banco Central de la República Argentina.* Central Bank of Argentina.

**BIS:** Bank of International Settlements.

**BM:** Monetary Base. Defined as money in circulation plus current account deposits in pesos by financial institutions in the BCRA.

**Boden:** *Bonos del Estado Nacional.* Federal Bonds.

**Bogar:** *Bonos Garantizados.* Guaranteed Bonds.

**BoJ:** Bank of Japan.

**Bonar:** *Bonos de la Nación Argentina.* Argentine National Bonds.

**BOVESPA:** São Paulo Stock Exchange.

**CAMEL:** Capital, Assets, Management, Earnings and Liquidity.

**Cdad. de Bs. As.:** *Ciudad de Buenos Aires.* Buenos Aires City.

**CDS:** Credit Default Swaps

**CEC:** *Cámaras Electrónicas de Compensación.* Electronic Clearing Houses.

**CEDEM:** *Centro de Estudios para el Desarrollo Económico Metropolitano.* Study Center for Metropolitan Economic Development.

**CEDRO:** *Certificado de Depósito Reprogramado.* Rescheduled Deposit Certificate.

**CER:** *Coeficiente de Estabilización de Referencia.* Reference Stabilization Coefficient.

**CIMPRA:** *Comisión Interbancaria para Medios de Pago de la República Argentina.*

**CNV:** *Comisión Nacional de Valores.* National Securities Commission

**CPI:** Consumer Price Index.

**CPI Others:** *CPI excluidos los bienes y servicios con alta estacionalidad, volatilidad o los sujetos a regulación o alto componente impositivo.* CPI excluded goods and services with high seasonal and irregular components, regulated prices or high tax components

**Credit to the public sector:** includes the position in government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.

**CVS:** *Coeficiente de Variación Salarial.* Wage variation coefficient.

**DGF:** Deposit Guarantee Fund.

**Disc:** Discount bond.

**EB:** Executive Branch.

**ECB:** European Central Bank.

**EMBI:** Emerging Markets Bond Index.

**EMI:** *Estimador Mensual Industrial.* Monthly Industrial Indicator

**EPH:** *Encuesta Permanente de Hogares.* Permanent Household Survey.

**Fed:** Federal Reserve of US.

**FOMC:** Federal Open Market Committee (US).

**FS:** Financial Stability.

**FSR:** Financial Stability Report.

**FT:** Financial trust.

**FUCO:** *Fondo Unificado de Cuentas Corrientes Oficiales.* Unified Official Current Account Fund.

**FV:** Face value.

**GDP:** Gross Domestic Product.

**HHI:** Herfindahl-Hirschman Index.

**IADB:** Inter-American Development Bank.

**IAMC:** *Instituto Argentino de Mercado de Capitales.*

**ICs:** Insurance Companies.

**IDCCB:** *Impuesto a los Débitos y Créditos en Cuentas Bancarias.* Tax on Current Account Debits and Credits.

**IFI:** International Financial Institutions: IMF, IADB and WB.

**IFS:** International Financial Statistics.

**IMF:** International Monetary Fund.

**INDEC:** *Instituto Nacional de Estadísticas y Censos.* National Institute of Statistics and Censuses.

**IndeR:** *Instituto Nacional de Reaseguros.* National Institute of Reinsurance.

**IPMP:** *Índice de Precios de las Materias Primas.* Central Bank Commodities Price Index.

**IPSA:** *Índice de Precios Selectivo de Acciones.* Chile Stock Exchange Index.

**IRR:** Internal Rate of Return.

**ISAC:** *Índice Sintético de Actividad de la Construcción.* Construction Activity Index.

**ISDA:** International Swaps and Derivates Association.

**ISSP:** *Índice Sintético de Servicios Públicos.* Synthetic Indicator of Public Services.

**Lebac:** *Letras del Banco Central de la República Argentina.* BCRA bills.

<b>LIBOR:</b> London Interbank Offered Rate.	<b>OS:</b> <i>Obligaciones Subordinadas</i> . Subordinated debt.
<b>m.a.:</b> Moving average.	<b>P / BV :</b> Price over book value.
<b>M2:</b> Currency held by public + quasi-monies + \$ saving and current accounts.	<b>p.p.:</b> Percentage point.
<b>M3:</b> Currency held by public + quasi-monies + \$ total deposits.	<b>Par:</b> Par bond.
<b>MAE:</b> <i>Mercado Abierto Electrónico</i> . Electronic over-the-counter market.	<b>PGN:</b> <i>Préstamos Garantizados Nacionales</i> . National Guaranteed Loans.
<b>MAS:</b> Mutual Assurance Societies.	<b>PF:</b> Pension Funds.
<b>MC:</b> Minimum cash.	<b>PPP:</b> Purchasing power parity.
<b>MEC:</b> Electronic Open Market.	<b>PPS:</b> Provincial public sector.
<b>MECON:</b> Ministerio de Economía y Producción. Ministry of Economy and Production.	<b>PS:</b> Price Stability.
<b>MEP:</b> <i>Medio Electrónico de Pagos</i> . Electronic Means of Payment.	<b>PV:</b> Par Value.
<b>MERCOSUR:</b> <i>Mercado Común del Sur</i> . Southern Common Market.	<b>q.o.q:</b> quarter-on-quarter % change.
<b>MERVAL:</b> <i>Mercado de Valores de Buenos Aires</i> . Executes, settles and guarantees security trades at the BCBA.	<b>REM:</b> BCRA Market expectation survey.
<b>MEXBOL:</b> <i>Índice de la Bolsa Mexicana de Valores</i> . México Stock Exchange Index.	<b>ROA:</b> Return on Assets.
<b>MF:</b> Mutual Funds.	<b>ROE:</b> Return on Equity.
<b>MIPyME:</b> <i>Micro, Pequeñas y Medianas Empresas</i> . Micro, Small and Medium Sized Enterprises.	<b>Rofex:</b> Rosario Futures Exchange.
<b>MOA:</b> <i>Manufacturas de Origen Agropecuario</i> . Manufactures of Agricultural Origin.	<b>RPC:</b> <i>Responsabilidad Patrimonial Computable</i> . Adjusted stockholder's equity, calculated towards meeting capital regulations.
<b>MOI:</b> <i>Manufacturas de Origen Industrial</i> . Manufactures of Industrial Origin.	<b>RTGS:</b> Real-Time Gross Settlement.
<b>MP:</b> Monetary Program.	<b>s.a.:</b> Seasonally adjusted.
<b>MR:</b> Market rate.	<b>SAFJP:</b> <i>Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones</i> . Superintendency of Retirement and Pension Funds Administrations.
<b>MRO:</b> <i>Main refinancing operations</i> .	<b>SAGPyA:</b> <i>Secretaría de Agricultura, Ganadería, Pesca y Alimentos</i> . Secretariat for agriculture, livestock, fisheries, and food.
<b>MSCI:</b> Morgan Stanley Capital International.	<b>SEDESA:</b> <i>Seguro de Depósitos Sociedad Anónima</i> .
<b>NA:</b> Netted assets.	<b>SEFyC:</b> Superintendence of Financial and Exchange Institutions.
<b>NACHA:</b> National Automated Clearinghouse Association.	<b>SIOPEL:</b> <i>Sistema de Operaciones Electrónicas</i> . Trading software used on the over-the-counter market.
<b>NBFI:</b> Non-Bank Financial Institutions (under Central Bank scope)	<b>SME:</b> Small and Medium Enterprises.
<b>NBFI :</b> Non-Bank Financial Intermediaries (out of Central Bank scope)	<b>SSN:</b> <i>Superintendencia de Seguros de la Nación</i> .
<b>NDP:</b> National public debt.	<b>TA:</b> <i>Adelantos transitorios del BCRA al Tesoro</i> . Temporary advances.
<b>NFPS:</b> Non-financial national public sector's.	<b>TD:</b> Time Deposits.
<b>Nobac:</b> <i>Notas del Banco Central</i> . BCRA notes.	<b>TFC:</b> Total financial cost.
<b>NPS:</b> National Payments System.	<b>TGN:</b> <i>Tesorería General de la Nación</i> . National Treasury
<b>NW:</b> Net worth.	<b>UFC:</b> Uniform Federal Clearing.
<b>O/N:</b> Overnight rate.	<b>UIC:</b> Use of Installed Capacity.
<b>OCT :</b> <i>Operaciones Compensadas a Término</i> . Futures Settlement Round.	<b>UK:</b> United Kingdom.
<b>OECD:</b> Organization for Economic Co-operation and Development.	<b>US\$:</b> United States dollar.
<b>ON:</b> <i>Obligaciones Negociables</i> . Corporate bonds.	<b>US:</b> United States of America.
<b>ONCCA:</b> <i>Oficina Nacional de Control Comercial Agropecuario</i>	<b>UTDT:</b> Universidad Torcuato Di Tella.
	<b>VaR:</b> Value at Risk.
	<b>VAT:</b> Value added Tax.
	<b>WB:</b> World Bank.
	<b>WPI:</b> Wholesale Price Index.

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