Financial Stability Report

Second Half 2015

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, October 5, 2015

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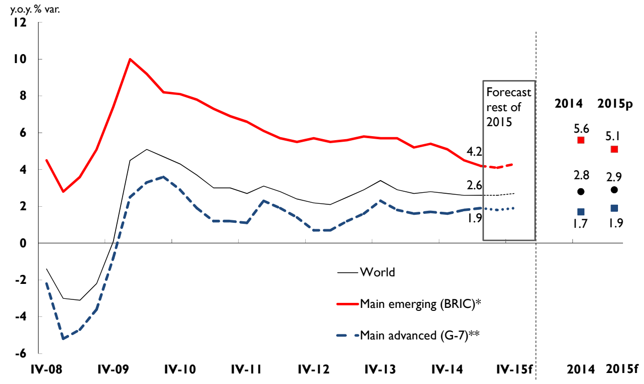
Central Bank Outlook

Chart 1

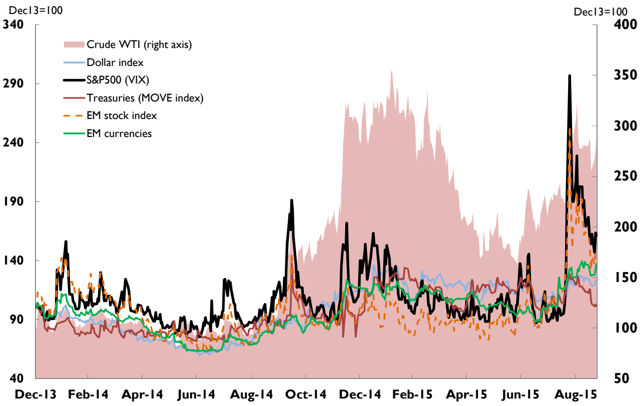
Global. Economic Growth



*Brazil, Russia, India and China **USA, Japan, Germany, France, Italy, UK and Canada.
Source: FocusEconomics f: Forecasted

Chart 2

Global Expected Volatilities by Asset



Source: Boomberg

The global aggregate economic activity and international trade have grown at a limited pace so far in 2015, in line with what was observed after the peak of the international financial crisis in 2008-2009. In recent months, there was still a clear difference between the momentum observed in developed economies in aggregate terms and the decelerating growth pace seen in emerging economies as a whole. In addition, developed countries have also shown divergent situations among them, and their policy responses operated accordingly. This context was also characterized by an increasing volatility in the financial markets, due in part to the situation in Greece and, more recently, to context-related factors in China. For these reasons, for the rest of the year a moderate activity growth is expected at world level.

In recent months, a deterioration was observed in the prices of the emerging economies' financial assets, characterized by a widespread decline in the stock indexes of these economies —in line with what happened with the indicators of the most developed regions; a widening of the sovereign debt spreads —which was even more marked in Latin America, as evidenced by the Brazilian case with changes in its debt rating and the emergence of political tensions; and a more profound weakening of the emerging countries' currencies against the US dollar. This was accompanied by an outflow from funds specialized in emerging economies' assets and by a reduced number of issues of debt instruments from these economies in the international markets.

An environment of caution is expected for the next few months, with several risk factors related to the external context which might lead, once again, to episodes of volatility, changes in the portfolios at global level and deterioration in the prices of financial assets of emerging economies, including their currencies. The measures to be adopted by the US Federal Reserve, in terms of the expectations about the beginning of a future interest rate rise cycle in the short term and its intensity, added to the current economic and financial conditions of China will be especially relevant in the next few months.

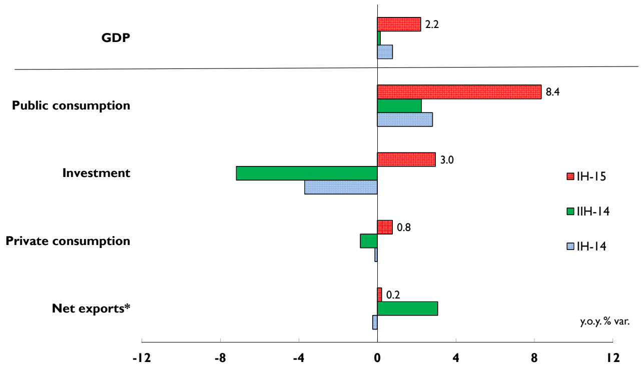
With reference to Argentina, the production of goods and services grew in the first half of the year relative to its levels of one year ago, and the recovery observed from January to March consolidated in the second quarter. The activity rebound was mainly due to the performance of domestic demand. Private consumption was underpinned once again by the relative stability of labor conditions, the public policies intended to facilitate access to credit and the income policies, within a context of moderation in the pace of increase of prices during the first half of 2015.

The prices of Argentine financial instruments exhibited a mixed performance in recent months. The EMBI+ spread for Argentina continued narrowing during the period under analysis. In turn, instruments were issued by both the public sector —including the new BONACs and BONADs (see Box 1)— and the private sector.

Chart 3

GDP and Aggregate Demand Components

Y.o.y. variation



Source: INDEC

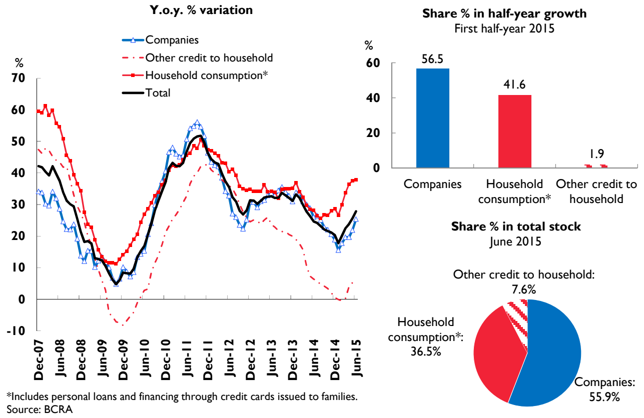
*Contribution to GDP y.o.y. variation (in p.p.)

So far in 2015, there has been a faster nominal growth pace in the intermediation activity of the ensemble of banks with the private sector. In year-on-year terms, by mid-year, loans to the private sector went up 28.3% (29.5% annualized—a.— in the first half of the year) and deposits in this segment rose 38.3% (48.4%a. in the first half). This increase in the rate of financing reflected the performance of loans intended for both companies and households. The growth of funding to companies accounted for the largest part of the change observed in total loans to the private sector.

The increase of loans to companies has been boosted, at least in part, by the development of the Credit Line for Productive Investment (LCIP). It is estimated that in the sixth tranche of the LCIP —corresponding to the first half of 2005— loans were granted for around $32 billion (see Box 2), and 87% of this amount was allocated to micro, small and medium-sized enterprises (MiPyMEs). As a result, in the first six tranches of the LCIP —from the second half of 2012 to the first half of 2015— financing provided to the different productive sectors would amount to approximately $137 billion. For the second half of 2015, the BCRA implemented the seventh tranche of the LCIP, with a target amount of around $52 billion.

Chart 4

Total Credit to the Private Sector by Type of Debtor



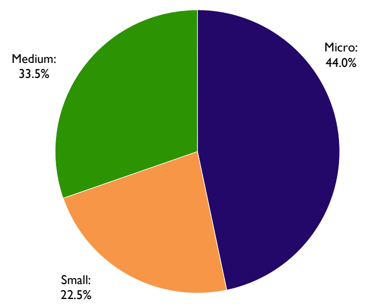
*Includes personal loans and financing through credit cards issued to families.
Source: BCRA

In turn, loans to families recorded an expansion pace of 31.1% y.o.y. as of June (27.6%a. in the first half of the year), and they were mainly underpinned by the sustained momentum of consumer lines (credit cards and personal loans). This performance was due, in part, to the effect of the official measures adopted, such as the "AHORA 12" Program for purchases with a credit card in 12 installments at a 0% interest rate, and the regulation of the interest rates on personal and pledge-backed loans.

Throughout 2015, the BCRA continued driving measures intended to deepen the scope of protection

Chart 5

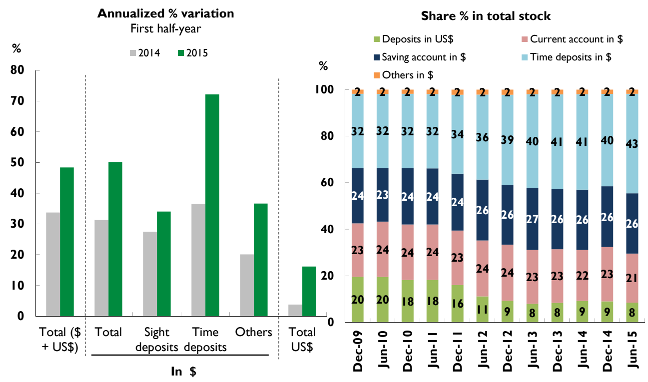
Amounts Agreed to MSMEs by Size of Company
First half-year 2015*



*Note: Partial information to July 2015, subject to change. It does not include funding for deferred payment checks. In this case, the total amount agreed is not adjusted for weightings applied by economic size and geographic location. Source: BCRA

Chart 6

Non-financial Private Sector Deposits in the Financial System



Source: BCRA

provided to financial services' users and to give more transparency to bank services. In particular, in April 2015, the BCRA adopted a new methodology to decide over the requests for increases in commission fees for products and services offered by financial institutions. In addition, by the end of August, a decision was made about some activities on which the entities cannot apply charges or commission fees.

In terms of bank funding, by mid-year, deposits in domestic currency from the private sector had accumulated a growth rate of 39.5% y.o.y. (50.2%a. in the first half of 2015). The increase was driven by time deposits and, to a lesser extent, by sight deposits. The momentum observed in time deposits is related, at least in part, to the interest rate scheme implemented in October 2014 by the BCRA, aimed at stimulating savings in domestic currency. With a view to reinforcing these incentives, in July 2015, a new floor was ordered for the interest rates paid on time deposits, extending from $350,000 to $1 million the amounts of deposits under the scheme and including deposits made by both natural persons and legal persons.

Throughout 2015, the BCRA continued modernizing the National Payment System (SNP), and implemented measures intended to provide more secure and agile means of payment that may promote a larger financial inclusion. In early 2015, the BCRA extended the daily limit of electronic transfers at no cost for the user, as a result of which, between January and July, approximately 98% of immediate transfers were made at no cost for the users. Likewise, transactions made at bank cashiers were also free of charge, whereas transactions in foreign currency were also included in this cost scheme. In addition, in July 2015, the BCRA increased the minimum amount that financial entities must accept to make immediate transfers of funds through ATMs. In addition, immediate transfers in euros were also authorized. With reference to check clearing procedures, the circuit for the exchange of images of bounced documents was simplified. On the basis of the additional powers granted to the BCRA under its new Charter, the monetary authority has recently started to regulate the activity related to armored funds and securities transportation services. In turn, progress was made in the implementation of the Basic Principles for the Financial Market Infrastructures.

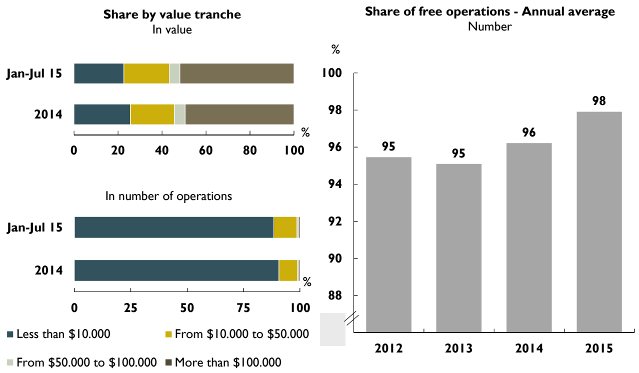
The risk map being faced by the financial system has not exhibited significant changes so far in 2015. Banks' are keeping an adequate position in the face of liquidity risk, and few relevant changes have been observed in recent months regarding exposure to and coverage of, this type of risk inherent in their activity. For example, during the period under analysis, the relative weight of short-term liabilities went down slightly relative to total bank funding, whereas the concentration of total deposits went up marginally. In turn, one of the indicators related to liquidity risk coverage, i.e. the percentage of liquid assets in a broad sense in terms of short-term liabilities, showed a value close to 50% at aggregate level in mid-2015, which is similar to the value recorded by late 2014 and higher than the average of previous years. It is worth mentioning that, in early 2015, the BCRA has incorporated the Liquidity Coverage Ratio (LCR) (see Box 3) into the domestic prudential regulation, following the international standard proposed by the Basel Committee. The entities subject to this regulation comply with this requirement in excess.

The financial system has also proven to be sound against the counterparty risk. In the first half of 2015, financial institutions increased slightly their gross exposure to the private sector, even though it still stands below the levels recorded in mid-2014. The total non-performance of the private portfolio continued to stand at low levels, around 1.9% in June, a value similar to that of the last two years and lower than that of advanced economies and other emerging countries. From these low levels, the delinquency ratio of financing to companies went up slightly in the first half of the year, while the delinquency ratio of households went down moderately. In this context, the financial system has provisioning levels that, in the aggregate, continue to more than exceed 100% of the balance sheet of non-performing loans. In the period under analysis, the aggregate indebtedness of companies and households, as well as the sectoral financial burdens, continued to be limited, which favors a context of low credit risk materialization.

From a systemic perspective, the foreign currency risk faced by banks continues to be limited by the macroprudential regulation implemented by the BCRA. In the first half of the year, the exposure to this risk went down slightly: the currency positive mismatching recorded by the financial system fell slightly in the period, within a context of limited volatility in the peso-dollar exchange rate.

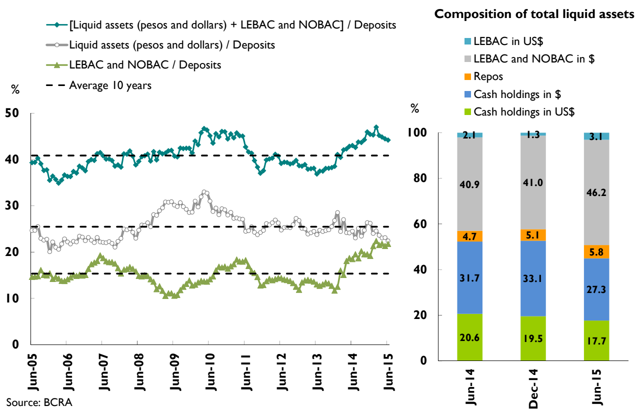
Domestic banks comply with a minimum capital requirement to cover potential unexpected losses caused by operational risk, according to the criterion of the basic indicator (15% of the average of positive "gross income" of the last three years). As from March 2015,

Chart 7
Instant Transfers



Source: BCRA

Chart 8
Financial System Liquidity

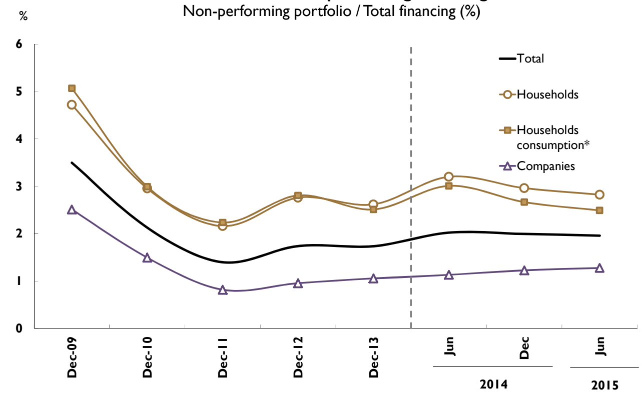


Source: BCRA

Chart 9

Private Sector Non-performing Financing

Non-performing portfolio / Total financing (%)

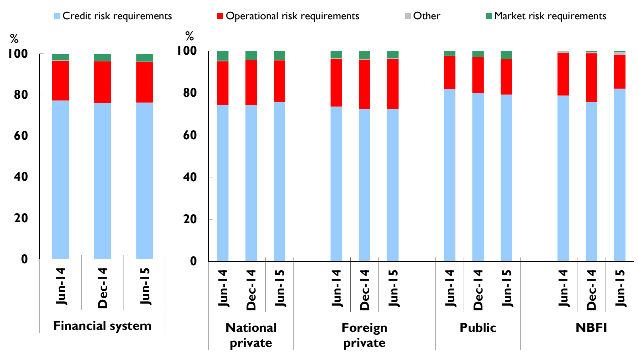


*Note: includes personal and credit cards.
Source: BCRA

Chart 10

Capital Requirements by Group of Banks

Share in regulatory requirements



*Required certain entities to meet the basic minimum capital requirements to operate.
Note: Requierements are ajusted by exemptions and the effects of the Com. "A" 5396.
Source: BCRA

the BCRA established a limit to this requirement for small entities, defined as a percentage of the minimum capital requirement to face credit risk. As a result, in the first half of 2015, the relative weight of the capital requirement for operational risk lost ground slightly among the capital requirements in the aggregate of the financial system, reaching 19.7% of the minimum regulatory capital required in June 2015, down 0.5 against the level recorded by late 2014. This decrease was mainly evident in the Non-Banking Financial Institutions and, to a lesser extent, in national private banks, which are the groups with the highest participation of entities for which the new regulatory limit was established.

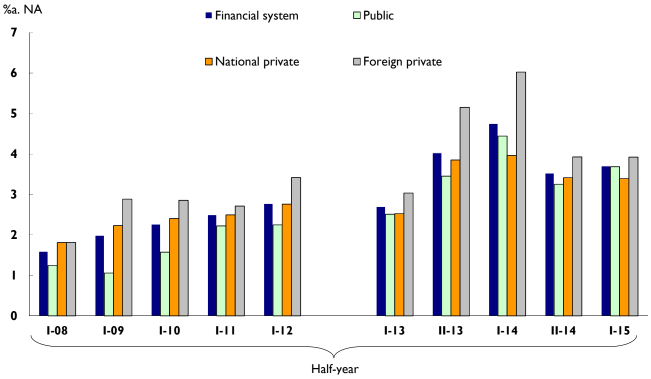
During the first half of 2015, the balance sheet exposure of the financial system to market risk increased slightly. This change was mainly due to the segment of domestic securities in pesos at shortest relative terms in the portfolio of banks. In this context, it is worth mentioning that the BCRA has been conducting transactions in the fixed income market with a view to maintaining the yield curve in domestic currency relatively stable, including not only the monetary regulation instruments but also the securities of the national public sector. The market risk has still a low weighting in the stock of risks of the financial system. By mid-2015, within the context of the current regulatory system, the market risk value of entities accounted for only 3.8% of total capital requirement and 2.1% of the Adjusted Stockholders' Equity (RPC). On the other hand, so far in 2015, no significant changes have been observed in the financial system exposure to interest rate risk.

In the first half of 2015, there were still high solvency indicators in the sector at aggregate level. The financial system leverage stood at values similar to those of mid-2014. Upon closing of the first half, the regulatory capital compliance accounted for 14.5% of total risk-weighted assets (RWA), and 13.6% of the RWAs if we take into account the capital compliance with a higher capacity to absorb potential losses (Tier 1). The financial system compliance in excess of the regulatory requirement —regulatory capital position— reached 90% in June 2015. This excess capital position was widespread among all ensembles of banks and mainly originated in the book profits obtained by the entities. In this sense, during the first half of 2015, the aggregate financial system recorded book profits for around $25.22 billion, equivalent to 3.7% in annualized terms of their assets —ROA—, up 0.2 p.p. against the immediately previous half of the year and down 1.1 p.p. against the same period of 2014.

Chart 11

Profitability by Group of Banks

As % of netted assets



Source BCRA

In the next months, the financial system is expected to keep, in general terms, a positive balance between the set of exposures to intrinsic risks and the liquidity and solvency coverage margins. This would occur in a context of an increased momentum of the financial intermediation activities with companies and households, in line with the incentives provided by the public policies timely implemented by the authorities, added up to a context of a better protection to users and improvement in the levels of financial inclusion, which are objectives that have been actively prioritized by the BCRA.

I. International Context

Summary

During the first half of 2015, the global economic activity and international trade transactions went up, though they continued showing expansion rates below the rates prevailing before the deepening of the 2008-2009 international financial crisis. The partial leading indicators available for the second half of 2015 would indicate a moderate growth of the activity at world level within a context of high financial volatility and increasing risks of a more marked deterioration of the macroeconomic scenario.

Heterogeneity prevailed in terms of the performance of advanced and emerging countries. The ensemble of the main advanced economies recovered some boost –though exhibiting a mixed performance within the group–, while the expansion pace of developing economies slowed down again.

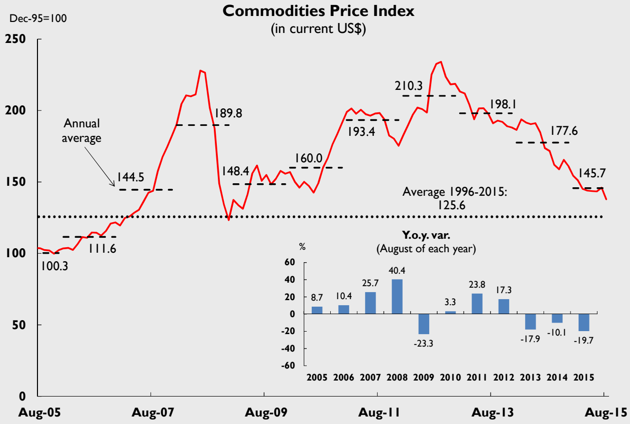
So far in 2015, the prices of commodities kept their downward trend mainly due to the general abundance of these products, the weakness of global demand (for industrial products) and the appreciation of the US dollar. Speculative and arbitrage positions in the financial asset markets associated to these goods exacerbated these movements.

Throughout the year, global financial markets have exhibited an increased volatility, initially due to the consequences of the Greek debt crisis and, more recently, as a result of the ups and downs of the Chinese stock exchange market and the uncertainty around the changes introduced into its foreign exchange policy. The latter promoted lower-than-estimated growth expectations for China in the markets. Consequently, the prices of commodities lost ground once again, impacting on the prices of higher relative risk assets (such as equities) at global level and a widespread deterioration among the financial instruments of emerging economies (thus deepening the depreciation of the currencies of these economies against the dollar). Likewise, a postponement was observed in the specialized analysts' forecasts with respect to the beginning of the US benchmark interest rate rise cycle.

Within this framework, Argentina is facing a less favorable global context than anticipated during for the first half of the year, with a lower expansion of its main trading partners and export prices standing below the average of the last five years.

Chart I.1

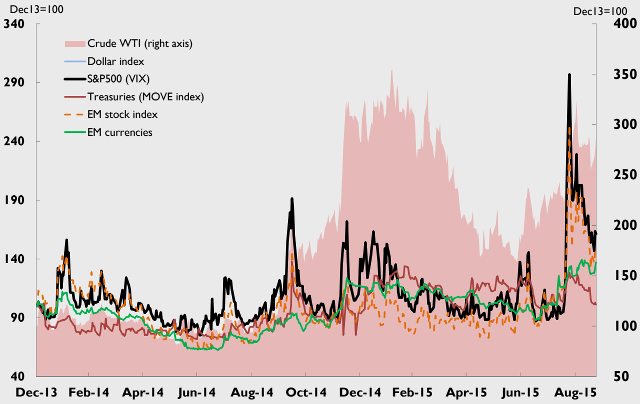
Commodities Price Index
(in current US$)



Source: BCRA

Chart I.2

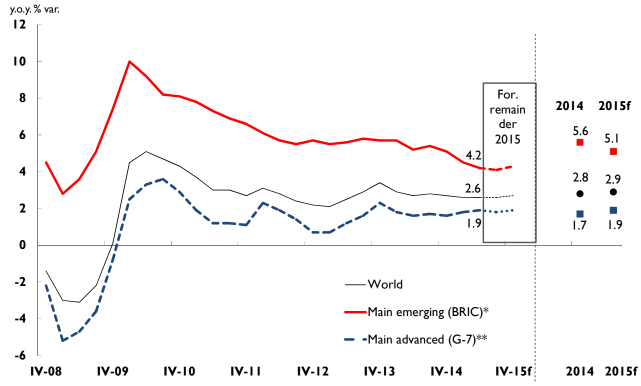
Global Expected Volatilities by Asset



Source: Boomberg

Chart I.3

Global. Economic Growth

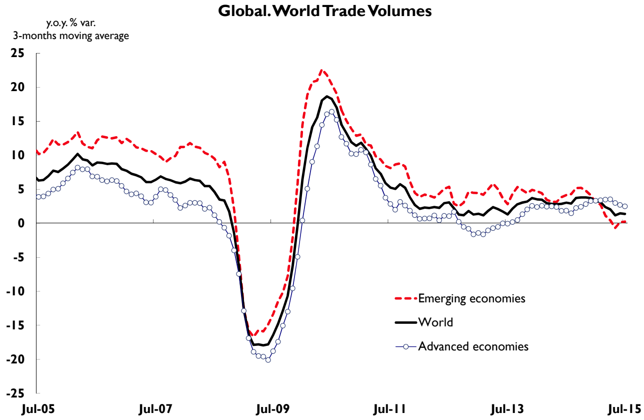


*Brazil, Russia, India and China **United States, Japan, Germany, France, Italy, United Kingdom and Canada.

Source: FocusEconomics f : Forecasted

Chart I.4

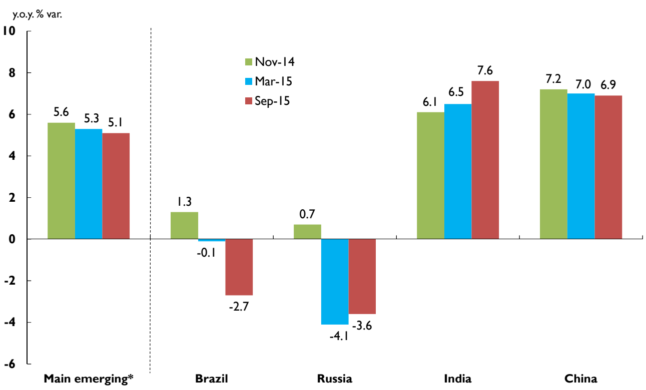
Global. World Trade Volumes



Source: Netherlands Bureau for Economic Policy Analysis

Chart I.5

Selected Emerging Economies. Evolution of 2015 Growth Forecasts



Source: FocusEconomics and Central Bank of Brazil *BRIC: Brazil, Russia, India and China

International Context

Global activity was still experiencing a limited growth pace, with a new worsening of the expansion perspectives against the first months of the year. From mid-2014, the growth rate evolution of advanced and emerging economies have shown dissimilar performances. In this sense, the improved momentum of most developed regions, even though at relatively lower rates, has been partially offset by the significant slowdown of the expansion pace of developing economies (see Chart I.3). Global trade volumes also grew at a lower rate than that observed in recent years, mainly due to the performance of emerging regions (see Chart I.4).

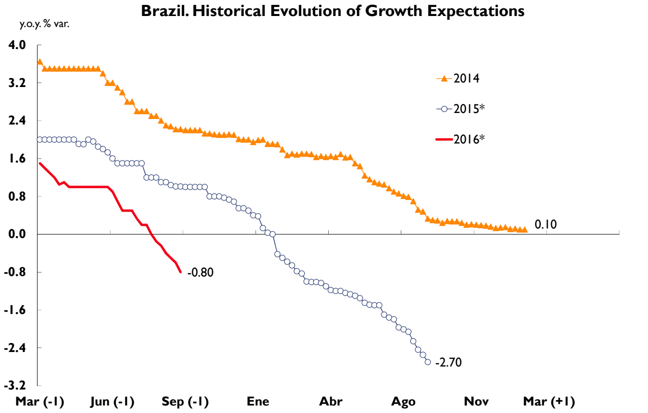
Towards mid-2015, the ensemble of the main developed nations recorded a limited increase of their economic activity (1.9% year-on-year [y.o.y.]), with a slight improvement on the margin. In addition, a marked heterogeneity in the performances and economic policy responses of this ensemble was still evident: the US and the United Kingdom, on the one side, and the Euro Zone and Japan on the other. Particularly, the US economic activity continued evidencing an improvement, accompanied by a significant progress in terms of the labor market. Meanwhile, in the Euro Zone, even though the production of goods and services recorded some rebound, the critical situation of Greece still represented a source of risk for the entire region. Anyway, a growth pace of around 1.9% is expected for advanced countries in 2015, slightly above the figure recorded in 2014.

In turn, the ensemble of the main emerging economies grew around 4.2% y.o.y. towards mid-year and, after several downward revisions to the forecasts, a 5.1% expansion has been estimated for 2015, down 0.5 p.p. against the figure recorded in 2014 (see Chart I.5). Even though the moderation was widespread –with the outstanding exception of India– different evolutions and economic policy responses continued to prevail among these countries. This evolution was affected by the worsening of international trade volumes, and by lower commodity prices and less favorable financial conditions for some emerging markets. The latter was due to the new direction of short-term capital flows towards advanced countries and, especially, towards the United States, thus underpinning the US dollar appreciation, which was even more marked after the exchange rate adjustment and the mechanism to define the exchange rate in China.

Within this context, the emerging economies that are more dependent on foreign capital flows kept or

Chart I.6

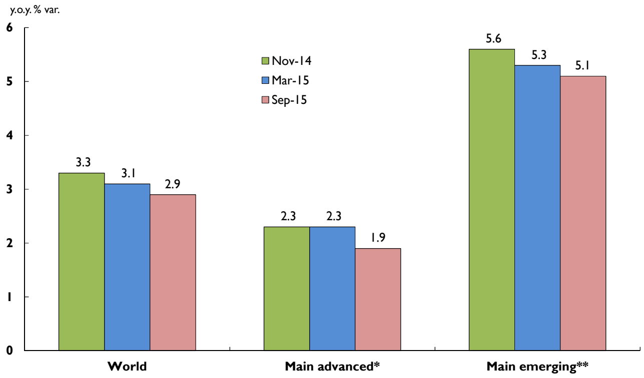
Brazil. Historical Evolution of Growth Expectations



Source: Central Bank of Brazil *With data to Sep 18, 2015

Chart I.7

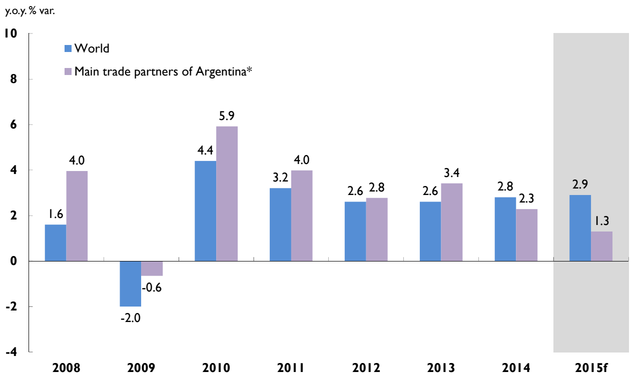
Evolution of 2015 Growth Forecasts



*G7: United States, Japan, Germany, France, Italy, United Kingdom and Canada **BRIC: Brazil, Russia, India and China
Source: FocusEconomics

Chart I.8

Economic Growth



*Weighted by their share in Argentine exports, which together reach 80% of total.
Source: BCRA from FocusEconomics, Central Banks of Brazil and INDEC f: Forecasted

increased their benchmark interest rate against the levels of the previous year. (The recent rises in Brazil and South Africa stand out.) With this type of measures, these nations tried to contain the pressures on the value of their currencies and/or domestic prices. On the opposite front, some emerging countries (such as India, Turkey and Russia) continued limiting the contractionary biases, while most countries deepened or kept their expansionary measures vis-à-vis softer inflationary tensions deriving from the decline of commodity prices.

The abundant agricultural, energy and mining supply at global level and the widespread appreciation of the US dollar contributed to the reduction of the international prices of commodities[1]. These downward pressures were intensified by the movements of speculative agents. Therefore, the Commodity Price Index (IPMP) prepared by the Central Bank of Argentina –which records the evolution of the international prices of commodities that are particularly relevant for Argentina's exports– continued exhibiting year-on-year drops (-19.7% y.o.y. in August 2015; see Chart I.1).

Argentina's main trading partners continued growing at a pace slower than that of the global average. The contraction of Brazil's economic activity continued impacting negatively on Argentina's foreign demand. This scenario would prevail until 2016 according to the experts (see Chart I.6). In turn, even though China continued to grow at rates close to 7%, the risks of experiencing still higher, but lower than initially expected, growth rates became more marked.

Global growth forecasts were again revised downward, especially for emerging countries, in line with what had been seen in previous periods. The expansion rate of the global economy would stand at 2.9% during this year, similar to the change observed in 2014 (see Chart I.7).

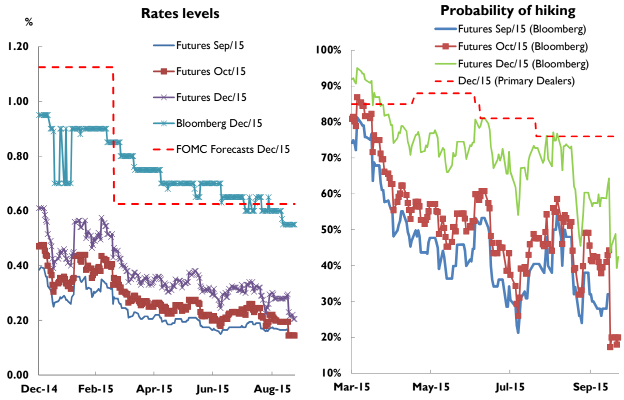
As a result, Argentina is facing a less favorable international context since, on the one hand, a relatively low growth of its main trading partners is expected (see Chart I.8) and, on the other, commodity prices are expected to remain relatively stable –even though volatility increases cannot be disregarded– given the persistence of factors exerting downward pressures.

In terms of the evolution of international financial markets, new episodes of high volatility were observed in recent months (see Chart I.2) and they were related to the situation in Greece (to such an extent that there were speculations regarding an eventual exit from the Euro

[1] For more details see the Global Commodity Outlook prepared by the Central Bank of Argentina (BCRA).

Chart I.9

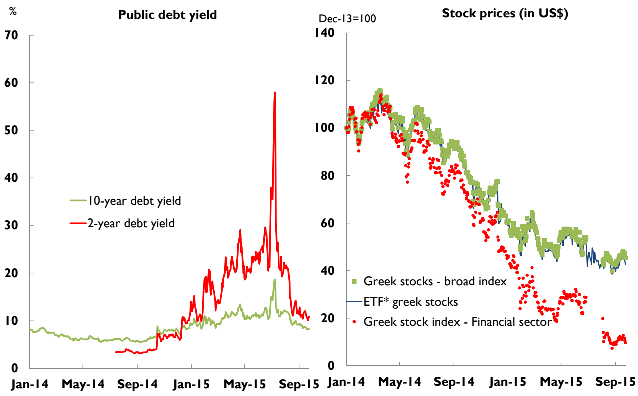
Expectation of Fed Funds Rates



Source: Bloomberg

Chart I.10

Greece: Public Debt and Stocks



Source: Bloomberg

* Exchange Traded Funds

Zone), the Chinese current economic context and the changing expectations in terms of the date when the Federal Reserve will start its interest rate rise cycle. The factors added up to the situation of Brazil and the doubts about the evolution of other economies, such as Puerto Rico[2].

In the US, the authorities of the Federal Reserve ratified in recent months their intention to start to increase Fed Funds rates before the end of 2015. This occurred within a context of expectations about the strengthening of the economy throughout the year and improvements in the labor market. Nevertheless, the recent increase of volatility led markets to modify the date expected for the first rise (see Chart I.9). In this sense, the expectations were focused on the monetary policy meetings of October and December, rather than on the September meeting, without disregarding the possibility that the interest rate rise cycle might start in early 2016. In the meeting held last September, no decision was made about implementing a rise in short-term interest rates (in the days prior to the meeting, the chance that the increase might be implemented had dropped markedly).

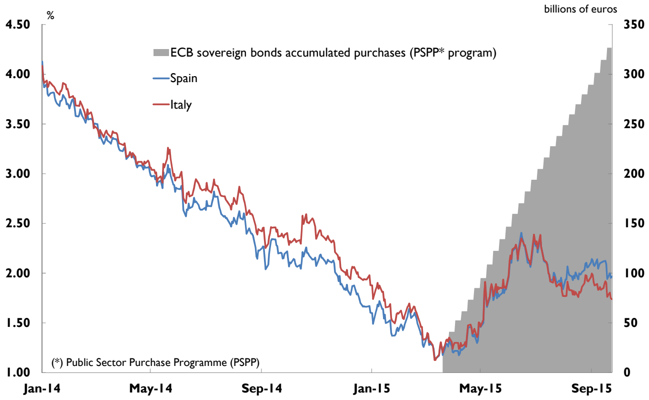
Europe was particularly affected by the ups and downs in the negotiations between Greece and the European authorities regarding a new assistance program. The increasing tensions led to the withdrawal of deposits from Greek banks, which had to resort more markedly to an extraordinary liquidity assistance by the European Central Bank (ECB). The peak of uncertainty occurred in late June (see Chart I.10) when the Greek Prime Minister announced a referendum to decide about the latest proposal made by the European authorities. As a result, negotiations came to a halt and the ECB decided it would stop assisting Greek banks. Consequently, Greece imposed a banking and stock holiday (which was lifted later on) and new controls on capital movements, and the country became temporary in default with the IMF. Afterwards, a preliminary agreement was reached on a third financial assistance program, which included a series of pre-conditions the country had to fulfill before signing the memorandum of understanding of the new program (€86 billion for 3 years) during August[3]. It is worth stating that this agreement does not include a relief regarding the country's liabilities so that there are still doubts about the sustainability of the Greek debt.

[2] Within a framework of worsened fiscal and growth perspectives and with a focus on the need of carrying out a renegotiation of the sovereign debt, the prices of Puerto Rico's government securities have tended to deteriorate more markedly since June. By early August, the Government of Puerto Rico informed that it would not be able to comply with the payment of its obligations corresponding to Corporación de Financiamiento Municipal (COFIM), while more recently Puerto Rico's electricity state-owned agency (FREPA) informed that it had come to an agreement with a group of debt holders to restructure its liabilities.

[3] See Box "Crisis in Greece and a Memorandum of Understanding (MOU) for a third external financial assistance program" – Macroeconomic and Monetary Policy Report, August 2015.

Chart I.11

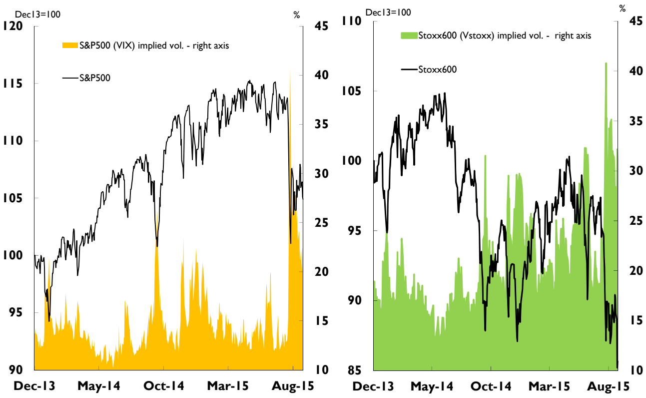
ECB Bonds Purchases and Spain and Italy Yields



Source: Bloomberg

Chart I.12

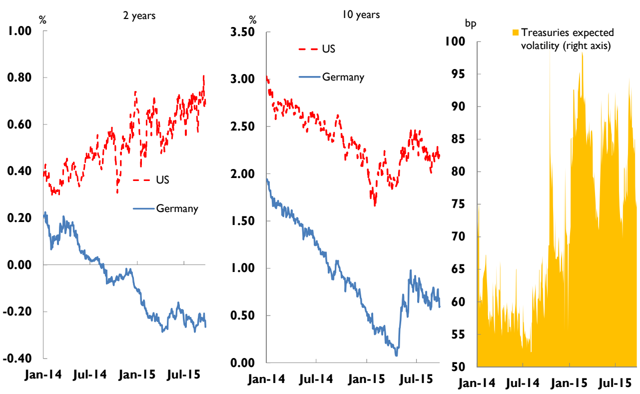
Stock Markets - US and Europe



Source: Bloomberg

Chart I.13

US and Germany Debt Yields and Expected Volatility



Source: Bloomberg

The tensions in Greece led the ECB to announce that it would monitor markets closely and would use all the resources available to act in case of situations that might impact on monetary conditions. It is worth stating that, since the beginning of the program in March up to late August, the ECB purchased instruments for over €410 billion (around 70% in sovereign bonds) through its expanded asset purchase program (see Chart I.11). This allowed the yield levels of long-term debt of large and vulnerable economies, such as Italy and Spain, to be quite below the peaks observed in previous episodes of tension related to the debt crisis in Europe. In September, within a framework of relative weakness of inflation expectations and of tensions in international financial markets due to China's current context, the ECB's authorities reaffirmed that, if necessary, stimuli could be deepened, and explained that the asset purchase program might be extended beyond September 2016.

Within a more volatile context, the main stock indexes of the United States and Europe have accumulated drops since late March (see Chart I.12). Although, until mid-June, the S&P500 and the EuroStoxx600 kept a positive trend[4], the ensuing deterioration led to falls of over 6% and 9% in dollars, in aggregate, respectively since late March. Meanwhile, the volatility expected for US and Europe stock markets widened markedly, and more sharply since mid-August when levels not seen since 2011 became noticeable. This increase in expected volatility indexes tended to reverse rapidly, even though they still remained above the levels observed in 2015.

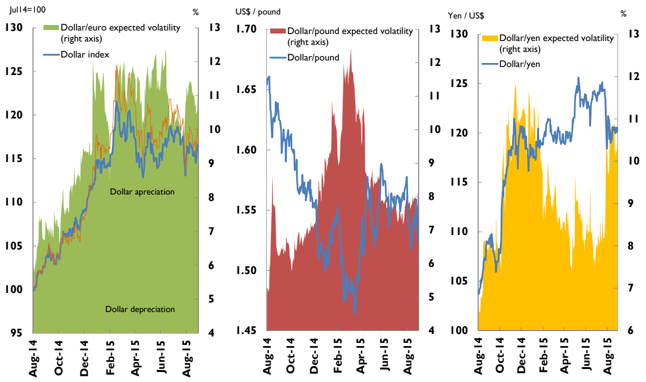
The yields of the long-term debt instruments of the United States and Germany have shown a changing pattern since March (see Chart I.13). Initially and starting from very low levels after the sustained contractions seen in 2014 and early 2015, yields tended to widen until June. This evolution reversed in part later on within a context of higher uncertainty and search for shelter in this type of assets. Therefore, the 10-year Treasury yield widened since late March over 20 basis points (bp) while the 10-year German bond accumulated a widening of over 40 basis points (from a level below 0.2%).

After recording a sustained appreciation throughout 2014 and in early 2015, in recent months the dollar exhibited a less-defined trend (see Chart I.14). Since late March, the US dollar depreciated 2.3% against the currencies of the main developed nations, showing a moderation of the strengthening it had accumulated since the beginning of the year (in mid-March the

[4] To such an extent that, in the case of the US, the Fed chair explicitly reported that some sectors of the stock market were having an excessive valuation.

Chart I.14

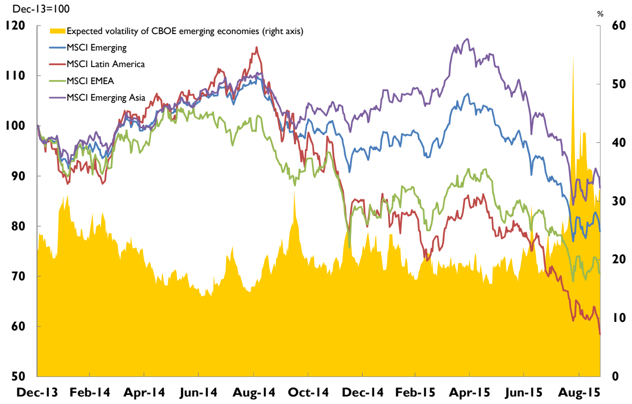
Currencies and Expected Volatility



Source: Bloomberg

Chart I.15

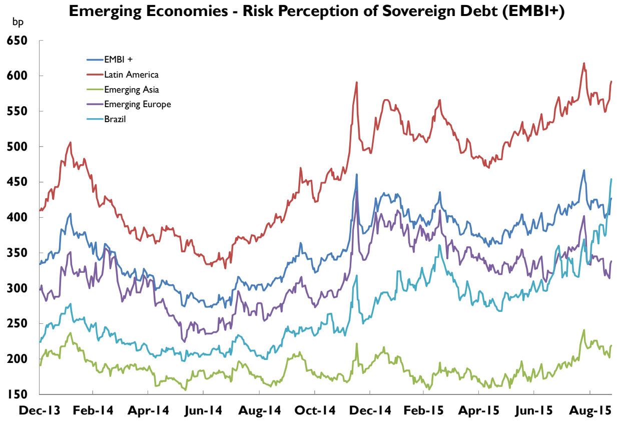
Emerging Economies Stock Markets and Expected Volatility



Source: BCRA based on Bloomberg

Chart I.16

Emerging Economies - Risk Perception of Sovereign Debt (EMBI+)



Source: Bloomberg

appreciation had reached over 11%). From the end of March to mid-September, the US dollar depreciated over 4% against the Euro, and this means that the strengthening of the US currency moderated to 7.5% so far in 2015. In turn, since late March, the dollar depreciated almost 3% against the British Pound, even though it slightly appreciated against the Yen.

After recording slight rises during the first months of 2015, the stock indexes of emerging economies have contracted significantly since late March, thus resuming the downward trend that started to be evident in mid-2014 (see Chart I.15). According to the MSCI index, the aggregate of emerging stock exchanges has experienced a drop of nearly 19% in dollars since March. Although the deterioration was widespread among regions, the sub-index of Latin America evidenced a fall (24%) that was above the drop observed for the aggregate of emerging countries[5]. The expected volatility for the shares of emerging economies tended to increase more strongly towards August during the peak of turbulences associated to China's current context.

In the debt markets, the spreads of emerging economies' sovereign bonds extended the upward trend observed since mid-2014 (see Chart I.16). As a result, the EMBI+ spread recorded a rise of almost 25 bp since late March to over 425 bp. The widening was more marked in Latin America and Emerging Asia (both regions with a widening of almost 70 and 40 bp to levels close to 590 bp and 220 bp, respectively)[6]. In the aggregate of 2015, the yield differential required for the debt of Latin American countries widened around 100 bp against a rise of almost 40 bp for the aggregate of emerging nations. It is worth mentioning that the Brazil's EMBI+ has widened almost 130 bp since March and 200 bp so far this year (up to a level close to 450 bp) within a context where Moddy's and S&P downgraded the rating in August and September, respectively. In the case of S&P, the rating of the Brazilian debt was no longer investment grade, a status it still maintains according to Moody's and Fitch.

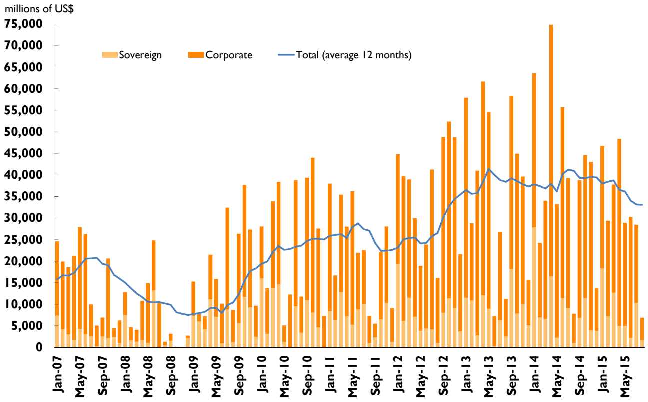
The spread widening for the debt of emerging economies coincided with a drop in the gross issuance of bonds by the agents of these economies in international markets. From April to August, the total issues of emerging debt (sovereign and corporate) in international markets contracted 32% against the same period of the year before and 75% of the reduction in the amounts was accounted for by the corporate debt (see Chart I.17).

[5] The accumulated drop has reached over 31% so far this year due to the weakening of Latin American currencies against the dollar in 2015. In this sense, Brazil's BOVESPA has accumulated a decline of 42% in dollars in 2015.

[6] In turn, the spread for Emerging Europe was the only one that exhibited a decline during the period, going down 30 bp since late March.

Chart I.17

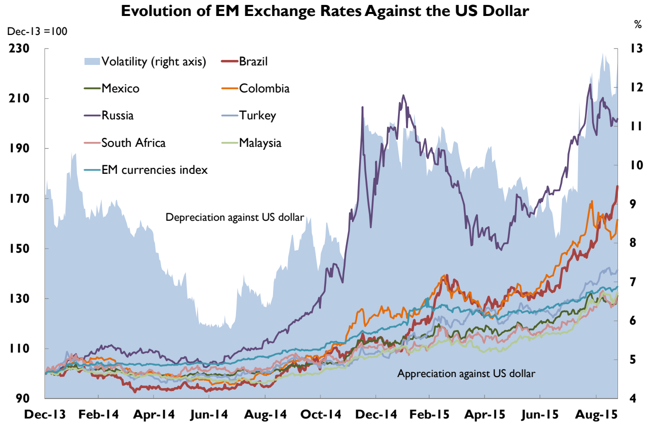
Emerging Economies. Debt Issuance in International Markets



Source: BCRA based on Bloomberg

Chart I.18

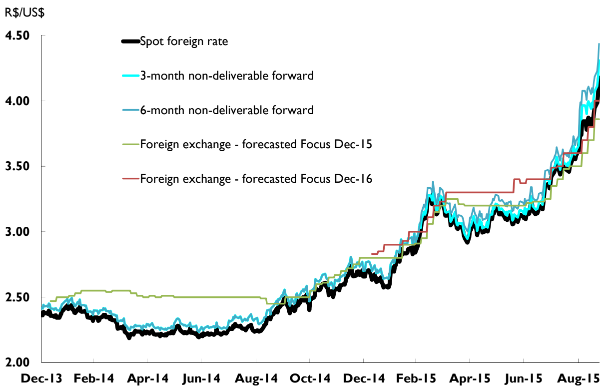
Evolution of EM Exchange Rates Against the US Dollar



Source: BCRA based on Bloomberg

Chart I.19

Brazil: Foreign Exchange, Forwards and Expectations



Source: Bloomberg

This negative trend still prevailed during the first weeks of September. So far in 2015, the fall is around 23%[7] against the same period of 2014 (a year with a record-high issuance).

In turn, portfolio flows towards funds specializing in the financial assets of emerging economies were negative in recent months, within a context of increasing volatility and deterioration in the prices of these instruments. This unwinding of positions accelerated in the last weeks of August. As a result, so far in 2015, sizable outflows of funds specializing in both equities and fixed income of emerging countries were noticeable, even though drops were more marked in the case of equities (with emphasis on funds investing in Asia and in the aggregate of emerging economies).

The currencies of emerging countries continued depreciating against the US dollar in recent months with a higher volatility expected for the prices (see Chart I.18). As from the end of March, emerging currencies depreciated 6.5% on average against the US dollar, accumulating a depreciation of over 15.5% so far this year. Latin America has been the region with a more marked depreciation since late March, accumulating a weakness of 13% against the US dollar since then[8]. Within the region, the depreciation of the Brazilian Real stood out (30%): by the end of September, the exchange rate was above R$/US$4.1, accumulating a deterioration of over 55% in 2015 and of over 70% in the last 12 months (see Chart I.19). This occurred within a context of negative growth indicators, deterioration of its fiscal position, speculations about the effects of changes in sovereign debt rating and political tensions, among other factors.

In the next months, several risk factors might generate volatility in international financial markets in terms of both prices and portfolio movements, with a potential impact on the financial assets of emerging economies. These risks are: the eventual beginning of the interest rate rise cycle in the US (in so far as it differed from market expectations in terms of timing and intensity), the evolution of financial markets and the Chinese economy (impacting on the prices of commodities), the political situation in Greece and the tensions in Brazil (impacting on portfolio flows and the valuation of the Real against the US dollar).

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[7] By early 2015, the main investment banks were already expecting drops of 10% on average in the issuance of emerging economies' debt in international markets.

[8] In turn, the aggregate of currencies of Emerging Asia (affected by the devaluation of the Yuan) depreciated 7% against the US dollar since late March.

II. Local Context

Summary

The production of goods and services went up 2.2% in the first half of the year if compared to the levels recorded one year ago, thus consolidating in the second quarter the recovery observed from January to March. The rebound of the economic activity mainly resulted from the performance of domestic demand. The productive sectors with the strongest momentum were the farming sector, the construction business and the industrial segments related mainly to domestic absorption and services.

Private consumption was underpinned, once again, by the relative stability of labor conditions, the public policies tending to facilitate access to credit and the income policies, within a context of more moderate price increases during the first half of 2015. The unemployment rate stood at 6.6% of the labor force in the second quarter of the year, down 0.9 percentage points (p.p.) against the figure recorded one year ago.

The external demand for goods and services kept its downward trend in the first half of the year, even though its rate of decline was lower due to the fact that exported volumes showed a lower contraction in that period (0.5% year-on-year -y.o.y.-). There was also a reduction in the rate of decline of imports (with a drop of 1.5% y.o.y., measured at constant prices). Given the high impact of international prices on exported commodities, the terms of trade deteriorated 7% y.o.y. during that period. In this context, the surplus of the trade balance of goods fell to US$1.23 billion between January and June 2015 (-63% y.o.y.). So far in the second half, the same trends recorded in the first half of the year would have remained in place: improvements in the exported and imported volumes of goods, while export prices continued to go down.

To favor savings in domestic currency, as from July 2015, the BCRA extended the coverage of the minimum interest rates scheme for time deposits. The amount of deposits under this measure went up from $350,000 to $1 million, covering deposits from both natural and legal persons; a new structure of minimum rates was also established to favor longer-term deposits.

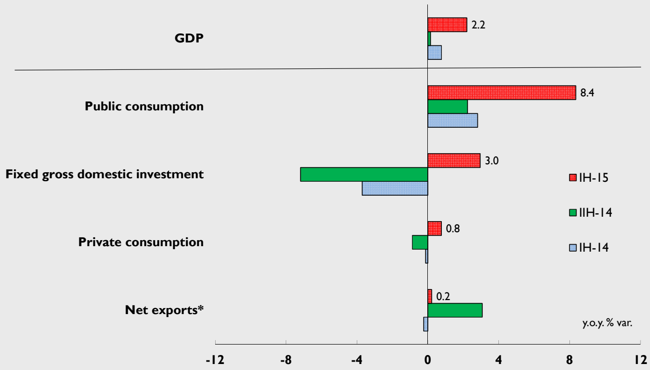
By the end of August 2015, international reserves totaled US$33.61 billion, going up US$2.16 billion in the first eight months of the year. Throughout this period, the Central Bank was net purchaser in the foreign exchange market.

The prices of the Argentine financial instruments exhibited a mixed performance in recent months, both in the domestic and international markets. However the Argentina EMBI+ spread continued to narrow along the period. In turn, instruments were issued from both the public sector (including the new BONACs and BONADs) and the private sector. In the April-August period, the amount of financing through corporate bonds, financial trusts and deferred payment checks went up in year-on-year terms and against the last five months.

Chart II.1

GDP and Aggregate Demand Components

Y.o.y. variation



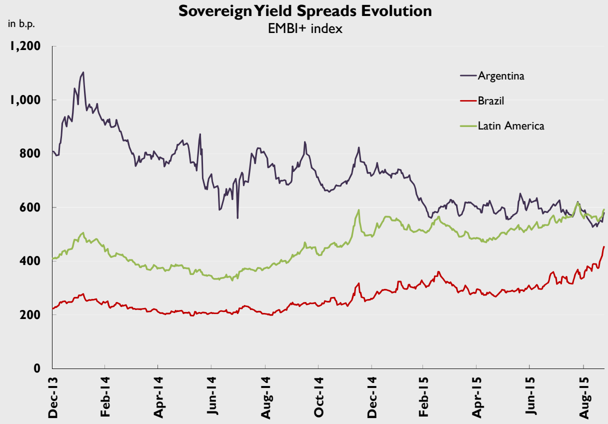
Source: INDEC

*Contribution to GDP y.o.y. var. (in p.p.)

Chart II.2

Sovereign Yield Spreads Evolution

EMBI+ index



Source: Bloomberg

II.1 Macroeconomic Context

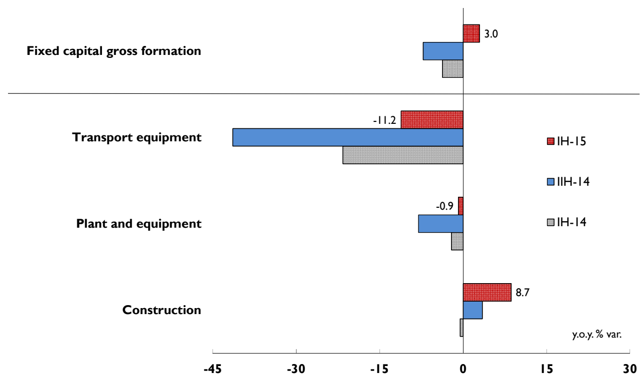
A stronger momentum was observed in the production of goods and services during the first half of 2015. After increasing 2.1% year-on-year (y.o.y.) in the first quarter of the year, GDP grew 2.3% y.o.y. between April and June, resulting in a 2.2% growth during the first half of the year. This improvement was mainly due to the performance of domestic spending, since external demand continued to be weak (see Chart II.1).

Private consumption rose by 0.8% y.o.y. between January and June 2015, while public consumption was another relevant factor to explain activity growth, since it went up 8.4% y.o.y. in that period. Investment reversed its drop and stood around 20% of GDP, accompanied by a change in its composition. While spending on durable production equipment fell[9], spending on construction expanded 8.7% y.o.y. in the first half (see Chart II.3). Net exports showed a slightly positive contribution to the economic expansion of the period under analysis (+0.2 percentage points —p.p.) due to the fact that the drop in imported goods and services was higher than the decrease in exports (-1.5% y.o.y. and -0.5% y.o.y., respectively).

Chart II.3

Gross Fixed Domestic Investment and its Components

Y.o.y. variation



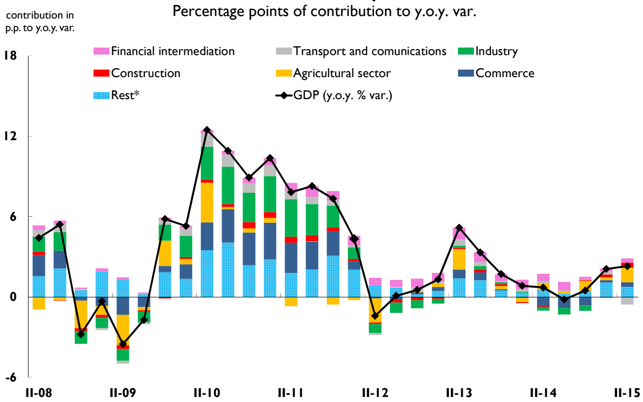
Source: INDEC

From the standpoint of the productive segments, and in addition to the construction sector, a positive momentum was observed in the farming sector (+12.3% y.o.y. in the first half), favored by the increase in agricultural production and a relative improvement in the livestock segment on the basis of the performance of slaughtering and milk production. Some moderation was observed in the rate of decline of the manufacturing activity relative to the second half of 2014, with a 0.2% y.o.y. contraction in the January-June average compared to a decline of 2.2% y.o.y. in the previous six months. Services continued to be on the rise, standing 2% above the figure recorded in the first half of 2014, especially in trade, real estate, business and rent activities (see Chart II.4).

Chart II.4

Contribution to GDP Growth by Economic Sector

Percentage points of contribution to y.o.y. var.



Source: INDEC

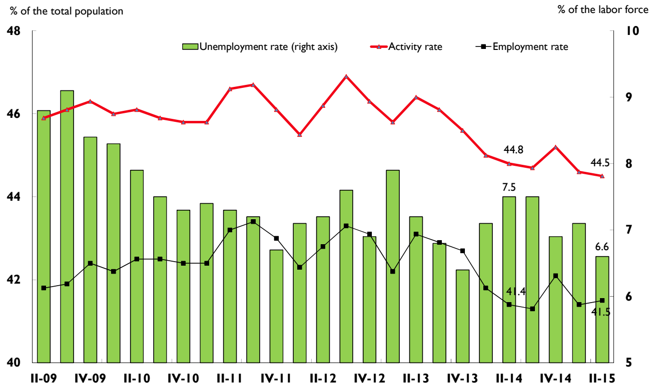
*Includes taxes

The indicators of the labor market reflected an improvement in the number and quality of jobs. According to the Permanent Household Survey (EPH) of the second quarter of the year, the unemployment rate stood at 6.6% of the labor force (PEA)[10], down 0.9 p.p. against the same period of the year before. The increase was accompanied by a marginal rise of the employment rate (0.1 p.p., to 41.5% of the population) together with a contraction of the activity rate (-0.3 p.p. y.o.y. to 44.5% of the population; see Chart II.5). In turn, according to the Wage Index prepared by INDEC, the expansion pace of the general level decelerated to 30.6% y.o.y. in the first

[9] The aggregate effect of transportation equipment, machinery and tools has been considered.

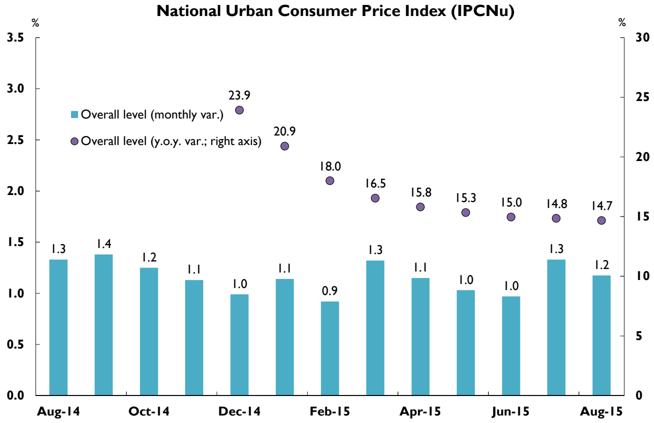
[10] On the basis of the 31 agglomerations surveyed.

Chart II.5
Key Labour Market Indicators



Source: INDEC

Chart II.6
National Urban Consumer Price Index (IPCNu)



Source: INDEC

half of 2015, within a context where collective bargaining agreements lagged behind relative to the schedule recorded in 2014. Household resources were reinforced by the continuity and deepening of the income policies, especially the increase in social security amounts under the framework of the Act on Social Security Mobility and the higher number of beneficiaries as from the implementation of the second stage of the Pension Inclusion Plan, added to the 30% increase, as from June, of family allowances and the 50% rise of the amount –and the extension of the target population– of the Program to Support the Students of Argentina (PROGRESAR).

The pace of increase of domestic prices decelerated in the first part of the year. GDP Implicit Price Index (IPI) went up 21.8% y.o.y. on average between January and June, after growing 30.6% y.o.y. in the second half of 2014. Meanwhile, according to the National Urban Consumer Price Index (IPCNu), retail prices have accumulated a 9.4% rise up to August 2015, after going up 18.2% in the same period of 2014 (see Chart II.6). The factors behind this performance are the “Precios Cuidados” Plan –an agreement between the Argentine Government, supermarkets, distributors and the main providers–, the lower international prices of commodities and the reduced exchange rate volatility.

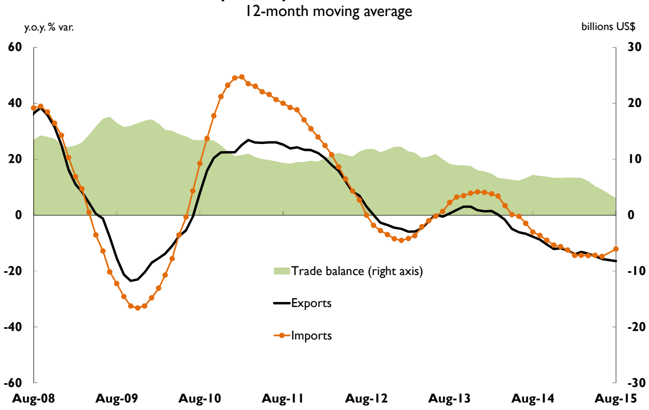
Regarding the external sector, exports of goods went down 17.9% y.o.y. in the first six months of the year mainly due to the effect of lower prices. Even though there was a widespread fall, the aggregate evolution was mainly due to the contraction of the manufactures of industrial origin —especially because of a decline in the demand from Brazil— and of agriculture and livestock manufactures as well —largely due to the drop of commodity international prices. In the same period, imports also contracted (-13.5% y.o.y. in value; -10% y.o.y. in prices and -4% y.o.y. in volumes). All uses of imports lost ground, except for capital goods, which went up 5.8% y.o.y. The joint performance of external sales and purchases resulted in a trade surplus of US$1.23 billion in the first half of 2015, down 63% against the figure recorded in the same period of the year before. The available information corresponding to the second half of the year indicates a marginal improvement of both exports and imports, with a higher incidence of external purchases due to an increase in the imported volumes of 9% y.o.y. between July and August (see Chart II.7).

II.2 Monetary Context

Chart II.7

Export, Import and Trade Balance

12-month moving average



Source INDEC

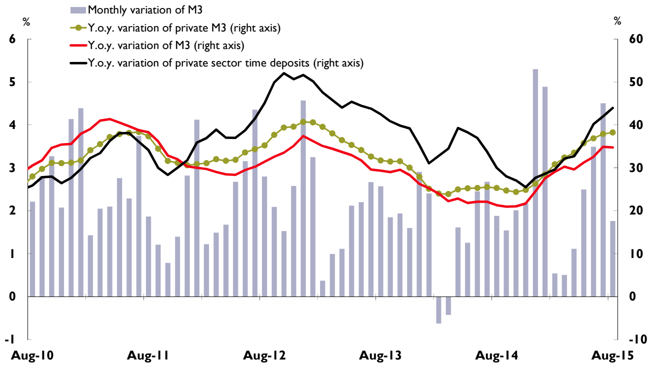
In order to favor savings in domestic currency, as from July 2015, the BCRA extended the coverage of the minimum interest rates scheme for time deposits[11], which had been established in October 2014[12]. The amount of the deposits covered by this measure went up from $350,000 to $1 million; in addition, the measure includes deposits from both natural and legal persons. On the other hand, the BCRA ordered an increase in the minimum interest rates, which are the same for both natural and legal persons, resulting in an improvement of the yield between 1 p.p. and 2.1 p.p., and between 4.7 p.p. and 7.6 p.p. for those depositors, respectively, depending on the term of the deposit. The new structure of minimum interest rates favors longer-term deposits since it has established as benchmark the interest rate on the 120-day term LEBACs for deposits at 90 days or more, while the rate for 90-day LEBACs applies to deposits up to 89 days.

In a context of higher yields, time deposits exhibited, in the first eight months of the year, significant increases in both the wholesale and retail segments. Deposits under $1 million recorded an average monthly growth rate over 4%, favored by the abovementioned scheme of minimum interest rates. As a result, time deposits continued to gain share in the broad aggregate of the private sector (Private M3[13]), reaching a weight close to 33%, up 2.5 p.p. against the figure observed two years ago.

Chart II.8

Monetary Aggregates - M3

Monthly average changes



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

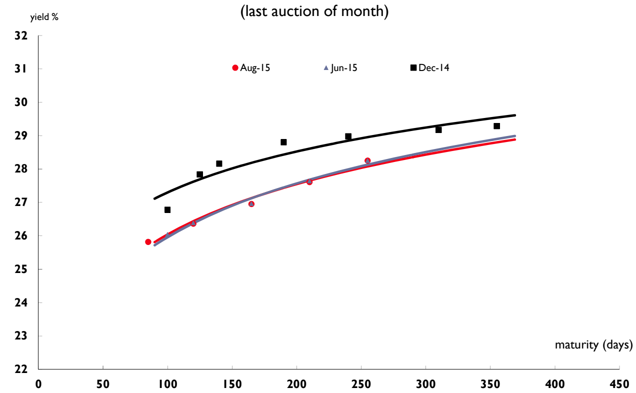
Consequently, the broadest aggregate in pesos (M3) has accumulated a rise of 21.2% so far this year and showed in August a year-on-year change of 35.1%, while Private M3 grew 25.4% from January to August, resulting in an increase of 38.3% in the last twelve months (see Chart II.8).

In turn, deposits in foreign currency have also expanded so far this year, recording increases in both deposits from the public sector and the private sector. In the latter case, the evolution of time deposits has stood out, and they started to go up as from the last week of February. This evolution was due, in part, to the measures adopted by the BCRA which, on that month, made adjustments to the return of LEBACs in dollars underwritten by the entities and to the spread between this interest rate and the interest rate they pay for their deposits[14]. Thus, the broadest aggregate M3*[15], showed an increase of 21.7% up to August (35.6% y.o.y.).

[11] Communication “A” 5781.
[12] Communication “A” 5640.
[13] Includes cash held by the public, settlement checks in pesos and total deposits in pesos.
[14] See Communication “A” 5711 and Communication “P” 50517.
[15] Includes cash held by the public, settlement checks in pesos and total deposits in pesos and in foreign currency.

Chart II.9

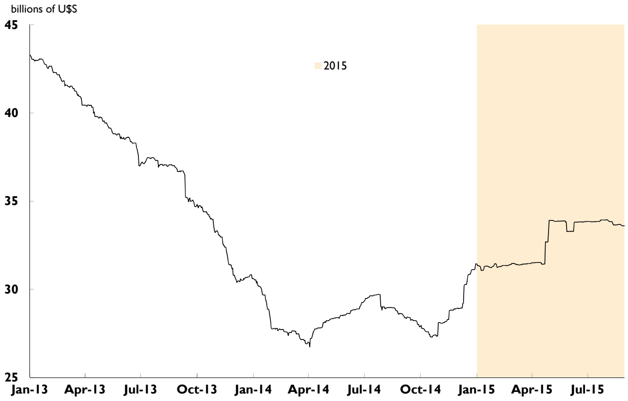
LEBAC Auctions
(last auction of month)



Source BCRA

Chart II.10

BCRA International Reserves



Source: BCRA

The monetary base recorded an average monthly stock of $526.99 billion in August, up 19% during the first eight months of 2015. Regarding its components, there was an increase in bank reserves (made up by the cash held by financial entities and the current account stocks of financial institutions with the BCRA) and in the cash held by the public. Its change rate stood at around 35% y.o.y.

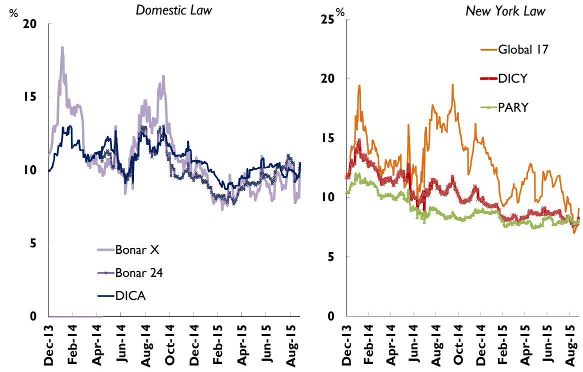
On the other hand, in early 2015, the BCRA lowered slightly the interest rates on the LEBACs it issues every week in the primary market (see Chart II.9). The decrease was established mainly for the medium tranche of the yield curve, for instruments with a term between 120 and 250 days, where cuts were observed between 1.5 p.p. and 1 p.p. in the interest rates. As from the second quarter, LEBAC rates remained stable. Likewise, it is worth mentioning that by the end of March, and in coordination with the National Treasury (NT), which started to issue instruments in pesos maturing in 2016 (BONACs), there were no more auctions of LEBACs for terms over 300 days.

Likewise, the Central Bank continued implementing policies tending to encourage credit, especially for productive purposes. After the successful completion of the sixth tranche of the Credit Line for Productive Investment (LCIP) in the first half of the year, the BCRA decided to extend the line to the second half (see Chapter IV and Box 2).

By the end of August, total international reserves amounted to US$33.61 billion (see Chart II.10), growing by US$2.16 billion in the first eight months of the year. Over this period, the Central Bank was net purchaser in the foreign exchange market. Other factors contributing to the increase of international reserves were the issue of public debt, both national and provincial, and the use of part of the currency swap agreed upon with the Central Bank of the People's Republic of China. Part of the effect of such factors was counteracted by payments of the public debt in foreign currency (including payments to the Paris Club and for BONAR).

Chart II.11

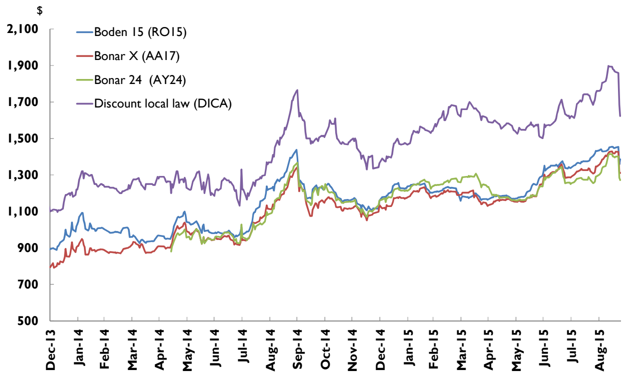
Sovereign Bonds Yields in the Foreign Markets



Source: Bloomberg and Reuters

Chart II.12

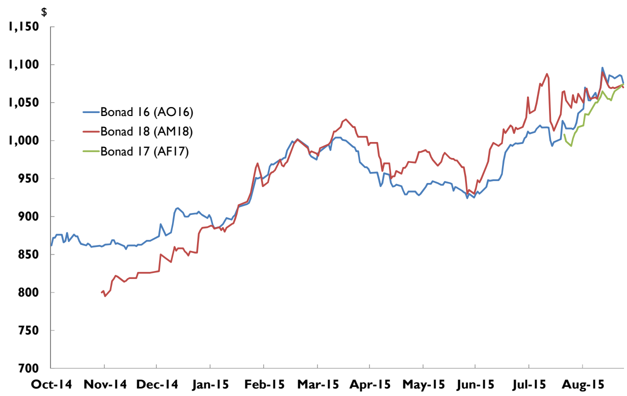
Sovereign Dollar-denominated Bonds Prices in the Local Market*



(*) Quotes pesos.
Source: BCBA

Chart II.13

Dollar-linked Sovereign Bonds Prices



Source: BCBA

II.3 Capital Markets

After starting the year with a positive performance, the prices of the Argentine financial assets began to exhibit a less defined trend in recent months, both in the domestic marketplace and in the international markets. This occurred in a context affected by both international factors (a higher volatility in the markets worldwide) and domestic factors. Financing through capital markets has kept its rising trend in recent months, especially evident in the momentum of corporate bond issues, including some large transactions by YPF in international markets.

As from late March, in foreign markets, the yields of the main instruments exhibited divergent changes. Among bonds subject to national legislation, yields have widened. As an example, Bonar 24 recorded an increase in its yield of nearly 200 bp, up to a level over 10%. In turn, bonds subject to New York legislation, directly related to the litigation against the holdouts, recorded heterogeneous variations in their yields[16] (see Chart II.11). However, the sovereign risk spread measured by Argentina's EMBI+ narrowed almost 50 bp, to around 580 bp, within a context of increase in long-term yields of US Treasury bonds and of widening of risk differentials for the ensemble of Latin American countries (see Chart II.2).

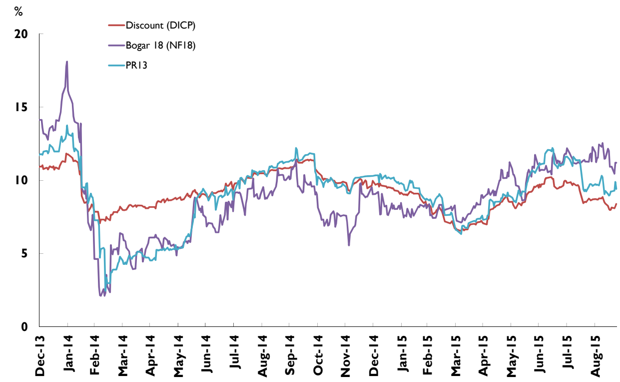
Regarding the holdouts, there was news recently about the global debate to limit the actions of this type of agents. In early July, the Belgian Parliament enacted a law tending to limit the rights of creditors who seek illegitimate profits, establishing that the maximum amount to be required from a State is the price paid at the time the debt instruments were purchased. On the other hand, by late July, the UN Ad-Hoc Committee on Sovereign Debt Restructuring Processes adopted a series of principles which were confirmed in September by the UN General Assembly. Included in the nine principles is the right of a sovereign state to design its macroeconomic policies, including sovereign debt restructuring, which should be done as the last resort and preserving at the outset creditors' rights; the principle of sovereign immunity from jurisdiction and execution regarding sovereign debt restructurings as a right of States before foreign domestic courts (including that exceptions should be restrictively interpreted), and also stating that restructuring agreements approved by majorities cannot be impeded by non-representative minorities of creditors. At domestic level, recently, the National House of Representatives has passed a bill to declare these basic principles of public order. Now this bill must be treated by the Senate.

Regarding the Argentine lawsuit with the holdouts in the courts of New York, on August 31, 2015, the Court of Appeals issued a judgement upholding a request by the Republic of Argentina and the BCRA to dismiss the claim

[16] The yields of Global 17 and Discount Bonds narrowed between 250 bp and 40 bp, respectively, while that of the Par Bond went up 15 bp.

Chart II.14

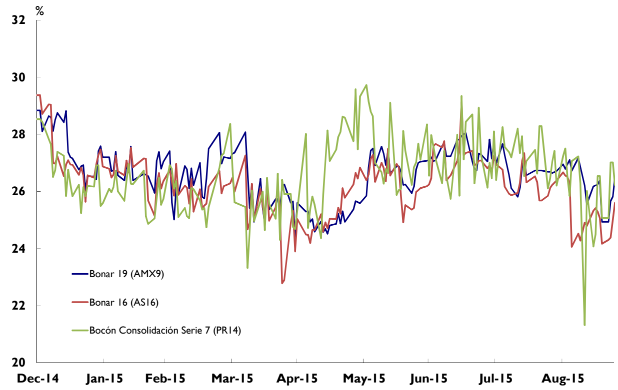
CER-adjusted Peso-denominated Bonds Yield



Source: IAMC and Reuters

Chart II.15

Nominal Peso Bonds Yield

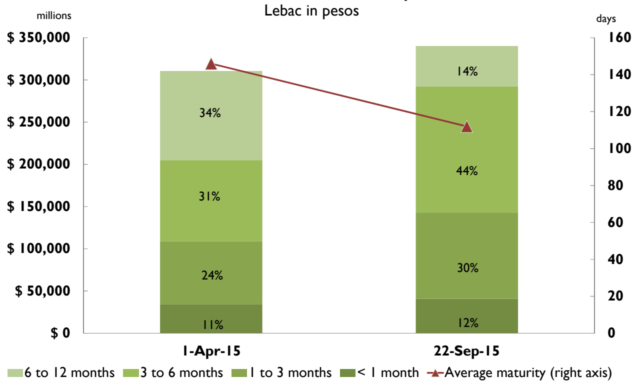


Source: IAMC and Reuters

Chart II.16

LEBAC and NOBAC Stock Composition

Lebac in pesos



Source: BCRA

filed by the holdouts, and to declare that the BCRA is not the alter ego of the Republic of Argentina. There was also another ruling in favor of Argentina, with a view to limiting the claims made by those that added up to the claim by the holdouts once the decision by Judge Griesa was issued (known as "me too"). On the other hand, there was also a request made to Judge Griesa by the claimants seeking to include the issue of Bonar 24, made by Argentina in April, within the *pari passu* ruling. There is also a Discovery request in progress.

In the domestic marketplace, the prices of sovereign bonds denominated in dollars (with prices in pesos for transactions of high liquidity) have shown a fluctuating performance during the period under analysis, in line with a context of higher volatility in the international markets. In general, prices exhibited an upward trend, but then fell in the second fortnight of September. For short-term bonds subject to Argentine legislation, such as Boden 15 and Bonar X, prices went up 14% on average since the end of March (see Chart II.12). For longer-term bonds subject to Argentine legislation, the performance was heterogeneous, with limited price changes since late March. Instruments subject to New York legislation, less representative in terms of volume, have exhibited an average rise of 11%.

In turn, sovereign bonds denominated in dollars and payable in pesos (dollar-linked), which started to be issued by the end of 2014, posted a 9% price increase as from the end of March, even though there was not a sustained trend throughout the period (see Chart II.13).

In addition, the prices of sovereign bonds in pesos subject to CER have tended to deteriorate since late March, with marked yield increases for the shortest terms[17] (see Chart II.14). In turn, bonds in nominal pesos showed dissimilar results in the period, within a context where the Private Bank Badlar fell over 100 bp. In this case, the yield of the most liquid bonds tended to narrow by the end of September, after showing a mixed performance since the end of March (see Chart II.15). This applied also to the new BONACs issued by the National Treasury by the end of March, which started to be traded as from April (see Box 1).

Regarding GDP-linked units, the prices of those denominated in dollars recorded an average drop of 13% in the external markets (with trading under dollar prices).

In the domestic marketplace –with prices in pesos—, the result for the period was heterogeneous for the instruments in dollars, even though with slight changes. In turn, the instrument in pesos closed with a 16% decline.

[17] The increase was 360 bp for Bogar 18 (220 bp for those with longer terms).

Box 1 / Issues of BONACs and the Secondary Market

The National Government started to issue the new National Treasury Bonds (BONACs) in pesos, as part of a strategy to extend financing alternatives and contribute to the development of a benchmark yield curve for instruments in domestic currency in the local marketplace. Thus, as from the end of March, the Treasury managed to raise funds for more than $48.4 billion (in actual value), through a total of nine auctions made so far, issuing four instruments that had a sustained demand. Gradually, the trading of BONACs increased in the secondary market, within a context of stability in the benchmark rates. The increase in the depth of this market included the effect of the transactions made by the BCRA with a view to contributing to the stability of the yield curve in domestic currency, not only in terms of the monetary regulation instruments but also of national sovereign bonds

Table B.1.1

BONAC Auctions

Amounts in millions of pesos

Auction date	Auctioned amount (1)	Amount offers received (2)	Ratio (2) / (1)	Adjudicated VNO	Effective value	Adjudicated VNO: Bonac Mar-16	Bonac May-16	Bonac Jul-16	Bonac Sep-16
26-Mar	3,000	7,489	2.50	5,000	5,000	3,909	-	-	1,091
16-Apr	3,000	7,018	2.34	4,713	4,734	2,699	-	-	2,014
7-May	3,000	8,535	2.84	5,263	5,298	2,382	2,882	-	-
28-May*	3,000	5,171	1.72	4,946	5,059	1,310	2,615	-	1,020
11-Jun	3,000	7,991	2.66	5,929	6,022	-	2,277	2,474	1,179
22-Jun	3,000	7,933	2.64	5,104	5,232	-	2,323	1,855	926
8-Jul	3,000	8,816	2.94	5,599	5,763	-	2,969	2,014	616
23-Jul	3,000	8,014	2.67	5,467	5,694	-	2,997	1,624	846
3-Sep	3,000	8,006	2.67	5,327	5,640	-	-	3,923	1,404
Total	**27,000**	**68,973**		**47,347**	**48,443**	**10,300**	**16,062**	**11,889**	**9,096**

(*) Includes direct issuance to BNA

Source: BCRA based on Treasury and Public Finance Secretariat

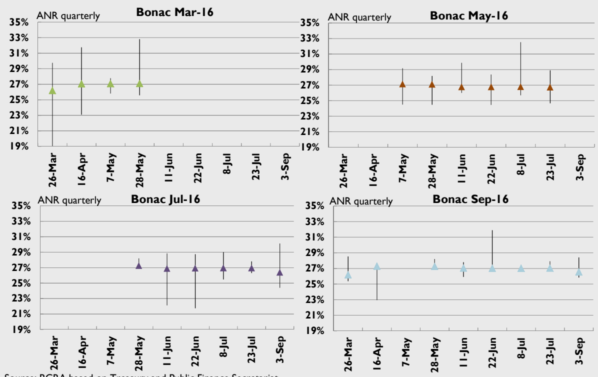
By the end of 2014, within a context of sound indicators and indebtedness profile, the National Government sought financing once again through the domestic capital market[18]. More recently, in March 2015, it started to arrange a series of auctions for new bonds in pesos in the domestic market. These auctions have the double goal of contributing to the development of a benchmark curve for issues in pesos made in the local capital market, and diversifying the National Government's financing sources.

The new National Treasury Bonds (BONACs) in pesos that were auctioned have been issued for terms of 12 to 18 months. Four BONACs have been issued so far, maturing in March, May, July and September 2016. Principal will be paid in full upon maturity in all cases. Interest payments (on a quarterly basis) will be subject to a variable rate, based on the average of the interest rates resulting from the weekly auctions of LEBACs made by the BCRA[19]. It is worth mentioning that, under a policy coordinated with the Ministry of Economy and Public Finance, the Central Bank of Argentina stopped auctioning LEBACs with a 360-day term.

The frequency of the auctions has been variable so far, every two or three weeks. On each occasion $3 billion –and more if required— were offered in different instruments, which varied in each auction, with a priority on longer-term instruments. Regarding the bids received, the average against the offers auctioned has reached 2.55 times, with a maximum of 2.84 and a minimum of 1.72. The average awarded amount in Original Nominal Value (VNO) exceeded $5 billion in each auction, resulting in an amount issued in the nine auctions made so far of VNO $47.35 billion. The distribution as per instrument is 34%, 25%, 22% and 19% for the bonds maturing in May, July, March and September 2016, respectively. In terms of the actual value, the amount issued reaches $48.44 billion (see Table B.1.1).

Chart B.1.1

Offered Yields Range Evolution and Cutoff Rates of BONAC in Auctions



Source: BCRA based on Treasury and Public Finance Secretariat

Regarding interest rates, they have remained relatively stable as from the first auction and during the following four months, showing a slight decline in the most recent

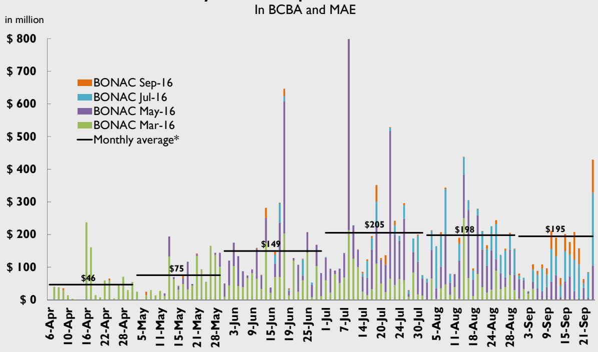
[18] Through the issue of BONAD, an instrument denominated in dollars but payable in pesos, and of Bonar 2024 in dollars. In the past, in 2013, issues had been made through direct placement, related to the regularization of liabilities under the framework of the International Center for Settlement of Investment Disputes (ICSID), to the agreement for the expropriation of 51% of YPF's shares from REPSOL S.A. and the renegotiation of liabilities with member countries of the Paris Club.

[19] For BONACs maturing in March and September 2016, the simple arithmetic average of the rate of LEBACs issued for the term closest to 90 days is considered. On an analogous basis, for BONACs maturing in May and July 2016, the average of rates for LEBACs issued for the term closest to 252 days is used.

auction (September 3), and standing in a range between 26.4% and 26.56% (on a quarterly basis) for residual terms of 0.9 to 1.1 years (see Chart B 1.1.). Such performance occurs within a context of stability in the benchmark rates during the five months elapsed as from the first auction, considering both the rates of the LEBACs in the auctions by the BCRA and the rate of the Private Bank BADLAR.

Chart B.1.2

Daily Amounts Operated in BONAC
In BCBA and MAE

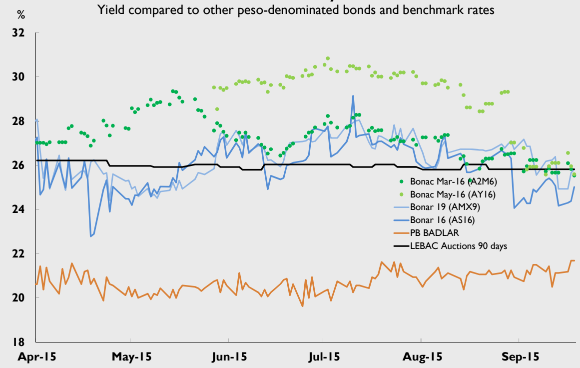


Note: BCBA data correspond to concurrence rolls
(*) Until September 23
Source: Bloomberg

Regarding the secondary market, the increase of the outstanding amount of the issues was accompanied by a rise in BONAC trading in the local marketplaces. Taking into account the four series issued, the daily average went from $46 million in April up to $195 million in September (see Chart B.1.2). The two instruments that are more liquid in terms of the daily traded volume as from the time of issue were May-16 BONAC (which started to be issued in the May 7 auction) and Mar-16 BONAC. It is worth mentioning that, in recent months, these two instruments were among the most-widely traded bonds of the National Government in the local marketplaces, replacing other instruments in nominal pesos and in pesos subject to CER in terms of the daily traded volume (even though their liquidity is lower than that of short-term bonds in dollars).

Chart B.1.3

BONAC Secondary Market
Yield compared to other peso-denominated bonds and benchmark rates



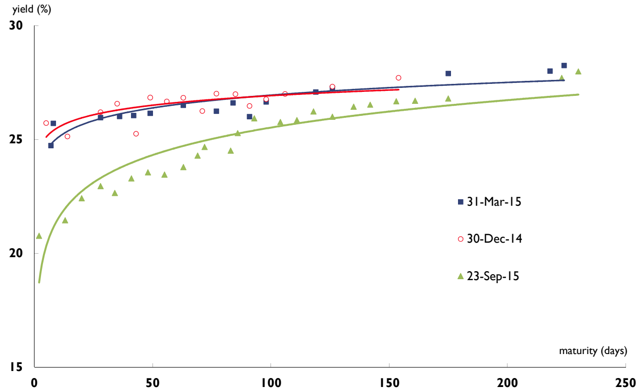
Source: IAMC and Reuters

With respect to yields in the secondary market, for the Mar-16 BONAR they stood within a range of 25.3% to 29.3%, since it started to be traded. As from late May, a higher price correlation was observed with other bonds in nominal pesos (to which it exceeds in volume). In the case of the May-16 BONAC, yields stood within a range of 25.6% to 30.8%, showing an upward trend until late July, and then evidencing a higher correlation with the remaining bonds in pesos, the yields of which started to fall, in general, since then. This performance was recorded in a context of stability in the benchmark rates (see Chart B.1.3).

Lastly, and in addition to the BONAC auctions, the National Government has also performed other financing transactions in recent months. They include the issue through public auction of the dollar bond Bonar US$ 2024, made in April for an Original Nominal Value of US$1.42 billion, and more recently, the issue of new BONAD bonds (see Table B.1.2), which added up to the series of this type of instrument which started to be issued by the end of 2014. These BONAD are denominated in dollars and are payable in pesos (dollar-linked). The auctions were held in August and September. The National Treasury issued BONAD for a total Original Nominal Value of US$2.19 billion, through two instruments with a term of 18 and 24 months. The auction held in August was for Feb-17 BONAD for a nominal value of US$ 1.09 billion, with a demand ratio of 2.77 times. In the September auction, the bond issued was the Sep-17 BONAD, and the demand was 2.46 times the amount sought for and the awarding was for a Nominal Value of US$ 1.03 billion. Both BONADs will accrue a 0.75% coupon with a six-month frequency (Annual Percentage Rate), capital adjustment in pesos and full amortization upon maturity.

Chart II.17

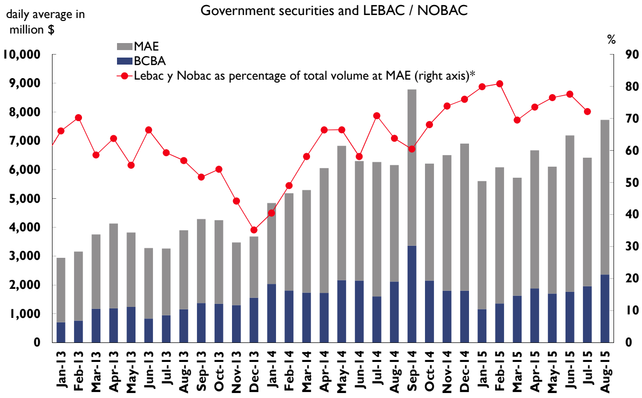
LEBAC Secondary Market



Source: BCRA based on MAE

Chart II.18

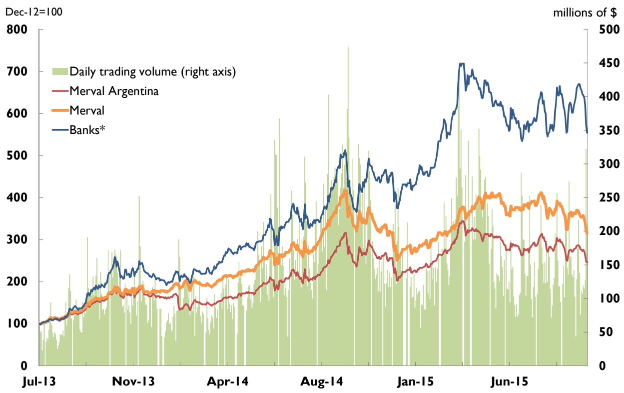
Fixed Income Instruments -Traded Volume
Government securities and LEBAC / NOBAC



(*) Data not available for August 2015.
Source: MAE and BCBA.

Chart II.19

Local Stock Market Performance and Traded Volume



* Simple average of the returns of each stock
Source: BCRA from Bloomberg's data

The outstanding stock of instruments issued by the BCRA was on the rise once again in 2015. For bills in pesos, it exceeded $340.18 billion, with a rise of 9.5% since late March (see Chart II.16). Along the period, the average length of the portfolio has shortened and it is currently standing at 112 residual days[20]. Regarding the stock of bills in dollars, the outstanding amount went up to US$1.89 billion, up 34% as from the first quarter[21].

Interest rates in the BCRA auctions have tended to decline since the end of the first quarter (see Chart II.9). In line with what was observed in the primary market, in the secondary market of LEBACs in pesos, yields have fallen in recent months. If compared to figures of late March, by the end of August yields had fallen around 270 bp for instruments with a term of up to 90 days, while for longer terms the reduction stood, on average, at around 90 bp (see Chart II.17).

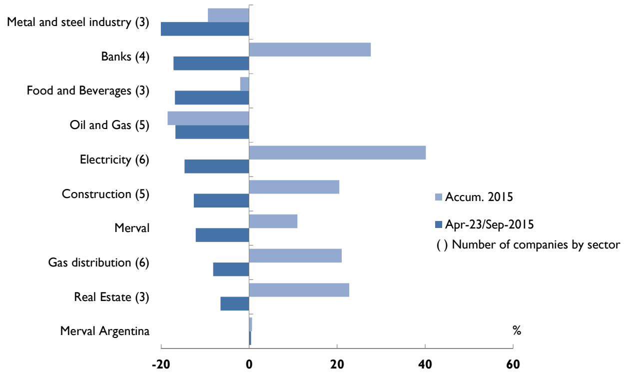
The trading of fixed income instruments[22] in secondary markets reached a daily average of $7.2 billion as from late March, against $5.8 billion in the first quarter of the year[23] (see Chart II.18). Regarding the liquidity of sovereign bonds, the most widely-traded instruments, Boden 15 and Bonar X (both in dollars subject to national legislation) accounted for over 50% of the market volume according to data from the Electronic Over-the-Counter Market (MAE). On the other hand, the dollar-linked bonds (denominated in dollars but payable in pesos) were also among the most widely traded instruments. The increase in the trading of bonds in pesos has been especially remarkable in the period under analysis, as from the issue of the BONACs by the end of March. Two of these instruments, maturing in March and May 2016, also stood among the most widely traded.

With reference to the stock market, the Merval Index recorded a fluctuating performance in recent months, with improvements up to mid-July and a further contraction as from then, due to a high volatility, in line with what happened in global stock markets (see Chart II.19). As a result, the index accumulated a 12% decline since late March, with significant reductions among the shares of sectors such as metallurgy, food and beverages, oil and gas, banks and electricity[24] (see Chart II.20). In the period

[20] This reduction is due in part to a shortening of the terms of auctions in pesos; by the end of March, LEBACs with a 360-day term were no longer auctioned, as from the moment the National Treasury started to auction the BONACs (initially, at 12 and 18 months).
[21] Considering the outstanding total measured in pesos, the weight of the bills in dollars increased to 5% of the total (from 3.9% by the end of March).
[22] Based on amounts of the Buenos Aires Stock Exchange and the Electronic Over-the-Counter Market (MAE). It includes sovereign bonds of the National Government, LEBACs and NOBACs, provincial securities, corporate bonds, and other instruments.
[23] However, the liquidity in domestic markets is usually affected in the summer. If we consider the amount traded in the same period of the year before, there was a 7% increase.
[24] These movements found its correlation in the prices of the Argentine ADRs in New York (traded in dollars) which, on average, lost 24% in the period.

Chart II.20

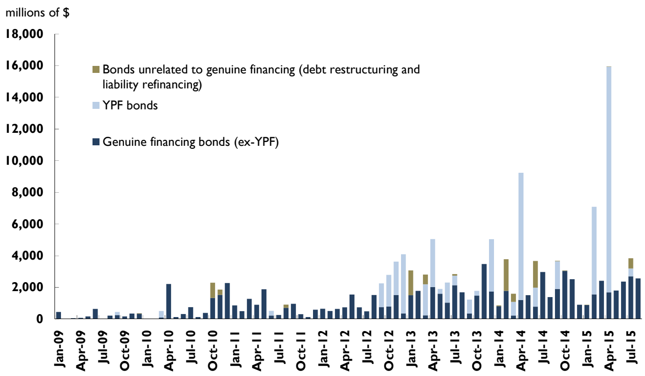
Main Sectors Performance*



* Simple average of the returns of each stock
Source: BCRA from Bloomberg's data

Chart II.21

Corporate Bonds Financing



Note: Figures include financial instruments placed in international capital markets by locally listed companies.
Source: BCRA based on BCBA, CNV and IAMC.

under analysis, this performance was accompanied by a daily traded amount in line with the figures observed in the previous five months, around $160 million.

The gross financing flow to the private sector and for infrastructure and housing works through capital market instruments amounted to nearly $40.5 billion in the April-August period, up 8% against the immediately preceding period (which included a sizable trust fund transaction related to infrastructure and housing[25]), and up 34% against the same period of 2014.

Corporate bonds (ON) were the main financing instrument between April and August, with issues for over $26.5 billion, almost doubling the volume of the previous five months, and over 40% above the volume of the 2014 April-August period (see Chart II.21)[26]. However, more than half the volume of the period was accounted for by two issues by YPF (including a transaction in foreign markets for US$1.5 billion). In addition, there were also issues for liabilities restructuring / refinancing which added around $600 million in the period under analysis. Excluding YPF issues (due to their large size) and liabilities management transactions (since they do not entail new financing), the volume of the last five months recorded a 35% expansion against the previous period and 41% in year-on-year terms.

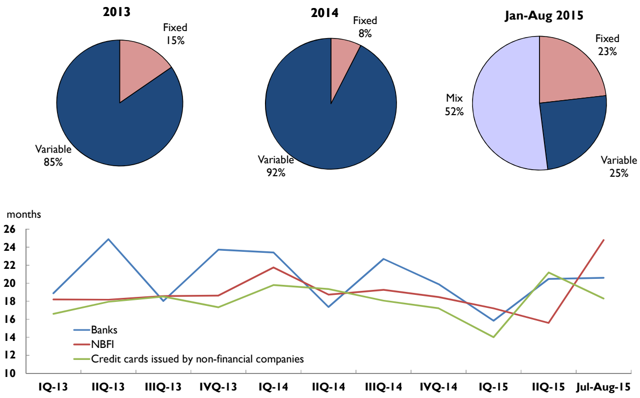
Given the size of YPF transactions, issues by the oil sector accounted for almost 60% of the financing amount between April and August, followed by issues of the financial sector (27%). However, in terms of number, the financial sector transactions explained almost half of the total observed in the period. In addition, in terms of number, transactions in domestic currency continued to prevail (86% of total transactions), while in terms of volume they accounted for 43% of the total between April and August (due to the high weight of YPF transaction abroad).

Among transactions in pesos, the number of issues with a mixed structure of rates stood out in the April-August period. This type of transactions had already started to proliferate since February, while in the past variable rate transactions tended to prevail. Thus, 55% of the financing amount in domestic currency was obtained through bonds offering an interest that is fixed at the beginning and then becomes variable (Private Bank BADLAR plus a margin[27]), a widely used structure in the issues of the financial sector (see Chart II.22). Thus, the average term

[25] It was an issue under the Bicentennial Credit for Housing Program (PRO.CRE.AR) in December 2014 for an amount of $14 billion (not fully integrated).
[26] This trend continued to prevail in the first weeks of September, keeping a stable pace of issues. Two transactions by YPF for a total amount of $2.9 billion stood out in September.
[27] At the auctions, the yield of the fixed tranche or the variable tranche is determined.

Chart II.22

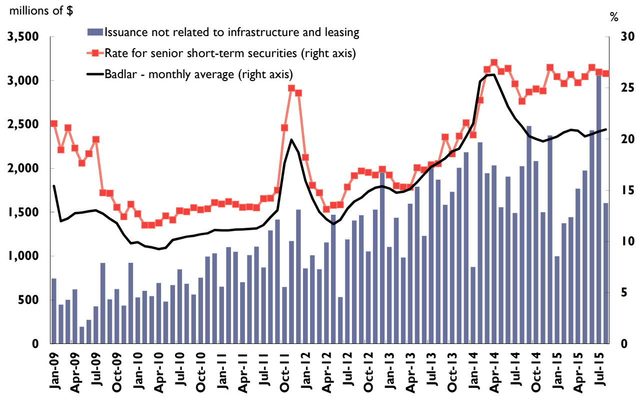
Financial Sector Bonds Issuance by Currency and Maturity



Source: BCRA based on BCBA, IAMC and CNV

Chart II.23

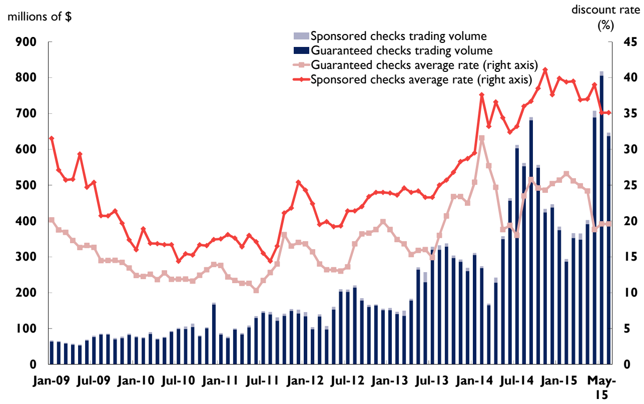
Issuance of Instruments by Financial Trusts and Financing Rates



Source: BCRA based on CNV, BCBA and BCRA

Chart II.24

Trading of Deferred Payment Checks



Source: IAMC

weighted by amount (excluding YPF transactions) stood at around 22 months, virtually in line with the term observed in the previous five months. In addition, there were not significant changes in the cost of financing through corporate bonds, in line with the relative stability of the Private Bank BADLAR.

Lending through financial trusts amounted to nearly $11 billion between April and August, with only one transaction related to infrastructure and for a small amount[28]. This amount shows a marked contrast with the volume of the previous five months ($21.8 billion including the issue of $14 billion of the PRO.CRE.AR.). But, if compared to the 2014 April-August period, there has been an increase of 22%. Securitizations of personal loans and credit for consumption, as well as credit card coupons, accounted for 85% of the volume for the period. In turn, financing cost did not exhibit significant changes (see Chart II.23). In fact, the spread between this benchmark rate and the cut-off rate of instruments with a higher credit quality and first-class trustors stood in August virtually at the same level as in March.

The volume of deferred payment checks went up over 50% in the April-August period relative to the previous five months, and over 30% relative to the same period of 2014 (see Chart II.24). There were months with a record-high number of transactions as from the beginning of the operation, mainly due to actions of the mutual funds, with unit shares meant for institutional investors. For the guaranteed segment, accounting for almost the entire market, this increase in transactions was accompanied by an extension of the terms of the checks –up to a maximum of almost eight months— and also exhibiting a sharp reduction of the financing cost, which even stood below the cost of the Private Bank BADLAR. The increase in amounts and the reduction of interest rates deepened in September, because of the regulatory changes related to investments of insurance companies and mutual funds in productive projects and lending to small and medium-sized enterprises (SMEs) (see Chapter 4).

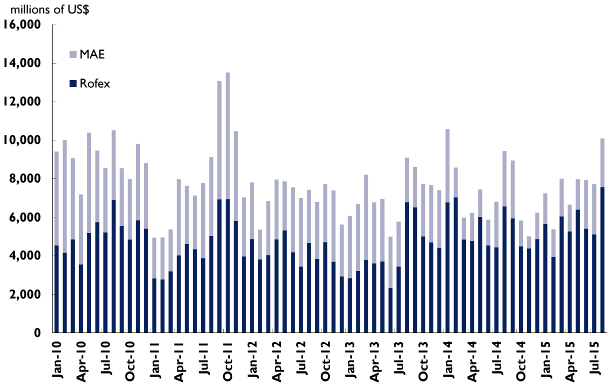
Financing through subscription of shares amounted to $66.5 million, related to a transaction of a petrochemical company in April. The previous issue of shares had taken place in May last year. In 2014, the total volume amounted to $320 million for three transactions.

Between April and August, the amount traded in exchange rate derivatives went up 27% against the previous five months and 13% in year-on-year terms (see Chart II.25). It is worth stating that, in the period under analysis, the implicit depreciation rates in the dollar

[28] In the first weeks of September, an increased momentum was observed in the issues of financial trusts in the primary market.

Chart II.25

Dollar Future Contracts Trading Volume



Source: ROFEX, MAE and BCRA

futures trading contracts followed a markedly decreasing trend across the different contracts. For example, in the contract as of December this year, the rate went down 8 p.p., while in contracts maturing by the end of the first quarter of 2016, the reduction stood at around 5 p.p. More recently, in September 2015, the amounts traded in derivatives did not show significant changes, while implicit rates tended to go up in the second fortnight of September for contracts maturing in 2016.

III. Debtors Performance

Summary

During the first half of 2015, the economic activity grew in year-on-year terms at a faster pace than in previous periods, a favorable trend that remained at the beginning of the second half of the year. In this context, the level of corporate sector indebtedness in aggregate posted a gradual reduction, totaling 17.7% of GDP in June, mainly as a result of a decrease of relative level of the external financing. The indebtedness of the corporate sector in Argentina stands significantly below the levels recorded internationally.

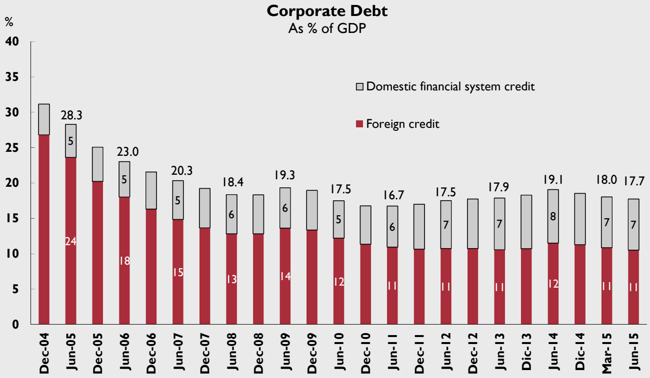
Most of the productive sectors recorded drops in their indebtedness ratios during the first months of 2015, a trend that in general accompanied the year-on-year performance. This evolution –that, on the margin, contributes to consolidating the financial position–, together with the recovery observed in the activity of different productive segments, should favor the potential demand for credit. In turn, public policies –such as the Credit Line for Productive Investment (LCIP)— keep on helping to reduce the financial burden of companies, especially of micro, small and medium-sized businesses (MiPyMEs) since they are able to access to credit facilities under favorable financial terms.

As observed in the corporate sector, the estimated indebtedness of households continued going down in the first half of 2015, even though with a moderate evolution on the margin. Thus, in June the debt of households totaled 19.3% of income (wage mass, net of contributions), with a decrease of 0.9 percentage points (p.p.) so far in the year. The context of low sectoral indebtedness levels, added to the stability recorded in the labor market, helped to maintain a reduced average burden of household debt services, which stood at 12.3% by the end of the first half of the year (down 0.5 p.p. against the end of 2014).

Taking into consideration the evolution of income and expenses of the Non-Financial Public Sector (NFPS), the primary and financial results in the aggregate of the last 12 months up to July 2015 represented approximately -1.7% and -3.6% of GDP, respectively. The national public debt (NPD) added US$221.75 billion as at December 2014 (42.8% of GDP). The debt held by private creditors —considered riskier as regards financing— rose to 10.9% of GDP in the same period, out of which only 8.8 p.p. corresponded to obligations in foreign currency.

Chart III.1

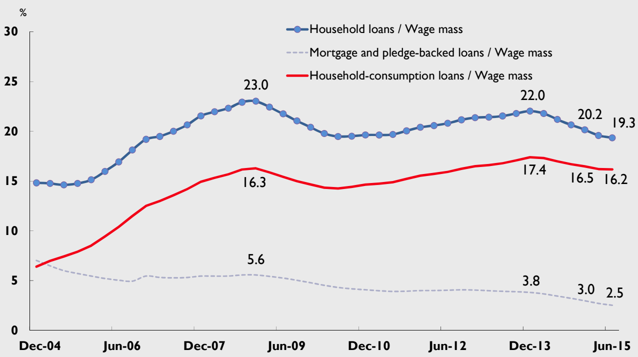
Corporate Debt
As % of GDP



Note: The four-quarter moving average of loans in the numerator and the four-quarter moving average of the product in the denominator is considered. The latest available data on financing from abroad is March 2015. Data subject to subsequent changes.
Source: BCRA and INDEC

Chart III.2

Household Debt
As % of formal wage mass net of contributions

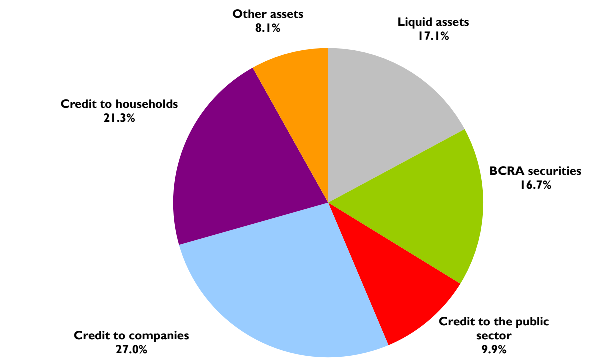


Note: Loans to households include financial system financing, financial trusts for consumption loans as underlyng assets (credit cards and personal loans), collateralized loans (mortgage and pledge-backed) and the stock of non-bank credit cards. Data subject to subsequent changes. Both moving annual average household debt and their wages mass are taken. Source: BCRA, INDEC and CNV

Chart III.3

Financial System Assets Portfolio

As % of netted assets to June 2015

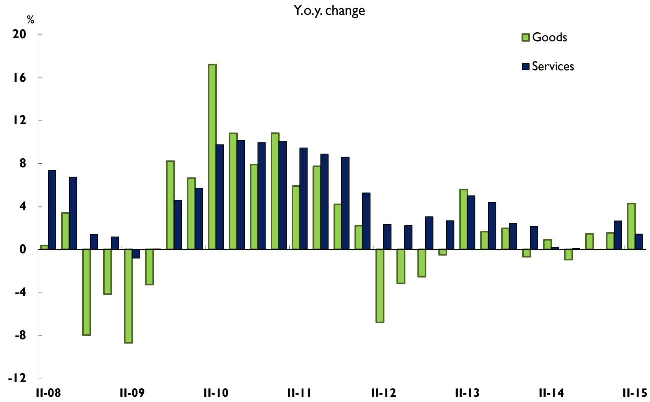


Source: BCRA

Chart III.4

GDP. Goods and Services

Y.o.y. change

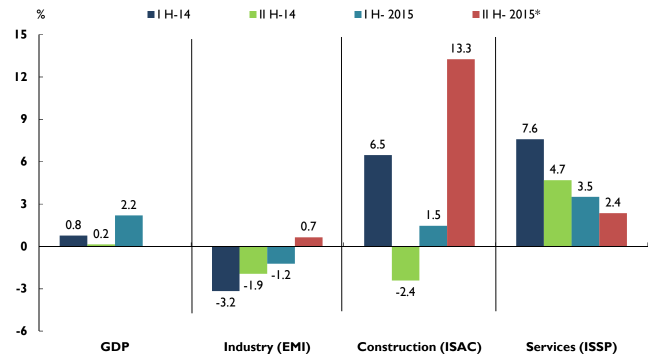


Source: INDEC

Chart III.5

Activity Indicators

Y.o.y. change



Source: INDEC *Data to July

III.1 Financial System Debtors

Unlike the trend observed throughout 2014, during the first half of 2015, an increase was recorded in the share of lending to companies and to households in bank assets; however, they are still standing below the values reached by mid-2014 (see Chart III.3). The weighting of lending to the public sector also posted an increase in 2015, in a context of a slight decrease of the share of more liquid assets held by banks —aggregate of liquid assets and securities of the BCRA—; the latter are still standing at relatively high levels (see Chapter V).

III.2 Corporate Sector

During the first half of 2015, the economic activity grew in year-on-year terms (y.o.y.) at a faster pace than in previous periods, which was the result of both an increase in the production of goods and in the supply of services (see Chart III.4). The favorable trend of this activity would have remained at the beginning of the second half, as shown by the available leading indicators (see Chart III.5).

In this context, the estimated level of indebtedness for the corporate sector in aggregate, measured in GDP terms, stood at 17.7%[29] in June 2015 (see Chart III.1), posting decreases both with respect to the end of 2014 (-0.8 p.p.) and in year-on-year terms (-1.3 p.p.). Thus, the indebtedness of the corporate sector stood at low levels, below the levels recorded in previous years. At the same time, the value of this indicator is substantially lower than the value recorded in other emerging and developed economies (see Chart III.6). In the first quarter of 2015, both domestic and foreign indebtedness went down[30], which variation was relatively more marked for foreign indebtedness[31]. In the last 12 months, the indebtedness coming from both sources in terms of GDP has also decreased.

When analyzing the segment of aggregate indebtedness of the corporate sector originated in external credit lines –accounting for almost 60% of the total as of last March—, it is observed that commercial lines prevail[32]. Half of the stock of such financing –associated with import and export activities— derive from companies of the same business group. Likewise, half of financial debt –with a higher relative share of primary sectors,

[29] In this case, the numerator shows the moving average of four quarters of lending, and the denominator shows the moving average of four quarters of nominal GDP.

[30] It includes financial debt (securities, loans and other financial debt), and debts for imports / exports.

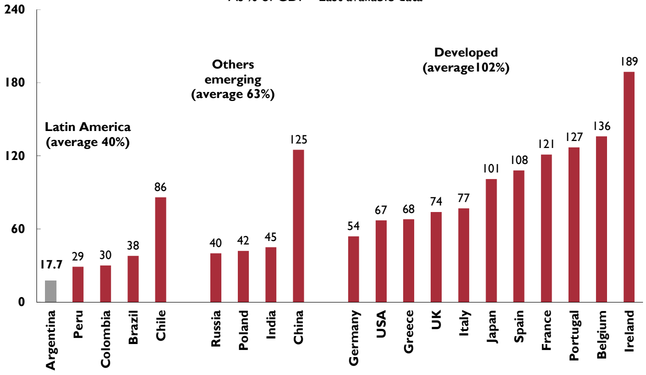
[31] It is worth considering that indebtedness of companies in foreign currency records a declining trend in recent quarters if the amount in original currency is taken into account. The local financing records increases in the nominal balance (see Chapter V).

[32] They account for almost 62% of the segment, with a relatively higher share of industrial companies and of services in commercial lines.

Chart III.6

Corporate Debt

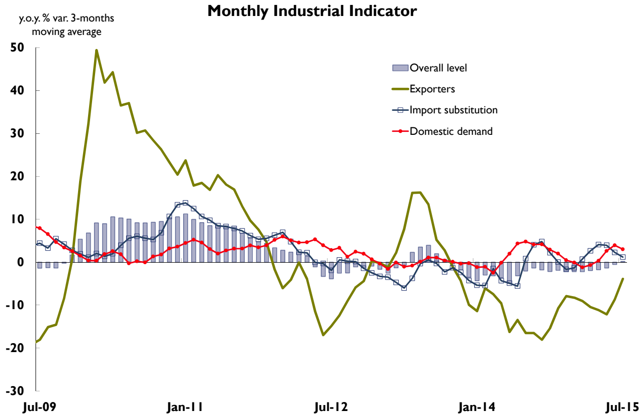
As % of GDP - Last available data



Note: Data to 2014, except Argentina to June 2015 (estimated). Source: McKinsey Global Institute (2015) and BCRA

Chart III.7

Monthly Industrial Indicator

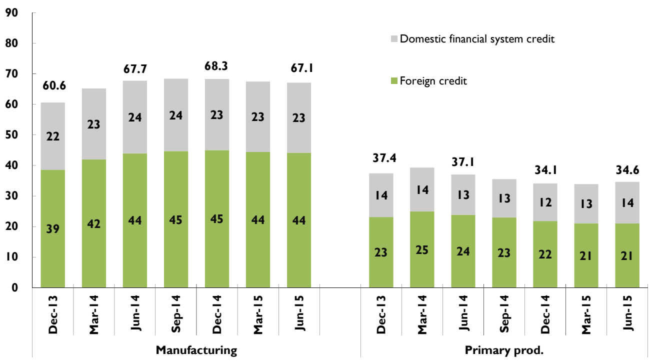


Source: BCRA from INDEC data

Chart III.8

Corporate Debt - Manufacturing and Primary Production

As % of sectoral GDP



Note: The four-quarter moving average of loans in the numerator and the four-quarter moving average of product in the denominator is considered. The latest available data on financing from abroad is March 2015. Data subject to subsequent changes.
Source: BCRA and INDEC

especially those related to oil and mining— are also resources coming from the same group.

Industry is still the productive sector which receives the higher share of local financial system resources (36.3% of the total bank lending to corporate sector as of June 2015) (see Chart IV.9), even though a slight decrease was observed in recent months. Services and primary production show similar shares (21.9% and 19.8% respectively by the end of 2015), with increases in the relative weighting on the margin.

The improvement of economic activity recorded in recent months and the reduced levels of corporate indebtedness contribute to the financial position of the sector. A similar contribution is made by public policies which have been already implemented, such as the Credit Line for Productive Investment (LCIP), which provide better financial conditions for corporate debtors (see Chapter IV and Box 2).

Productive Sectors

The manufacturing activity reduced its drop rate down to 0.2% y.o.y. during the first half of the year, drop that was mainly tied to the performance of the most affected sectors because of a lower external demand. According to the Monthly Industrial Indicator (EMI), which recorded a 1.2% y.o.y. fall in such period, the production of motor vehicles and basic metals declined, which effects were partially offset by increases of inputs for construction, metal-mechanical industry and oil refining, among others. The partial information available for the second half allows to foresee a certain recovery of this sector, after the momentum observed in the elaboration of food and beverages, rubber and plastic products and oil refining, which managed to offset again the declines recorded in items with a greater export bias (see Chart III.7). In turn, the level of use of the installed capacity went down and stood at 68.5% in the first half of 2015, below the value recorded in the same period of 2014.

The estimated indebtedness of the manufacturing sector/ manufacturing GDP ratio contracted slightly so far in 2015, totaling 67.1% in June (-1.2 p.p. relative to December 2014, and -0.6 p.p. against June 2014). The reduction on the margin especially resulted from the external financing component (which accounts for almost 66% of the total[33]) and, to a lesser extent, from domestic financing (see Chart III.8).

[33] These resources are mostly due to the lines associated with commercial activity —related to imports and exports— (85% of the total), and to a lesser extent, to financial loans or debt securities, among other instruments.

Table III.1

Grain Production - Major Crops

	2013/14 thousands tns	2014/15 thousands tns (e)	% change 2014/15 vs. 2013/14	Diff. in thousands of tns 2014/15 vs. 2013/14
Cereals	**52,647**	**56,027**	**6.4**	**3,380**
Corn	33,000	33,800	2.4	800
Wheat	9,200	13,900	51.1	4,700
Others	10,447	8,327	-20.3	-2,120
Oilseeds	**56,695**	**65,706**	**15.9**	**9,011**
Soybean	53,400	61,400	15.0	8,000
Others	3,295	4,306	30.7	1,011
Rest	**1,605**	**1,395**	**-13.1**	**-210**
Total	**110,947**	**123,128**	**11.0**	**12,181**

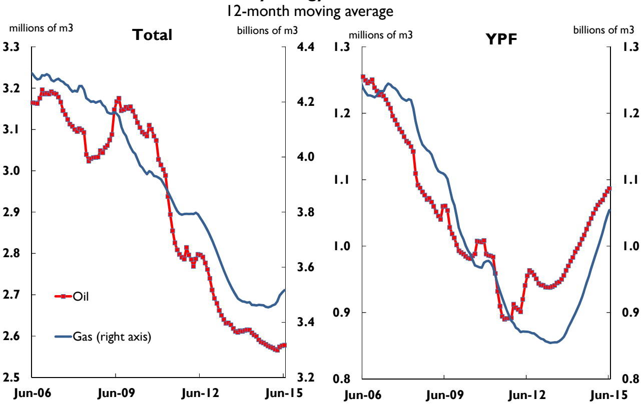
e: Estimated

Source: MAGyP

Chart III.9

Primary Energy Production

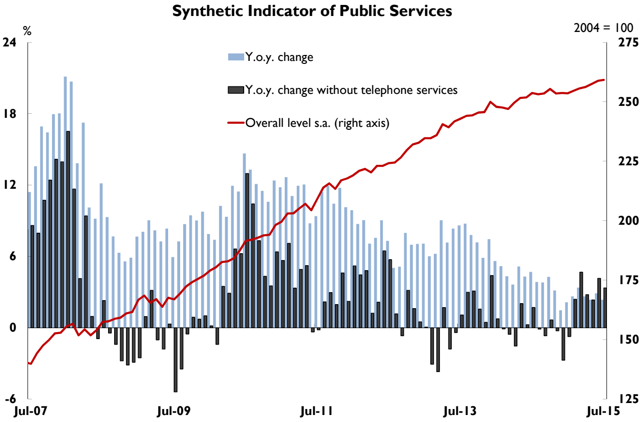
12-month moving average



Source: Energy Secretariat

Chart III.10

Synthetic Indicator of Public Services



Source: INDEC

During the first half of 2015, the agricultural and livestock activity gained momentum due to the joint performance of the agriculture and cattle-breeding sectors. Agricultural production broke a record, since it exceeded 123 million tons for the 2014/15 cycle (see Table III.1). This growth mainly resulted from a higher production of soybean and wheat; and the corn harvest also recorded an increase. The favorable weather conditions for the development of crops determined their high yields. In turn, the drop observed in international prices might deteriorate the sectoral profitability. Livestock posted a rise –after several months of falls– with an increase in bovine and poultry slaughtering. Meanwhile, milk production also went up.

Other activities related to the primary sector posted a favorable performance during the first half of 2015. National production of crude oil recorded an increase after five years of consecutive drops (0.4% y.o.y. from January to June), whereas natural gas extraction also went up (3.5% y.o.y. in the same period). In both cases, YPF played a very remarkable role (see Chart III.9), with a share in total oil production of 42% and a 30% in gas production. The mining activity continued to rise: according to information from National Account, mine and quarry exploitation rose in the first half of 2015 (1.6% y.o.y.).

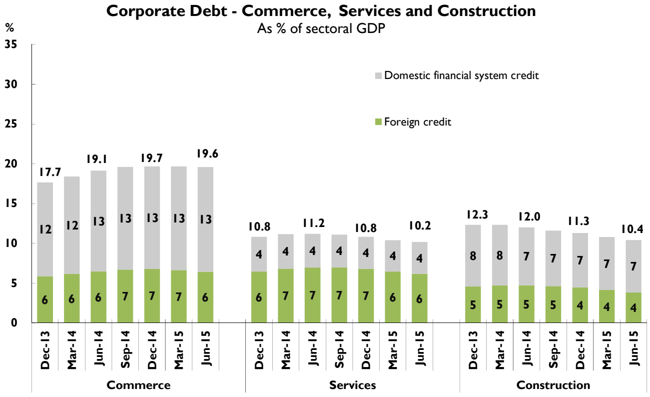
The estimated level of indebtedness of companies related to primary production grew gradually in recent months, standing at 34.6% of GDP at the end of the first half of 2015 (+0.5 p.p. relative to December 2014, but 2.4 p.p. below the value of June 2014) (see Chart III.8). This evolution was mainly due to a decrease in the relative level of the external financing (-2.8 p.p. of sectoral GDP in year-on-year terms), and this explains 61% of total indebtedness (especially, in the oil and mining segments).

The supply of services increased in the first half of 2015, standing 2% above the figure of the same period in 2014. This performance was driven by trade, financial intermediation and real estate, corporate & rental activities. The partial information available anticipates that the supply of services would have increased at the beginning of the second half: in July, the Summarized Public Services Indicator (ISSP) recorded a 2.4% y.o.y. jump (see Chart III.10), posting a prevailing positive performance among components. The estimated sectoral indebtedness of service companies has gradually decreased in recent months, totaling 10.2% by the end of the first half of 2015 (down 0.6 p.p. against the end of 2014 and 1 p.p. in year-on-year terms) (see Chart III.11).

Chart III.11

Corporate Debt - Commerce, Services and Construction

As % of sectoral GDP

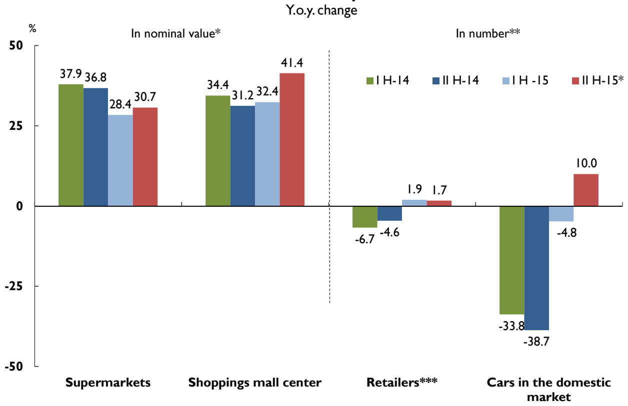


Note: The four-quarter moving average of loans in the numerator and the four-quarter moving average of product in the denominator is considered. The latest available data on financing from abroad is March 2015. Data subject to subsequent changes.
Source: BCRA and INDEC

Chart III.12

Commercial Activity Indicators

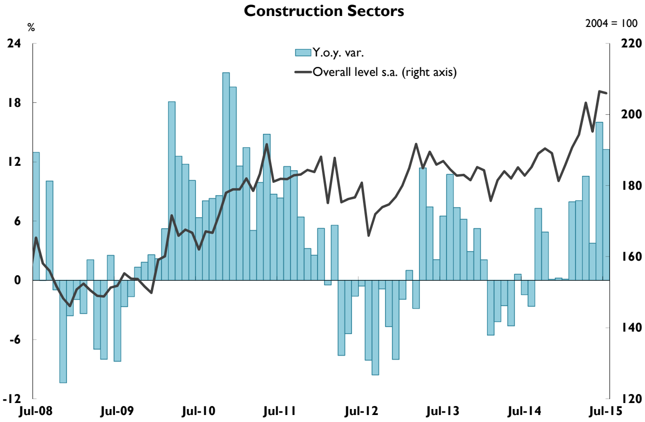
Y.o.y. change



Source: INDEC, CAME and ADEFA *Data to July **Data to August ***Relieved by CAME. More than 400 stores.

Chart III.13

Construction Sectors



Source: INDEC

Almost two thirds of indebtedness correspond to external financing.

With respect to commerce, the available indicators for the second half show an improved performance. On the one hand, there has been a reversion of drops in the volumes purchased abroad of consumer goods and the commercialization of vehicles, both local and imported (see Chart III.12). In turn, sales in retail shops surveyed by the Argentine Medium-Sized Business Confederation (CAME) posted an increase in the July-August period. Besides, the growth pace in supermarkets' and shopping malls' turnover accelerated. In 2015 companies related to commercial activity maintained almost unchanged the estimated value of their indebtedness ratio measured in GDP, totaling 19.6% (up 0.5 p.p. in year-on-year terms) (see Chart III.11). This performance, on the margin, was mainly associated with local financing.

The construction sector also stood out due to the expansion in the first half of 2015, with a 7.4% y.o.y. increase. According to the Summarized Construction Activity Indicator (ISAC), projects showing the greater momentum were those related to infrastructure and housing (see Chart III.13). Other constructions also accompanied the upward trend of this sector in the first half. At the beginning of the second half, these trends were more marked, but with a reduction in oil-related constructions. The estimated indebtedness/GDP of construction companies ratio continued going down in the first months of 2015 to 10.4% (down 0.9 in the year and 1.6% in year-on-year terms) (see Chart III.11). Thus, this productive sector is still standing among the productive sectors with lower relative indebtedness.

III.3 Households

Labor conditions stood relatively stable during the first half of 2015. According to the Household Permanent Survey (EPH), in the second quarter of 2015 the unemployment rate[34] reached 6.6% of the labor force (PEA), 0.9 p.p. below the figures recorded in the same period of 2014. The labor share contracted whereas the employment rate rose slightly. As regards the quality of employment, there has been some progress upon the reduction of the underemployment rate and the number of non-registered workers.

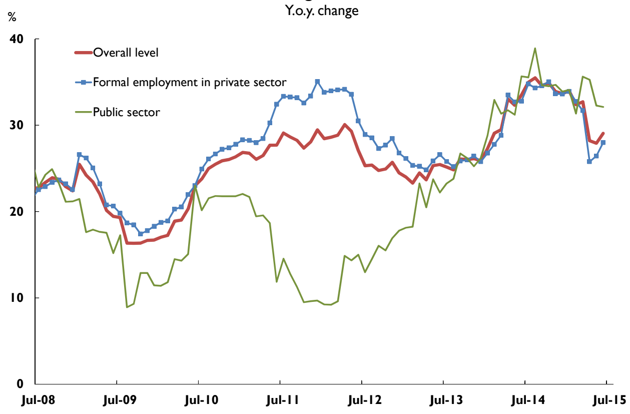
Wage income maintained an upward trend. The Wage Index of INDEC pointed out an improvement in the average wage of the economy of around 30% y.o.y. in June, within a context of deceleration of price increase (see Chart III.14). It is worth considering that by the end

[34] Based on the 31 urban agglomerations surveyed.

Chart III.14

Wage Index

Y.o.y. change

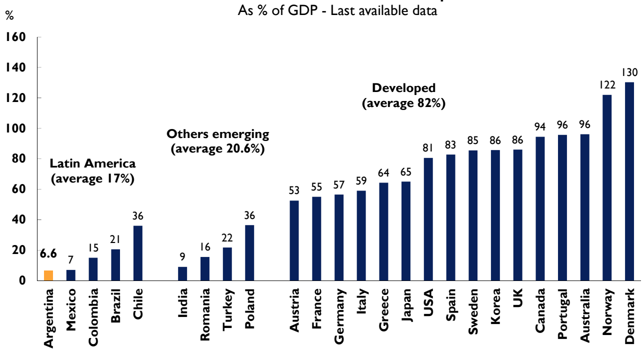


Source: INDEC

Chart III.15

Household Debt - International Comparison

As % of GDP - Last available data



Note 1: Last available data of each country

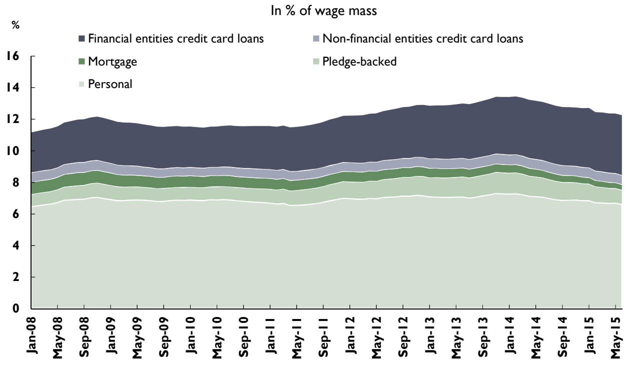
Note 2: In the case of Argentina, it includes bank debt, financial trusts for consumption loans as underlyng assets (credit cards and personal loans) and real collateral loans (mortgages and pledge-backed) and the stock of non-bank credit cards.

Source: IMF, McKinsey Global Institute (year 2015), Financial Stability Reports and BCRA

Chart III.16

Household Debt Service Ratio

In % of wage mass



Note: The calculation considers the estimated monthly loan service (capital and interests) in terms of the estimated monthly wage mass.

Source: BCRA

of the first half of 2015, the updates and adjustments under collective bargaining agreements started to be applied, due to the delay– against the previous year– in closing such agreements. This impact will continue to be observed in the next months.

The income of households on the continuity and deepening of public policies aimed at supporting lower income sectors and encouraging aggregate demand. The main measures implemented so far in the year include a remarkable incorporation to the national social security system of around 500,000 beneficiaries and the adjustment of pension payments, under the Social Security Mobility Act (18.26% in March 2015 and 12.49% in September); the 30% rise in family allowances —including the Universal Child Allowance for Social Protection (AUH)— as from June 2015; the increase of the Minimum Wage and the 50% rise in amounts and expansion of the number of beneficiaries under the Program to Support the Students of Argentina (PROGRESAR).

The growth recorded in households' nominal income during recent months continued to exceed the growth of indebtedness of this sector, resulting in a sustained and gradual fall in the aggregate indebtedness ratio. Thus, the estimated sectoral indebtedness for households stood at 19.3% of income by mid-2015, with a 0.9 p.p. decrease so far in the year (see Chart III.2). This reduction is slightly below the decline observed in the immediately prior half, as a result of the context of regained momentum of credit to households that is now recorded on the margin (see Chart IV). The ratio of indebtedness of households at aggregate level and in terms of GDP still stands below the values recorded at international level (see Chart III.15). Against this backdrop, the sectoral average burden of debt services was maintained at a moderate level, accounting 12.3% of the wage mass by the end of the first half of 2015[35], almost 0.5 p.p. below the value recorded by the end of 2014 (see Chart III.16), a situation that contributes to providing households with sufficient soundness in their financial position.

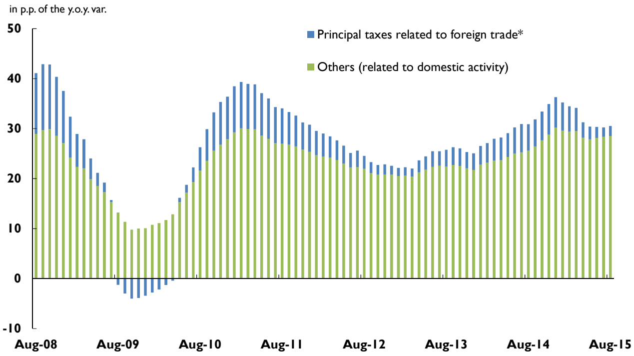
III.4 Public Sector

In the first half of 2015, the national tax revenue kept a moderate expansion pace (31% y.o.y.), posting a higher momentum between July and August (35% y.o.y.). The performance in the first months of the year was explained, to a large extent, by a marked deceleration in the ensemble of taxes related to foreign trade, which

[35] The calculation takes into account the estimated monthly services for loans (principal and interest), in terms of the estimated monthly wage mass. See Box 3 of the Financial Stability Report, Second Half 2014, for further details on the methodology of this indicator.

Chart III.17

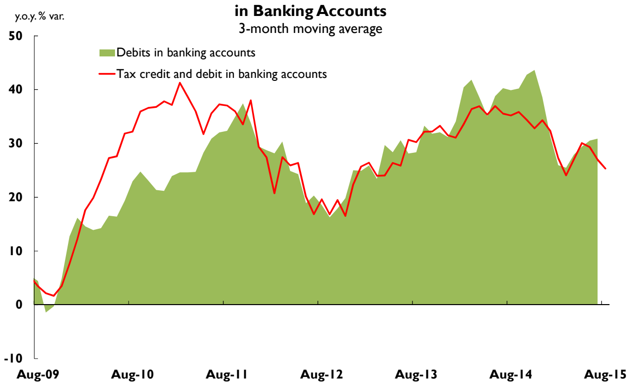
National Tax Revenue
Contribution to growth - Accumulated 12 months



* VAT DGA, income DGA and export and import duties.
Source: BCRA from Treasury Secretariat data

Chart III.18

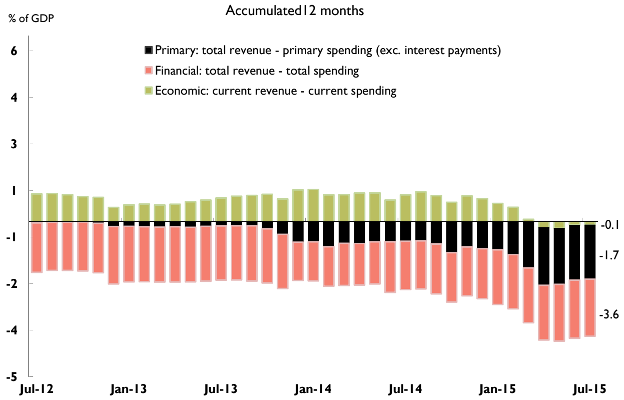
Debits in Private Sector Current Accounts and Tax Credit and Debit in Banking Accounts
3-month moving average



Source: BCRA from Treasury Secretariat data

Chart III.19

Non-financial National Public Sector Balances
Accumulated12 months



Source: BCRA from Treasury Secretariat and INDEC data

were affected by the lower exchange rate change and the decline in trade: the latter was primarily impacted by the decrease in the international prices of commodities.

Thus, the national tax revenue kept on growing at a fast pace mostly due to the evolution of taxes related to the domestic economic activity (see Chart III.17). In addition to income tax, the value added tax and the social security contributions, the tax on debits and credits in bank accounts showed a certain recovery throughout the first half, in line with the evolution of the volume of debits in current accounts of the private sector —even though it posted a slight deceleration in recent months (see Chart III.18).

Against this backdrop total revenues of the Non-Financial National Public Sector (NFPS) rose 29% y.o.y. from January to June 2015[36], an expansion pace below that recorded throughout 2014 (43% y.o.y.) —but it must be pointed out that they gained momentum again in July upon rising 38% y.o.y. The increase of primary spending of the NFPS stood at 39% y.o.y. during the first half of the year —above the increase of revenues—, and this performance was maintained at the beginning of the second half of 2015. Primary spending was driven by social security benefits, current transfers to the private sector and capital spending. The items related to the maintenance of tariffs in the energy sector decelerated their growth pace following the drop of the international price of oil[37].

As a result of the evolution of income and expenses during the last twelve months up to July 2015, the primary and financial results of the NFPS accounted for approximately -1.7% and -3.6% of GDP, respectively (see Chart III.19).

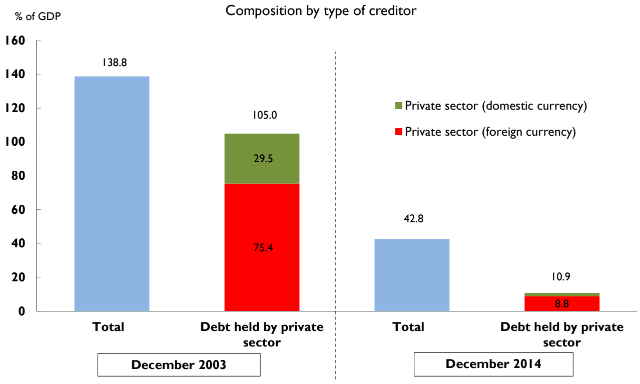
The National Treasury (NT) continued to mainly meet its funding needs through loans from other public entities. From January to June, the net funding from Temporary Advances (TA) of the BCRA totaled $20.9 billion, whereas during the second half of the year so far another $20 billion were added for such concept. Besides, during the first half of the year, the use of international reserves of free availability to pay debt services to private creditors (Argentine Debt Reduction Fund —FONDEA—) amounted to around US$1.95 billion. The NT also obtained net funds from other agencies of the non-financial public sector and from Banco de la Nación Argentina.

[36] During the first half of 2015, among non-tax revenues, it may be pointed out that the BCRA transferred to the National Treasury (NT) profits for the 2014 fiscal year for $25 billion, whereas income from property of the National Social Security Administration totaled around $24 billion, and around $7.5 billion were received in relation to the bidding process for the radio electric spectrum to support 3G and 4G bands.
[37] For further information, see the Macroeconomic and Monetary Policy Report, August 2015.

Chart III.20

National Public Debt*

Composition by type of creditor



*Excludes holdouts

Source: BCRA from Treasury Secretariat and INDEC data

During 2015, the Govenment continued auctioning bonds in the domestic market. Most of the financing was obtained from issues in domestic currency, and the rest of instruments were denominated in US dollars, a part of which was subscribed and shall be paid in pesos (see Box 1).

The national public debt totaled US$221.75 billion as of December 2014 (42.8% of GDP). The debt held by private creditors —considered riskier as regards refinancing— reached 10.9% of GDP in the same period, out of which only 8.8 p.p. corresponded to obligations denominated in foreign currency (see Chart III. 20).

As regards the tax situation of the provinces, total tax resources of national origin transferred to subnational districts —federal tax revenue sharing, special laws and other, as well as budget transfers— grew 39% y.o.y. in the first half of the year, with a high growth rate at the beginning of the second half. In turn, tax resources originated in subnational districts rose by 32% y.o.y. In addition to current and capital revenues, certain subnational governments funded their expenses based on issues of bonds in dollars or adjusted by the US dollar price (dollar-linked) in financial markets. In addition to the transactions made in the first two months of 2015 by the City of Buenos Aires, three other transactions were conducted by the Province of Chubut and the Province of Buenos Aires.

IV. Financial Sector

Summary

During the first half of 2015, the financial system intermediation activity with companies and households accelerated its growth pace. Total lending to the private sector climbed 29.5%a. –annualized– in nominal terms (28.3% year-on-year [y.o.y.]), more than doubling the change observed over the same period in 2014. This greater growth pace observed in total lending to this sector over the 6-month period was mirrored in increased share of financing in assets of the ensemble of banks, up to 48% of the total.

The rise in total loans to the private sector in the first half of 2015 mainly resulted from financing to companies, which increased 28.4%a. in nominal terms (25.4% y.o.y.), exceeding the value recorded over the same period in 2014. The performance shown by loans to the productive sector in the past few months –especially, those aimed at smaller companies– has been partly channeled through the Credit Line for Productive Investment (LCIP). It has been estimated that, in the first half of 2015, loans that were arranged through this tool amounted to around $32 billion out of which 87% corresponded to lines aimed at micro, small and medium-sized enterprises.

Financing to households in the first half of 2015 increased 27.6%a. in nominal terms (31.1% y.o.y.), exceeding the growth pace observed over the same period in previous years. Lines for consumption purposes posted the greatest relative momentum over the period; this evolution was partly influenced by the scheme in force to regulate interest rates on these lines and the "AHORA 12" Plan.

Total private sector deposits rose by 48.4%a. in the first six months of the year (38.3% y.o.y.), up 14.7 p.p. against the value recorded a year before. Within the context of the scheme for minimum interest rates, this performance was mainly driven by time deposits in pesos, which rose by 72.1%a. over the period. As a result of the increase observed in this 6-month period in total deposits of companies and households and of the reduction of public sector deposits, total deposits –in domestic and foreign currency– climbed 28.9%a. in this period (33.7% y.o.y.).

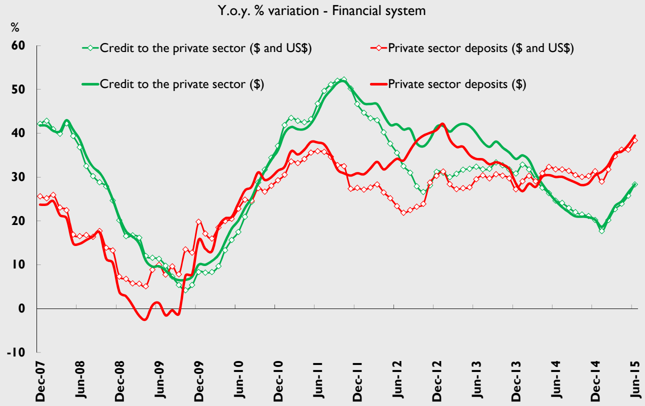
The financial system net worth rose by 31% y.o.y. in the first half of the year, being mainly driven by book profits, which amounted to 3.7%a. of assets. The leverage level remained stable in y.o.y. terms. In June 2015, regulatory capital compliance stood at 14.5% of total risk-weighted assets (RWA) while Tier 1 capital accounted for 13.6% of RWA. Compliance in excess of the capital requirement for the financial system accounted for 90% of the regulatory requirement over the month. All groups of banks exhibited a capital position above the minimum regulatory requirement.

The portfolio managed by institutional investors continued growing in the first half of 2015, exhibiting a 36% y.o.y. hike in aggregate terms and increasing its size in GDP terms (level of 17.6%). It should be noted that –both for the ANSES-FGS portfolio and for insurance companies– the year-on-year increase was led by the items of sovereign bonds, productive and infrastructure projects and shares.

Chart IV.1

Financial Intermediation

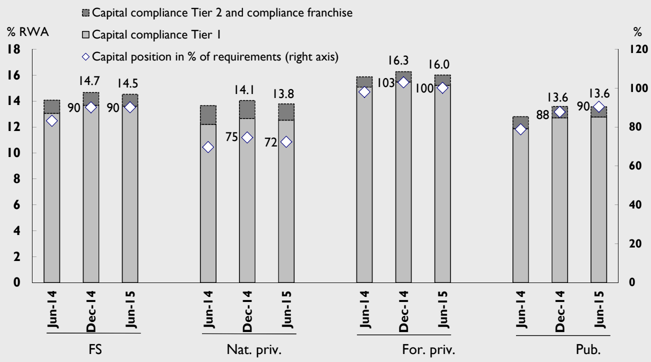
Y.o.y. % variation - Financial system



Source: BCRA

Chart IV.2

Capital Compliance and Excess of the Requirement (Position)



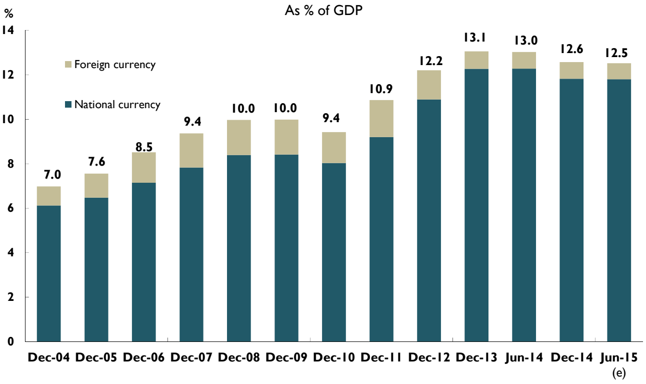
Capital compliance Tier 1: Basic Net Worth
Capital compliance Tier 2: Complementary Net Worth
Source: BCRA

Table IV.1
Balance Sheet
Financial system

	As % of netted assets			Change in p.p.		Stock variation	
	Jun-14	Dec-14	Jun-15	I H-15	Y.o.y.	I H-15 (a.)	Last 12 months (%)
Assets	100	100	100				
Liquid assets	18	20	17	-2.6	-1.3	-5.6	22.2
BCRA securities	14	15	17	2.1	2.7	65.7	57.5
Total credit to the public sector	10	9	10	0.5	0.3	40.5	35.7
Total credit to the private sector	49	47	48	0.7	-1.2	29.5	28.3
Other assets	9	9	8	-0.7	-0.5	6.3	24.3
Liabilities + Net worth	100	100	100				
Public sector deposits	18	20	16	-3.9	-1.7	-18.6	18.8
Private sector deposits	57	55	60	4.8	2.9	48.4	38.3
Outs. bonds, sub. debt and foreign lines of credits	3	3	3	0.1	-0.1	36.3	25.9
Other liabilities	10	10	9	-1.2	-1.0	-1.4	18.4
Net worth	12	12	12	0.2	-0.1	29.5	31.0

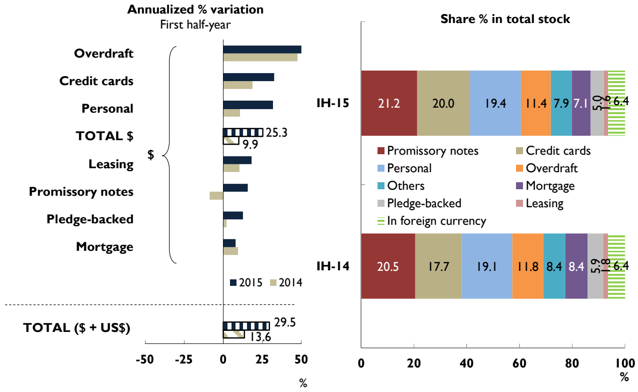
Source: BCRA

Chart IV.3
Credit to Private Sector
As % of GDP



Note: estimated data from the new GDP series with base year 2004. The average annual stock of credit to the private sector and the average GDP of 4 quarters is considered.
Source: BCRA and INDEC

Chart IV.4
Credit to Private Sector in Currency of Origin



Note: Total includes balance sheet stock, including accrued interest and CER adjustment.
Source: BCRA

IV.1 Financial Institutions[38]

IV.1.1 Intermediation Activity

The financial system intermediation activity with the private sector accelerated its growth pace in the first half of the year. Loans and total deposits –in domestic and foreign currency– of companies and households renewed their momentum over this period, posting nominal hikes standing at 29.5%a. –annualized– and 48.4%a. respectively, exceeding the values recorded at the end of the previous year. Thus, in year-on-year terms, loans expanded 28.3% and private sector deposits did so by 38.3% (see Chart IV.1).

Netted assets[39] of the ensemble of financial institutions increased 25.8%a. in year-to-date terms as of June 2015 (31.6% y.o.y.), exceeding the value recorded over the same period in the previous year by 1.4 p.p. The improvement observed in the expansion pace in total lending to the private sector in the first half of 2015 was mirrored in the rise in the share of bank lending in assets of the aggregate financial system, accounting for 48% of netted assets in June, slightly below the value observed a year before (see Table IV.1). In turn, holdings of monetary regulation instruments of the BCRA –not related to repos– also gained relevance in assets of the ensemble of banks from January to June, accounting for 17%, up 2.1 p.p. against the end of 2014. Most liquid assets[40] reduced their relative significance in total assets. In the case of liabilities, the rise observed in private sector deposits in total funding should be highlighted, climbing 4.8 p.p. against December 2014, accounting for 60% of the total.

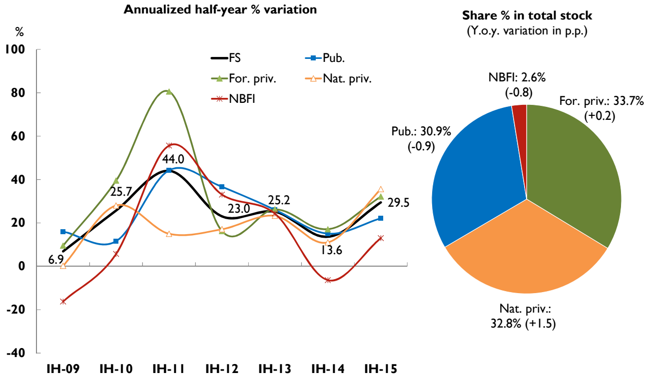
By the end of the first half of the year, the ratio of total lending –including domestic and foreign currency– granted to the private sector in terms of GDP reached 12.5%[41] (see Chart IV.3), primarily due to the performance of loans in pesos. This level was slightly below the value observed at the end of the previous year in spite of increasing 2.5 p.p. since 2009.

Lending in pesos to the private sector rose by 25.3%a. (28.4% y.o.y.) in nominal terms in the first six months of the year, up 15.4 p.p. against the change observed in mid-2014, accounting for over 82% of the rise observed in those six months in total lending to companies and households (see Chart IV.4). Unlike what happened a

[38] The analysis of this section only includes financial institutions regulated and supervised by the BCRA (Law No. 21,526).
[39] Assets are expressed net of accounting duplications from repo, forward and spot transactions to be settled.
[40] Defined as the addition of liquidity compliance with the BCRA, other cash holdings, net credit balance from repo transactions of financial institutions against the BCRA using LEBACs and NOBACs, and LEBAC and NOBAC holdings.
[41] Data estimated on the basis of the new GDP series with base year 2004. The annual average stock of bank loans to the private sector and the average of the four quarters of GDP are considered.

Chart IV.5

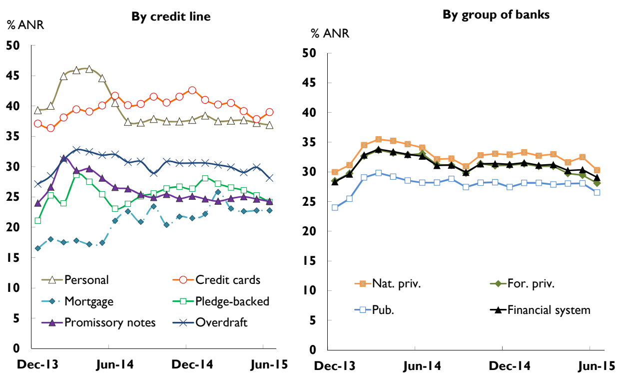
Credit to Private Sector by Group of Financial Entities



Source: BCRA

Chart IV.6

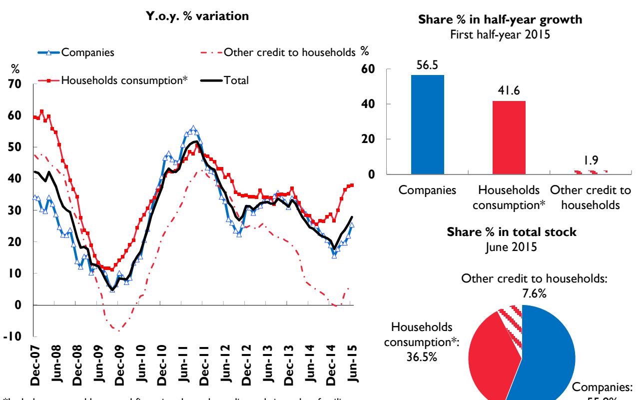
Lending Interest Rates in Pesos Operated with Private Sector*



*Average weighted by amount operated.
Source: BCRA

Chart IV.7

Total Credit to Private Sector by Type of Debtor



*Includes personal loans and financing through credit cards issued to families.
Source: BCRA

year before, all lines in pesos improved their growth pace over the six month period with overdrafts and lines for consumption purposes –cards and personal loans– posting the greatest relative rise over the period. It should be noted that the performance delivered by lending to the private sector over the period was affected by the different measures implemented by the BCRA and the National Government that aim at increasing financing to companies and households.

The nominal rise in the total stock of loans to companies and households in the first half of 2015 was generalized among all groups of financial institutions (see Chart IV.5). The increase observed in the 6-month period in loans granted by national and foreign private banks, which grew 35.6%a. and 32.1%a. respectively in June, should be highlighted, as they gained share in the total stock of loans to the private sector.

Lending interest rates on loans granted in domestic currency in the first half of the year fell slightly in most credit lines and in all groups of financial institutions (see Chart IV.6). Regarding loans for commercial purposes, the most sizeable fall was observed in overdrafts; while, in the case of loans for consumption, the drop observed in rates on credit cards should be underscored.

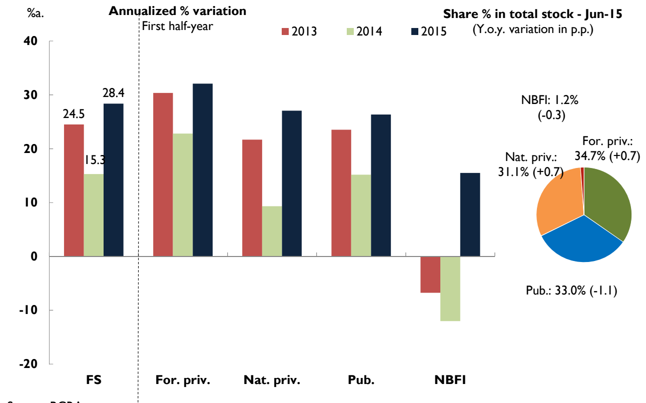
The growth of total loans to the private sector in the first six months of the year was primarily driven by financing to companies[42], which accounted for 56.5% of the hike over the 6-month period in total loans to the private sector (see Chart IV.7). Bank lending to the productive sector in the first half of 2015 grew at a 28.4%a. pace in nominal terms (25.4% y.o.y.), up 13.1 p.p. against the same period of 2014 (see Chart IV.8). Private banks (foreign and national) recorded the greatest contribution to the growth recorded from January to June in total lending to companies within a framework where all groups of financial institutions increased their bank credit to this sector over the period.

The hike observed in the nominal growth of lending to companies in the first half of 2015 in year-on-year terms translated into most productive sectors (see Chart IV.9). Particularly, loans channeled to service companies, primary production, and construction evidenced the greatest relative growth over the 6-month period –with hikes of 45.4%a., 31.4%a. and 30%a. in June, respectively– increasing their share in the stock of total loans to companies. Although a fall on the margin was evident, the industry continued being the activity with

[42] Lending to companies includes loans to legal persons and commercial loans granted to natural persons. Financing to households comprises loans granted to natural persons, unless they serve commercial purposes.

Chart IV.8

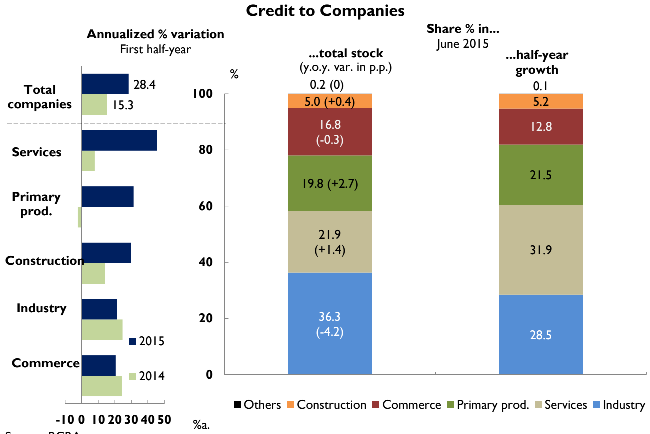
Credit to Companies



Source: BCRA

Chart IV.9

Credit to Companies

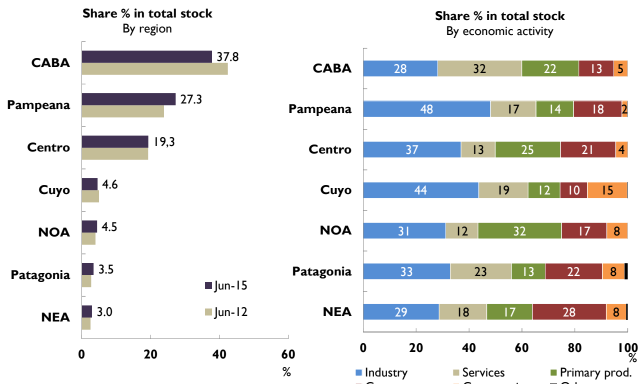


Source: BCRA

Chart IV.10

Credit to Companies by Region and Economic Activity

Classification based on the debtor's tax registration (AFIP)



Source: BCRA

the greatest relative significance in the total stock of loans to companies in most regions of the country –with the exception of the City of Buenos Aires (CABA) and the Argentine Northwest region (NOA) (see Chart IV.10).

It is worth pointing out that the performance that has been observed in loans to companies –especially those granted to smaller ones– is partly accounted for by the development of the Credit Line for Productive Investment (LCIP) (for an in-depth description of progress achieved in the LCIP, see Box 2). Lending conditions for small and medium-sized companies improved gradually since the start of the LCIP. Loans with a longer term –three years and more– granted to these companies in the last few quarters raised their relative share in the total amount granted, accounting for 11.4% in the second quarter of 2015, more than doubling the figure recorded over the same period in 2012 (see Chart IV.11).

Loans to households rose by 27.6%a. (31.1% y.o.y.) in the first half of 2015, exceeding the growing pace observed over the same period in previous years. Consumption lines (cards and personal loans) posted the greatest relative growth over the period, particularly lending through cards, which climbed 38.7%a., accounting for more than half of the rise recorded from January to June in total loans to households (see Chart IV.12). The expansion observed over these six months in bank lending to households was mainly boosted by national and foreign private banks, which together explained over 80% of the growth in loans granted to this segment. The evolution in lending to households was partly driven by several official measures such as the "AHORA 12" Plan to facilitate the purchase of goods and services with a credit card in 12 installments with 0% interest rate. In addition, in 2015, the regulation that sets maximum limits ordered by the BCRA for interest rates on personal and pledge-backed loans for natural persons remained in force.

Box 2 / Progress made on the Implementation of the Credit Line for Productive Investment

The good performance posted by lending to companies over the past few months, particularly in the case of loans channeled to smaller companies has been partly driven by the Credit Line for Productive Investment (LCIP) implemented by the BCRA. This tool contributes to channeling greater funding to companies facing difficulties to obtain financing in the medium and long term; this restriction mainly affects micro, small and medium-sized enterprises (MSMEs). Within the framework of the expansion of the mandate of its Charter, the BCRA has been executing a credit policy that, together with other measures, aims at enhancing the economy's productive capacity

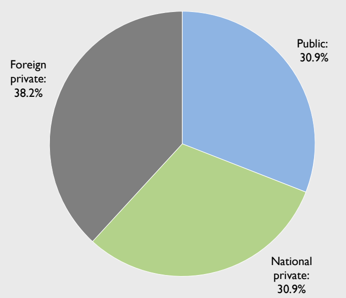
Based on the experiences gained following the implementation of the LCIP between 2012 and 2014[43], the BCRA decided to make design improvements when launching the new stages of this line corresponding to the first and second half of 2015. During this year, a mechanism aimed at favoring financing to smaller companies and promoting regionalization of lending was introduced, stimulating bank financing in areas with lower economic development. In order to deepen the promotion of lending to small and medium-sized companies, the BCRA passed a set of measures in late April 2015 that expanded the possibilities of application of the LCIP[44]. It was established that financial institutions reached by this measure may apply a part of this quota to: (i) the discount of public projects certificates and invoices approved by micro, small, and medium-sized enterprises; (ii) disbursements for the local pre-financing of exports to companies that are not large exporters provided that they are funded with credit lines from abroad, new foreign loans or corporate bonds issued abroad; (iii) new financings for the import of consumables and/or capital goods funded with credit lines from banks from abroad.

On the basis of information available as of late August 2015[45], new loans channeled within the framework of the LCIP were estimated to amount to around $32 billion in the first half of 2015, out of which 87% corresponded to lines aimed at micro, small, and medium-sized enterprises[46] (from which 23 p.p. are related to the discount of deferred payment checks of micro, small, and medium-sized enterprises) and 13% corresponded to other authorized purposes[47]. According to a calculation, from mid-2012 to June 2015, loans amounting to slightly over $137 billion[48] in gross terms have been arranged through the LCIP.

Considering only loans arranged with micro, small, and medium-sized enterprises –bank loans and discount of promissory notes– it may be seen that foreign private banks granted 38.2% of total loans of the LCIP in the first half of 2015[49], followed, on equal parts, by public and national private banks (see Chart B.2.1).

Chart B.2.1

Amounts Agreed to MSMEs by Group of Financial Entities
First half-year2015*



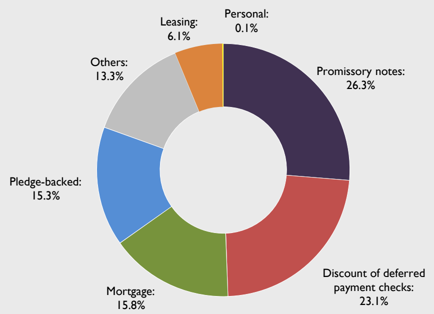
*Note: Partial information to July 2015, subject to change. It does not include funding for deferred payment checks. In this case, the total amount agreed is not adjusted for weightings applied by economic size and geographic location. Source: BCRA

In addition, these lines were mainly arranged through unsecured promissory notes (over 26.3% of the total accumulated in the period aforementioned), the discount of deferred payment checks (23.1%), and, to a lesser extent, mortgage lines (15.8% of the total) and pledge-backed lines (15.3%) (see Chart B.2.2).

[43] For further information, see Box No. 4 of the Financial Stability Report corresponding to the First Half 2015.
[44] Communications "A" 5747 and "P" 50556.
[45] Information subject to correction.
[46] According to the LCIP regulation, the amount of financings to micro, small, and medium-sized enterprises to be assigned for the first stage of 2015 results from multiplying the amount agreed upon by the coefficients determined depending on the size and location of the borrower (see "Credit Line for Productive Investment" Consolidated Text). The sum of the amounts to be assigned is the figure provided by institutions to the Reporting System. This Box, following an economic criterion rather than a regulatory one, intends to provide some estimation for the first half of the year regarding the amount actually agreed upon of loans. To this end, the effect of the coefficients mentioned before is deducted from the amount to be assigned.
[47] Mortgage loans for natural persons and loans for companies other than micro, small, and medium-sized enterprises, among other.
[48] Regarding the developing stage in the first part of 2015, see footnote on page 3 of this Box.
[49] The regulation allows for assigning, to a specific period, the amount of financing agreed in excess of the minimum required in the previous period (referred to as "transfer"). This box does not include information on transfers among stages; in other words, the analysis is based on the information of amounts agreed upon in every period.

Chart B.2.2

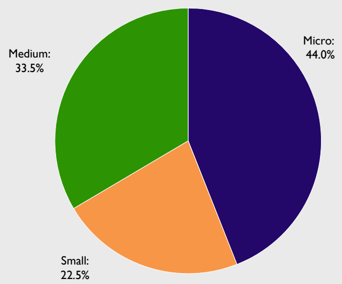
Amounts Agreed to MSMEs by Type of Assistance
First half-year 2015*



*Note: Partial information to July 2015, subject to change. It does not include funding for deferred payment checks. In this case, the total amount agreed is not adjusted for weightings applied by economic size and geographic location. Source: BCRA

Chart B.2.3

Amounts Agreed to MSMEs by Size of Company
First half-year 2015*



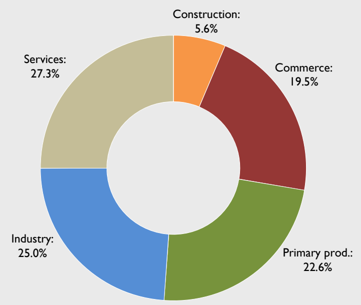
*Note: Partial information to July 2015, subject to change. It does not include funding for deferred payment checks. In this case, the total amount agreed is not adjusted for weightings applied by economic size and geographic location. Source: BCRA

Within the context of the significant regulatory changes promoted as from 2015 and considering total loans granted to micro, small, and medium-sized enterprises in the first half of the year, most of them were channeled to micro-sized companies[50] (44% of the total), followed by medium-sized companies (33.5%) and small ones (22.5%) (see Chart B.2.3). Furthermore, the changes mentioned also promoted the fact that over half of the new loans were channeled to districts having moderate or scarce levels of banking services[51].

In turn, it may be seen that bank loans granted in the first six months of the year to micro, small, and medium-sized companies[52] were primarily given to service companies (27.3%), industrial companies (25%) and those related to the primary production of goods (22.6%) (see Chart B.2.4). Almost three quarters of such loans were used to purchase capital goods that allow for expanding production at a local level (see Chart B.2.5); they were followed by the construction of facilities to produce goods and service and the building of facilities for commercialization purposes.

Chart B.2.4

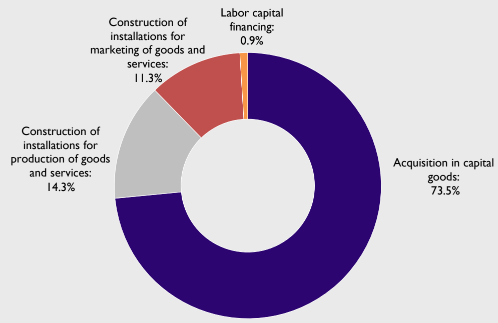
Amounts Agreed to MSMEs by Economic Activity
First half-year2015*



*Note: Partial information to July 2015, subject to change. It does not include funding for deferred payment checks. In this case, the total amount agreed is not adjusted for weightings applied by economic size and geographic location. Source: BCRA

Chart B.2.5

Destination of Amounts Disbursed to MSMEs
First half-year 2015*



* Note: Partial information to July 2015, subject to change. It does not include funding for discount of deferred payment checks.
Source: BCRA

The LCIP has continued fostering the inclusion of companies in the financial system: in the first half of 2015, bank loans[53] would have been granted to around

[50] For the purposes of this Box, companies are classified into micro, small, and medium-sized enterprises according to the relevant coefficients based on the economic size set forth in 2.5.4 of the Consolidated Text on the “Credit Line for Productive Investment”. If the average value of the ratio between annual sales to be calculated by the company –determined by Section 1 of the regulation on “Determination of the condition of micro, small, and medium-sized companies”– and the amount of maximum annual sales to be calculated for the sector of micro, small, and medium-sized enterprises (as per 1.1. of such regulation) stands between 0% and up to 15%, a coefficient of 1.2 is considered and it corresponds to a “micro” enterprise; when the ratio exceeds 15% and up to 40%, a 1.1 ratio is defined and it corresponds to a “small” company and when the ratio is higher than 40% the enterprise is considered “large” (coefficient of 1).

[51] Geographic locations in categories II through VI (see Consolidated Texts on the “Credit Line for Productive Investment”).

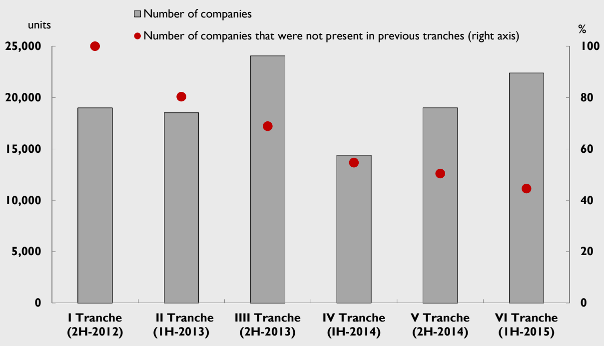
[52] This analysis does not include financings for the discount of deferred payment checks as there is no available information to make such sector classification.

[53] This analysis does not include financings for the discount of deferred payment checks.

22,400 companies, out of which 45% had not participated in the previous stages of the LCIP (see Chart B.2.6). Thus, it has been estimated that in the six stages of the LCIP that have ended –second half of 2012 to the first half of 2015– around 78,000 enterprises having the characteristics of micro, small, and medium-sized enterprises[54] were financed through bank loans; such companies were gradually included for the use of this instrument in the different stages.

Chart B.2.6

Estimation of Number of MSMEs Companies Funded by Tranche



*Note: Partial information to July 2015, subject to change. It does not include funding for discount of deferred payment checks.
Source: BCRA

At the start of last July, the BCRA renewed the LCIP for the second half of the year[55]. In this new stage, the institutions benefited must use an amount equal to 7.5% of private sector deposits in pesos corresponding to May 2015 for this kind of financing, 1 p.p. more than the percentage set for the first half of the year. Thus, the amount of bank funds awarded mainly to micro, small, and medium-sized enterprises in the seventh stage of the LCIP reaches around $52 billion[56]. The interest rate to be applied by financial institutions must stand at 18% in annual nominal terms for at least the first three years. Moreover, part of the quota for loans to be granted to natural persons who apply such funds directly for the purchase of a single housing unit for their families through the collateral assignment of rights in trusts aimed at the construction of such real estate may be channeled in the second half of 2015. In addition, the financial institutions covered by this measure will be able to use a percentage of the quota to finance micro-entrepreneurs directly or through micro-lending institutions. Finally, in mid-August 2015, this Institution decided to include, within eligible loans of the LCIP, financings for the purchase of agricultural, road and industrial machinery as well as loans granted to natural and/or legal persons affected by natural disasters[57].

Consequently, the BCRA has continued implementing active policies within the framework of its new Charter, which was passed in 2012. This change in the regulatory framework significantly expanded the mandate of this Institution including, within its policy objectives, financial stability, employment, and economic development with social equity together with the traditional goal of monetary stability; as a result, the Charter also expanded the powers of the BCRA to achieve such goals. In this new context, the LCIP –instrument of credit policy that has been adapted to certain aspects of the current context– was implemented and it allowed providing financing alternatives for companies –particularly, micro, small, and medium-sized enterprises– trying to underpin the productive infrastructure and employment of the economy.

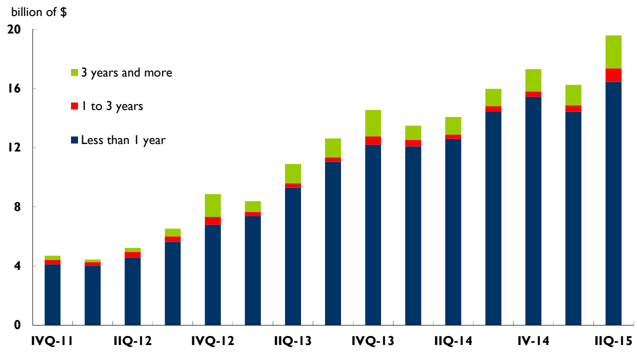
[54] It has been estimated that it is an amount equal to around 18% of total debtors in the "enterprises" sector, including all legal persons with bank financing and those natural persons with loans for commercial purposes in the latter.
[55] Communication "A" 5771 and Communication "P" 50592.
[56] Regulatory amount that takes into account the effect of the coefficients corresponding to the financing to micro, small, and medium-sized enterprises based on the size of the enterprise and the geographic region.

[57] Communication "A" 5789.

Chart IV.11

Evolution of Amounts of Credit Granted to MSMEs, by Term*

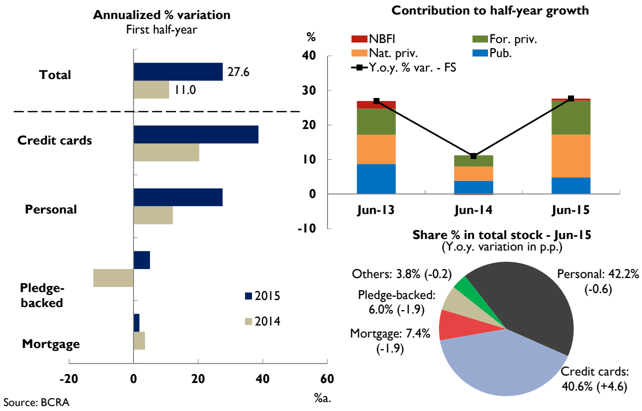
Monthly average of quarterly



* Overdraft and credit cards are excluded.
Source: SISCEN

Chart IV.12

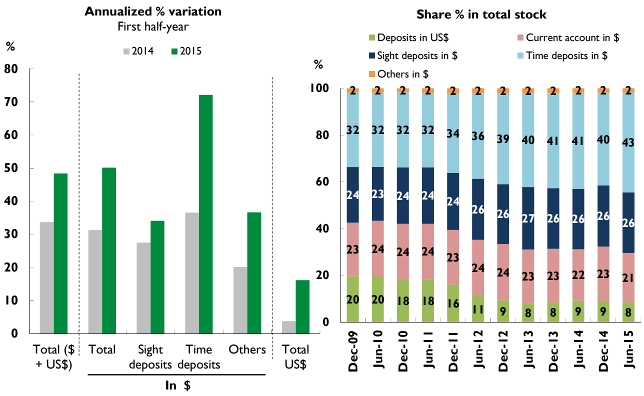
Credit to Households



Source: BCRA

Chart IV.13

Non-financial Private Sector Deposits in Financial System



Source: BCRA

During 2014 and 2015, the BCRA continued promoting measures aimed at deepening the scope of the protection awarded to financial services users and greater transparency in bank services. Particularly, by the end of 2014, this institution ordered that new commissions and hikes in any type of commission –including basic and non-basic products– that institutions intend to implement be previously authorized by the BCRA[58]. In this context, the BCRA approved a new methodology in April 2015 to decide on applications for hikes in commissions for financial products and services to be applied by banks[59]. By the end of August 2015 financial institutions were ordered not to charge any fees or commissions for providing services for which the commission is included in other items already charged by institutions. In addition, no fees may be charged for transactions carried out by users through bank tellers at a branch that is not where the account is open or for the transfer of cash in pesos, or the reception of checks issued by the account holder or third parties[60].

Private sector deposits in pesos grew 50.2%a. (39.5% y.o.y.) in the first half of 2015, up 18.8 p.p. against the same period of 2014. This increase was mainly led by time deposits, which expanded 72.1%a. (44.1% y.o.y.) and increased their share in the stock of total private sector deposits by 3 p.p. against the end of the previous year, accounting for 43% in June (see Chart IV.13). In turn, sight accounts climbed at a 34.1%a. pace (35.9% y.o.y.) at the end of the first half of 2015. On the other hand, deposits in foreign currency grew 16.2%a.[61] (14% y.o.y.) from January to June.

As a consequence of the positive performance in the 6-month period under study delivered by private sector deposits in domestic and in foreign currency, total deposits pertaining to this segment expanded 48.4%a. (38.3% y.o.y.) in the first half of 2015, up 14.7 p.p. against the same period of 2014. Deposits by companies and households increased in all groups of financial institutions, particularly public banks, which accounted for 41% of the rise in the total stock of private sector deposits over the period.

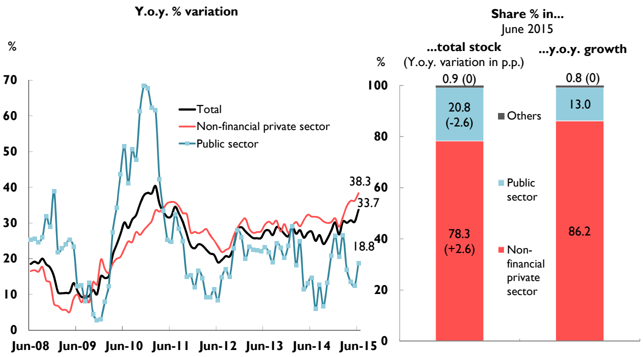
The improvement recorded in the growth of private sector deposits –particularly, in time accounts– is related to a series of regulations implemented by this institution to spur saving in pesos: (i) in early October 2014, a minimum level for interest rates on time deposits by natural persons[62] was set; (ii) by the same time, the

[58] Communication “A” 5685.
[59] Press release “P”50546.
[60] Communication “A” 5795.
[61] Considering changes in currency of origin.
[62] Communication “A” 5640.

Chart IV.14

Evolution of Total Deposits of Financial System

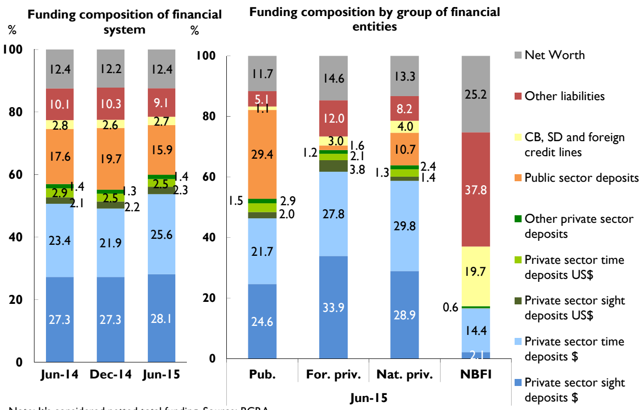
Includes national and foreign currency deposits



Source: BCRA

Chart IV.15

Balance Sheet Composition



Note: It's considered netted total funding. Source: BCRA

coverage amount of the deposit guarantee was raised from $120,000 to $350,000 per holder[63]; (iii) regulatory incentives so that banks subscribe LEBACs in dollars[64] were reinforced in early 2015, adjusting the maximum margin to be received by financial institutions subscribing these bills and interest rates they pay on their deposits. More recently, by the end of July 2015, the BCRA set a new floor for interest rates on time deposits and expanded the scope of deposits reached, comprising deposits of natural persons for up to $1 million –it stood at $ 350,000 before– and included, as from that moment, deposits for the same amount pertaining to legal persons[65]. Particularly, rates on time deposits reached may not be lower than those resulting from multiplying "benchmark interest rates" –corresponding to LEBACs at 90 and 120 days– by a ratio that increases as the time of deposit increases too. In contrast, in order to continue deepening financial and monetary stability while preserving the balance among factors of money supply and demand, the BCRA raised, as from late July 2015, rates traded in reverse repos rounds (they were set at 18% at 1 day and 20% at 7 days) and in repo loans (23% at 1 day, 24% at 7 days and 26% at 60 days).

The stock of total public sector deposits –in domestic and foreign currency– dropped 18.6%a. in the first six months of the year as a result of the evolution recorded by the segment of sight accounts. As a consequence of this evolution observed over the 6-month period under study, public sector deposits increased at an 18.8% y.o.y. pace in June, almost 8 p.p. below the change of late 2014 (see Chart IV.14).

In this context, total deposits –including those in domestic and in foreign currencies and those from the private and public sectors– went up 28.9%a. (33.7% y.o.y.) over the six months analyzed, evidencing some acceleration against the first half of 2014. The increase in the first six months of the year was primarily boosted by private sector time deposits, which more than offset the fall in the stock of the public sector deposits. Consequently, the private sector deposits continued gaining share in the stock of total deposits, accounting for 78.3% of the total, up 2.6 p.p. against the value observed a year before.

In terms of total funding of the financial system –netted liabilities plus net worth– private sector deposits accounted for 59.9% in mid-2015, up 4.8 p.p. against late 2014 and 2.9 p.p. in year-on-year terms (see Chart IV.15). The private sector time deposits in pesos

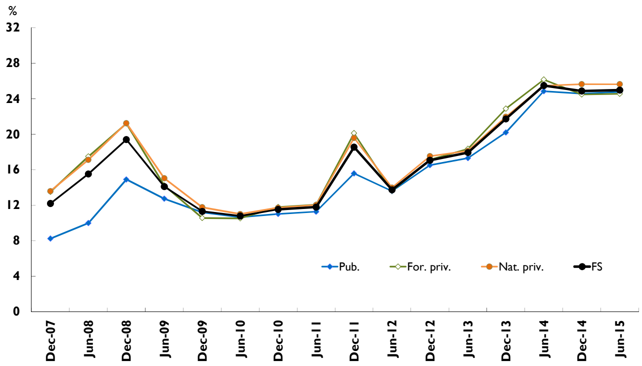
[63] Communication "A" 5641.
[64] Press release "P" 50517 and Communication "A" 5711.
[65] Communication "A" 5786.

Chart IV.16

Estimation of Average Funding Costs by Deposits in Pesos

By private sector time deposits

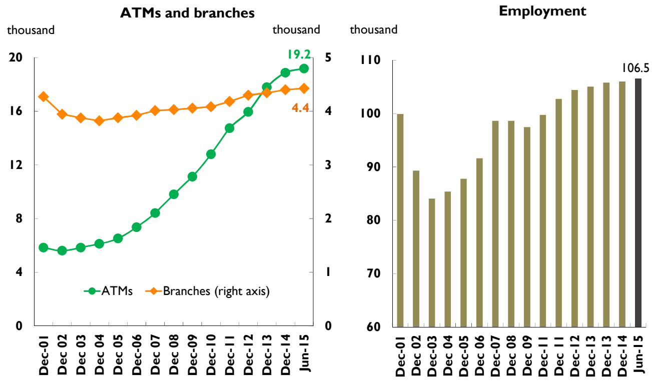
Weighted by 1 - month traded volume and adjusted by cash requirements



Source: BCRA

Chart IV.17

Financial System Operational Structure



Note: Branches include head office, headquarters, branches, agencies and offices. Source: BCRA

exhibited the greatest relative hike in the 6-month period in total funding, going up 3.7 p.p., accounting for 25.6% of the total at the end of the six months under study. The measures ordered by the BCRA aimed at spurring savings in pesos contributed to explaining the performance delivered by time accounts of companies and households over the period. In turn, the share of public sector deposits fell down to 15.9% of funding in June 2015.

No significant changes were observed in the estimated funding cost faced by the aggregate of the financial system for time deposits in pesos pertaining to the private sector in the first half of the year (see Chart IV.16). The level reached by the funding cost of these deposits in June was aligned with the value seen at the end of 2014 and mid-2014.

The growth in financial intermediation in the first half of 2015 took place together with a rise in the sector employment level and the number of branches and ATMs in different regions of the country. Today, the financial system has over 106,500 employees throughout Argentina[66], evidencing a figure that increased 0.7% in the past 12 months. In turn, the number of bank branches totaled 4,427 units at the end of the first half of the year, up 1.4% y.o.y.; in contrast, the number of ATMs and self-service ATMs increased 5.1% y.o.y., amounting to 19,186 units (see Chart IV.17).

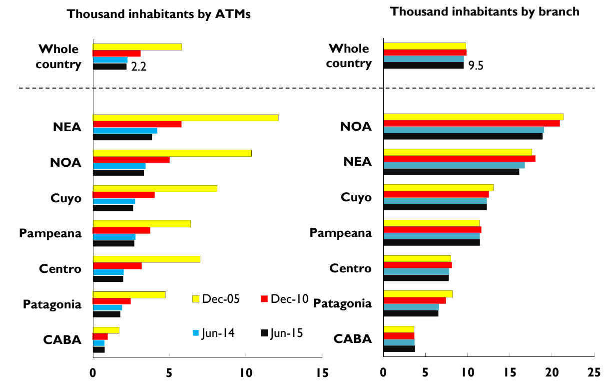
Within the framework of the policy of authorization to open branches that the BCRA has established and which is aimed at promoting the expansion of financial infrastructure, particularly in regions with less bank services, in the second quarter of 2015, this Institution approved the opening of 11 branches in districts with less financial coverage[67], located in districts of the provinces of Buenos Aires, Santa Fe, Cordoba, Corrientes, and Neuquén. Thus, 143 new branches in regions with less coverage were authorized since the implementation of this measure –early 2011– to June 2015.

In order to continue promoting bank services and facilitating such operation in those regions with less financial infrastructure, by the end of July 2015, the BCRA modified the criteria for the authorization to set up branches[68]. Particularly, in case of opening new branches, operating offices and/or expanding activities in regions that are away from urban centers and with less financial infrastructure, this Institution may approve their

[66] Latest information available as of June 2015.
[67] Branches located in zones III and IV are considered.
[68] Communication "A" 5785.

Chart IV.18

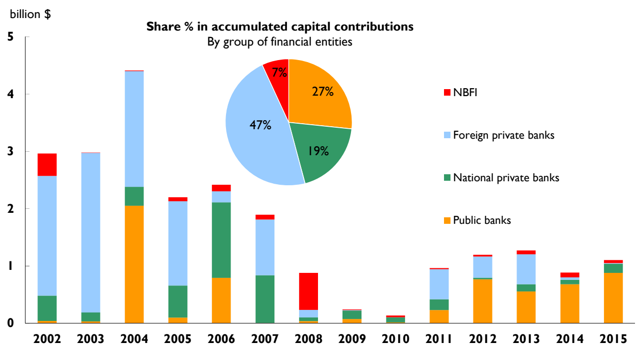
Estimation of Financial System Regional Coverage



Source: BCRA and INDEC

Chart IV.19

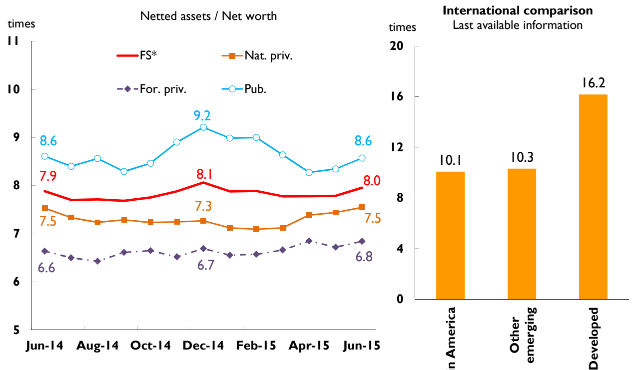
Capital Contributions of Financial Entities
2002-2015



Source: BCRA

Chart IV.20

Financial System Leverage
By group of banks



* consolidated
Source: BCRA and IMF (Financial Soundness Indicators)

authorization even though such institutions were penalized (regardless of the fact that such sanctions may be considered for other regulatory purposes).

Partly as a result of this banking policy, the availability of infrastructure to provide financial services in zones with fewer bank services in the country improved gradually in the past few years. Particularly, the number of inhabitants per branch and ATM ratios in all zones of the country fell in the past few years, especially in districts with less financial coverage (Argentine Northwest (NOA) and Northeast regions (NEA) (see Chart s IV.18).

IV.1.2 Capital Position

The financial system net worth rose by 31% y.o.y. as of June 2015, evidencing similar growth rates among the different groups of banks. Such expansion was mainly fueled by book profits. Capital contributions amounting to almost $1 billion were recorded in the first half of the year –mostly in public institutions– (see Chart IV.19), out of which 95% corresponded to capitalizations of unappropriated retained earnings from previous fiscal years. In addition, over the period, some financial institutions allocated results from previous fiscal years for the award of dividends, amounting to around $3.4 billion[69].

The leverage level of the aggregate financial system –measured as the ratio between netted assets and net worth– remained practically unchanged in 2015 and against June 2014 in a context where the numerator and the denominator recorded similar percentage changes over the period. Thus, assets of the ensemble of institutions equaled 8 times the net worth recorded in June of 2015 (see Chart IV.20); this level was significantly lower than the average recorded in the region and in other emerging and developed economies. By the end of the first half of the year, all groups of banks exhibited leverage levels that were similar to those observed in mid-2014.

Compliance with regulatory capital of the financial system stood at 14.5% of total risk-weighted assets (RWA) in mid-2015 (see Chart IV.2), evidencing a slight decrease against the end of the previous year though it remained above the value seen in June 2014. By the end of the first half of the year, Tier 1[70] capital compliance–which represents funds having the best quality in terms of capacity to absorb losses– totaled 13.6% of RWA

[69] Commitments undertaken over the period under study by institutions to allocate dividends are considered as well as those allocations already carried out over the period. Unconsolidated information by groups.
[70] Defined as basic net worth (common shares and additional capital) net of deductible accounts. See Communication "A" 5369.

Table IV.2

Profitability Structure: Financial System

Annualized indicators as % of average netted assets

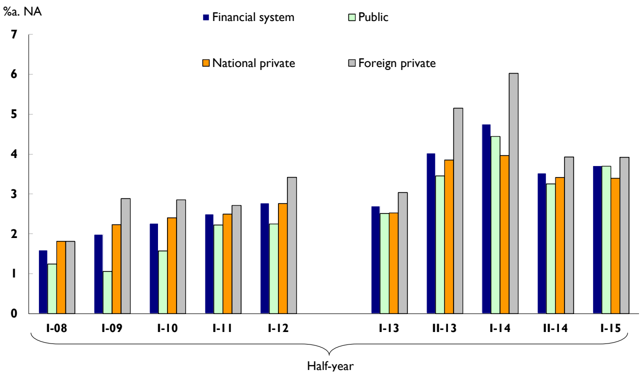
	Annual			Half-year		
	2012	2013	2014	I-14	II-14	I-15
Financial margin	9.2	10.3	11.7	12.6	10.8	11.3
Net interest income	5.7	5.9	5.8	5.7	6.0	5.4
CER and CVS adjustments	0.3	0.3	0.4	0.5	0.3	0.2
Gains on securities	2.6	2.6	4.0	3.6	4.3	5.5
Foreign exchange price adjustments	0.6	1.3	1.2	2.1	0.5	0.5
Other financial income	0.0	0.3	0.2	0.7	-0.2	-0.3
Service income margin	4.2	4.3	4.3	4.2	4.4	4.1
Operating costs	-7.0	-7.1	-7.4	-7.3	-7.5	-7.7
Loan loss provision	-0.9	-1.1	-1.0	-1.0	-0.9	-0.9
Tax charges	-1.3	-1.6	-1.8	-1.8	-1.7	-1.7
Other	0.4	0.3	0.4	0.5	0.3	0.5
Total results before income taxes	4.3	5.0	6.1	7.0	5.3	5.6
Income tax	-1.5	-1.6	-2.0	-2.3	-1.8	-1.9
ROA	**2.9**	**3.4**	**4.1**	**4.8**	**3.5**	**3.7**
ROE	25.7	29.5	32.7	38.3	27.8	29.3
ROE (before income tax)	38.8	43.7	48.6	56.6	41.6	44.7

Source: BCRA

Chart IV.21

Profitability by Group of Banks

As % of netted assets



Source: BCRA

(over 90% of total compliance), and remained practically unchanged against the level of the end of the year before. In turn, capital compliance in excess of the regulatory requirement (capital position) stood at 90% as of June 2015, going up 7 p.p. in year-to-date terms against June 2014. All groups of banks recorded a position in excess of capital over the period.

During the first half of 2015, the aggregate financial system recorded book profits for around $25.22 billion, up 0.6% against those recorded in the first 6 months of 2014. The positive result obtained over the 6-month period by the sector was equivalent to 3.7%a. of its assets –ROA– (see Table IV.2), up 0.2 p.p. against the previous 6-month period and down 1.1 p.p. y.o.y.[71]. Based on a longer term perspective, ROA corresponding to the first half of 2015 exceeded that recorded over the same period in previous years, with the exception of 2014 (see Chart IV.21). This pattern was evident in all groups of banks (see Table IV.3).

Banks' financial margin stood at 11.3%a. of assets in the aggregate of the first six months of 2015 (see Chart IV.22), up 0.5 p.p. against the previous 6-month period and down 1.3 p.p. against the same period of 2014. In year-on-year terms, profits fell in items related to the evolution of the exchange rate (foreign exchange price adjustments and adjustments for forward transactions in foreign currency); such drops were partially offset by higher income from results from sovereign bonds. All groups of banks reduced their financial margin year-on-year and foreign private banks exhibited the greatest relative fall.

In the first half of 2015, net interest income of the financial system decreased 0.3 p.p. of assets in y.o.y. terms, standing at 5.4%a. (see Chart IV.23). This movement was mainly accounted for by the drop observed in interest income from loans, which was partially offset by the slight year-on-year decrease of expenses for deposits and other interest paid. Interest income from loans in pesos –97% of total interest income– was mainly affected by the lower share of loans to the private sector in assets against the first half of 2014, as it has been estimated that implicit lending rates[72] –at an aggregate level– did not evidence significant changes over the period. In the case of interest expenses, the drop of such expenses deriving from deposits in pesos –91% of total interest expenses– was partly the result of lower implicit borrowing rates[73]

[71] As informed in the Financial Stability Report of the first half of 2014, windfall profits were recorded over such period related to the evolution of the exchange rate.

[72] Estimate that considers income per accrued interests for loans in pesos in terms of the book value of total loans in the same denomination.

[73] Estimate that considers expenses for interest accrued for deposits in pesos in terms of the book value of total deposits in the same denomination.

Table IV.3

Profitability Structure by Group of Financial Entities

First half-year 2015 - In % of netted assets

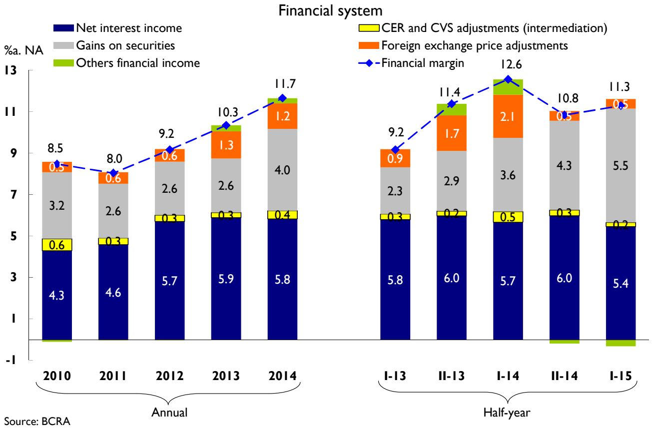
	Private banks Total	Private banks Nat.	Private banks For.	Public banks	NBFI
Financial margin	12.0	11.6	12.5	10.2	17.3
Net interest income	7.2	6.8	7.6	2.8	16.0
CER and CVS adjustment	0.1	0.0	0.1	0.4	0.0
Gains on securities	4.5	4.9	4.1	7.0	1.5
Foreign exchange price adjustements	0.5	0.3	0.7	0.4	0.1
Other financial income	-0.3	-0.4	-0.1	-0.4	-0.3
Service income margin	5.4	5.4	5.3	2.4	8.3
Operating costs	-9.1	-9.4	-8.8	-5.7	-10.8
Loan loss provisions	-1.1	-1.1	-1.2	-0.5	-3.4
Tax charges	-2.2	-2.3	-2.0	-1.0	-3.1
Others	0.6	0.8	0.4	0.3	1.4
Total result before income tax	5.6	4.9	6.2	5.6	9.6
Income tax	-1.9	-1.5	-2.3	-2.0	-3.5
ROA	**3.7**	**3.4**	**3.9**	**3.7**	**6.1**
ROE	27.5	28.3	26.8	32.6	24.2
ROE (before income tax)	41.7	41.1	42.1	49.9	38.1

Source: BCRA

Chart IV.22

Financial Margin Composition

Financial system



Source: BCRA

recorded in the first half of 2015 year-on-year. Such situation more than offset the rise in deposits in total funding –no significant changes were observed in the share between the different types of deposits. The year-on-year drop in interest results was mainly observed in public banks and foreign private banks.

Within the framework of the CER growth in the first six months of the year and a moderate mismatching (in terms of net worth) of CER-adjusted items in the financial system, net income from this item remained at low levels of around 0.2% of assets in the first 6 months of 2015, down 0.3 p.p. against the same period of 2014. Public financial institutions recorded the greatest mismatching of CER-adjusted items (see Chapter V); in addition, such income evidenced a greater share in their income statements.

Given the moderate positive foreign currency mismatching of the ensemble of banks and the evolution of the peso-dollar nominal exchange rate in the first six months of 2015 (see Chapter V), results accumulated due to exchange rate differences stood at 0.5%a. of assets in the first half of 2015, remaining almost in line with the previous 6-month period. This performance was observed in all groups of banks. The cumulative accounting results recorded for this item as well as those related to forward transactions in foreign currency (recorded in the item “other financial results”) stood at values that were lower than those observed in the first half of 2014 due to the lower expansion pace of the peso-dollar nominal exchange rate and the lower positive banks’ foreign currency mismatching. The drop observed in the positive mismatching resulted mainly from the macroprudential measures implemented by the BCRA to mitigate the foreign currency risk undertaken by institutions[74].

Profits obtained from securities posted the greatest relative growth in the income statement so far this year. Such income totaled 5.5%a. of assets in the first half of 2015, up 1.9 p.p. against the same period of 2014. Public financial institutions recorded the greatest hike in that item and evidenced the greatest relative share (2.9 p.p. increase of assets to 7.0%a.). This performance was mainly related to results derived from LEBAC holdings in a context of increased share of such instruments in financial institutions’ total assets.

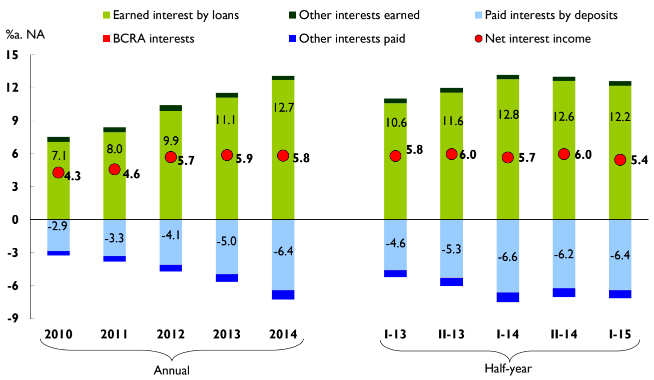
Net services income of the financial system totaled 4.1%a. of assets in the first half of 2015 (see Chart IV.24), falling slightly in y.o.y. terms in a context of lower income from commissions related to deposit

[74] For further information see Section V.5 and the Financial Stability Report corresponding to the second half of 2014.

Chart IV.23

Net Interest Income

Financial system

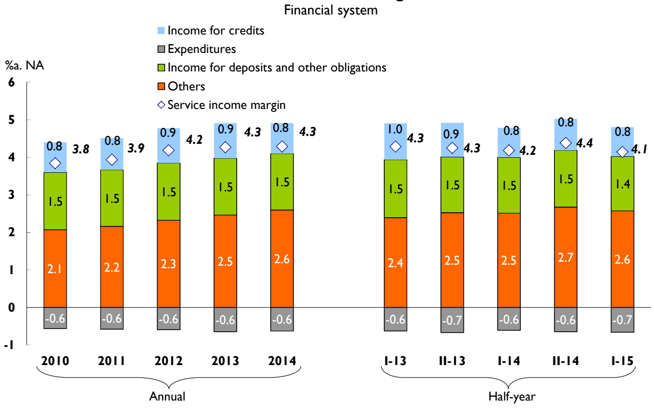


Source: BCRA

Chart IV.24

Service Income Margin

Financial system



Source: BCRA

transactions and higher expenses. Although national private banks recorded greater profits from services against 2014, the financial system year-on-year performance was mainly accounted for by foreign private banks. It should be noted that, in order to protect financial services user rights, the BCRA regulated the collection of bank commissions (see Activity Section in Chapter 4).

Operating costs of the aggregate financial system increased 34.8% y.o.y. in the first half of the year, raising its share in terms of assets, by 0.4 p.p. in the last 12 months reaching a 7.7%a. level (see Chart IV.25). This rise was mainly affected by the expansion of personnel costs –remunerations and social contributions– over the period (the new salary agreement for the banking sector came into force in June 2015). It should be underscored that personnel costs account for over 60% of total operating costs in the aggregate of institutions. The year-on-year hike was observed in all groups of financial institutions, with national private banks evidencing the greatest relative growth.

In a context of limited credit risk of the private sector (see Chapter V), loans loss provisions of the financial system stood at 0.9%a. of assets in the first half of 2015, falling marginally against the same period of 2014. Such reduction resulted mainly from the performance of foreign and national private banks (see Chart IV.26).

Given the abovementioned evolution in the items of income and expenses in the first half of 2015, the level of coverage of operating costs with interest results (net of loan loss provisions) and from services amounted to 113% for the ensemble of banks, going down 7 p.p. against the same period of 2014. This y.o.y. drop was primarily observed in public banks. In turn, foreign private banks recorded the greatest level for this ratio.

In year-to-date terms, the financial system recorded expenses for taxes (income tax and other tax charges) for an amount equivalent to 3.6% of assets, down 0.5 p.p. against the first half of 2014. Such reduction resulted from the performance of private financial institutions – national and foreign– given that public banks increased these expenses.

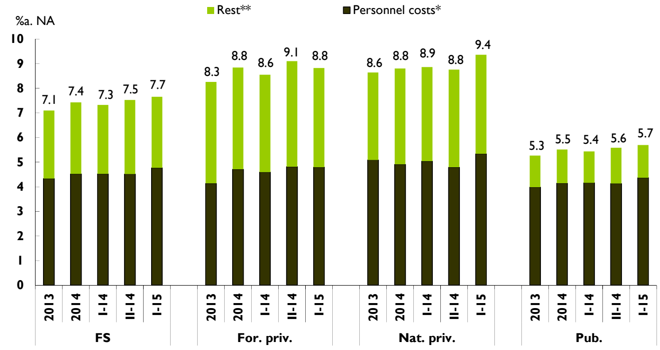
IV.2 Institutional Investors

As of June 2015, the aggregate portfolio of the main institutional investors –the Sustainability Guarantee Fund (FGS), insurance companies, and mutual funds (FCI)– totaled $866.7 billion[75], up 17% over the year and

[75] The total amount corresponds to the addition of unconsolidated portfolios.

Chart IV.25

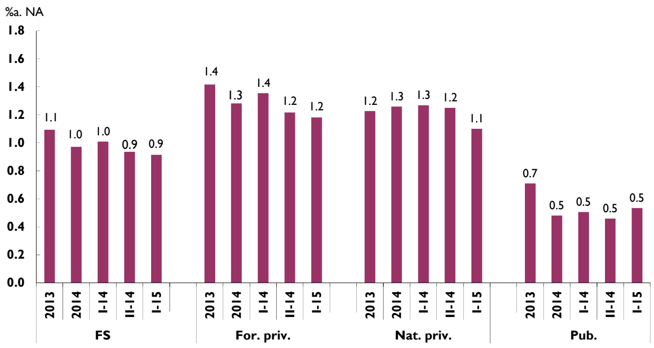
Operating Costs by Group of Banks
As % of netted assets



* Includes remunerations and social security.
** Includes services, fees, insurance, rent, maintenance costs and repair, among others.
Source: BCRA

Chart IV.26

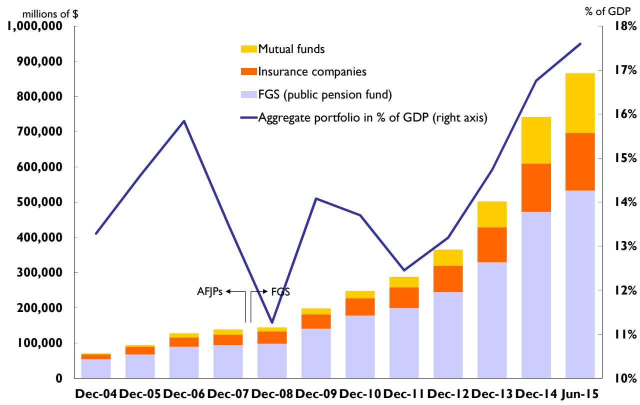
Loan Loss Provisions by Group of Banks
As % of netted assets



Source: BCRA

Chart IV.27

Institutional Investors Portfolio Evolution



Source: BCRA based on ANSES-FGS, SSN and Cámara Argentina de FCI

36% in the past 12 months. The portfolio has continued expanding against the size of the economy, reaching 17.6% of GDP, up 0.8 p.p. against December 2014 (see Chart IV.27).

The portfolio managed by the FGS at the end of the first half of 2015[76] totaled $532.84 billion (see Table IV.4), up 13% against December 2014 and up 30% y.o.y. The hike of the portfolio is mostly accounted for by the performance of sovereign bonds and corporate bonds over the 6-month period and the previous 12 months (they grew 10% during the 6 months and 33% y.o.y., respectively). This item accounts for the highest share in the portfolio, representing almost two thirds of the total. Nevertheless, shares and productive and infrastructure projects were the items with the highest percentage rise in year-to-date terms in 2015. In the case of shares, the year-to-date revaluation was recorded despite the fall in prices observed in the third two-month period[77]. In turn, due to the sustained expansion observed in infrastructure and productive projects, they were, once again, the second most important item in the portfolio (12.4% of the total), standing behind shares (11.6%). The boost recorded in the case of productive project was, once again, the result of the PRO.CRE.AR. Program, which represents the main investment followed by the NASA Nuclear Station (Table IV.5). On the other hand, the FGS continued unwinding time deposits, which fell 28% over the year and 47% during the six months under study. Thus, its share in the total portfolio (1.5%) and in terms of total time deposits of the financial system (1.7%) shrank, recording a new historical minimum once again.

Investments by insurance companies totaled $163.48 billion as of June 30 2015[78], exhibiting a 19% rise in year-to-date terms and a 34% rise y.o.y. (Table IV.6). Regarding the performance recorded in the first half of the year, the rise in the value of sovereign bonds accounted for almost 60% of the increase in the total portfolio of investments, followed by the performance of mutual funds and an increase in time deposits. In turn, investments in financial trusts fell in the first six months of the year.

Considering the past 12 months, the hike in the portfolio of insurance companies was affected by rises in sovereign bonds, mutual funds and shares. In turn, the decline recorded by time deposits and other investments

[76] Latest information available.
[77] It is worth pointing out that the Congress passed a bill in September whereby shares held by FGS-ANSES purchased following the creation of the distribution/SIPA scheme in 2008 may not be sold. Thus, the protection of interest of the National State making up the portfolio of FGS and shares or capital held in companies where the State is a minority member or where the Ministry of Economy holds shares or capital are declared of public interest. In addition, two thirds of votes of the Congress are required to sell or transfer such shares; otherwise, this would be forbidden (YPF and YPF gas are exempted). Finally, the *Agencia Nacional de Participaciones Estatales en Empresas* [National Agency of State Shareholdings in Private Companies] was created.
[78] Latest information available.

Table IV.4

Evolution of Social Security Fund (FGS) Investment Portfolio

In million of $

	Dec-12	Dec-13	Jun-14	Dec-14	Jun-15	Y.o.y. var. (%)	2015 var. (%)
Cash, sight deposits and other*	22,631	25,378	36,294	31,171	46,300	27.6%	48.5%
Time deposits	14,908	15,996	15,139	11,213	8,072	-46.7%	-28.0%
Corporate bonds and sovereign government bonds	159,434	215,584	263,124	318,665	350,217	33.1%	9.9%
Stocks	15,905	27,838	41,972	52,128	61,915	47.5%	18.8%
Productive projects and infraestructure related instruments	31,921	44,677	53,427	59,088	66,333	24.2%	12.3%
Total FGS	**244,799**	**329,472**	**409,955**	**472,265**	**532,838**	**30.0%**	**12.8%**

(*) "Other" includes structured Financial Trusts and others, Mutual Funds, Direct Investment Funds, Foreign Securities, Futures and Options, among others.

Source: ANSES- FGS

Table IV.5

Main Investments of FGS

Sovereign and Corporate Bonds	
Cuasipar in pesos	22%
Discount in dollars domestic law	14%
Bond in dollars 9% 2018	13%
Treasury bills	9%
Bond in pesos 2020	5%
Bond in dollars 9% 2019	5%
Bond in pesos 2019 (PB+300bp)	4%
Bond in pesos 2018	4%
Bonar X	3%
Bonar 24	3%
Others	17%

Productive and Infrastructure Projects	
PRO.CRE.AR	41%
NASA- Central Nuclear Néstor Kirchner	22%
Enarsa- Central Barragán y Brigadier López	12%
FT for public works (SISVIAL)	9%
EPEC	6%
Others	11%

Stocks	
Telecom Argentina	17%
Banco Macro	17%
Siderar	12%
Grupo Financiero Galicia	10%
BBVA Banco Francés	5%
Banco Patagonia	4%
Aluar Aluminio Argentino	4%
Consultatio S.A.	3%
Pampa Energía	3%
Grupo Clarín S.A.	3%
Molinos Río de la Plata	3%
Others	18%

Note: Based on information to June 2015 for productive and infrastructure projects and to April 2015 for remaining groups of assets.

Source: ANSES- FGS

Table IV.6

Insurance Companies Portfolio Evolution

In million of $

	Dec-12	Dec-13	Jun-14	Dec-14	Jun-15*	Y.o.y. var. (%)	2015 var. (%)
Public bonds	28,892	31,176	40,275	54,695	70,416	74.8	28.7
Stocks	4,175	3,314	3,907	7,634	8,467	116.7	10.9
Corporate bonds	7,807	16,931	20,211	21,357	22,477	11.2	5.2
Mutual funds	11,421	19,228	25,830	32,130	40,130	55.4	24.9
Financial trusts	2,719	3,212	2,330	2,504	2,114	-9.3	-15.6
Time deposits	18,643	21,644	24,534	17,107	18,516	-24.5	8.2
Other investments in the country	897	3,801	4,553	1,309	969	-78.7	-25.9
Investments abroad	447	433	400	427	390	-2.6	-8.8
Total portfolio	**75,000**	**99,740**	**122,039**	**137,164**	**163,478**	**34.0**	**19.2**

*BCRA estimation based on company data published by SSN.

Source: SSN

over the period should be underscored. Time deposits held by insurance companies represented, by the end of June, 3.8% of total time deposits in the financial system. In terms of the structure of the portfolio per instrument, the position in sovereign bonds should be highlighted in the first place, as it accounted for 44% of the total at the end of June (such figure had averaged 35% in the previous eight quarters). Mutual funds and corporate bonds are the items that follow in terms of relative significance, accounting for 25% and 14% of the total portfolio. These assets raised their significance since the regulation on productive investments passed in late 2012 became effective ("paragraph k")[79]. They currently explain 38% of investments as a whole[80].

Net worth of mutual funds exceeded $182.80 billion as of August 31, going up 38% from January to August 2015, rising to 56% in the past 12 months. The growth in the net worth of fixed income mutual funds (51% over the year and 79% y.o.y.) led this growth accounting for over two thirds of the rise in the year recorded in total net worth, increasing its share to 55% (from 51% in late 2014 and 48% a year before). Money market mutual funds recorded the lowest growth in relative terms: 16% year-to-date and 18% year-on-year. It should be noted that, in September and through Resolution N°644 of the Argentine Security and Exchange Commission, it was ordered that mutual funds should channel 2.5% of their net worth to finance productive investment, infrastructure development and small and medium-sized enterprises based on a prearranged schedule. In contrast, through Resolution N°646 of the Argentine Security and Exchange Commission, it was established that mutual funds should assess the instruments being traded in foreign markets in the same currency in which they were issued (provided that such currency is the payment currency) based on the price with the greatest relevance in foreign markets (or the price in dollars in the domestic market when there is no price abroad), expressing the amount in pesos and using the foreign exchange buying rate set by *Banco Nación*.

[79] Recently, Resolutions 39,433 and 39,438 issued by the National Superintendence of Insurance (SSN) set minimum weight levels in instruments eligible under paragraph "k" so that both mutual funds of infrastructure and those of small and medium-sized enterprises may be considered within this category, with an adjustment schedule as of March 31 2016. In turn, the SSN established that it will consider, within paragraph "k", investments of insurance companies in the mutual funds mentioned depending on the ratio that the latter channel to eligible instruments within the framework of such paragraph.

[80] Considering the evolution of portfolios of insurance companies based on the type of activity, it should be mentioned that the one with the greatest increase in the first half of the year was that of life insurance (which grew 29%) followed by those of work-related risks (which grew 26%).

V. Financial System Risks

Summary

During the first half of 2015, the financial system continued to exhibit an adequate position in relation to liquidity risk, as shown by a set of aggregate indicators of exposure and coverage, which posted no significant changes in the period. The share of short-term funding in total funding of the ensemble of banks decreased slightly in the first half of the year, whereas the levels of concentration of deposits posted a slight increase in the same period. The coverage of the financial system short-term liabilities with liquid assets stood at 50% as of June, a record similar to that as of the end of 2014. As from this year, pursuant to the standards recommended by the Basel Committee on Banking Supervision —BCBS—, the BCRA established that internationally active institutions must comply with the minimum levels of the Liquidity Coverage Ratio –LCR–, according to a gradual implementation schedule.

In early 2015, a slight increase was observed in the credit exposure of the financial system to the private sector, even though it still stands at levels below those recorded last year. The non-performing ratio stood at low and stable levels throughout the period, totaling only 2% of the total stock of loans to the private sector in June. The coverage of the non-performing portfolio with accounting provisions continued to stand at high levels for the ensemble of banks. In the first half of the year, no significant changes were observed in the records of aggregate indebtedness or in the financial burden borne by companies and households, thus avoiding impacts on the payment capacity.

The retail banking business line was behind half the amount of operational risk events reported by banks in the second quarter of 2015. Among the types of operational risk events, the execution, management and completion of processes continued to be the most relevant. As from March 2015, a limit was established to the regulatory capital requirement for operational risk for the smallest banks (Groups "B" and "C"), so that this requirement does not exceed a share of regulatory capital requirement for credit risk.

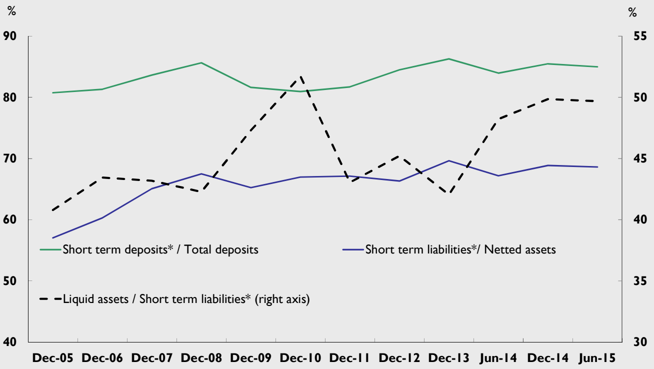
The market risk maintained a low weighting in the map of risks of the ensemble of banks. As of June, the value at risk for the financial system represented 3.8% of the total capital requirement and 2.1% of the Adjusted Stockholders' Equity —RPC. From these reduced levels, during this half, an increase was recorded of the regulatory capital requirement for this type of risk, which variation was mainly due to the component of peso-denominated domestic bonds with a shorter relative term.

The exposure to foreign currency risk slightly decreased in the first half of 2015. The financial system foreign currency mismatching stood at 20.5% of the RPC in June, down 1.3 p.p. in this half. The lesser exposure to this risk occurred in a context of moderate volatility of the peso-dollar exchange rate.

The exposure of the financial system to the interest rate risk posted no significant changes so far in 2015. The estimated duration of assets, net of liabilities, not marked-to-market reached 1.1 years, a record similar to that observed six months ago.

Chart V.1

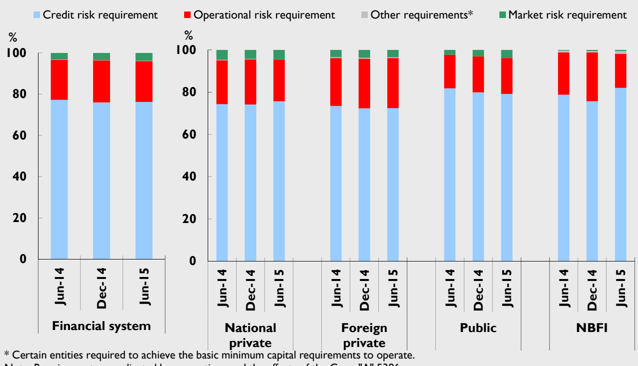
Indicators of Liquidity Risk Exposure and Liquidity Risk Coverage
Financial system



*Residual term less than 1 month.
Source: BCRA

Chart V.2

Capital Requirements by Group of Financial Entities
Share in regulatory requirements



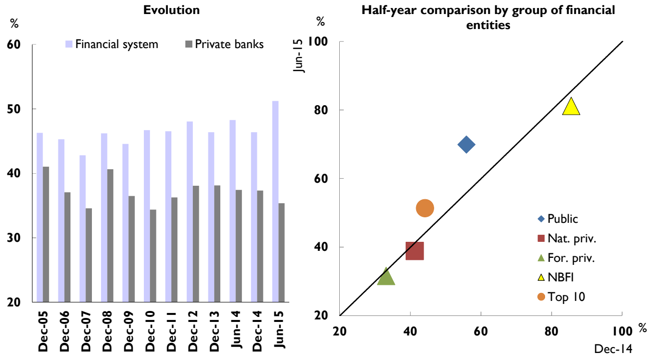
* Certain entities required to achieve the basic minimum capital requirements to operate.
Note: Requirements are adjusted by exemptions and the effects of the Com. "A" 5396.
Source: BCRA

V.1 Liquidity Risk

Chart V.3

Total Deposits Concentration

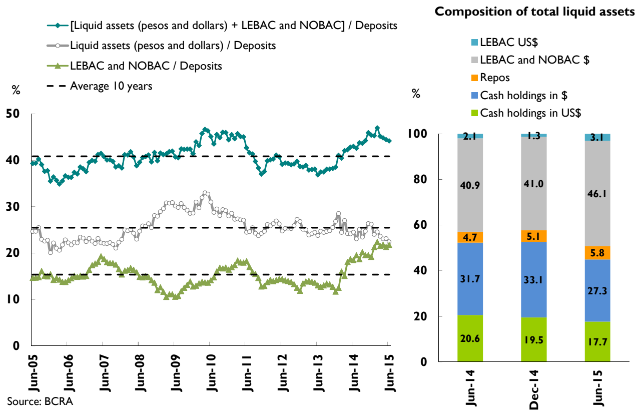
Stock of main depositors* of each entity / Total deposits



*160 main depositors of each entity.
Source: BCRA

Chart V.4

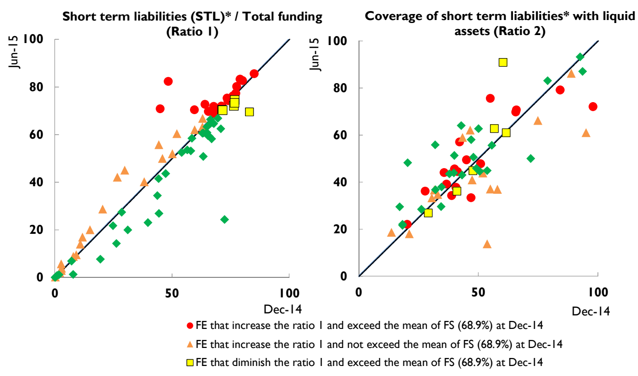
Financial System Liquidity



Source: BCRA

Chart V.5

Relative Importance of Short term Funding and Coverage with Liquid Assets



* Residual term less than 1 month.
Source: BCRA

During the first half of 2015, the financial system as a whole kept on exhibiting an adequate position relative to liquidity risk. In this regard, ratios prepared to characterize the exposure and coverage of the ensemble of banks vis-à-vis this type of risk inherent in the activity, posted no significant changes in the period. For example, in terms of exposure, in the first half of 2015 the relative weighting of short term liabilities[81] in total funding[82] decreased slightly (see Chart V.1), whereas the concentration of total deposits in the financial system exhibited an increase (see Chart V.3). The relative decrease of short-term liabilities was in line with the increase of time deposits in pesos recorded throughout the year, under the incentives developed by the BCRA to encourage savings in domestic currency (see Section on activity, Chapter IV). In turn, the change recorded in terms of concentration of deposits was mainly explained by public banks —that usually receive the largest portion of public funds—, whereas the concentration of deposits shrank in private banks in the period. Except for public banks, the six-month change in this indicator was reduced in most of the ensembles of banks.

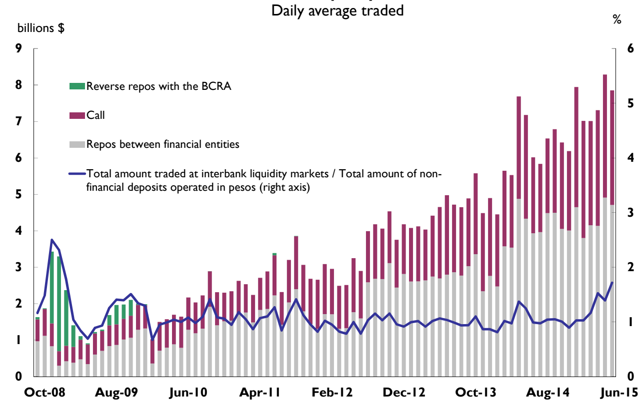
With respect to indicators of coverage of liquidity risk, the broad ratio of liquid assets[83] (in domestic and foreign currency) relative to total deposits shrank in first half of 2015 due to a drop in the stock of cash holdings partly offset by the increase of LEBACs in stock of banks. In mid-2015, the level reached by this indicator exceeded the record for the same period of 2014 and the average for the last ten years (see Chart V.4). The BCRA's bills in dollars increased their relative importance in the portfolio of banks in recent months, thus reaching 3.1% of total liquid assets. In order to channel the savings from the private sector in foreign currency to the financial system, in early 2015, the BCRA provided for better conditions for banks underwriting bills and for customers making deposits. In particular, the profit margin was improved for banks acquiring bills in dollars at auctions, provided that the funds come from time deposits from the private sector also in dollars[84], for the purpose that banks transfer to their clients the largest portion of the return on such instruments. Besides, when taking into account all short-term liabilities, it is observed that hedging with liquid assets in a broad sense stood at a level around 50% by the end of the first half of the year (see Chart V.1), in line with the level

[81] Liabilities with residual terms shorter than a month.
[82] Liabilities plus net worth (equivalent to assets).
[83] Defined as the sum of Liquidity compliance in BCRA, Other liquid assets, Net credit balance for repo transactions of financial entities against the BCRA using LEBACs and NOBACs, and LEBAC and NOBAC holdings.
[84] Communication "P" 50517 and Communication "A" 5711. For more information, see Report on Banks, February 2015.

Chart V.6

Interbank Liquidity Markets

Daily average traded

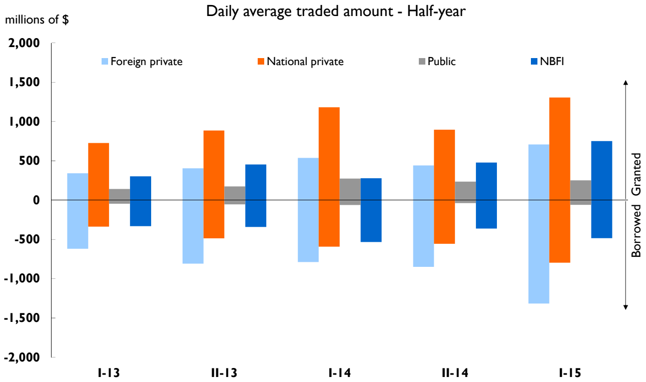


Source: BCRA

Chart V.7

Call Market

Daily average traded amount - Half-year

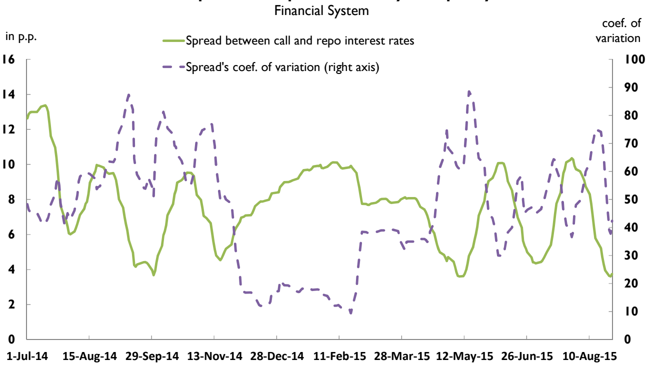


Source: BCRA

Chart V.8

Interest Rate Spread and Spread Volatility in Liquidity Markets

Financial System



Note: Spread calculated as centered average -of 20 trade days- of the difference between call and repo interest rates. Coefficient of variability is obtained dividing standard deviation of 20 trade days -centered- by the centered average -of 20 trade days- of that spread.
Source: BCRA

recorded at the end of 2014 and above the levels shown in recent years.

Upon analyzing the evolution of the above-stated indicators at the level of banks, on the one hand, it is observed that the change in this half year in the ratio of short-term liabilities to total funding was somehow heterogeneous (see Chart V.5). On the other hand, most banks that in this half recorded an increased exposure and that, in turn, presented a level above the average for the financial system, increased their level of coverage in the period.

Pursuant to the international standards set forth by the Basel Committee on Banking Supervision (BCBS) regarding liquidity risk management, commencing this year, the BCRA established that internationally active banks[85] must comply with the minimum values of the liquidity coverage ratio[86] —LCR; for further detail see Box 3—. In parallel, in order to foster market discipline, banks must disclose information related to the liquidity coverage ratio[87]. In turn, to encourage a better liquidity risk management, as from this year, the BCRA provided for that all banks must submit some parameters related to cash flow, balance sheet structure and non-restricted assets that may be used as collateral[88].

Under the prudential regulation on minimum cash, the position in domestic currency —compliance less requirement— stood at 0.3% of deposits in pesos by mid-2015, going slightly up if compared to the first and second halves of 2014. In turn, the excess of compliance for deposits in foreign currency reached 74% of the regulatory requirement, standing below the level posted throughout 2014. This performance was explained by the fact that for calculation of the base, for the purposes of determining the minimum cash requirement for deposits in dollars, the net position of bills in foreign currency is deducted.

From moderate levels, inter-financial markets continued increasing their depth in the first half of 2015 (see Chart V.6). The total amount traded in these markets stood, on average, at 1.3% of traded amounts of deposits in the first half, up 0.3 p.p. if compared to the average recorded in the second half of 2014. This growth was driven by the call money segment, which recorded a 48% semiannual increase in the traded volume. In this period, foreign private banks were net borrowers in the call money segment, whereas the other ensemble of

[85] Communication "A" 5724.
[86] For further detail, see Box 3, Financial Stability Report, First Half 2014, and Box 5, Financial Stability Report First Half 2015.
[87] Communication "A" 5734.
[88] Communication "A" 5733.

Box 3 / Implementation of Liquidity Coverage Ratio in Argentina

In January 2015, the BCRA introduced the Liquidity Coverage Ratio (LCR)[89], pursuant to the international standard proposed by the Basel Committee. The LCR requires banks to hold a high-quality liquid asset portfolio to face any possible net outflows of cash that might occur in a significant stress scenario, both individual and systemic, over a 30-day period. In this regard, the regulations require to maintain a ratio of liquid assets to the net expected outflow of funds not lesser than one —with a 60% initial compliance to reach 100% in 2019—, but during stress periods it is accepted for such ratio to be lower because of the need of meeting payment obligations

The liquidity fund implemented under the LCR must comprise assets with liquid and deep markets, freely available for entities. In Argentina, the fund comprises mainly cash, deposits in the Central Bank, National Government bonds and monetary regulation instruments of the Central Bank. The net outflow of funds is computed by categorizing the balance sheet items and any eventual commitments taking into account the "degree of stability" of liabilities and the "liquid value" of assets. The contractual flows for the following 30 days are allocated to each category and a weighting factor is applied to them[90].

The local regulation establishes a minimum level for LCR and is applicable to 18 large and medium-sized financial entities[91], representing 85% of the financial system assets. Based on a preset schedule (similar to that defined by the Basel Committee), the LCR minimum level started at 60% in January 2015 and will increase 10 percentage points in January each year, to reach 100% in early 2019.

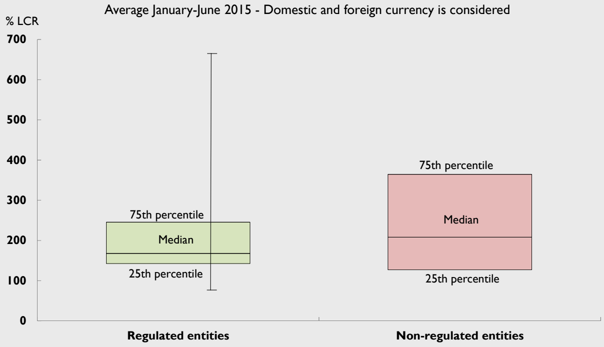
Entities obliged to comply with the LCR must report to the BCRA on a quarterly basis a detail of items required for calculation (Reporting Regime —RR— for Quarterly/Annual Supervision), as well as the daily evolution of such indicator (Monthly Accounting RI – Liquidity Coverage Ratio). The rest of entities, even though not obliged to comply with a minimum LCR value, must calculate the ratio and submit the relevant quarterly RR.

Considering the information available for the period from January to June 2015, it is observed that obliged entities comply in all cases with the 60% minimum ratio in force and, in general, even exceed such minimum requirement (see Chart B.3.1), up to a 220% on average. In turn, entities not subject to such requirement, post a higher dispersion, partly due to the diversity of business profiles in this group.

Chart B.3.1

LCR Distribution

Average January-June 2015 - Domestic and foreign currency is considered



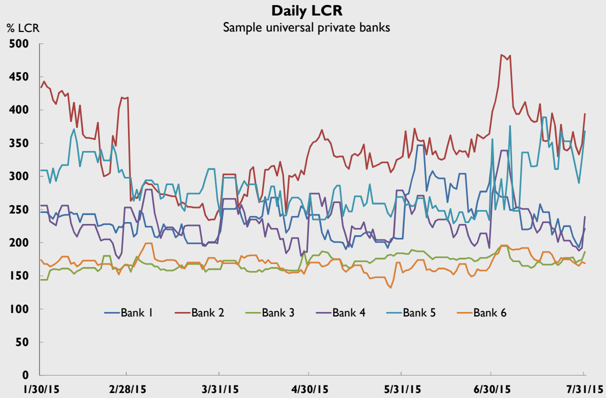
Note: The median value is represented by the horizontal line. The lower limit of the bars corresponds to the 25th percentile and the upper limit to the 75th percentile. The upper and lower points of the vertical lines correspond to the maximum and minimum sample values. Source: BCRA

Upon analyzing a sample of obliged banks with a universal banking structure, it is noted that (i) all banks report ratios above 100% and (ii) there is certain heterogeneity in the degree of compliance with LCR, as well as different volatility patterns and intra-monthly seasonality degrees among entities (see Chart B.3.2).

Chart B.3.2

Daily LCR

Sample universal private banks



Source: BCRA

Comparing the LCR to the Minimum Cash (MC) requirement, it is observed that, on average, compliance with the latter corresponds to around 38% of total assets computed in the LCR fund (the percentage rises to 50% when adding cash in banks). If LCR is calculated only with MC compliance, the average of obliged entities is

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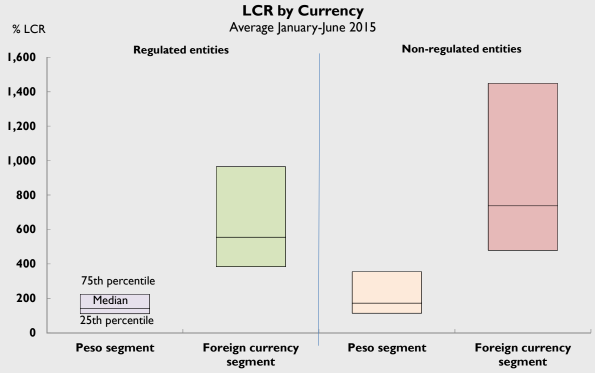
89 Communication "A" 5693.
90 For further detail, see Box 3, Financial Stability Report I-14.
91 See Communication "A" 5703 for a list of obliged entities.

around 90% (120% if considering cash in banks), posting a broad deviation around such value. This results from the different methods used in LCR and MC. It is worth remembering that the MC calculation is based on liabilities by residual term, currency and type of instrument, but neither the cash flows nor the type of counterparty in transactions are considered[92] like in the case of LCR. For example, following the definitions established by the Basel Committee, in the LCR, the retail funding posts events of more stable behavior than wholesale funding, and within the latter, funds from financial intermediaries are considered more volatile. Besides, whereas the LCR is based on cash flows, the MC is based on average balances stocks.

Even though the LCR requirement makes no difference of segments by currency, the regulation establishes that mismatches in these segments must be monitored. Chart 3 shows the LCR according to data reported by entities, for the segments in pesos and in foreign currency (FC). The FC segment posts higher and more dispersed levels than the segment in pesos (see Chart B.3.3). Nevertheless, it is a less significant segment: foreign currency flows stand at 10% of the total.

Chart B.3.3

LCR by Currency
Average January-June 2015



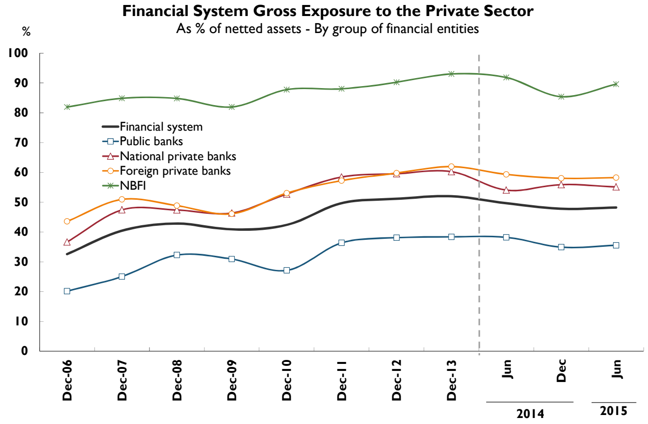
Note: The median value is represented by the horizontal line. The lower limit of the bars corresponds to 25th and the upper limit to the 75th. Source: BCRA

Therefore, Argentina is in line with the international schedule for LCR implementation, addressing its definitions and criteria, thus making progress in the introduction of a more complex and sensitive indicator to monitor and reduce the liquidity risk taken by banks. As a usual practice in recent years, the BCRA continues consolidating the process to adjust the prudential regulatory framework to the Basel Committee's recommendations, also taking into account the particular features of the Argentine financial system and the need to have adequate funding sources for local investment and consumption.

[92] Except for certain differences made in cases of deposits in court, of Mutual Funds (FCI), among other.

Chart V.9

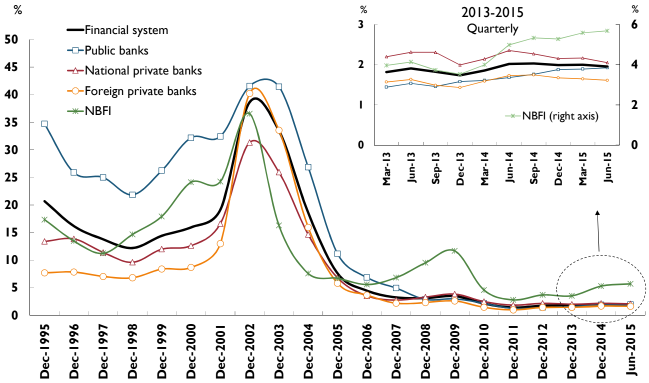
Financial System Gross Exposure to the Private Sector
As % of netted assets - By group of financial entities



Source: BCRA

Chart V.10

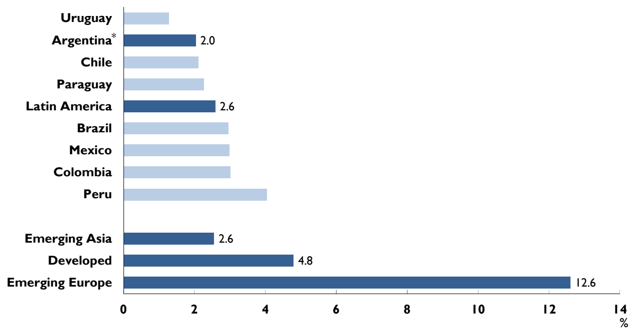
Private Sector Non-performing Financing
Non-performing portfolio / Total financing (%)



Source: BCRA

Chart V.11

Non-performing Financing. International Comparison
Non-performing financing / Total financing (%)



Note: Private sector non-performing loans as percentage of total private sector financing. Emerging Asia: China, India and Indonesia. Developed: Australia, Canada, France, Germany, USA, Japan, Spain and Italy. Emerging Europe: Bulgaria, Romania, Hungary and Turkey. Data to 2014 except Uruguay, France and Germany (2013); Argentina, Brazil, Colombia, Peru, Turkey and Australia to 2015. Source: IMF and BCRA.

banks acted as net lenders (see Chart V.7). In the first half of 2015, some volatility was observed in the interest rate spread between the call money segment and repo transactions for banks against the BCRA. It is worth stating that by the end of July, the BCRA provided for an increase in interest rates operating in rounds of reverse repo and repo transactions[93], which partly explained the decrease in such interest rate spread, in a context in which volatility went down (see Chart V.8).

V.2 Credit Risk

V.2.1 Private Sector[94]

The gross exposure of the ensemble of banks to the private sector rose slightly from the end of the first half and the closing of 2014, to a large extent due to the acceleration in the nominal growth pace of lending (see Chapter IV). In spite of this increase in exposure, levels by mid-2015 stood below the levels recorded in June 2014. Against this backdrop, the non-performing ratio of loans to the private sector stood at low and stable levels, mirroring the reduced credit risk faced by banks. One of the factors worth mentioning behind this situation is the moderate aggregate indebtedness of companies and households, combined with reduced and stable levels of the financial burden for these sectors (see Chapter III). In this context, the financial system maintained a high coverage of non-performing loans with accounting provisions, and capital continued to exceed regulatory requirements. To sum up, the financial system maintained a reduced exposure to credit risk of the private sector.

The financial system gross exposure to the private sector stood at 48.2% of netted assets at the end of the first half of the year (see Chart V.9), exceeding the value recorded by the end of 2014 but below the level in June last year. Considering the different ensembles of banks, in early 2015, minor changes were observed in terms of this indicator. The non-banking financial institutions (NBFI) and private banks kept on recording higher levels of gross exposure to private sector than public banks. In turn, lending to private sector with preferred guarantees reached 13.5% of total lending to the private sector by mid-2015, down 1.5 p.p. if compared to December 2014. This reduction was observed mostly in public banks, and to a lesser extent, in private banks.

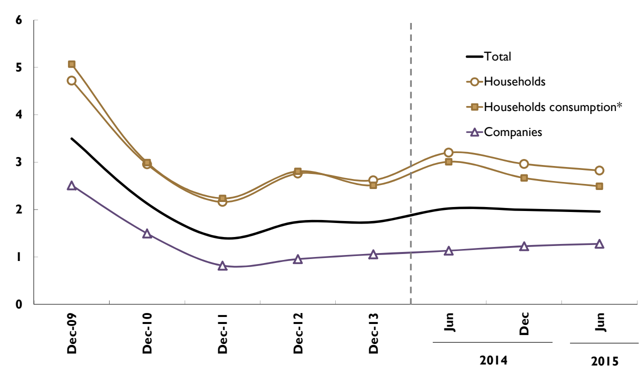
The private sector non-performing financing of the financial system[95] stood at 2% of the total stock of loans

[93] For reverse repo transactions, they stood at 18% for 1 day, and 20% for 7 days. For repo transactions, they reached 23% for 1 day, 24% for 7 days, and 26% for 60 days.
[94] In this section, lending to the private sector is obtained from data of the Debtors' Database.

Chart V.12

Private Sector Non-performing Financing by Sector

Non-performing portfolio / Total financing (%)

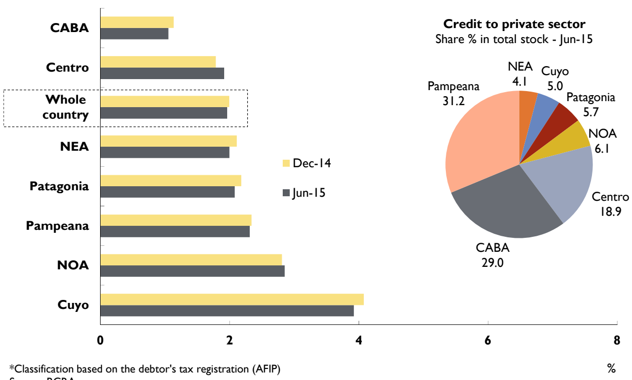


*Note: includes personal and credit cards.
Source: BCRA

Chart V.13

Private Sector Non-performing Financing by Region*

Non-performing financing / Total financing (%)



*Classification based on the debtor's tax registration (AFIP)
Source: BCRA

Table V.1

Private Sector Financing Evolution / Dec-14 to Jun-15

Percentages of financing of December 2014

December 2014		June 2015: Improves (0.6%)		June 2015: Remains (93.2%)	June 2015: Worsen (2.5%) – remains performing	June 2015: Worsen (2.5%) – passes into non-performing	June 2015: Drop of Balance* (3.7%)
Performing	98.0	0.4		92.6	0.9	1.0	3.1
Non-performing	2.0	0.2 (passes into performing)	0.0 (remains non-performing)	0.6	0.6		0.6

(*) For debt cancellation, financial trusts constitution or written off and booked in off balance sheet accounts
Note: Performing portfolio covers situation 1 and 2, while the non-performing considered 3, 4, 5 and 6. Source: BCRA

to such sector by the end of the first half of the year, similar to the level at December and June 2014. This level seems to be low in a medium term comparison (see Chart V.10), and when comparing it to levels currently recorded in other countries (see Chart V.11). In a context with only minor changes, during the first half of the year, the private sector non-performing financing ratio remained virtually unchanged in public banks, decreased in private banks —in line with the significant growth of the total stock of loans— and increased in NBFI (see Chart V.10).

Based on the higher growth rates of loans to households, so far in 2015, the non-performing loan ratio for this segment slightly decreased (see Chart V.12). In turn, there was a slight increase of the non-performing levels in the loans to companies. However, it is worth stating that the relative non-performing of companies continued to be low and even lower than that recorded for households.

Taking into account the different geographical regions of Argentina, in the first half of the year, it is estimated that only minor changes were seen in non-performing loans to the private sector, still with some dispersion among zones. In particular, the non-performing ratio slightly rose in the Central and the North West (NOA) regions, and such rate decreased in the City of Buenos Aires (CABA), the North East (NEA), the Patagonia, the Pampas and the Central West (Cuyo) regions (see Chart V.13).

The stock of loans outstanding by the end of 2014 slightly deteriorated in the first half of 2015. From December 2014 to June 2015, 0.2% of such total stock went from non-performing to performing, whereas for 1% the situation became worse (see Table V.1). Bearing in mind such situation and the items written off in the balance sheet —mainly due to repayments—, the non-performing ratio of loans outstanding at the end of 2014 and still effective in June 2015 reached 2.3%.

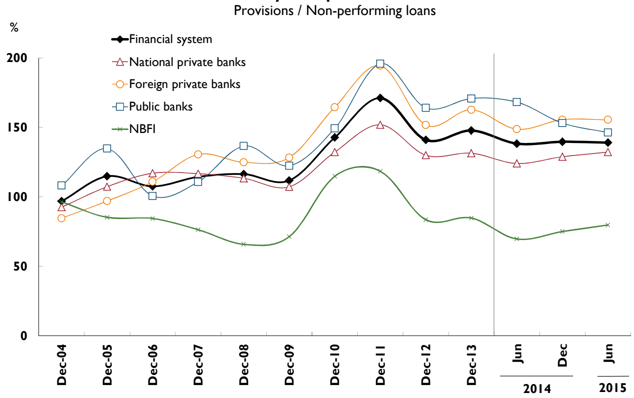
The financial system continued to show a highly hedge of the non-performing portfolio with accounting provisions, representing 139% of non-performing loans by mid- 2015 (see Chart V.14). Excluding minimum provisions required for performing loans, the coverage ratio of non-performing loans would reach around 87% for the ensemble of banks[96], up 37 p.p. if compared to the minimum level required for this segment.

[95] Taking into account the stock of loans to debtors in categories 3, 4, 5 and 6, according to standards for Debtors Classification.
[96] Taking into consideration provisions in excess of the minimum regulatory requirements.

Chart V.14

Provisions by Group of Financial Entities

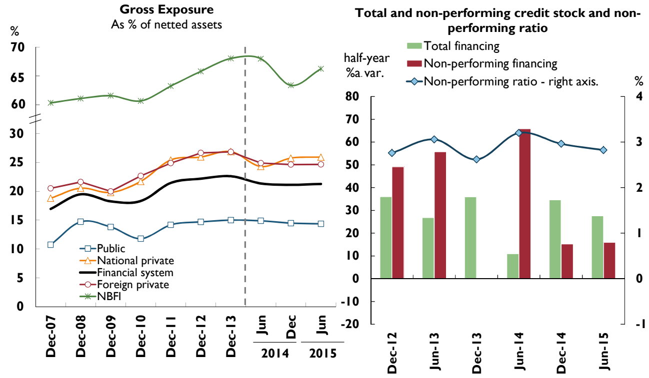
Provisions / Non-performing loans



Source: BCRA

Chart V.15

Households Financing

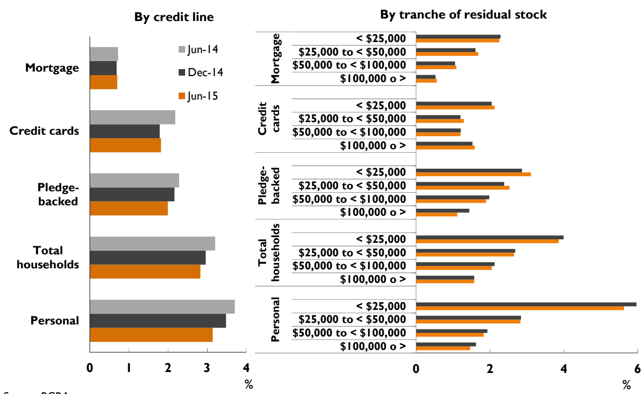


Source: BCRA

Chart V.16

Households' Non-performing Financing

Non-performing portfolio / Total financing (%) - Financial system



Source: BCRA

Households

The financial system exposure to households posted no significant changes with respect to the end of last year or if compared to mid-2014 (see Chart V.15), standing at 21.3% of netted assets. NBFI and private banks exhibited increases in the share of lending to households in their assets against December 2014, whereas public banks posted a slight decrease. It is worth considering that the levels of indebtedness of households continued to be moderate and so was the financial burden generated by them (see Chapter III), with a favorable contribution in terms of the payment capacity of this sector.

The non-performing loans to households shrank 0.2 p.p. out of the lending to this sector so far in 2015, down to 2.8% recorded in June. This decrease occurred in a context in which the growth pace of total loans to households exceeded the growth rate of non-performing loans (see Chart V.15). The drop in the non-performing ratio was mainly driven by the performance of personal and pledge-backed loans (see Chart V.16). Considering the loans to households by tranche of residual stock, segments below $100,000 have been, to a large extent, behind the evolution of the non-performing ratio so far in 2015.

It is estimated that households entering the financial system prior to 2010 explained around half of the total stock of loans to this segment outstanding as of June 2015 and would post a non-performing ratio below the average level. Considering loans to households by granting estimated period, it was noted that the semiannual decrease of the non-performing ratio would be driven by loans granted before 2013 and still in force —45% of the total as of June— (see Chart V.17), whereas loans generated in 2014 and 2015 kept an unchanged non-performing ratio level in the period.

Companies

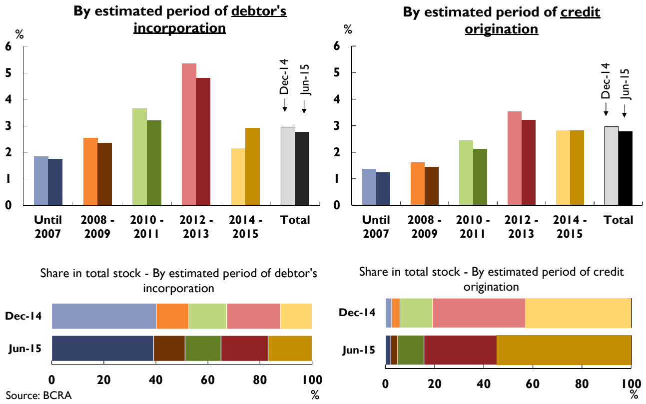
The weighting of loans granted by the financial system to companies[97] stood at 27% of netted assets at the end of the first half of 2015, up 0.3 p.p. against the level recorded by the end of 2014, and down 1.3 p.p. against the level of June 2014. This moderate increase so far this year occurred following the faster nominal growth pace of lending to companies (see Chapter IV). Except for national private banks, all the ensembles of banks increased their exposure to the productive sector in 2015 (see Chart V.18).

[97] Loans to companies comprise loans to legal persons and commercial loans to natural persons.

Chart V.17

Households' Financing - Non-performing Ratio

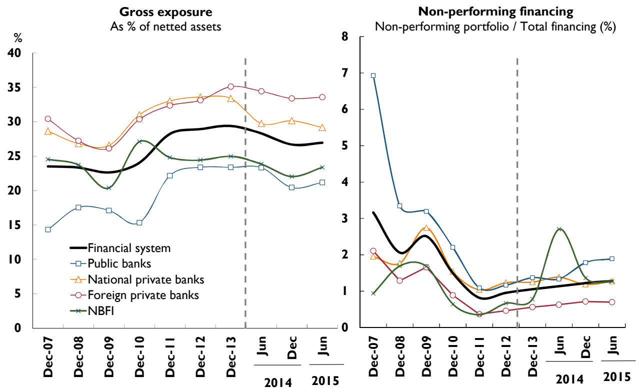
To December 2014 and June 2015



Source: BCRA

Chart V.18

Companies' Financing

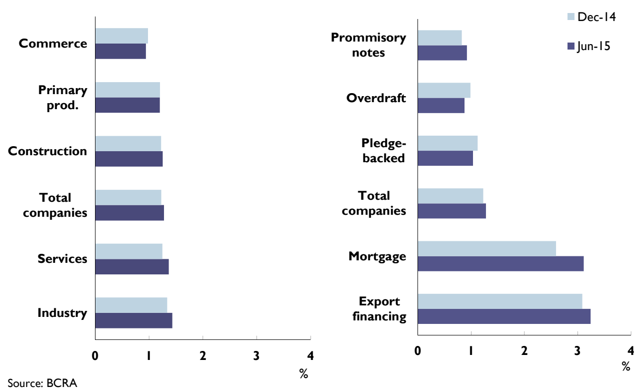


Source: BCRA

Chart V.19

Companies' Non-performing Financing by Economic Activity and Credit Line

Non-performing portfolio / Total financing (%)



Source: BCRA

The non-performing ratio of loans to companies stood at low levels and even lower than those for lending to households. From reduced levels, in the first half of 2015, the non-performing ratio in the segment of loans to the corporate sector rose slightly, reaching 1.3% of such portfolio by mid-2015. Against this backdrop, in the first half of the year, a drop was noted in the bouncing of checks due to non-sufficient funds in terms of amounts, even though this ratio rose slightly relative to cleared amounts (see Chapter VI).

All productive sectors maintained low levels as to lending in arrears and non-performing loans in this period (see Chart V.19). The slight increase in non-performance during the first half of 2015 was mainly due to the performance of service providers and industrial companies. By financing line, the non-performing ratio continued to be lower in the instruments most widely used by companies (overdrafts and promissory notes).

Upon breaking down the stock of non-performing loans to companies by situation, from December 2014 to June 2015, the share of debtors in categories 4 and 5 went up (+7.6 p.p., up to 75.4% of the total), to the detriment of debtors in category 3 (whose weighting went down to 24.6%).

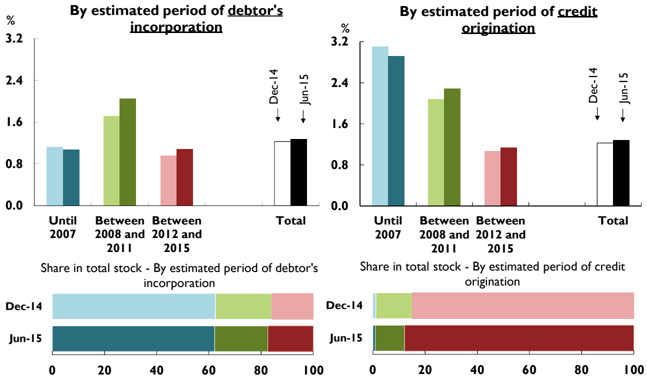
It is estimated that debtor companies entering the financial system until 2007 (62% of the total) and after 2012 (17% of the total) posted a lower non-performance ratio than the average for this sector (see Chart V.20). In turn, the slight semiannual increase of the non-performing ratio of lending to companies would be due to the performance of debtors entering the financial system between 2008 and 2011 (21% of the total). Besides, when considering the loans to companies outstanding as of June 2015 according to the estimated period of generation of stock, loans granted as from 2012 (almost 88% of the total) would post a delinquency rate lower than the average for this segment.

V.2.2 Public Sector

From moderate levels, the financial system exposure to the public sector rose slightly in the first half of the year. In June 2015, lending to the public sector reached 9.5% of the total assets of the ensemble of banks, up 0.5 p.p. against December 2014. Such variation occurred, partly, due to BONAC acquisitions by financial entities in auctions during the period (see Box 1). Public banks were behind the increase in the last half of the year, and explained most of this exposure.

Chart V.20

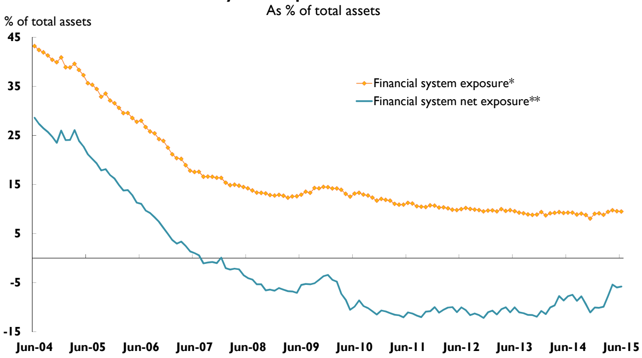
Companies' Financing - Non-performing Ratio
To December 2014 and June 2015



Source: BCRA

Chart V.21

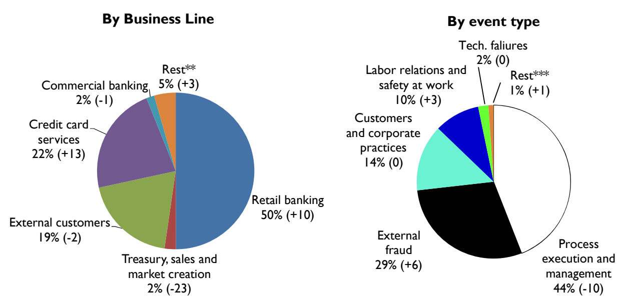
Financial System Exposure to the Public Sector
As % of total assets



*(Position in government securities (not including Lebac or Nobac) + Loans to the public sector) / Total Assets.
**(Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets.
Public sector includes all jurisdictions (national, provincial and municipal). Source: BCRA

Chart V.22

Financial System Operational Risk* Event Classification
Share % in the total value of events discovered in 2015 informed in Jun-15 - (y.o.y. var. in p.p.)



* Operational risk events database (IR for Quarterly / Annual Supervision). ** Rest: Agency services, Asset administration and intermediation . *** Rest: Impact in business and technological failures, internal fraud and material assets damages.
Source: BCRA

Around mid-2015, deposits of the public sector represented 15.3% of total funding —liabilities plus net worth— of the ensemble of financial entities, which level continued exceeding the lending by banks to this sector. Therefore, the financial system maintained a negative net exposure to the public sector, equivalent to 5.8% of total banking assets (see Chart V.21). Against December 2014, the share of deposits of the public sector went down 3.8 p.p. in total funding, which added to the increased financing to such sector resulted in a decrease —in absolute terms— of the financial system negative net exposure to the public sector.

V.3 Operational Risk

In line with the international recommendations, financial entities operating in the local market must comply with capital requirements to afford any potential losses originated in process, personnel and system failures, or else deriving from some external events. For the purposes of complying with such capital requirement, the BCRA had already outlined a gradual implementation schedule from 2012 until early 2015. Such capital requirement was defined in the Argentine prudential regulations according to the basic indicator approach, equivalent to 15% of the average of positive "gross income"[98] for the last three years. Given this general definition, as from March 2015 a limit was incorporated to the capital requirement for operational risk for smaller entities[99] (Groups "B" and "C"). In particular, for such entities, it was established that the operational risk requirement cannot exceed a percentage of the minimum capital requirement for credit risk.

In the first half of 2015, the relative share of capital requirement for operational risk fell slightly among the financial system capital requirements (see Chart V.2). Such requirement represented 19.8% of the regulatory minimum capital required in June 2015, down 0.5 p.p. against the level of December 2014. This decrease was mainly reflected on NBFI and, to a lesser extent, in national private banks, the groups with a higher share of entities for which the new regulatory limit was established.

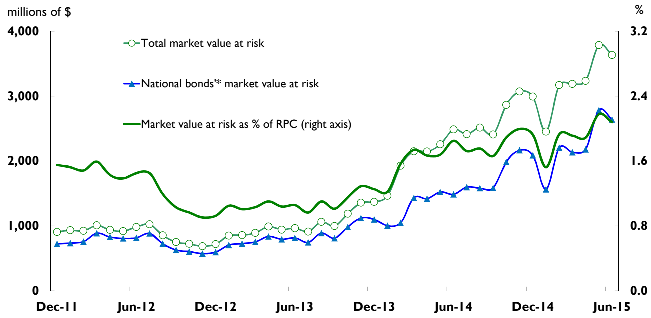
Among business lines, retail banking was behind half of the amount of operational risk events in the second quarter of 2015, followed by credit card services (see Chart V.22). The relative share of both business lines increased against the end of 2014, to the detriment of

98 "Gross income" includes financial income and income from services less financial expenses and expenses for services, and other earnings less other losses. These accounting items exclude certain concepts such as charges for creation of provisions. For further detail, see Restated Text "Minimum Capital Requirements of Financial Institutions."
99 Communications "A" 5737 and "A" 5746.

Chart V.23

Market Value at Risk

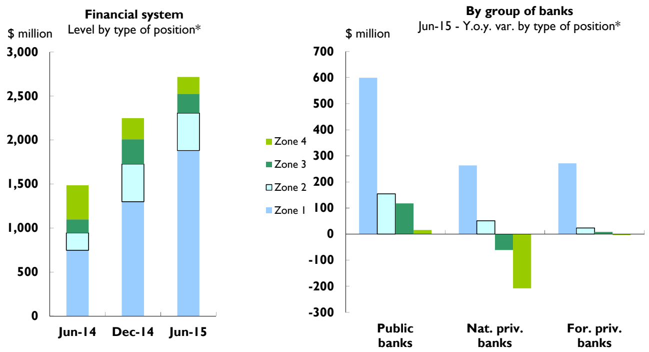
Total and national bonds'* capital requirements



*Included positions: (i) public bonds, LEBAC and NOBAC considered in the list of volatilities (issued by this Institution) and recorded to fair market value and (ii) share of MF which concern the securities and instruments mentioned previously.
Source: BCRA

Chart V.24

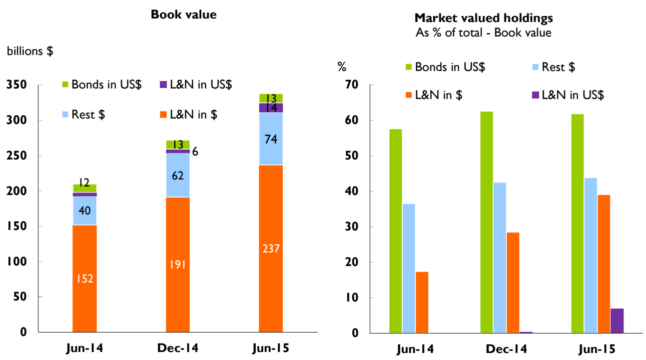
Capital Requirements due to National Bonds



*Types of position by Compiled texts of financial institution minimum capital requirements. Section 6. Bonds are classified depending their currency and their average term ("modified duration", MD): Zone 1 (pesos, MD less than 2.5 years), Zone 2 (pesos, MD more than 2.5 years), Zone 3 (dollars, MD less than 2.5 years) and Zone 4 (dollars, MD more than 2.5 years). Source: BCRA

Chart V.25

Public Bonds, LEBAC and NOBAC in Banks' Porfolio



Source: BCRA

treasury, sales and market making activity. Among the event types, execution, management and completion of processes continued to be the most relevant, even though it went down following an increase in the weighting of events related to external fraud and work safety and relationships.

V.4 Market Risk

Any adverse changes in the prices of the main financial assets may result in losses affecting the net worth position of banks. Given the current structure of the balance sheet of the Argentine financial system, this risk stands at reduced levels with a low share in the risk map of banks' exposures. In particular, by mid-2015, the value at risk stood at only 3.8% of the total capital requirement and 2.1% of RPC (Adjusted Stockholders-Equity) of the ensemble of financial entities (see Chart V.23), with an increase in the first half of 2015 that was mainly due to the component related to domestic bonds (as of June, they generated 73% of the total requirement for market risk). Within this group of assets, those in pesos with a modified duration shorter than 2.5 years were mainly behind the increase of the capital requirement for market risk, both in a semiannual and year-on-year comparison (see Chart V.24). This performance was reflected on all ensembles of banks.

Upon breaking down the different types of financial assets in terms of book value, both in the first half of the year and in the past twelve-month period, monetary regulation instruments posted the highest growth in the portfolio of banks (see Chart V.25). Moreover, the share of BCRA bills in pesos valued at market prices rose by 10.6 p.p. and 21.7 p.p. against the end of 2014 and June last year, respectively. In turn, as regards daily volatility of instruments on which the capital requirement for market risk is calculated, in the first half of the year, most of the main instruments in foreign currency posted a decrease, whereas the volatility of instruments in domestic currency showed a dissimilar performance (see Chart V.26).

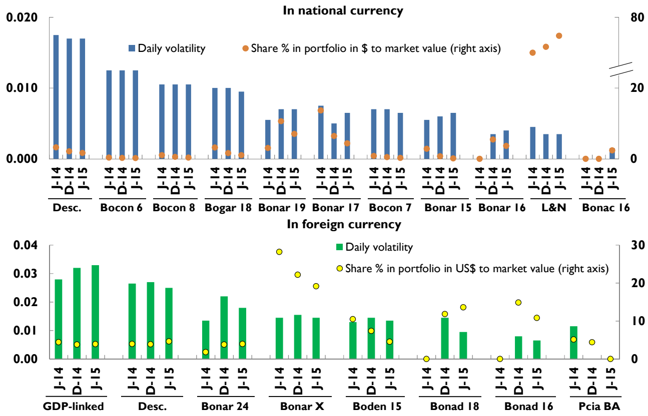
V.5 Currency Risk

The foreign currency positive mismatching of the financial system decreased slightly in the first half of the year. Such mismatching stood at 20.5% of the Adjusted Stockholders' Equity (RPC) in June for the ensemble of financial entities[100], down 1.3 p.p. against December 2014 (see Chart V.27). The decrease in the period was mainly due to RPC growth. All the ensembles of banks

[100] This mismatching does not exactly consider the regulatory definition of Net Global Position in Foreign Currency (PGNME) (since it takes into consideration neither the regulatory extensions of the limit nor any allowances granted).

Chart V.26

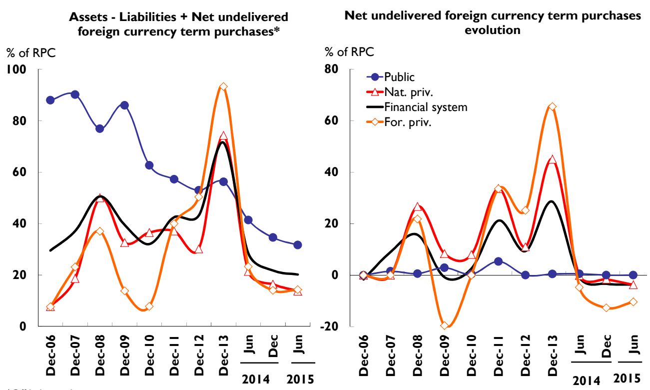
Main Market Valued Holdings



Source: BCRA

Chart V.27

Foreign Currency Mismatching

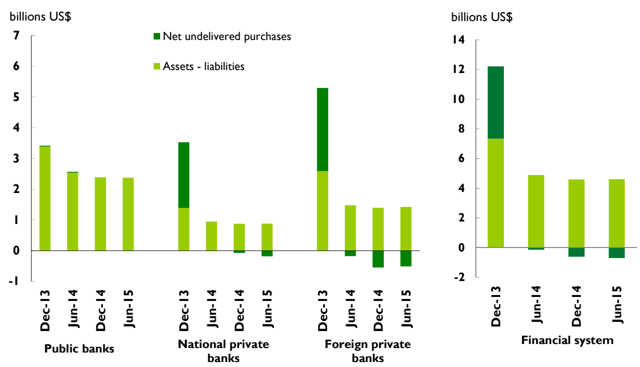


*Off balance sheet accounts
Source: BCRA

Chart V.28

Foreign Currency Mismatching* Composition

By group of financial entities



*Note: (Assets - Liabilities + Net undelivered foreign currency term purchases) / RPC.
Source: BCRA

continued posting a currency positive mismatching. In terms of composition, private banks maintained a currency short forward position in the first half of 2015 (see Chart V.28). As regards the aggregate mismatching, it is worth stating that the difference between assets and liabilities in foreign currency stood at 24.1% of RPC at the end of the six-month period, whereas the short forward position reached 3.7% of RPC.

Compared to the second half of 2013, the currency mismatching shrank 51 p.p. of RPC. This sharp decrease occurred in a context where macroprudential measures encouraged by the BCRA came into force and effect[101]. As a supplement to these measures, it is worth mentioning that local banks must comply with a capital requirement for currency risk. A large extent of the variation against 2013 was due to the effect of the reversal of the currency forward position of the ensemble of banks (see Chart V.28). In particular, most financial entities operating with foreign currency contracts in forward markets posted a net long position in December 2013, whereas around June 2015 a large portion of such banks posted a neutral or short net forward position[102] (see Chart V.29).

This lesser exposure to foreign currency risk occurred in a context of reduced volatility of the peso-dollar exchange rate throughout the first half (see Chart V.30). Afterwards, in early 2015, the financial system posted no significant balance sheet changes reflected on the respective items of the statement of income —exchange rate differences and adjustments for foreign currency forward transactions (see Chapter IV).

V.6 Interest Rate Risk

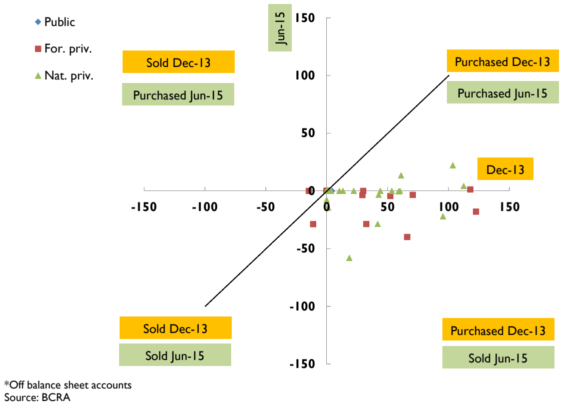
The risk inherent in a balance sheet with assets lasting longer than liabilities and assumed mainly at a fixed interest rate is called interest rate risk. As from early 2013, and in line with international standards, this risk became a requirement under Pillar 2 of Basel recommendations, related to the supervisory review process. Among other obligations, entities must have internal models measuring capital adequacy relative to the interest rate risk taken by them —also valid for other risks faced by banks. Among its powers, the supervisor may require, if necessary, a reduction of exposure to risk or an increase of capital requirement.

[101] Such measures included the reintroduction of a cap to the banks' positive Net Global Position in Foreign Currency (PGNME) and a limit on the foreign currency long forward net position for each entity.
[102] Regarding foreign currency forward transactions, it is worth stating that out of the total of active entities by mid-2015, 28 performed such transactions and most of them were private banks. Contracts traded in different ways —Futures Market (ROFEX), Electronic OTC Market (MAE) or directly with clients— by entities exhibited an average term from 4 to 5 months and, most of them, were transactions for intermediation purposes and, to a lesser extent, intended to obtain hedging.

Chart V.29

Net Undelivered Foreign Currency Term Purchases*

In % of RPC

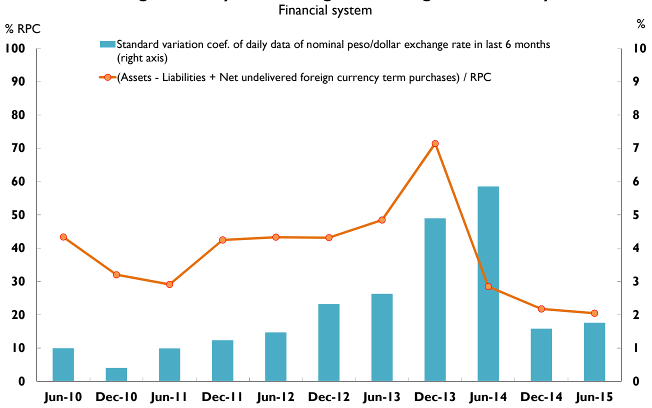


*Off balance sheet accounts
Source: BCRA

Chart V.30

Foreign Currency Mismatching and Exchange Rate Volatility

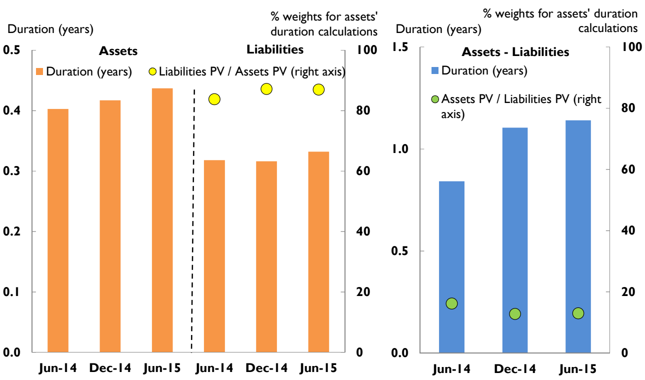
Financial system



Source: BCRA

Chart V.31

Estimated Domestic Currency Banking Book Portfolio Duration



Source: BCRA

Based on information available, the interest rate risk faced by the ensemble of financial entities posted no significant changes in the last six months (see Chart V.31), i.e. the sensitivity of the portfolio not valued at market price[103] upon interest rate changes stood practically stable. In particular, the estimated duration of the assets portfolio net of liabilities not valued at market price was 1.1 years, similar to the duration recorded by the end of 2014. In the first half of the year, the ensemble of banks posted no relevant variation in the time structure of future cash flows. Thus, both assets and liabilities without typical price posted a similar increase in the average term in this period.

For the purposes of follow-up and a better interest rate risk management, the BCRA established two criteria allowing for sizing the net worth impact that may occur in a context of adverse changes in the main interest rates; one of them measures the economic value upon an eventual 200 basis points (bp) rise in interest rates[104]. Considering this hypothetical exercise and given the structure of assets and liabilities of the ensemble of banks in June 2015, it is estimated that the economic value[105] would have decreased 1.69%, slightly above the value recorded by the end of last year.

[103] Usually called “banking book”.
[104] Communication “A” 5398. The other criterion established by the BCRA focuses on the annual change in interest rates recorded in the 99th percentile of moving distribution in the last five years. According to this criterion, the economic value of the financial system would have decreased 7.2%, slightly above the level recorded in December 2014.
[105] Value discounting cash flows reported by the ensemble of financial entities for the net portfolio (assets net of liabilities) not valued at market price.

Box 4 / Scope of Shadow Banking at International Level

The international crisis breaking out in 2007 exposed a set of risks associated with the financial deregulation processes conducted in past decades, which resulted in innovations not properly monitored and regulated. The growth recorded by the shadow financial system up to such point, parallel to the regulated traditional banking sector, was a significant source of systemic vulnerabilities. As a response, in recent years, G20 member countries made progress to perform a more adequate assessment of the shadow banking, and also to provide a higher degree of transparency in operation, in both developed economies (in which they were the central core of the crisis) and in emerging economies. In Argentina, the size of this type of intermediaries is relatively small, limiting its implications as a financial stability risk factor

In general, the shadow banking (SB) can be described as financial intermediation channeled out of the traditional banking system. This type of intermediaries may comprise small credit entities, Mutual Funds (FCI) and hedge funds, among others, and their relative importance varies from country to country. Even though the shadow banking may provide an alternative source of financial resources for companies and households (especially the segment that would otherwise have no access to bank lending), as well as new investment alternatives and tools for better risk management by investors, upon the advent of the international crisis it was evident that it may become an important source of systemic risks. These risks increase when assuming excessive mismatching in term conversion, high leverage levels, non-transparent accounting practices, in a context in which strong interconnection links are created with the traditional banking system. The shadow banking may also create arbitrage opportunities since, in general, they are segments subject to flexible, or even non-existent, regulatory frameworks, thus encouraging the avoidance of banking regulations that are intended to prevent and contain the accumulation of financial risks.

In the specific case of the financial crisis breaking out in early 2007, risks related to the SB started to become evident at a time when a remarkable increase in risk aversion worldwide was verified, and this situation led to a mass withdrawal of funds from certain positions deemed to be speculative. To face such outflows, SB participants had to make important sales of assets with the resulting negative impact on their prices, thus eroding the balance sheets of such entities and of their main shareholders (e.g. banks). Thus, actions taken by the SB (with high levels of interconnection with traditional banks —among which liquidity contingent lines stood out—, opaque balance sheets and government structures, having no access to liquidity mechanisms provided by Central Banks), heightened the financial uncertainty scenario. This context led authorities of advanced economies to use liquidity sources to rescue financial entities and also to mitigate the effects of a crisis that turned out to be systemic.

As a response to this situation, at the Seoul Summit in November 2010, G20 member countries agreed on "strengthening the regulation and oversight of shadow banking" and asked the Financial Stability Board (FSB) —in collaboration with other international bodies— to prepare recommendations for such purpose. In particular, in 2011, the FSB designed a list of initial recommendations to improve the SB oversight and regulation. The first step was to coordinate an annual exercise for data collection, for the purpose of data aggregation and subsequent analysis of SB systemic risks. This exercise was first conducted in 2012, and by 2015, it covered 26 jurisdictions that represented around 81% of global GDP and 89% of international financial system assets.

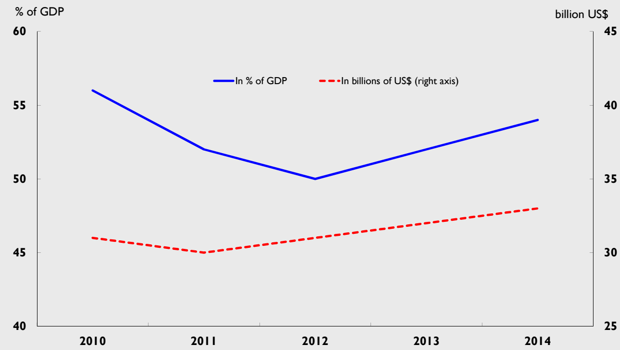
The main objective of such exercise was to create a global map allowing for homogeneous consolidation of information available on the assets of banking and non-banking intermediaries in each member country of the FSB. It sought to guarantee that the collection and monitoring of data would contemplate the SB, and therefore, it would be possible to have broader knowledge on its potential associated risks, and to be able to make progress in the strengthening of oversight and regulation.

According to the exercise conducted by the FSB in 2015 (with 2014 data), financial assets classified as SB reached around US$33 trillion in the aggregate of the 26 jurisdictions analyzed. This size has gradually increased in recent years.

Taking into account information collected so far by the FSB, generally speaking, a positive correlation may be seen between the increase of the SB and the economic growth of countries, even though this is not a cause-effect relationship. Moreover, the SB has expanded at a faster pace than global economy, reaching 54% of global GDP in 2014 (50% in 2012) (see Chart B.4.1). On the other hand, the SB size has been quite constant relative to total financial assets, standing at around 11% (see Chart B.4.2).

Chart B.4.1

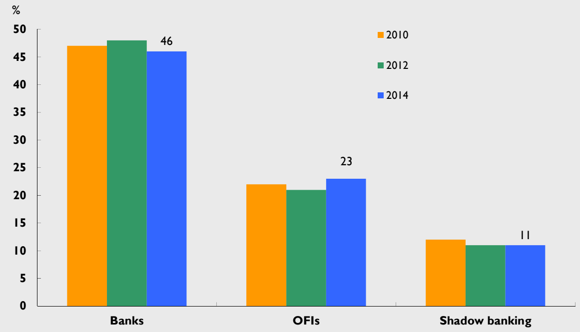
Shadow Banking at International Level



Source: FSB based on information from different jurisdictions

Chart B.4.2

Total Financial Assets Composition
In % of total



Note: OFIs (Other Financial Intermediaries)
Source: FSB based on information from different jurisdictions

It is worth mentioning that the characteristics of the SB in the different countries are extremely heterogeneous. The United States continues to account for more than 40% of global SB assets, reaching US$13.9 trillion in 2014. Japan and China are in the second and third position with US$3.2 and US$3.0 trillion, respectively. The Euro Zone concentrated 22% of SB assets for the last year of available information. In terms of GDP, in Ireland, the Netherlands and the United States, the SB stood at 466%, 108% and 80%, respectively, whereas in countries such as Argentina, Brazil, Indonesia, Russia, Saudi Arabia, Singapore and Turkey, it accounts for less than 10% of GDP. In practically all jurisdictions reporting to the FSB, the banking sector size significantly exceeds that of the shadow banking system.

In emerging economies (EMEs), financial intermediation is, in general, dominated by the traditional banking, exceeding the financing depth through capital markets. In these economies, the SB nature poses challenges different from those existing in advanced countries, since it features less sophisticated markets and financial instruments, and it is smaller in size as well. In general, the SB comprises institutions focused on the provision of alternative financing sources such as leasing and factoring companies, credit cooperatives and micro-finance companies, among others. Even though the SB in EMEs has posted a significant growth rate in recent periods, it is also true that it does so from a very low initial level.

In the specific case of Argentina, the size of the SB is relatively small: this financial intermediation reached US$32.17 billion, or 6.3% of GDP, in 2014, with a 15.5% increase against the previous year. The largest portion —47% of the total— corresponds to mutual funds (FCI). The second position is for financial trusts (32% of the total), followed by credit cards closed system (non-banking) with 12%, cooperatives and mutual associations with 8%, and leasing and factoring companies, with 1%. It must be pointed out that, even though according to the FSB's definition these assets are considered within the SB, this does not necessarily mean that these sectors lack any regulations. For instance, FCI and financial trusts are regulated by the National Securities Commission (CNV) and cooperatives and mutual associations are subject to regulations from the National Institute of Associations and Social Economy (INAES), whereas the BCRA regulates any relationships between such entities and financial institutions. In this respect, for the specific case of financial trusts, since financial entities regulated by the BCRA usually hold part of the instruments issued, in recent years the BCRA increased the hedging for this potential interconnection risk, establishing that banks must hold capital in terms of the total credits transferred to a financial trust, and not only on their balance sheet holdings. In turn, in 2014, the BCRA regulated access to bank lending of non-financial credit providers (including mutual associations, cooperatives and credit and charge card issuers, among other providers), that must register with the BCRA and submit information (especially, about the interest rates agreed on their transactions); otherwise, their access to bank funding is restricted.

Moreover, even though the interconnection between different segments of the local financial sector has grown in recent years, the capacity of the BCRA and the CNV to control exposure to systemic risk improved as well. In this respect, such Institutions have been working jointly with other regulatory bodies such as the National Insurance Superintendence (SSN) in order to identify, properly assess and mitigate any sources of systemic risk that may appear. In this context, the BCRA gathers information from time to time that it shares with other local authorities (other regulatory bodies and the Ministry of Economy) and with foreign regulators as well. The BCRA has entered into agreements for cooperation and exchange of information with the CNV and the SSN, under which they reciprocally agree to facilitate any relevant information. These agreements are intended to contributing to the fulfillment of their respective duties and to encouraging a proper operation of financial entities, as well as of insurance and capital markets.

To sum up, the SB in Argentina has differential characteristics, as well as a significantly lesser complexity and size than in advanced countries; precisely, the latter factors resulted in the regulatory response by G20 member countries. With this framework, added to its low size relative to GDP and the monitoring capacity of domestic regulatory and supervisory agencies, it is possible to outline a very low risk of SB on the domestic conditions for financial stability. That notwithstanding, the BCRA will continue monitoring not only the interconnection between conventional banking and the shadow banking, but also all means of financial intermediation, for the purpose of timely detecting any new vulnerabilities and indications of systemic risk accumulation for financial stability in Argentina.

VI. Payment System

Summary

Throughout 2015, the Central Bank of Argentina continued modernizing the National Payment System (NPS). To this effect, it kept implementing measures devoted to offering safer and quicker means of payment that promote financial inclusion. Within this framework, the use of electronic means of payment alternative to cash has expanded.

From January to July 2015, the number of bank third party transfers continued growing, recording a positive year-on-year (y.o.y.) change of 26.1% in aggregate (39.6% in amount). This growth mainly resulted from instant fund transfers –a methodology boosted by the BCRA–, which went up 33.6% in 2015 (up 10 percentage points -p.p.-) against the performance observed in the year before). Home-banking transactions still account for more than 66% of total instant transfers (47% in amount) and a gradual rise of the weight of mobile banking has been noticeable on the margin, even though still from low levels.

By early 2015, the BCRA increased the daily limit of free-of-charge electronic transfers for the user to $50,000. Thus, between January and July, around 98% of instant transfers were free of charge, standing above the percentages of previous years. Likewise, this cost exemption was extended to transactions made through bank cashiers, while the transactions made in foreign currency were also included in this cost scheme.

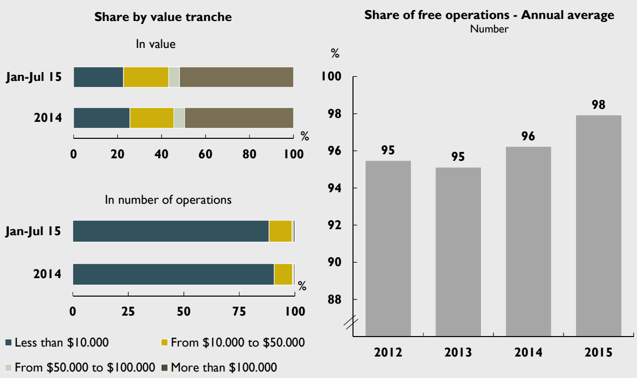
Besides, in July 2015, the BCRA required financial entities to admit instant transfers of funds originated in ATMs for amounts of at least $50,000 –per day and per account– (the previous ceiling was $20,000) and US$ 5,000 for transactions in foreign currency (the previous limit was US$2,500). Additionally, instant transfers in euros were also authorized.

Although checks continued to be an important payment instrument and money transfer method, their use has undergone a gradual reduction. From January to July 2015, the number of cleared checks recorded a drop of 2% against the same period of 2014 while, in terms of amounts, their use has also fallen in terms of GDP (standing, in the aggregate of the last 12 months, at 43% of GDP, down 0.7 p.p. and 2.4 p.p. against 2013 and 2011, respectively). If the different means of payment other than cash are considered, instant transfers are gaining share in terms of the total number of transactions (from levels lower than those of checks).

The BCRA continued making progress in the modernization of the NPS. As regards the procedure to clear checks, the exchange circuit of bounced document images has been simplified. Based on the additional powers granted to the Central Bank by its new Charter, the activity of armored funds and securities carriers started to be regulated. In turn, progress was made in the implementation of the Basic Principles for Financial Market Infrastructures.

Chart VI.1

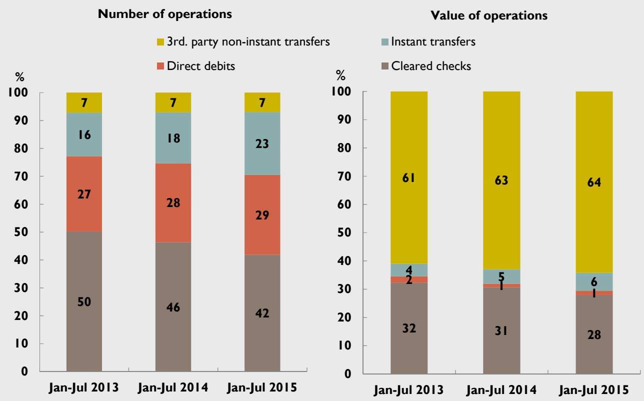
Instant Transfers



Source: BCRA

Chart VI.2

Use of Means of Payment



Source: BCRA

VI.1 National Payment System

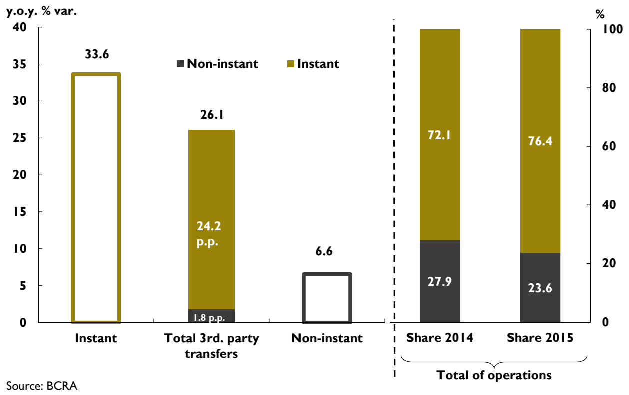
The BCRA continued implementing measures to offer safer and quicker means of payment that promote financial inclusion. Thus, this Institution continues promoting the modernization of the National Payment System (NPS) to favor a growing use of electronic means of payments alternative to cash.

Bank third party transfers continued growing in 2015[106]. From January to July, the number of transfers went up 26.1% year-on-year (y.o.y.) –39.6% in amount– against the same period of 2014 (see Chart VI.3), gaining momentum against the evolution observed in 2014. Instant transfers[107], which went up 33.6% y.o.y. in the aggregate of the first seven months of the year (up 10% against the figures recorded in 2014), were the main reason behind the rise in the number of third party transfers. As a result, instant transfers accounted for almost 93% of the year-on-year rise of the total number of third party transfers in the first months of the year, accounting for 75% of total transfers (up over 4.7 p.p. y.o.y.).

Chart VI.3

Third Party Transfers by Type

Number of operations - Accumulated January-July

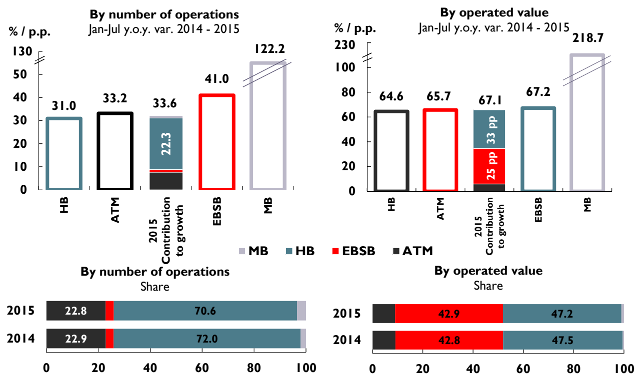


Source: BCRA

In the first half of the year, instant transfers through home banking evidenced a slightly lower increase than the remaining available channels (ATMs, business e-banking and mobile banking (see Chart VI.4). Nevertheless, home banking transactions still account for two thirds of total instant transfers (47% in terms of amount). In turn, while the share of transfers through ATMs[108] remained almost unchanged in terms of instant transfers (22.8% of total transactions), mobile banking share increased almost 1.4% to 3.4% of total instant transfers as a result of its outstanding growth (122% y.o.y. in the number of transactions).

Chart VI.4

Instant Transfers by Channel



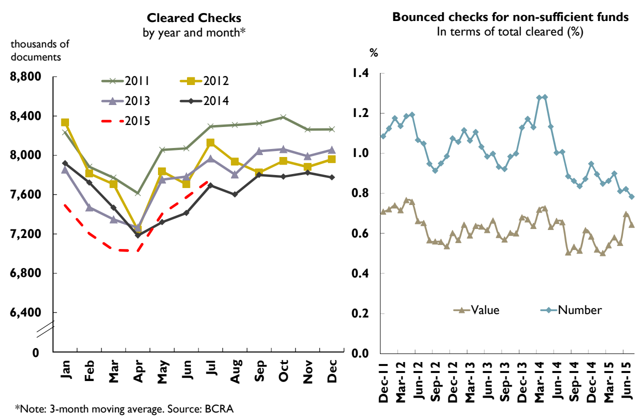
Note: Home banking (HB), Automated Teller Machine (ATM), Electronic Banking Services for Bussines (EBSB), and Mobile Bank (MB). Source: BCRA

By early 2015, the BCRA increased the daily electronic transfers at no cost for the user to $50,000 (since September 2013, such amount had been $20,000). Therefore, from January to July 2015, around 98% of electronic instant transfers were free of charge (see Chart VI.1), standing above the figure recorded in previous years. Likewise, in 2015, this Institution extended the cost exemption to transactions made through bank cashiers (with the same maximum amount[109]) and incorporated transactions in foreign currency into this cost scheme.

[106] Transfers made by banks on behalf and to the order of their clients, excluding payments to suppliers as well as the payment of wages, family allowances, pensions and retirements, taxes, court deposits and any type of garnishment.
[107] They comprise transfers made by: online banking (home-banking), self-service ATMs and ATMs, business e-banking and mobile banking.
[108] It comprises ATMs and self-service ATMs.
[109] Communication “A” 5718 and Press Release “P” 50526.

Chart VI.5

Checks

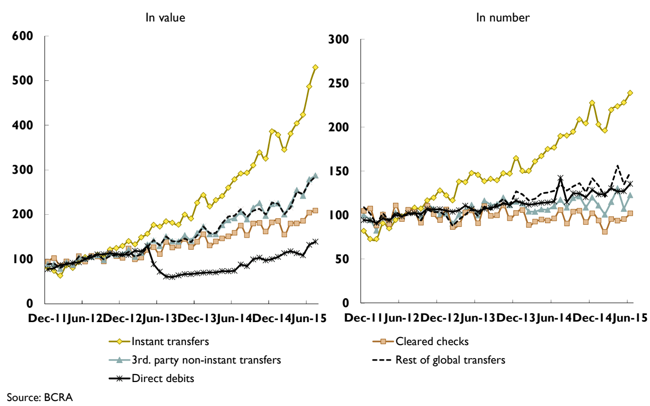


*Note: 3-month moving average. Source: BCRA

Chart VI.6

Use of Means of Payment's Evolution

Index number / base: 2012 = 100



Source: BCRA

In addition to redesigning the scheme of commissions for transfers, in July 2015, the BCRA required financial entities to admit instant fund transfers through ATMs – per day and account– for at least $50,000 (to such date, the limit had been $20,000)[110] and US$5,000 for transactions in dollars (the previous ceiling had been US$2,500). Besides, transfers in euros were recently authorized for up to €5,000 through ATMs and €12,500 through home-banking.

From January to July, the number of cleared checks recorded a fall of around 2% against the same period of 2014 (see Chart VI. 5), exhibiting a decline in the ratio of bounced checks for non-sufficient funds in the same period –bounced checks increased slightly in terms of the value of the traded amount, even though standing at low levels. Although, in terms of amount, cleared checks rose in the same period (almost 23%), these instruments reduced their relative share in the means of payment used, as evidenced by their ratio to GDP: in the aggregate of the last 12 months, they stood at 43% of GDP, down 0.7 p.p. and 2.4 p.p. against 2013 and 2011, respectively. This declining trend is in line with the situation observed in previous years and is in part due to a higher use of the available electronic means of payment.

As already mentioned in previous issues of this Report, instant third party transfers have expanded more markedly on the margin –in terms of both number and amount– (see Chart VI.6) than non-instant third party transfers, checks and direct debits. This evolution mirrors the advantages in the use of instant transfers as instruments to make economic transactions because they are simpler to perform and more secure for fund channeling due to their online crediting. Consequently, instant transfers are gaining share among all payment methods alternative to cash now available to the population, reaching 23% of total transactions made so far in 2015, almost 7 p.p. above the figure recorded in the same period of 2013 (see Chart VI.2). On the opposite front, the share in the use of checks continued to decline, recording a drop of over 8 p.p. in the same period, even though checks are still the payment tool with the highest share among all payment alternatives under analysis (42% of the total), followed by direct debits (28.7% of the total with a gradual increase in recent years) and non-instant third party transfers (7%). The latter[111] stands out in terms of transaction amounts (64% of the total), followed by checks (28%), a segment that is also losing share against previous years, giving

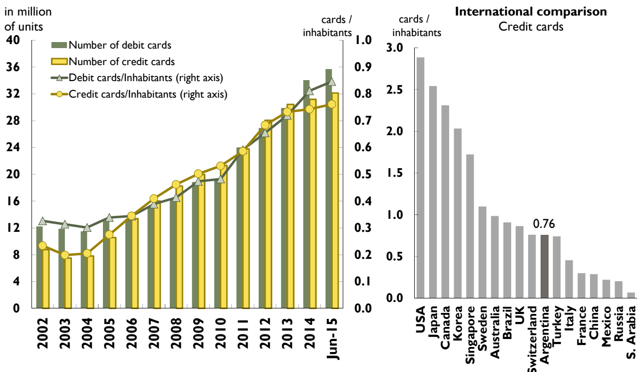
[110] Communication "A" 5778 and Communication "A" 5780

[111] Generally used by companies to perform sizable fund transfers.

rise to a gradual growth of instant transfers (6.4% of the total).

Chart VI.7

Credit and Debit Cards



Note: Argentina: December of each year/ Credit Cards Data up to 2013, except Japan and USA up to 2012 and Saudi Arabia up to 2009.
Source: BCRA and BIS.

So far in 2015, the number of credit and debit cards continued expanding and went up 8.1%a. in the first half of the year, exhibiting a percentage change that significantly exceeds the figure of 2014 (4.6%a.). Two thirds of the increase recorded in the first half of 2015 were explained by the performance of debit cards, which increased 9.8%a. (more than doubling the evolution observed in the first half of 2014: 4%a.), while credit cards grew 6.2%a. (standing slightly above the figure recorded in the same period of 2014) (see Chart VI.7). Public banks continued boosting the availability of debit cards while private banks were the main factor behind the expansion of credit cards. Both types of cards continued expanding their ratio relative to total population, recording a number of cards per inhabitant of 0.85 in the case of debit cards and 0.76 per inhabitant in the case of credit cards. These numbers have almost doubled if compared to those of 2007/2008.

The number of transactions made through the Electronic Means of Payment (MEP)[112] rose 3.8% y.o.y. from January to July 2015 –44.7% in terms of amount–, reinforcing the growth pace observed in previous periods. In terms of GDP, the total traded amount through MEP is estimated to have reached 310% in July 2015 –in the aggregate of 12 months– (see Chart VI.8), thus evidencing a sustained growth.

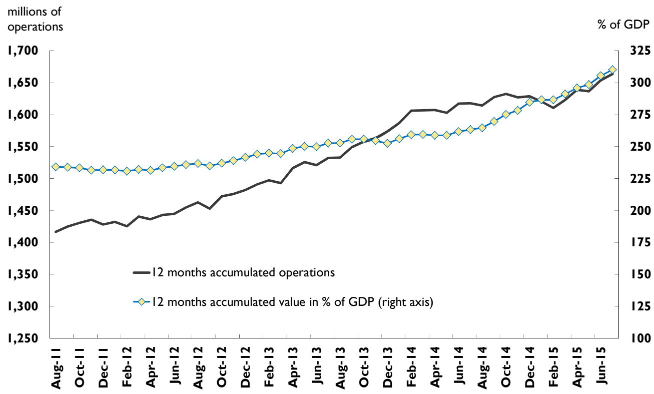
VI.2 Payment System Modernization

Last April, the BCRA made progress to optimize the circuit for the exchange of images of bounced checks for the reasons[113] that must be reported to the BCRA's Bounced Checks Database[114] (due to non-sufficient funds and formal vices in their its drafting). In the past, the depositary entity was responsible for forwarding the image to the drawee entity. After the implementation of this modification, now images are obtained by the Electronic Clearing House of the Database of Images, which manages and sends the images to the drawee banks. As a result, the circuit has been remarkably simplified, reducing the tasks of depositary entities, speeding up bounced checks management and improving efficiency.

[112] MEP system is operated by the BCRA, financial entities and Electronic Clearing Houses (C.E.C.). MEP allows financial entities to make transfers in real time through the current accounts recorded with the BCRA and they can simultaneously get information about the available balances in each of their accounts.
[113] Communication "B" 10988.
[114] Restated text "Information Database".

Chart VI.8

Electronic Means of Payment - Peso Transactions Cleared



Source: BCRA

In terms of international standards, progress was made in the implementation of the Basic Principles for Financial Market Infrastructures[115]. Particularly, the self-assessment stage of the systemically-important Financial Market Infrastructures under the BCRA's regulatory scope has been completed and later on a regulation[116] was issued to define the process to identify weaknesses and opportunities for improvement. Within this framework, the self-assessment, adjustment and disclosure mechanisms were defined, which must now be adopted by the Financial Market Infrastructures to prevent risks and deepen their information transparency. Likewise, an initial list has been created of the Financial Market Infrastructures that must comply with the abovementioned principles within the framework of a periodic comprehensive review and bearing in mind the guidelines defined in the abovementioned regulation[117]. As a result, the BCRA has become one of the first central banks in the world to formally adopt these principles.

Based on the additional powers granted to the BCRA by its new Charter passed in early 2012, the activity of armored funds and securities carriers started to be regulated[118]. In the past, this activity was regulated by segmented rules passed by different public authorities for particular aspects under their jurisdiction. This new regulation has included the definition of the parties subject to it, differentiating between service providers and entities operating on their own. At the same time, the regulation describes the services they may provide and the conditions they must fulfill to operate in the market. Additionally, it also includes the supervision, surveillance and auditing tasks to be performed by the BCRA as well as the information regime to be implemented and the sanctions that may be applicable. Through this regulation, the application of the provisions of the Act on Financial Institutions has been extended to Armored Funds and Securities Carriers.

On the other hand, the BCRA continues working to modernize Argentina's payment structure on the basis of the creation of an Integrated Payment System (IPS) aimed at standardization and integration, boosting interoperability and facilitating open access to markets by the different payment-system providers. This purpose is being tackled by the Interbank Commission on Means of Payment of the Republic of Argentina (CIMPRA), fostering cooperation and competence in agreement with best practices.

[115] From the Committee on Payments and Market Infrastructures of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO)
[116] Communication "A" 5775.
[117] Communication "B" 11056.
[118] Communication "A" 5792.

Statistics Annex* – Financial System

Chart 1 | Financial Soundness Indicators

As %	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Jun 2014	Dec 2014	Jun 2015
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.7	26.8	26.8	24.5	26.2	22.4
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.1	10.7	9.7	9.4	9.2	9.0	9.5
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	47.4	49.5	50.9	47.7	45.8	46.2
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.4	1.7	1.7	2.0	2.0	1.9
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-3.5	-2.9	-2.9	-2.8
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.7	2.9	3.4	4.8	4.1	3.7
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	25.3	25.7	29.5	38.3	32.7	29.3
8.- Efficiency	151	167	160	167	185	179	179	190	206	229	215	202
9a.- Capital compliance	-	-	-	-	-	-	-	-	13.6	14.1	14.7	14.5
9b.- Capital compliance (credit risk)	15.9	16.9	16.9	16.9	18.8	17.7	15.6	17.1	-	-	-	-
10a.- Capital compliance Tier I	-	-	-	-	-	-	-	-	12.5	13.1	13.7	13.6
10b.- Capital compliance Tier I (credit risk)	14.1	14.1	14.6	14.2	14.5	13.0	11.0	11.9	-	-	-	-
11.- Excess capital compliance	169	134	93	90	100	87	69	59	76	83	90	90

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.

Source: BCRA

Methodological note

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.gob.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	Dec 13	Jun 14	Dec 14	Jun 15	Changes (in %)	
										2015	**Last 12 months**
Assets	**346,762**	**387,381**	**510,304**	**628,381**	**790,026**	**1,004,892**	**1,143,608**	**1,340,548**	**1,513,104**	**12.9**	**32.3**
Cash disposal[1]	58,676	71,067	93,085	104,389	148,254	200,925	187,058	234,283	220,858	-5.7	18.1
Public bonds	65,255	86,318	117,951	112,906	123,491	141,494	229,282	291,483	363,783	24.8	58.7
Lebac/Nobac	37,093	43,867	76,948	71,050	84,057	89,641	173,815	215,141	276,343	28.4	59.0
Portfolio	25,652	34,748	61,855	59,664	70,569	88,091	153,618	187,973	241,933	28.7	57.5
Repo[2]	11,442	9,119	15,093	11,386	13,488	1,550	20,197	27,168	34,410	26.7	70.4
Private bonds	203	307	209	212	251	434	593	1,602	1,553	-3.1	161.7
Loans	154,719	169,868	230,127	332,317	433,925	563,344	598,476	666,260	760,163	14.1	27.0
Public sector	17,083	20,570	25,907	31,346	39,951	48,438	50,635	51,470	60,897	18.3	20.3
Private sector	132,844	145,247	199,202	291,708	383,674	501,857	535,043	604,062	687,834	13.9	28.6
Financial sector	4,793	4,052	5,018	9,263	10,299	13,049	12,798	10,729	11,432	6.6	-10.7
Provisions over loans	-4,744	-5,824	-6,232	-7,173	-9,596	-13,117	-15,203	-17,054	-18,869	10.6	24.1
Other netted credits due to financial intermediation	38,152	33,498	39,009	40,805	38,769	42,435	67,591	74,383	87,959	18.3	30.1
Corporate bonds and subordinated debt	912	1,146	1,433	1,657	2,255	5,421	4,716	5,853	4,853	-17.1	2.9
Unquoted trusts	5,714	5,942	6,824	7,967	10,822	12,656	12,888	12,759	12,173	-4.6	-5.5
Leasing	3,935	2,933	3,936	6,222	7,203	9,460	9,933	10,578	11,484	8.6	15.6
Shares in other companies	7,236	6,711	7,921	9,123	11,682	15,117	18,210	20,770	23,054	11.0	26.6
Fixed assets and miscellaneous	7,903	8,239	9,071	10,111	11,251	14,231	15,850	19,505	22,467	15.2	41.7
Foreign branches	3,153	3,926	3,283	3,525	4,354	5,627	6,998	7,243	7,586	4.7	8.4
Other assets	12,275	10,337	11,943	15,944	20,441	24,941	24,820	31,495	33,065	5.0	33.2
Liabilities	**305,382**	**339,047**	**452,752**	**558,264**	**699,205**	**883,091**	**997,373**	**1,172,335**	**1,322,333**	**12.8**	**32.6**
Deposits	236,217	271,853	376,344	462,517	595,764	752,422	831,674	979,388	1,111,820	13.5	33.7
Public sector[3]	67,151	69,143	115,954	129,885	163,691	202,434	194,441	255,914	230,935	-9.8	18.8
Private sector[3]	166,378	199,278	257,595	328,463	427,857	544,331	629,467	714,878	870,805	21.8	38.3
Current account	39,619	45,752	61,306	76,804	103,192	125,237	138,108	166,663	183,768	10.3	33.1
Savings account	50,966	62,807	82,575	103,636	125,210	158,523	185,782	215,132	259,003	20.4	39.4
Time deposit	69,484	83,967	104,492	135,082	183,736	241,281	284,442	309,353	399,578	29.2	40.5
Other netted liabilities due to financial intermediation	57,662	52,114	60,029	76,038	75,106	92,634	123,371	138,058	157,069	13.8	27.3
Interbanking obligations	3,895	3,251	4,201	7,947	8,329	10,596	10,196	7,639	8,090	5.9	-20.7
BCRA lines	1,885	270	262	1,920	3,535	4,693	4,798	4,209	3,697	-12.2	-22.9
Outstanding bonds	5,984	5,033	3,432	6,856	9,101	14,198	16,029	18,961	18,651	-1.6	16.4
Foreign lines of credit	4,541	3,369	3,897	6,467	4,992	6,328	10,995	10,106	15,564	54.0	41.6
Other	13,974	14,891	17,426	24,137	26,280	41,345	39,512	51,539	49,383	-4.2	25.0
Subordinated debts	1,763	1,922	2,165	2,065	2,647	3,425	4,049	4,445	4,903	10.3	21.1
Other liabilities	9,740	13,159	14,213	17,644	25,688	34,610	38,279	50,444	48,542	-3.8	26.8
Net worth	**41,380**	**48,335**	**57,552**	**70,117**	**90,820**	**121,800**	**146,235**	**168,213**	**190,770**	**13.4**	**30.5**
Memo											
Netted assets	321,075	364,726	482,532	601,380	767,744	989,825	1,103,869	1,295,450	1,452,850	12.2	31.6
Consolidated netted assets	312,002	357,118	472,934	586,805	750,598	968,458	1,081,593	1,273,631	1,429,810	12.3	32.2

(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

Statistics Annex* – Financial System (cont.)

Chart 3 | Profitability Structure

Amount in million of pesos	Annual							Half-year			Changes (%)	
	2008	2009	2010	2011	2012	2013	2014	I-14	II-14	I-15	I-15 / II-14	I-15 / I-14
Financial margin	20,462	28,937	35,490	43,670	61,667	88,509	130,405	66,295	64,110	76,933	20.0	16.0
Net interest income	9,573	14,488	17,963	24,903	38,365	50,336	65,206	29,886	35,320	37,075	5.0	24.1
CER and CVS adjustments	2,822	1,196	2,434	1,725	2,080	2,153	4,402	2,729	1,673	1,418	-15.2	-48.0
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	4,127	11,287	13,812	11,014	2,799	3,164	13.0	-71.3
Gains on securities	4,398	11,004	13,449	14,228	17,356	22,280	44,198	18,741	25,457	37,473	47.2	100.0
Other financial income	1,362	-339	-457	-211	-261	2,454	2,786	3,925	-1,139	-2,197	92.9	-156.0
Service income margin	10,870	13,052	16,089	21,391	28,172	36,503	47,972	22,071	25,901	28,199	8.9	27.8
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-6,127	-9,349	-10,857	-5,323	-5,535	-6,224	12.5	16.9
Operating costs	-18,767	-22,710	-28,756	-36,365	-47,318	-60,722	-83,117	-38,631	-44,487	-52,089	17.1	34.8
Tax charges	-2,318	-3,272	-4,120	-6,047	-8,981	-13,916	-19,586	-9,329	-10,257	-11,330	10.5	21.4
Adjust. to the valuation of gov. Securities[1]	-1,757	-262	-214	-336	-338	-377	-906	-544	-362	-324	-10.4	-40.4
Amort. payments for court-ordered releases	-994	-703	-635	-290	-274	-128	-81	-41	-41	-28	-31.4	-31.8
Other	1,441	918	2,079	2,963	2,475	2,576	4,473	2,585	1,888	3,285	74.0	27.1
Total results before tax[2]	6,100	12,145	16,665	21,251	29,276	43,094	68,302	37,084	31,218	38,422	23.1	3.6
Income tax	-1,342	-4,226	-4,904	-6,531	-9,861	-13,951	-22,365	-12,004	-10,361	-13,203	27.4	10.0
Total result[2]	**4,757**	**7,920**	**11,761**	**14,720**	**19,415**	**29,143**	**45,937**	**25,079**	**20,857**	**25,220**	**20.9**	**0.6**
Adjusted Result[3]	7,508	8,885	12,610	15,345	20,027	29,649	46,925	25,665	21,260	25,572	20.3	-0.4
Annualized indicators - As % of netted assets												
Financial margin	6.7	8.6	8.5	8.0	9.2	10.3	11.7	12.6	10.8	11.3	0.5	-1.3
Net interest income	3.1	4.3	4.3	4.6	5.7	5.9	5.8	5.7	6.0	5.4	-0.5	-0.2
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.4	0.5	0.3	0.2	-0.1	-0.3
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	1.3	1.2	2.1	0.5	0.5	0.0	-1.6
Gains on securities	1.4	3.3	3.2	2.6	2.6	2.6	4.0	3.6	4.3	5.5	1.2	2.0
Other financial income	0.4	-0.1	-0.1	0.0	0.0	0.3	0.2	0.7	-0.2	-0.3	-0.1	-1.1
Service income margin	3.6	3.9	3.8	3.9	4.2	4.3	4.3	4.2	4.4	4.1	-0.2	0.0
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.9	-1.1	-1.0	-1.0	-0.9	-0.9	0.0	0.1
Operating costs	-6.1	-6.7	-6.9	-6.7	-7.0	-7.1	-7.4	-7.3	-7.5	-7.7	-0.1	-0.3
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.3	-1.6	-1.8	-1.8	-1.7	-1.7	0.1	0.1
Adjust. to the valuation of gov. Securities[1]	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.1
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.3	0.5	0.5	0.4	0.3	0.4	0.5	0.3	0.5	0.2	0.0
Total results before tax[2]	2.0	3.6	4.0	3.9	4.3	5.0	6.1	7.0	5.3	5.6	0.4	-1.4
Income tax	-0.4	-1.3	-1.2	-1.2	-1.5	-1.6	-2.0	-2.3	-1.8	-1.9	-0.2	0.3
ROA[2]	**1.6**	**2.3**	**2.8**	**2.7**	**2.9**	**3.4**	**4.1**	**4.8**	**3.5**	**3.7**	**0.2**	**-1.0**
ROA adjusted[3]	2.5	2.6	3.0	2.8	3.0	3.5	4.2	4.9	3.6	3.8	0.2	-1.1
ROE before tax	*17.2*	*29.5*	*34.5*	*36.5*	*38.8*	*43.7*	*48.6*	*56.6*	*41.6*	*44.7*	*3.1*	-11.9
ROE [2]	*13.4*	*19.2*	*24.4*	*25.3*	*25.7*	*29.5*	*32.7*	*38.3*	27.8	*29.3*	*1.5*	-9.0

(1) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(2) 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.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 4 | Porfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13	Jun 14	Dec 14	Jun 15
Non-performing loans (overall)	**5.2**	**3.4**	**2.7**	**2.7**	**3.0**	**1.8**	**1.2**	**1.5**	**1.5**	**1.8**	**1.8**	**1.8**
Provisions / Non-performing loans	115	108	115	117	115	148	176	144	150	140	142	141
(Total non-perfoming - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.7	-0.8	-0.7	-0.7	-0.7
(Total non-perfoming - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.6	-3.4	-3.7	-3.1	-3.1	-2.9
Non-performing loans to the non-financial private sector	**7.6**	**4.5**	**3.2**	**3.1**	**3.5**	**2.1**	**1.4**	**1.7**	**1.7**	**2.0**	**2.0**	**1.9**
Provisions / Non-performing loans	115	108	114	116	112	143	171	141	148	138	140	139
(Total non-perfoming - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-1.0	-0.7	-0.8	-0.8	-0.8	-0.8
(Total non-perfoming - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-3.5	-2.9	-2.9	-2.8

Source: BCRA

Abbreviations and Accronyms

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.

LIBOR: London Interbank Offered Rate**.**

m.a.: Moving average.

M2: Currency held by public + quasi-monies + $ saving and current accounts.

M3: Currency held by public + quasi-monies + $ total deposits.

MAE: *Mercado Abierto Electrónico*. Electronic over-the-counter market.

MAS: Mutual Assurance Societes.

MC: Minimum cash.

MEC: Electronic Open Market.

MECON: Ministerio de Economía y Producción. Ministry of Economy and Production.

MEP: *Medio Electrónico de Pagos*. Electronic Means of Payment.

MERCOSUR*: Mercado Común del Sur***.** Southern Common Market.

MERVAL: *Mercado de Valores de Buenos Aires.* Executes, settles and guarantees security trades at the BCBA.

MEXBOL: *Índice de la Bolsa Mexicana de Valores.* México Stock Exchange Index.

MF: Mutual Funds.

MIPyME: *Micro, Pequeñas y Medianas Empresas.* Micro, Small and Medium Sized Enterprises.

MOA: *Manufacturas de Origen Agropecuario.* Manufactures of Agricultural Origin.

MOI: *Manufacturas de Origen Industrial.* Manufactures of Industrial Origin.

MP: Monetary Program.

MR: Market rate.

MRO: *Main refinancing operations.*

MSCI: Morgan Stanley Capital International.

NA: Netted assets.

NACHA: National Automated Clearinghouse Association.

NBFI: Non-Bank Financial Institutions (under Central Bank scope)

NBFI : Non-Bank Financial Intermediaries (out of Central Bank scope)

NDP: National public debt.

NFPS: Non-financial national public sector's.

Nobac: *Notas del Banco Central*. BCRA notes.

NPS: National Payments System.

NW: Net worth.

O/N: Overnight rate.

OCT : *Operaciones Compensadas a Término***.** Futures Settlement Round.

OECD: Organization for Economic Co-operation and Development.

ON: *Obligaciones Negociables*. Corporate bonds.

ONCCA: *Oficina Nacional de Control Comercial Agropecuario*

OS: *Obligaciones Subordinadas*. Subordinated debt.

P / BV : Price over book value.

p.p.: Percentage point.

Par: Par bond.

PGN: *Préstamos Garantizados Nacionales.* National Guaranteed Loans.

PF: Pension Funds.

PPP: Purchasing power parity.

PPS: Provincial public sector.

PS: Price Stability.

PV: Par Value.

q.o.q: quarter-on-quarter % change.

REM: BCRA Market expectation survey.

ROA: Return on Assets.

ROE: Return on Equity.

Rofex: Rosario Futures Exchange.

RPC: *Responsabilidad Patrimonial Computable*. Adjusted stockholder's equity, calculated towards meeting capital regulations.

RTGS: Real-Time Gross Settlement.

s.a.: Seasonally adjusted.

SAFJP: *Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones.* Superintendence of Retirement and Pension Funds Administrations.

SAGPyA: *Secretaría de Agricultura, Ganadería, Pesca y Alimentos.* Secretariat for agriculture, livestock, fisheries, and food.

SEDESA: *Seguro de Depósitos Sociedad Anónima.*

SEFyC: Superintendence of Financial and Exchange Institutions.

SIOPEL: *Sistema de Operaciones Electrónicas.* Trading software used on the over-the-counter market.

SME: Small and Medium Enterprises.

SSN: *Superintendencia de Seguros de la Nación.*

TA: *Adelantos transitorios del BCRA al Tesoro*. Temporary advances.

TD: Time Deposits.

TFC: Total financial cost.

TGN: *Tesorería General de la Nación.* National Treasury

UFC: Uniform Federal Clearing.

UIC: Use of Installed Capacity.

UK: United Kingdom.

US$: United States dollar.

US: United States of America.

UTDT: Universidad Torcuato Di Tella.

VaR: Value at Risk.

VAT: Value added Tax.

WB: World Bank.

WPI: Wholesale Price Index.

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