Financial Stability Report

December 2021

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Preface

The purpose of the Central Bank of Argentina (BCRA) "is to promote monetary stability, financial stability, employment and economic development with social equity, to the extent of its powers and within the framework of the policies established by the National Government" (Article 3 of the Charter). In general terms, there are financial stability conditions when the financial system as a whole can provide services for financial intermediation, hedging and payments in an adequate, efficient and ongoing manner, even in adverse operating contexts.

For the financial system to contribute to economic development with social equity, financial stability is a priority –by providing adequate means to save, enhancing the possibilities of production and consumption and allocating resources more efficiently—, and the system must be deep and inclusive.

In its regular transactions, the financial system is exposed to different types of risks that the system needs to manage. The interaction among exogenous risk factors, vulnerability sources and elements of resilience defines a specific level of systemic financial risk. Within the context of such interaction, an eventual materialization of the risk factors will result in some impact on the financial system and on the economy at large.

The policies of the BCRA seek to limit systemic risk, preserve stability and promote higher levels of depth and inclusion in the financial system. Thus, the BCRA implements a micro and macroprudential approach tending to limit such vulnerabilities and to enhance the resilience of the system. This includes the continuous monitoring of the financial system's soundness and the exercise of its powers as regulator, supervisor and liquidity provider of last resort.

In this context, the BCRA publishes its Financial Stability Report (IEF) every six months to inform about its assessment of the stability conditions and explain the policy measures implemented to such effect. The IEF is underpinned by the assessment of the domestic and global macroeconomic conditions made in the Monetary Policy Report (IPOM). The Financial Stability Report provides information and analysis to the different agents of the financial system and is designed to be an instrument to encourage public debate on aspects related to financial stability and, especially, on the Central Bank's actions on such matter.

The next issue of the IEF will be published in June 2022.

Autonomous City of Buenos Aires, December 16, 2021.

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Access the data series through the following link.

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

The Central Bank of Argentina is committed to encouraging the use of a non-discriminatory language that promotes the acceptance of all gender identities. It should be noted that all those who have contributed to this report acknowledge that language influences on ideas, feelings, ways of thinking, as well as principles and core values.

Therefore, efforts have been made to avoid sexist and binary language.

Executive Summary

During 2021, a year characterized by the progress made in terms of reopenings and recovery of the domestic economy, the aggregate financial system developed its activities related to financial intermediation and provision of payment services uninterruptedly. In turn, the ensemble of financial institutions has managed to keep remarkable levels of resilience, within a context of sizable levels of liquidity, provisioning and capital, which were observed even before the COVID-19 times and continue to be in place in order to face any vulnerability feature. The abovementioned added to the benefits of having a regulatory framework consistent with international standards and underpinned by the financial policies implemented by the Central Bank of Argentina (BCRA) to face the shock.

The domestic economic activity resumed the recovery path in the third quarter of the year —even though with a heterogeneous performance at sectoral level— after the impact of the second wave of the pandemic. As a result, GDP growth forecasts for the entire year 2021 are standing at around 9%, an evolution that will be boosted by a greater flexibilization of activities due to the growing percentage of vaccinated people and the benefits of the public policies implemented. The measures adopted by the BCRA continued underpinning the economic activity recovery in recent months, thus averting any permanent damages to the private sector of the economy that might have been caused by the pandemic context. As a result, the BCRA kept the main pillars of its prudential policy, seeking to boost lending to companies and households under flexible financial conditions, mitigate the financial situation of the sectors that are still recovering, strengthen saving in domestic currency, sustain the robustness of institutions and calibrate foreign exchange regulations in order to promote an efficient use of international reserves.

Our domestic financial markets have exhibited a mixed performance in recent months, even though the Treasury managed to carry out auctions with good results in terms of refinancing. The objective of making progress in the building of a new curve in pesos that may be attractive and sustainable over time, as well as consistent with the situation and the perspectives of the domestic market, is still in place. Public policies continue fostering the development of a more efficient and deeper capital market. In this sense, financing to the private sector through the domestic capital market exhibited some signs of progress in the second half of the year. Nevertheless, the size of this market continues to be relatively limited, and it still has sizable room for growth so that it may act as a supplement to the banking market to finance investment in the medium and long run.

The Argentine financial system preserves features of robustness against a set of exogenous risk factors that might eventually adversely affect its normal operation. One of the main sources of risk continues to be a potential change in the health-related situation (due to the effects of new variants of the virus), in a scenario that might end up conditioning the evolution of the domestic economy. In turn, the recent episodes of heightened volatility in some segments of the domestic financial markets have added up to the incidence of other factors such as the expectations about an agreement with the International Monetary Fund (IMF) in the next months or the seasonal dynamics of the foreign exchange market, among other. Likewise, the risk of a worsened external context has increased on the margin due to both the news about the pandemic in the Northern Hemisphere and a greater likelihood of monetary policy corrections by advanced economies (which would imply higher interest rates in international markets, an appreciation of the dollar at global level and a contraction of commodity prices). All of the above would occur in a context where there are still significant vulnerabilities at global level, including the existence of high prices in some financial markets, a growing leverage worldwide, as well as economic sectors still undergoing a delicate economic-financial situation due to the shock. These global vulnerability factors are accompanied by a significant expansion of non-banking financing in recent years (mainly boosted by investment funds), a factor that amplifies the global financial procyclicality and renders portfolio movements among countries more volatile. This could give rise to new and sudden reversals of flows to emerging countries, which are episodes with an acute negative impact such as the one evidenced in early 2020.

In general terms, the trade-off between the financial system's potential sources of vulnerability and its elements of resilience showed some improvement if compared to the previous Financial Stability Report (IEF), especially due to the consolidation of these elements. This evolution occurred in a context where the activity of the financial system continued to be mainly focused on the transactional segment, with relatively low-complexity products, limited interconnectedness channels and a shallow economic level. All these factors tend to limit any potential systemic impact.

In fact, there was a slight reduction of vulnerability resulting from the system's balance sheet exposure to the aggregate credit risk of companies and households (standing at a moderate level —below 31% of assets— and declining) together with a rise in balance sheet exposure to the public sector. This evolution has occurred in a context characterized by a rise in the non-performing stock of loans to the private sector since the first quarter of 2021, a situation that was likely to occur given the target of the financial aid measures adopted. Despite the abovementioned increase in the non-performing ratio, it is worth mentioning that, in August and September, this ratio contracted slightly and it is therefore an indicator to be monitored in the next few months. Even though it is still standing at limited levels, this potential vulnerability of the financial system would continue to be the most relevant in relative terms in 2022 and might be adversely affected by any of the risk factors mentioned above (particularly those related to economic performance and its spillover to debtors' payment capacity). In order to cope with these potential scenarios, the ensemble of financial institutions has kept high coverage levels via provisioning as well as an appropriate capital compliance (which has been growing in recent months), within a framework of low-to-moderate indebtedness levels of both companies and households and the positive effects of the financial relief measures boosted by the BCRA.

As usual in financial systems, the evolution and composition of funding is another potential source of relative vulnerability for the ensemble of institutions at domestic level, within a context where, unlike the previous IEF, there was a recomposition of funding via private sector deposits in pesos in real terms during the second and third quarters of 2021. Eventual episodes of volatility in the domestic financial markets —one of the risks mentioned above— might impact the demand for deposits in the ensemble of financial institutions, in terms of both volume and composition. To face eventual situations of this kind, it is noteworthy that the financial system has kept high and growing levels of coverage with appropriate margins of liquid resources, and has sizably complied with the minimum requirements in terms of the liquidity ratios recommended by international standards.

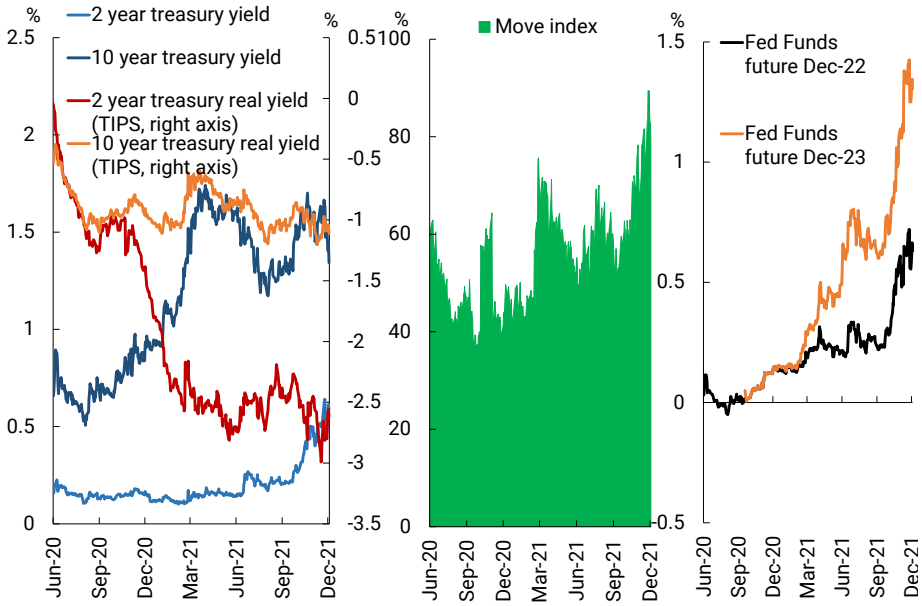
Lastly, another potential source of vulnerability of the financial system is the performance of the domestic intermediation process of resources, which has grown moderately in relative terms in recent months. In the third quarter of 2021, the stock of lending in pesos to the private sector went up in real terms, after two quarters of contraction. Any eventual weakness in the financial intermediation process because of the materialization of any of the abovementioned risk factors —especially in terms of the economic activity performance— might have an impact on the institutions' traditional sources of income. If this hypothetical scenario held true, it would occur in a context where the financial system shows relatively high capital levels and a sectoral profitability with a positive sign in recent times. In this respect, it is also worth considering that the credit stimulus measures adopted by the BCRA, jointly with the National Executive Branch (PEN), will continue to have positive effects on financial intermediation and, consequently, on the recovery of our domestic economy.

Looking forward, the BCRA anticipates that the aggregate of financial institutions will have a high level of resilience in 2022, even if any of the risk factors mentioned above held true. The current economic recovery, added to the soundness of the Argentine financial system and the measures adopted by the BCRA to keep the pillars of its prudential policy, will continue fostering improvements in the development of the sector with a positive impact on the performance of the economy as a whole.

1. International and Local Context

The international context has kept a positive bias in general terms since the publication of the previous Financial Stability Report (IEF). The global economy continued recovering, though at a slower pace, due to the new outbreak of the COVID-19 pandemic and the existence of bottlenecks in the supply chains worldwide. There is still a dissimilar growth pace between developed and emerging nations. The economic recovery and the increase in commodity prices related to energy (until mid-November) [1] have heightened inflationary pressures at global level. Since advanced economies have largely kept their stimulus policies, the risk perception (commonly assessed via the VIX Index) in international financial markets remained at limited levels during most part of the period under analysis. Nevertheless, the perceived risk started to go up by late November due to the concern about the new variant of COVID-19 (Omicron). Against this backdrop, the prices of financial assets exhibited a heterogeneous performance in terms of segments and markets.

Chart 1 |Yields in nominal and real terms - treasuries



Source: BCRA based on Bloomberg.

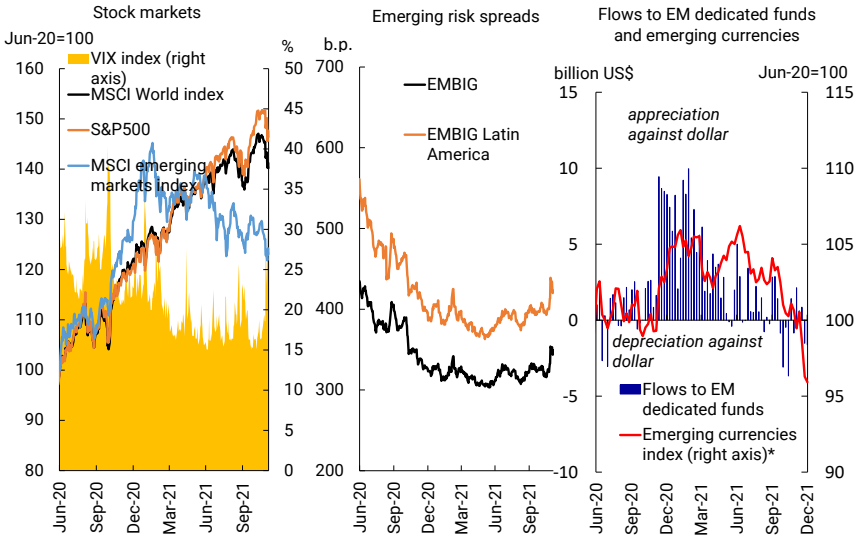
In the face of growing inflation pressures in advanced economies, the yields of their sovereign bonds have widened in recent months. Particularly, in the case of the United States, there has been a context of higher expected volatility and rise of short- and long-term yields in the Treasury's instruments market since mid-September (which initially implied a flattening of the yield curve), followed by a partial reversal in November and early December (see Chart 1). This rise was in line with a greater focus of investors on the possibility of rises in the monetary policy rate as from 2022, after the announcement made by the Federal Reserve (FED) in November where it stated its intention to start reducing asset purchases as from such month (a bias that

1 Soybean price continued going down during the second half of the year. See Monetary Policy Report.

was stressed even more at the meeting held in December).[2] As a result, there was a deepening of a trend that was already being observed: an appreciation of the US dollar against the remaining currencies.

As mentioned in previous releases of the IEF, the regularization of monetary stimulus policies in advanced nations would give rise to sudden changes in terms of market expectations, posing a challenge for financial stability worldwide, given the existence of various vulnerabilities with potential spillover effects on emerging economies. These vulnerabilities include high prices in several segments of global markets (such as the stock market and the corporate debt market) with a certain level of decoupling from the economic fundamentals, which may therefore result in sudden corrections.[3] This situation is accompanied by a growing leverage at global level while there are still some segments of the corporate sectors whose results are still endangered by the pandemic.[4] The rise of non-banking financing in recent years is another vulnerability factor, which is led by the industry of investment funds with a procyclical performance and a special incidence on the portfolio movements between jurisdictions (thus increasing the chance of sudden changes in the flows intended for emerging countries).

Chart 2 | International financial markets – selected variables



* J.P. Morgan Emerging Market Currency Index (EMCI).
Source: BCRA based on Bloomberg, J.P. Morgan and Standard Chartered (based on EPFR).

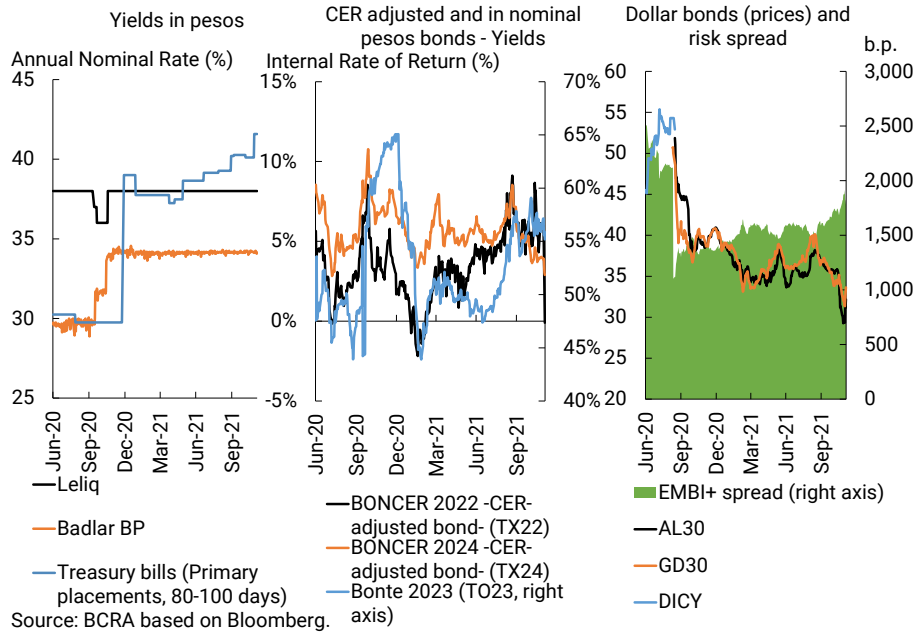
During the second half of 2021, emerging economies accumulated drops in the stock indices measured in dollars (12% according to the MSCI Emerging Markets (EM) until late November, see Chart 2) and a rise in the margins required in the sovereign debt secondary markets (60 basis

2 Process known as tapering. With asset purchases amounting to US$120 billion per month until November, the FED will start to reduce this monthly amount by US$15 billion per month. More recently, at the meeting held in December, the FED decided to reduce the monthly amount of purchases by US$30 billion per month. Additionally, at this meeting, the members of Federal Open Market Committee (FOMC) showed projections of more aggressive rate increases for 2022.
3 For example, S&P 500 and Eurostoxx 50 have accumulated increases in dollars of 22% and 6% so far (until late November) while the price-to-earnings ratio, cyclically adjusted, is standing at relatively high levels in both cases.
4 This situation increases the concern about the possibility of a significant rise in defaults cases, or that large companies may have payment difficulties. For example, in September, there was an episode of heightened uncertainty in the international markets due to the situation of a huge Chinese company (Evergrande), and the company finally failed to pay in December.

points (bp) at the EMBIG). Since June, investment funds specializing in emerging markets have accumulated net inflows in aggregate terms, with inflows into funds specializing in shares, partially offset by outflows from funds specializing in debt. Nevertheless, so far in the second half of 2021, emerging countries' debt issues in primary markets have stood at levels close to those observed in pre-COVID-19 times.[5]

At domestic level, the economic activity resumed the recovery path in the third quarter within a context still conditioned by the pandemic and by the transition resulting from the adoption of policies to cope with the macroeconomic imbalances in place before the COVID-19 shock.[6] The momentum of the economic activity is expected to continue improving, underpinned by the flexibilization of activities and maximum capacity (occupancy) on the basis of the progress made in the vaccination campaign and the evolution of the epidemiological situation, especially benefiting the sectors hardest-hit by the pandemic (such as recreational activities or tourism-related services). Moreover, in recent months, new stimulus measures to give support to several productive and social sectors were announced, aimed at boosting a sustainable and inclusive economic growth without neglecting the sustainability of public accounts. In the case of the financial sector, the measures adopted to foster lending to the private sector stand out, such as the "Credit Line for Productive Investment (LFIP) of MSMEs" for the 2021/2022 period, the "2021 Zero Interest Rate Credit Line" and the extension of the "Ahora 12" Plan for purchases with credit card until late January 2022.

Chart 3 | Interest rates and fixed income instruments in Argentina



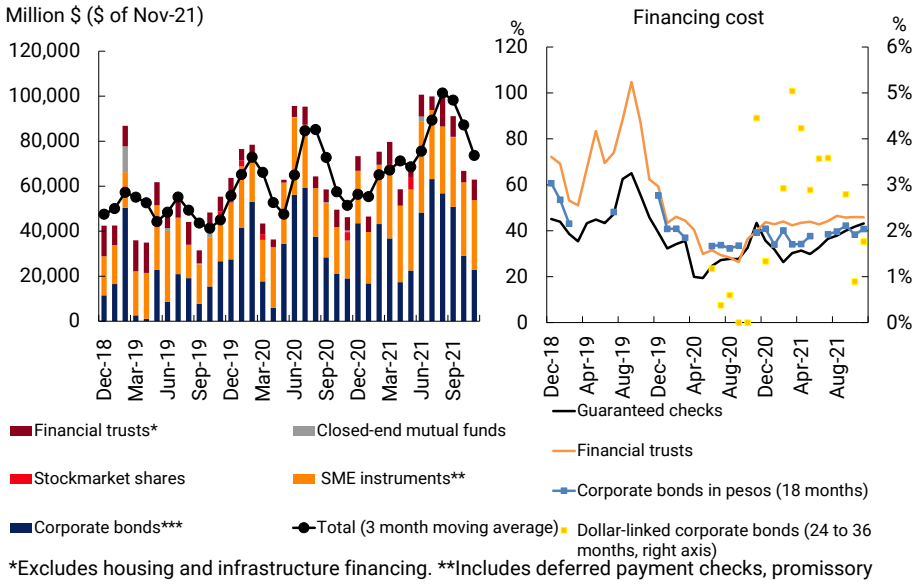
Source: BCRA based on Bloomberg.

The variables related to the domestic financial markets have continued exhibiting a mixed performance since the publication of the previous IEF (see Chart 3). The Argentine Treasury kept

5 Although corporate issues still prevail in emerging markets (over 70% of total issues between July and November), an increase on the margin is observed in the share of sovereign issues (in recent months with a growing weight of countries with investment grade).
6 For further detail, see the latest issues of the Monetary Policy Report.

accessing domestic funding, mainly through bills, with good results in refinancing terms (amount issued-to-maturity ratio). Issue yields went up gradually with a view to making progress in the construction of an attractive and sustainable curve, consistent with the situation and the perspectives inherent in the domestic market. It is worth stating that the Market Makers Program was launched in August for the purpose of generating liquidity and facilitating purchase and sale transactions of Treasury instruments (see Exhibit 1). As regards secondary markets, in recent months, there has been a rise in the yields of Treasury instruments in pesos in nominal terms, with a steepening of the curve in the case of LEDES (bills with the highest liquidity) while, in the case of CER-adjusted instruments, yields have tended to narrow. In turn, the yields of bonds in US dollars have widened (on the basis of international prices), resulting in an increase of the Argentine EMBI's spread. All of the above occurred in a context of ongoing negotiations with the IMF to reach an agreement and a heightened volatility in foreign exchange expectations, typical of electoral processes. As a result, the BCRA calibrated its intervention in the spot and forex futures markets and also adapted foreign exchange regulations. Likewise, in October and November, the National Securities Commission (CNV) adopted a series of provisions on tradable securities to be settled in foreign currency in order to reduce the volatility of financial variables and contain the impact of financial flows fluctuations on the real economy.[7]

Chart 4 | Financing to the private sector through the domestic capital market



*Excludes housing and infrastructure financing. **Includes deferred payment checks, promissory notes and credit notes. ***Excludes swap operations and debt restructurings.
Source: BCRA based on BCBA, CNV and MAVSA.

Lastly, lending to the private sector through the domestic capital market continued to go up in the second half of 2021, even though the size of this market is still small if compared to that of other emerging economies and, as a result, it has a remarkable room to deepen its development and act as a supplement of the financial system to finance investment in the medium and long run. Between July and November, the aggregate lending amount through this market (in gross terms)

7 In turn, in the stock market, the Merval index has expanded 13% measured in US dollars (considering the MEP price) since late June. This was accompanied by an increase in the volume traded, even though it still stands below the recent maximum values reached in 2018.

recorded a year-on-year (y.o.y.) rise of 35% against the same period of 2020 and of 11% against the previous five months in real terms (see Chart 4), even though with a growing cost, in general terms, for the main instruments in pesos. The rise in amounts issued was widespread across instruments (Corporate Bonds, financial trusts, deferred payment checks, promissory notes and credit invoices)[8] in year-on-year terms; in fact, corporate bonds stood out as the main financing instrument (see Exhibit 2). In the segment of SMEs, the momentum observed in the transactions made with promissory notes is especially remarkable, even though the deferred payment checks continue to be the main instrument (with over 70% of the amounts arranged via E-CHEQs).

2. Main Strengths of the Financial System Given Current Risks

During the second half of 2021, the financial system operated without disruptions, keeping a high coverage and a moderate exposure to the risks faced. The economic context where the financial system operated has regularized gradually, in parallel with the important progress made in the vaccination campaign against COVID-19. Particularly, there was a rise of the aggregate activity level with improvements in a growing number of productive sectors and an increasing flexibilization of mobility for people to resume their onsite jobs. Against this backdrop, the National Government and the BCRA have adopted a strategic focus in the assistance programs to the private sector in the context of the pandemic.[9]

Table 1 | Main indicators of the financial system's soundness

	Financial system			State-owned banks			Domestic private banks			Foreign private banks			Non-Banking financial institutions		
	Sep-20	Mar-21	Sep-21	Sep-20	Mar-21	Sep-21	Sep-20	Mar-21	Sep-21	Sep-20	Mar-21	Sep-21	Sep-20	Mar-21	Sep-21
Liquidity															
Liquidity Coverage Ratio*	2.1	2.2	2.4	1.9	2.0	2.2	1.9	2.1	2.4	2.4	2.6	2.6	-	-	-
Net Stable Funding Ratio* (1)	1.9	1.9	1.9	1.8	1.9	1.8	1.9	2.0	2.1	2.0	1.9	2.0	-	-	-
Broad liquidity / Deposits (%)	66.0	66.0	68.8	56.5	57.4	59.1	70.9	71.8	75.2	74.4	72.9	75.9	42.5	38.8	41.6
In $	61.6	61.5	65.0	54.6	55.2	56.7	64.9	66.0	70.3	69.2	67.4	72.2	28.2	29.4	28.0
In US$	84.2	84.6	86.2	65.8	68.8	71.8	98.3	98.2	100.5	90.4	89.0	88.6	254.6	210.0	256.1
Solvency															
Regulatory capital / RWA (%)	23.8	25.3	26.2	19.7	21.9	23.6	27.9	29.8	30.6	24.2	24.7	25.1	18.7	19.5	19.4
Regulatory capital Tier 1 / RWA (%)	21.7	23.3	24.5	18.8	21.2	22.9	24.4	26.3	27.6	22.4	23.0	23.5	17.0	17.7	17.6
Leverage ratio (%)	11.8	12.9	13.2	9.3	10.0	10.9	13.3	15.0	15.1	13.0	14.2	13.9	25.5	29.8	24.4
Capital conservation buffer (% verification)	100	100	100	100	100	100	100	100	100	100	100	100	88	100	90
Domestic systemically important banks buffers* (% verification)	100	100	100	100	100	100	100	100	100	100	100	100	-	-	-
Regulatory capital / Credit to private sector net of provisions (%)	40.3	45.8	47.8	32.0	38.2	40.5	48.1	55.2	58.3	43.8	48.1	49.2	18.8	18.8	18.7
(Regulatory capital - Regulatory requirement) / Credit to private sector net of provisions (%)	25.8	30.8	32.9	17.1	23.5	26.8	34.0	39.9	42.6	29.0	32.2	33.2	10.1	11.0	10.6
Profitability															
ROE in homogeneous currency (quarterly %a.)	14.5	1.8	9.1	22.7	1.0	9.5	12.0	1.4	9.7	10.6	3.8	9.0	-10.5	-17.8	-15.8
ROA in homogeneous currency (quarterly %a.)	2.1	0.3	1.4	2.8	0.1	1.3	1.9	0.2	1.7	1.7	0.6	1.5	-1.9	-3.3	-3.0
Private sector credit															
Private sector exposure / Assets (%)	33.1	32.0	30.8	30.9	29.9	30.3	32.5	30.8	28.2	34.5	33.8	32.1	80.8	82.3	80.4
Non-performing loan ratio (%)	4.5	3.9	5.0	7.5	6.6	7.5	3.3	2.4	3.9	2.3	2.2	3.1	5.6	3.7	5.9
Provisions / Credit to private sector (%)	5.7	5.7	5.6	6.6	7.0	6.8	5.2	5.2	4.9	5.3	5.0	4.9	4.6	4.0	4.2
Public sector credit															
Exposure / Assets (2)	10.9	11.8	13.4	18.0	18.2	21.1	9.2	9.6	11.4	4.5	6.3	6.3	0.3	0.4	0.5
Net exposure / Assets (%) (3)	-2.0	-1.4	0.4	-7.3	-7.5	-4.8	-1.0	0.0	2.1	3.4	5.0	5.2	0.3	0.4	0.5
Balance Sheet in Foreign Currency															
(Assets - Liabilities + Net undelivered purchases in foreign currency) / Regulatory capital (%)	10.1	9.6	10.0	28.0	29.4	26.3	2.8	2.1	3.0	3.4	-0.2	1.6	14.9	19.4	28.3
Deposits in US$ / Total deposits - Private sector (%)	21	21	19	17	16	15	20	20	18	25	26	23	6	5	6
Loans in US$ / Total loans - Private sector (%)	15	14	12	16	14	12	12	11	9	16	16	15	25	24	16

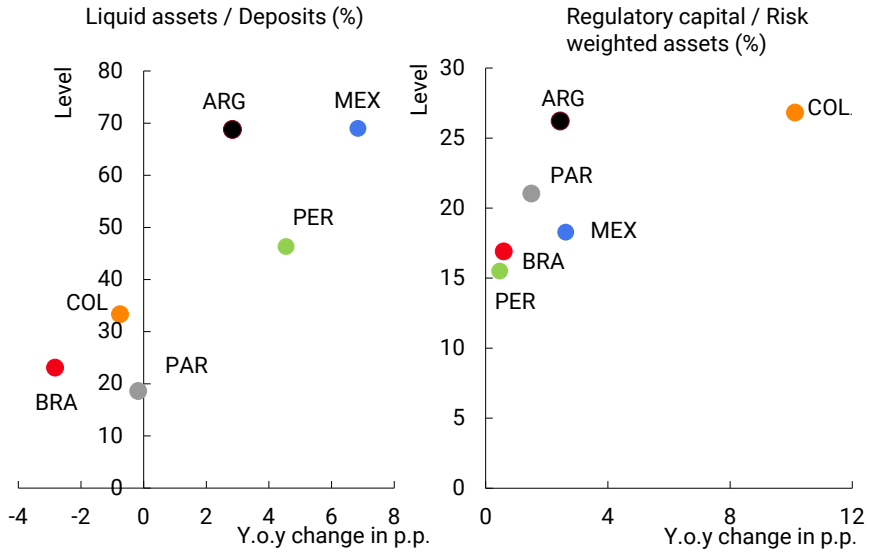
(1) June 2021 last available data. (2) Position in government securities (not including BCRA securities) + Loans to the public sector.
(3) Position in government securities (not including BCRA securities) + Loans to the public sector - Deposits from public sector.
RWA: Risk weighted assets.
* Corresponds to financial entities covered by BCRA regulations, as applicable.
Adjusted provisions: provisions net of minimum provisions over non-performing loans
Source: BCRA

8 In the case of corporate bonds, swap-related issues are not considered, while the issues of the financial sector are included. On the other hand, no shares were issued in the domestic market during the period under analysis.
9 For further information, see IPOM.

The financial system still keeps a set of structural characteristics that help maintain the financial systemic risk at limited levels. Particularly, lending to the private sector is still shallow in the economy, the traditional financial intermediation still prevails —with low-complexity products and a predominantly transactional focus—, and there is a low direct interconnectedness among financial institutions. In addition, the ensemble of financial institutions has managed to sustain its indicators of soundness (see Table 1), and a regulation and supervision scheme in line with the best practices recommended by international standards, but adapting them to the reality of the domestic market (see Exhibit 4). As usual, this section includes a description of the financial system's main strengths in view of the materialization of risk factors. The remaining sections will analyze these risks in detail as well as other strength factors of the sector based on an assessment of its vulnerability sources.

i. High levels of liquidity for the aggregate financial system. By the end of the third quarter of 2021, the sector's broad liquidity[10] stood at 68.8% of total deposits (65% for the segment in pesos and 86.3% for the segment in foreign currency). This level stood slightly above the records of the previous Financial Stability Report (IEF) and, in year-on-year terms, it has been above the average of the last 10 years (48.9%) and is relatively high if compared to the figures of other financial systems of the region (see Chart 5). In terms of the composition of broad liquidity in pesos, the share of BCRA instruments has increased over the last 6 months, while there was a contraction in the weight of the current account balances held by financial institutions at the BCRA.

Chart 5 | Liquidity and solvency of the financial systems in the region
Latest available data



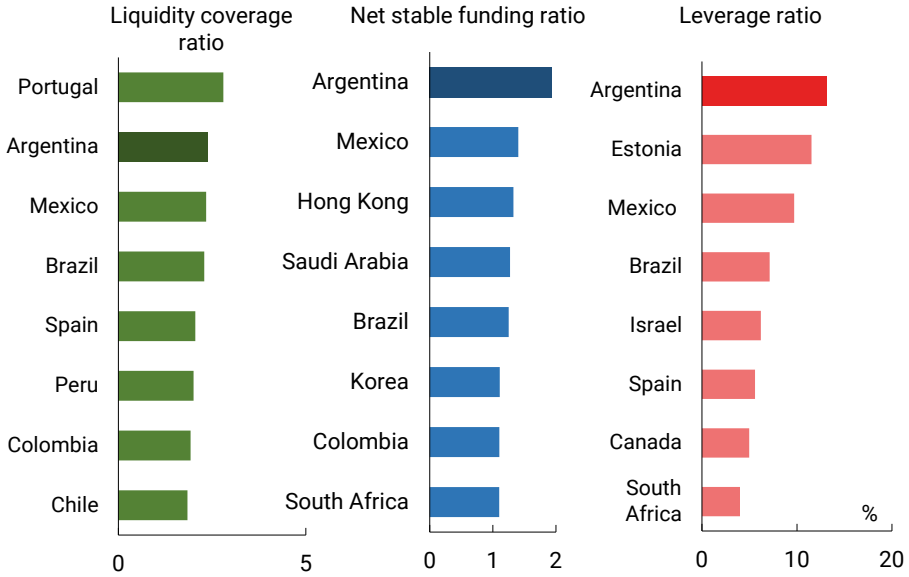
Note: ARG: Argentina, PAR: Paraguay, MEX: Mexico, PER: Peru, BRA: Brazil, COL: Colombia. Data up to September de 2021 for Argentina, rest of the countries up to IIQ-21 (except Mexico up to IQ-21).
Source: BCRA y FSI (IMF)

10 Considering the stock of liquid assets, the concepts included in the compliance with the Regulatory Liquidity regime and other BCRA instruments, both in domestic and foreign currency items.

Additionally, in relation with internationally recommended standards in terms of liquidity, the ensemble of domestic institutions subject to compliance with the regulation (Group A financial institutions that account for 89% of total deposits in the financial system) continued to sizably exceed the minimum values required. In particular, at aggregate level, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)[11] totaled 2.4 and 1.9 in September, respectively, thus standing at levels similar to those observed at the time of publication of the previous IEF. These domestic levels of Basel liquidity ratios are sizable if compared to those of other financial systems (see Chart 6).

Chart 6 | Basel ratios for liquidity and leverage

Year-on-year comparison on the basis of availability – latest available information



Note: Data up to 2021, except Saudi Arabia, South Africa, Israel y Brazil up to 2020.
Source: BCRA y Central Banks of considered countries

ii. High solvency indicators of the ensemble of financial institutions. The Regulatory Capital (RC) went up against the previous IEF and in a y.o.y. comparison in terms of risk-weighted assets (RWAs) to a total of 26.2% in September 2021 for the aggregate financial system as a result of a rise of RC in real terms and a contraction of RWAs in real terms. This indicator is high if compared to the average of the last five years (18.8%) and against the levels observed in other financial systems of the region (see Chart 5). At domestic level, Tier 1 capital (mainly common equity) —with the greatest capacity to face losses in case of eventual shocks— accounted for 93% of RC. In turn, the excess capital compliance (over the minimum regulatory requirement) of the ensemble of financial institutions expanded during the last six months and against September

11The Liquidity Coverage Ratio (LCR) assesses the availability of sufficiently liquid assets to face a potential outflow of funds in a severe short-term stress scenario. The Net Stable Funding Ratio (NSFR) assesses the availability of financial institutions' stable funding structure —in line with their line of business— to mitigate the risk of future stress situations arising from their funding.

2020 and stood at 222% of the regulatory requirement. Moreover, the ensemble of financial institutions has kept high additional regulatory capital buffers (capital conservation buffer and by domestic systemically important banks).

It is worth mentioning that the ratio between excess capital compliance of the ensemble of financial institutions (on top of the minimum required) and lending to the private sector net of provisions also expanded in the last six months and in year-on-year terms to a total of 32.9% in September 2021. This indicator, which more than doubles the average of the last 15 years, proves the soundness of the financial system in case of an eventual credit risk materialization, by combining features such as a high capital position, a moderate exposure to the private sector and a high provisioning. As regards the last factor, the total provisioning of the sector continued to be high, around 5.6% of loans to the private sector by the end of the third quarter, similar to the value recorded in March 2021 and in September 2020. The accounting provisions of the financial system continued to exceed the non-performing stock of loans to the private sector in September 2021, even though this ratio contracted against March 2021 within a context where the effects of the financial relief measures started to lose weight on the credit situation of debtors.

Supplementary to the minimum capital requirements, the ensemble of financial institutions also exhibited a high leverage ratio (ratio between Tier-1 regulatory capital and total exposure, according to the definition by the Basel Committee). This ratio reached 13.2% in September, slightly above the records of the previous IEF and in year-on-year terms. As a result, the leverage ratio has sizably exceeded the regulatory minimum threshold of 3% and stands above the ratio of other financial systems (see Chart 6).

In turn, the total comprehensive income in homogeneous currency of the financial system was positive, even though it has declined as from 2021 and posted a heterogeneous evolution across the groups of institutions.

The high solvency indicators of the aggregate financial system partly result from the effects of the macroprudential regulations implemented by the BCRA, including the suspension of the institutions' distribution of dividends within the context of the pandemic.

iii. Reduced share of assets and liabilities in foreign currency and limited foreign currency mismatch in the financial system's balance sheet. The financial system's assets in foreign currency accounted for 17.3% of total assets in September, going down against the figure of the previous IEF and in year-on-year terms. In turn, liabilities in foreign currency accounted for 15.7% of total funding (liabilities and net worth), and stood below the level recorded last March and one year ago. Considering these assets and liabilities in foreign currency, as well as forward purchases and sales in foreign currency classified as off-balance, the differential in this denomination accounted for only 10% of the Regulatory Capital (RC) in September, without significant changes against the previous IEF and in a year-on-year comparison. The financial system's limited level of exposure to the segment in foreign currency is partly due to the framework of the macroprudential regulations in force.

iv. Moderate differential of the financial system's assets and liabilities adjusted by CER (Reference Stabilization Coefficient). The ensemble of financial institutions would have recorded a positive level in September of around 59.5% of RC in the differential between assets and liabilities with capital adjusted by CER or denominated in UVA (Acquisition Value Units). Both CER-adjusted assets & liabilities and their differential have gone up slightly against the figures recorded in March 2021 and in year-on-year terms. In this respect, this differential is largely explained by the group of state-owned financial institutions.

v. Limited exposure of the ensemble of financial institutions to the public sector. Even though lending to the public sector has increased slightly against the previous IEF and in year-on-year terms, it accounted for 13.4% of total assets of the financial system in September 2021, standing at moderate levels due to the macroprudential regulations in force but slightly below the average of other emerging economies.[12] The rise of this indicator occurred as from the enforcement, by mid-2021, of the regulation that allows financial institutions to use national sovereign bonds in pesos —with certain characteristics[13]— to comply with the portion of the Regulatory liquidity requirement that can be satisfied with LELIQs.[14] It is worth mentioning that in order to ensure that these bonds are sufficiently liquid at all times, a specific mechanism was set in motion whereby the institutions, if required, may sell to the BCRA the holdings they have purchased to satisfy the minimum reserve requirement. If public sector deposits are taken into account, the financial system had a slightly long net position against this sector (at all levels) in September (0.4% of assets for the ensemble of institutions).

Based on the aforementioned strengths, the financial system is expected to be resilient in case of an eventual adverse scenario. In this respect, within the stability framework analysis, the main exogenous risk factors that the financial system might eventually face in the next months are the following:

i. Temporary slowdown of the economic recovery and/or higher volatility in domestic financial markets. In recent months, there have been signs of a higher momentum in the economic activity with expectations of a greater recovery hand-in-hand with the regularization of activities (subject to compliance with the health-related protocols and the vaccination schemes) and with the adoption of new stimulus measures. Additionally, the BCRA continues using the tools available to promote financial stability conditions at domestic level. Nevertheless, the pandemic has not been overcome yet and there are still factors that create uncertainty and may condition the economy. Moreover, volatility might increase in some segments of the domestic financial markets, just as it happened in

12 Considering the latest information available for a sample of 20 emerging countries, the average of this indicator stood at around 15.2% (source: IMF).
13 Sovereign bonds that can be used do not include those linked to the dollar price. Sovereign bonds must be purchased by primary market underwriting with a residual term not shorter than 120 days and not longer than 450 days. See Communication "A" 7290 and 7383. It is worth stating that, since 2018, financial institutions were authorized to satisfy part of the Regulatory cash requirement with "National Treasury Bonds in pesos at a fixed rate" (with maturity in 2020/2022).
14 As from September 2021, sovereign bonds that can be used to comply with the Regulatory Liquidity requirement within the framework of Communication "A" 7290 accounted for 14.3% of lending to the public sector granted by the financial system.

recent months (on that occasion in relation with the legislative elections process that has already been completed). In the same line, the potential incidence of factors such as the expectations about an agreement with the IMF or the seasonal dynamics of the foreign exchange market, among other, should not be disregarded. Depending on their nature, these issues might have an impact on both the context where financial intermediation operates (credit demand and supply, evolution of deposits) and the credit risk faced by banks.

ii. Risk of a worsened external context in the transition towards the "new normality", within a context where global vulnerabilities still prevail. As it was already mentioned for the domestic case, the pandemic continues to create uncertainty worldwide, despite the significant progress made in this respect. Even though the risk is more limited now, some challenges related to COVID-19 may intensify (such as the impact of a new variant, the intensity of the third wave of infections in the Northern Hemisphere and some problems related to the vaccination process) and result in negative effects on growth expectations and on international trade. On the other hand, even though international financial markets have kept a largely favorable bias, the potential materialization of new sizable stress episodes cannot be disregarded. In recent months, there have been increasing chances of eventual corrections in terms of the pace and intensity expected for the regularization of the monetary policy in advanced nations. Given the existence of vulnerabilities at global level (mentioned in the first Section of this Financial Stability Report - IEF), there may be new challenges ahead for financial stability worldwide, in general, and in emerging countries, in particular. Depending on the type of shock —with a larger incidence on the real channel or on the financial channel—, an eventual worsening of the external context will have a greater effect on the economic activity (via impacts on commodity prices and activity level of Argentina's trading partners) or on the financial conditions, with a special focus on portfolio flows and currency markets (spillover effects). In the last case, even though the domestic regularization of the foreign exchange market and the exchange rate management policy contribute to lessen the effects of stress episodes in the international markets, the domestic interest rates and bank funding in general might be adversely affected, thus impacting on financial intermediation.

iii. Operational risks in a context of a higher dependence on technological resources. Although teleworking and digital channels for financial transactions gained remarkable momentum after the shock of COVID-19, technology is expected to continue being relevant in the post-pandemic world, thus generating exposures to operational risks in the financial system at global level. In the case of Argentina, even though disruptive events associated with this type of risk have not been evident so far, efforts continue to be made in terms of information spreading and prevention, especially with relation to fraud and cyber-security attacks, which were added to the regulatory framework of the BCRA on the matter and to the corresponding supervision measures.

Another relevant risk factor to be mentioned is the impact of climate change. In this sense, a work agenda on sustainable finance at global and domestic levels is currently being developed (see Box 1). On the other hand, from a post-pandemic perspective, the structural changes that will finally materialize at global level are still to be seen (such as changes in the business models, technological innovations in finance or regulatory changes), and they will surely impact on financial

intermediation. For example, the increasing use of crypto assets (starting from relatively low levels at present) might become a source of potential risks, particularly for the most vulnerable emerging economies, posing challenges in terms of the monetary and exchange policy.

Box 1. Progress Made in Terms of Sustainable Finance in Argentina

In recent months, Argentina has continued to boost an approach towards the climate-related financial challenges and risks (CCR)[15], an issue that has escalated significantly in the agenda of both international agencies and advanced and developing countries. Against this backdrop, the Technical Roundtable on Sustainable Finance (MTFS)[16] was created in 2020 as a permanent instance to develop and strengthen sustainable finance in Argentina. The Ministry of Economy (coordinator), the BCRA, the National Securities Commission (CNV) and the National Insurance Superintendency (SSN), among other agencies of the public sector, are part of the recently-created MTFS. The purpose of this Technical Roundtable is to start to design a National Sustainable Finance Strategy that may contribute to attain economic and social objectives within the framework of the United Nations' Sustainable Development Goals (SDGs), including targets related to climate change mitigation and adjustment strategy in the country.

Thanks to the coordination efforts made by the MTFS, a "Joint Declaration of Regulators of the Banking, Insurance and Capital Markets Sectors related to Sustainable Finance Development in Argentina"[17] was signed in September 2021. This declaration included the following commitments: i) to boost sustainable finance development at domestic level and promote an adequate inclusion, management, regulation and supervision of the risks related to environmental, social and governance (ESG) criteria; ii) to prepare a joint agenda that may enable supervised institutions to develop the abilities required to identify, manage and introduce the ESG criteria into their business strategies in the medium and long term; and iii), to assess the potential risks to the stability of the financial system and the balance of payments in relation with ESG factors.

The BCRA is starting to address this issue from its own internal structure, participating in international forums and planning a work agenda that encompasses the entire institution. This agenda will include tasks and responsibilities, assuming that sustainable finance requires a multifocal approach. The initial goals to be considered include the design of a status report of the financial system so as to assess the level of inclusion of the climate-related financial risks related as a variable in the business strategy of the institutions. This work would allow for consolidating awareness across the financial institutions about the need of identifying and, eventually, incorporating such risks to their entities and management policies. It should be highlighted that even though the sustainable agenda has a long-term projection, it is necessary to give intermediate steps in order to carry out a comprehensive process of analysis, assessment and implementation in the Argentine financial system.

15 For further detail, see Exhibit 3 - IEF I-21.
16 https://www.argentina.gob.ar/economia/asuntosinternacionales/mesafs
17 Joint Declaration https://www.bcra.gob.ar/Pdfs/Noticias/Declaracion-conjunta-finanzas-sostenibles.pdf

The boost and approach adopted by countries in terms of climate change and sustainable finance must offer a sound basis for coordination at international level, tending to attain a path with lower polluting emissions of gases worldwide. The challenge ahead consists in reaching this objective without causing adverse shocks on the economic activity, especially in developing countries.

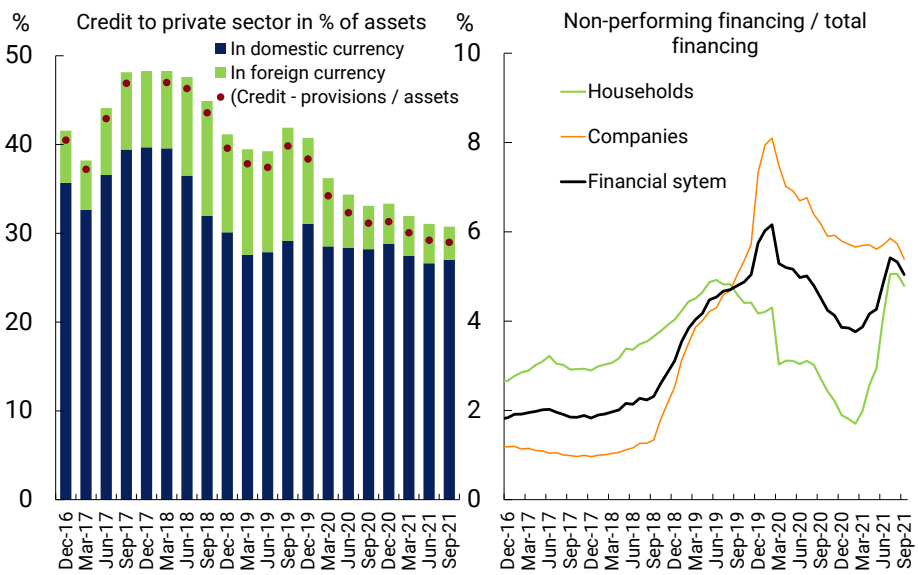
The financial stability analysis will go deep in the next section in order to assess the sources of vulnerability identified for the Argentine financial system, given its balance sheet's exposure to the aforementioned risk factors. These sources of vulnerability will be contrasted with the strengths of the financial system in order to assess its current condition to face any eventual materialization of abovementioned risks.

3. Sources of Vulnerability and Specific Resilience Factors of the Financial System

3.1. Balance Sheet Exposure to Credit Risk

By the end of the third quarter of 2021, the financial system's exposure to the private sector stood at moderate levels, and it has shrunk against the previous IEF and in a year-on-year comparison (see Chart 7). The stock of loans to the private sector stood at 30.8% of total assets of the ensemble of financial institutions, dropping 1.2 p.p. against March 2021 and 2.3 p.p. y.o.y. (the average of this indicator for the last 10 years is 44%). Lending to the private sector net of total provisions in terms of total assets has also fallen over the period, down to 29%.

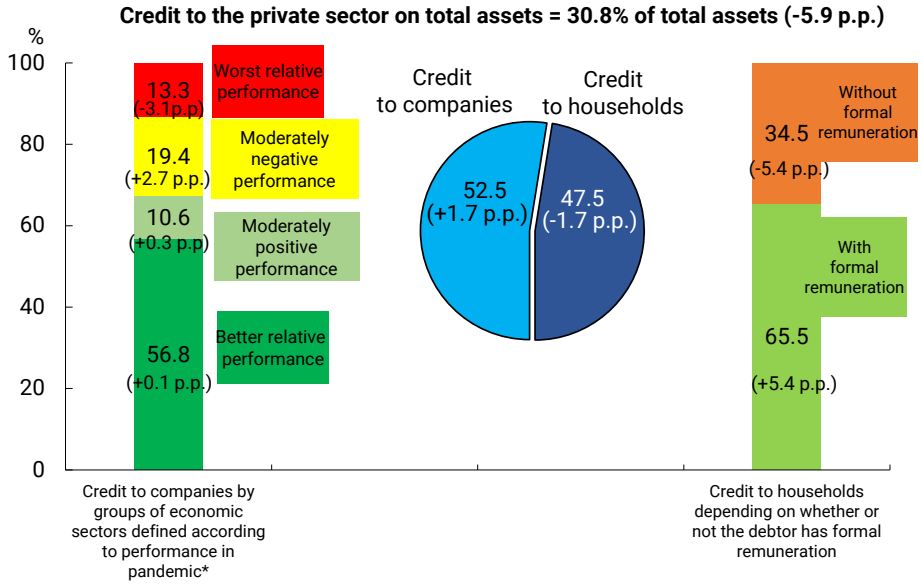
Chart 7 | Financial system's gross exposure to the private sector and non-performing ratio of loans to the private sector



Source: BCRA

As of September 2021, the financial system's exposure to the private sector consisted in virtually equal parts (see Chart 8) in loans to companies (52.5% of the total) and loans to households (47.5%). The largest exposure of the aggregate of institutions to the segment of lending to companies has been explained by sectors posting the best relative economic performance since the onset of the pandemic (nearly 57% of the total).[18] Conversely, lending to sectors with the worst relative economic performance since February 2020 is currently accounting for a moderate portion of total lending to companies (13.3% of the total). In turn, according to the information available, it is estimated that almost two thirds of the financial system's exposure to loans to households was made up by credits taken by debtors working under a contract of employment (and this ratio has increased slightly if compared to the pre-pandemic context).

Chart 8 | Composition of the financial system's exposure to the private sector
Credit to the private sector in terms of total assets as of Sep 21 (vs. Feb 20)



* For the definition of the groups, see footnote 15 of the text. Source: BCRA

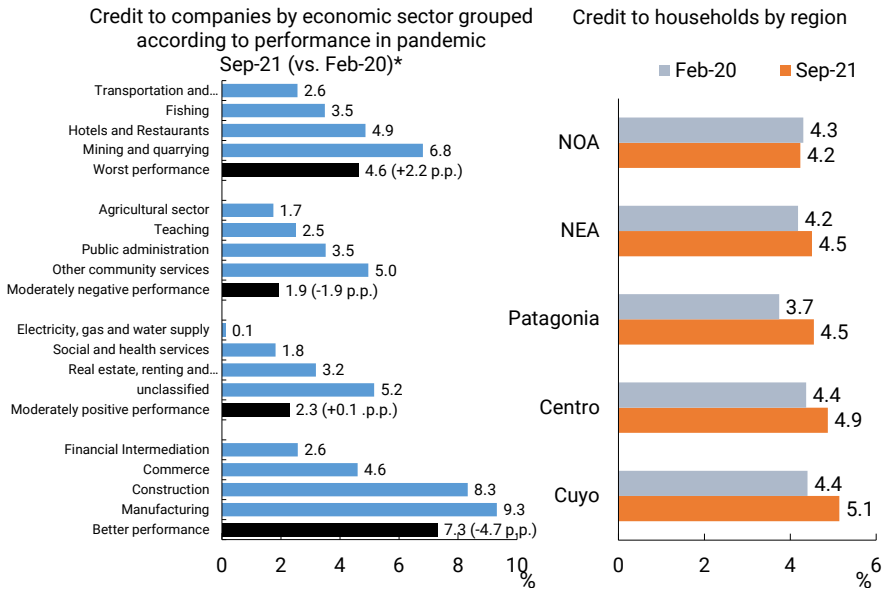
Regarding credit risk materialization indicators, non-performing ratio of loans to the private sector (according to the regulatory classification of debtors) for the ensemble of financial institutions totaled 5% last September (see Chart 7). As expected, this ratio went up against March (+1.2 p.p.), as the effect of the measures specifically designed to lessen the private sector's financial burden started to fade away. The gradual removal of such measures is part of the new strategic focus

18 The calculation includes an estimate of the evolution of the sectoral economic activity level from February 2020 to September 2021, seasonally-adjusted. Sixteen economic sectors are classified in 4 groups defined according to the 4 quartiles of the distribution of each sector's activity change rate over the period involved. This estimate results in the following groups: (i) best relative economic performance (made up by the Construction, Commerce, Industry and Financial Intermediation sectors), (ii) moderately positive economic performance (involving Supply of Electricity, Gas and Water, Real Estate Activities, Business and Rental activities, Social and Health Services, and Unclassified Services); (iii) moderately negative economic performance (Agriculture, Education, Other Services and Community Activities, and Public Administration) and (iv) worst relative economic performance (Mining and Quarrying, Transportation and Communications, Fishing and Hotels & Restaurants).

given to the policy measures implemented by the BCRA. The purpose is to draw special attention to the sectors that are still vulnerable and to those that continue to be hit by the pandemic context.[19] Despite the abovementioned increase in the non-performing ratio in the past six months, it is worth mentioning that a reduction of the ratio was observed in August and September in both segments: loans to companies and loans to households.

The non-performing ratio of loans to households accounted for 4.8% of such portfolio in September, up 2.8 p.p. against the figure recorded in March 2021 (+2.1 p.p. y.o.y.), mainly due to the performance of personal loans. It is noteworthy that these levels are slightly higher (+0.5 p.p.) than those recorded at the beginning of the pandemic. Within the segment of lending to households, there was a low dispersion in the non-performing ratio when breaking down these data by geographical areas, even though this ratio is slightly higher in the Central-West Region (*Cuyo*) and in the Central Region (see Chart 9). In turn, the non-performing ratio of loans to companies totaled 5.4% over the period, down 0.3 p.p. against the figure recorded in March 2021 (-0.8 p.p. y.o.y.).

Chart 9 | Non-performing ratio of loans to the private sector



* For the definition of the groups, see footnote 15 of the text. Source: BCRA

In the context of the regulatory changes adopted,[20] the current levels of the non-performing ratio of loans to companies are lower than those recorded before the onset of the pandemic (-2.7 p.p.). Taking into account lending to companies by groups of economic sectors, the delinquency ratio

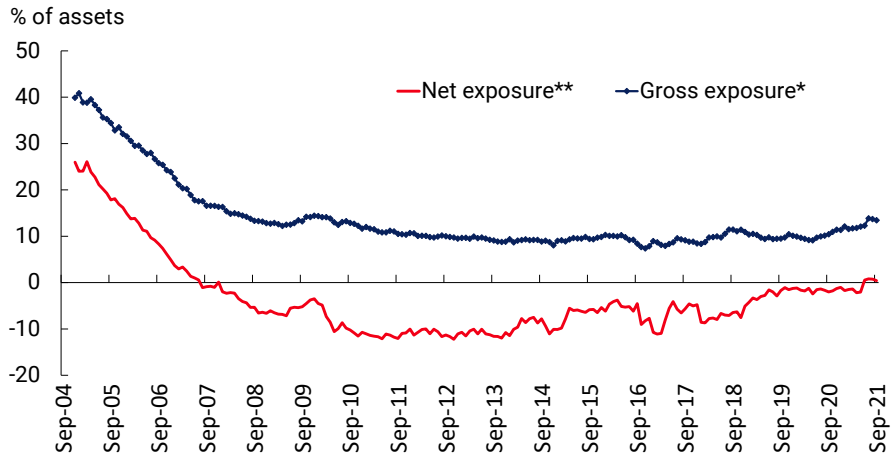
19 These measures include: (i) refinancing of payments made with credit cards on two occasions (April and September 2020), (ii) the option to defer the unpaid installments to the end of the lifetime of the loan without additional costs other than the contractual interest rate —a measure intended for private sector debtors and implemented from early April 2020 to late March 2021, and as from such date only applicable to employers registered with the Productive Recovery Program II (REPRO II)—, and (iii) the change introduced to the parameters to classify the financial system's debtors —effective until mid-2021—, among other.

20 It is worth considering that this ratio, commonly used to have a dimension of the credit risk materialization, must be interpreted in the light of the regulatory changes still in force (see item (ii) of the previous footnote).

corresponding to the group exhibiting the best relative economic performance since the beginning of the pandemic is high but it has exhibited the most significant reduction (-4.7 p.p. since February 2020 to 7.3%, see Chart 9).[21] Conversely, financing to the group of sectors posting the worst relative economic performance during the pandemic has shown an increasing non-performing ratio over the period (+2.2 p.p. since February 2020), even though on the basis of a level lower than the average lending to companies.

Regarding the financial sector's exposure to the public sector (all jurisdictions), there has been an increase, from moderate levels, against the figures of the previous IEF and in a year-on-year comparison (see Chart 10). Lending to the public sector accounted for 13.4% of the ensemble of financial institutions' total assets in September, up 1.6 p.p. against March (+2.4 p.p. y.o.y.). This level is slightly lower than the average of a sample of emerging countries.[22] By the end of the third quarter, the financial system exhibited a slightly net long position against the public sector —considering lending to this sector net of deposits, coming from all jurisdictions— for a value equivalent to 0.4% of the aggregate financial system's assets.

Chart 10 | Financial system's exposure to the public sector



*Gross exposure: (Position in government securities (not including Central Bank securities) + Loans to the public sector) / Total assets
** Net exposure: (Position in government securities (not including Central Bank securities) + Loans to the public sector - Deposits from public sector) / Total assets
Public sector includes all jurisdictions (national, provincial and municipal).
Source: BCRA

Concerning changes in the exposure taken by the system —slight decrease in the exposure to the private sector and slight increase in the exposure to the public sector—, added to the trend of non-performing ratio —with a foreseeable increase after focusing financial relief measures and the expectation of some readjustments—, this source of vulnerability would continue to be the most significant in relative terms in 2022 for the aggregate of financial institutions, while its evolution

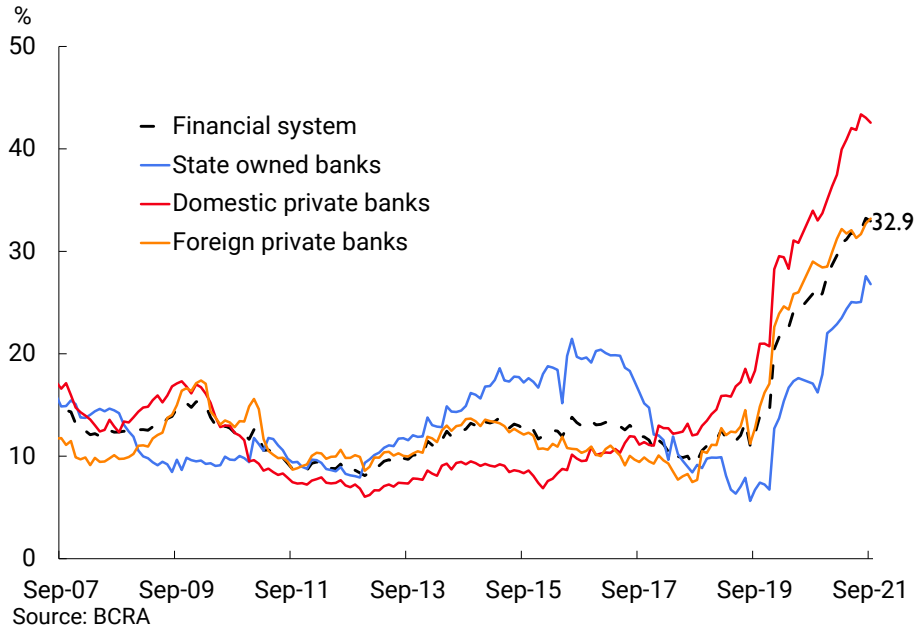
21 The level of the aggregate delinquency ratio for this group is impacted by sizable specific cases in the Industrial sector and, to a lesser extent, in the Construction business.
22 For further detail, see footnote 12.

and potential impact would be conditioned by the eventual materialization of risk factors described in Section 2.

3.1.1 Elements of Resilience and Mitigating Measures:

The solvency of the aggregate financial system continues to be relatively high. In the first place, it is noteworthy that, as of September 2021, total accounting provisions of the financial system accounted for 110.5% of the non-performing stock of loans to the private sector. Even though this ratio is lower than the ratio recorded at the time of publication of the previous IEF,[23] it has stood at relatively high levels (the average of this ratio reached 95.4% between September 2019 and February 2020 —before the onset of the pandemic). On the other hand, the surplus regulatory capital (on top of the required minimum) in terms of the credit to the private sector net of provisions is standing quite above the average of the past 10 years (see Chart 11), and this is reflected in both the financial system as a whole and all groups of institutions.

Chart 11 | Regulatory capital position (ASE – requirement) in terms of the stock of loans to the private sector net of provisions



Source: BCRA

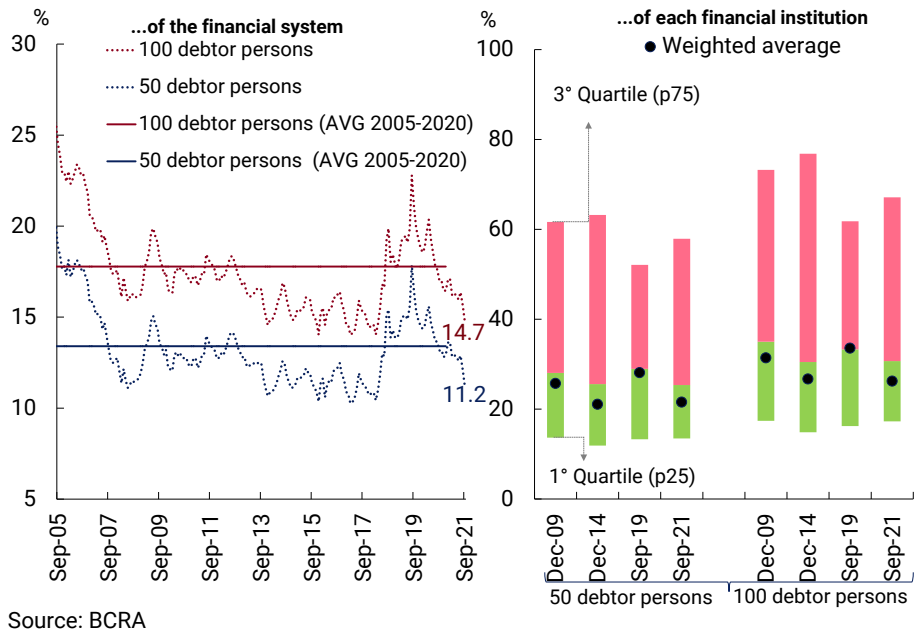
The financial relief measures adopted by the BCRA in the context of the pandemic (which were gradually targeted on the basis of the economic activity recovery and the evolution of the health-related situation which is still being monitored) **contributed to providing a sustainability framework to the productive scheme of the domestic economy**, giving support to both companies and households.[24] The purpose of these measures was to limit any eventual deterioration of the private sector's financial situation in the face of the initial shock, thus

23 Impacted by the effect of the gradual removal and the new focus of the financial relief measures on the evolution of the non-performing stock.
24 It is estimated that 6.2 million natural persons have used at least one of these relief measures (51% of total debtors in the natural persons segment) and 28,300 legal persons (15% of total debtors in the legal persons segment).

lessening any eventual adverse impact on the solvency of the ensemble of domestic financial institutions. As already mentioned, even though in 2021 these measures were targeted towards the sectors that are still adversely affected by the pandemic context, a portion of the debtors that received these benefits in 2020 still have part of them, and this has contributed favorably to their financial situation.

The level of banking credit concentration across debtors is moderate and has also gone down again during 2021. The 100 and 50 main debtors accounted for 14.7% and 11.2% of loans to the private sector, respectively (see Chart 12), and have managed to post low records if compared to the average of the last 15 years. The decreasing evolution of these indicators over the year occurred within the context of the programs promoted by the BCRA jointly with the National Executive Branch (PEN), such as the "Credit Line for Productive Investment of MSMEs" (LFIP), the "2021 Zero Interest Rate Credit Line" and the "Ahora 12" Plan (see Boxes 3 and 4) which, since they are intended for micro, small and medium-sized enterprises (MSMEs) and households, usually entail loans pertaining to the tranches of a lower relative size.

Chart 12 | Share in the stock of loans to the private sector of the main debtors...



Source: BCRA

In recent years, there have not been significant changes in the standards of credit origination. According to the Survey on Credit Conditions (ECC)[25] corresponding to the third quarter of the year, credit standards associated with households did not exhibit significant changes against the preceding waves, and the situation was widespread across nearly all credit lines. With reference

25 For further detail, see the Survey on Credit Conditions (ECC) corresponding to the third quarter of 2021.

to credit origination standards for companies, there were no significant changes either in recent years, even though there was a slight easing in the latest wave of the ECC.

The indebtedness levels of both households and companies are standing at minimum levels in a historical and international comparison. As of September 2021, the estimated broad private debt stock[26] accounted for 6.5% of GDP for households and 12.6% for companies,[27] going down against late 2020 (when it accounted for 7.3% of GDP for households and 14.3% for companies).[28] The drop in the ratios was the result of the combined effect of a decrease in the lending stocks in real terms and a GDP increase in real terms. With reference to loans for households, they have lost ground in real terms in the case of bank loans (the main component) and loans from the Sustainability Guarantee Fund (FGS) as well as from mutuals and cooperatives[29] (see Chart 13). This is only marginally offset by increases in real terms in the stocks of the non-banking credit card systems, the loans granted by other providers registered with the BCRA (which are neither cards nor mutuals or cooperatives[30]) and the financial trusts. In the corporate segment, the decline of stocks in real terms has been more widespread and included both main components: bank loans and financing from abroad,[31] and deferred payment checks, i.e. the capital markets instrument that is more widely used by SMEs. However, there was an increase in the stocks of the non-financial private sector's domestic Corporate Bonds, due to the combined effect of net issues (see Exhibit 2) and, to a lesser extent, of the restatement of the stocks in pesos.[32] Generally speaking, it is noteworthy that the financial ratios of publicly-traded companies tended to improve, while the number of enterprises under a relatively more vulnerable situation has gone down (see Box 2).

26 In addition to the loans provided by the ensemble of financial institutions regulated by the BCRA, this stock includes: financing via the credit card systems, loans granted by mutuals and cooperatives, lending from other non-banking credit providers registered with the BCRA, financing held in the portfolio of financial trusts not related to infrastructure, loans from the Sustainability Guarantee Fund (FGS) (including the PRO.CRE.AR portfolio), corporate bonds issued by the non-financial private sector under domestic legislation, deferred payment checks, loans related to leasing and factoring, and external financing via bonds and loans (excluding credit and commercial advances). Last November, the BCRA announced the creation of a Peer-to-Peer Lending Service Providers Platform (i.e. platforms offering the service of connecting one or more lenders to borrowers in order to carry out loan transactions in pesos).

27 Stocks as of September (except for mutuals and cooperatives and financing from abroad) as a percentage of GDP, seasonally-adjusted, estimated for the third quarter of 2021.

28 Against the average observed by the end of the last five years, these levels entail a drop in the case of lending to households (8% average of GDP between Dec-16 and Dec-20) and an increase in the case of companies (from 12% of GDP).

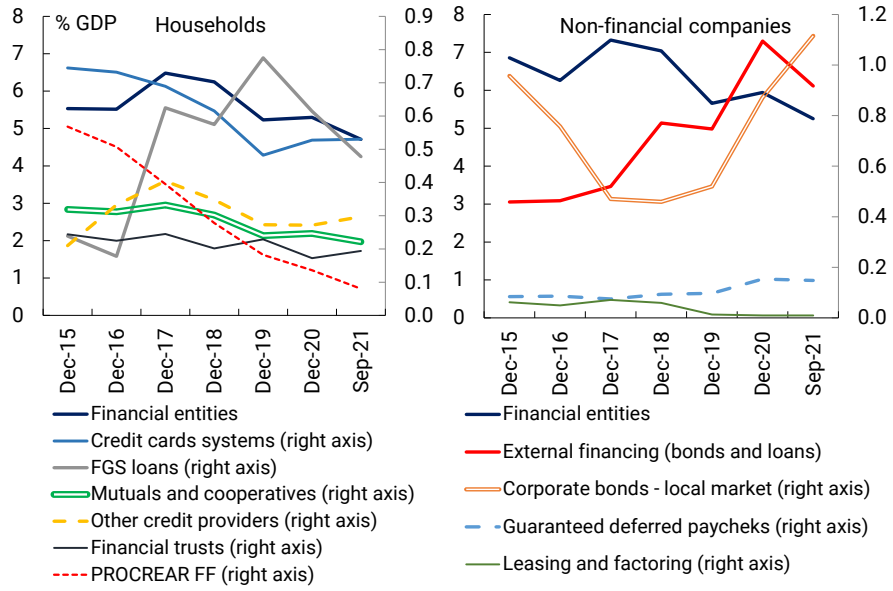
29 Total loans granted by mutuals and cooperatives, based on data provided by the National Institute of Associativism and Social Economy (INAES) (data as of June).

30 Includes loans granted by retail chains, financial companies and fintechs, among other. For further detail about other providers registered with the BCRA, see the Report on Other Non-Financial Credit Providers.

31 Including both bonds and loans; data based on information about international accounts published by INDEC (as of June).

32 It is worth mentioning that the non-financial corporate sector's stock of domestic Corporate Bonds consists of dollar-linked instruments (60%), dollars (18%), UVA (14%) and nominal pesos (8%) (estimated as of September 2021). In the dollar-linked and the dollar segments, the share of companies pertaining to the oil & gas, agriculture and electrical power sectors stand out (in several cases, with income linked to the evolution of the exchange rate).

Chart 13 | Broad financing to households and companies
In % of GDP



Source: BCRA based on INDEC, CNV, MAE, MAV, ANSES and INAES

Households and companies exhibit a moderate burden in terms of their bank debt services. It is estimated that, by the end of the third quarter of the year, the debt burden of households[33] and companies continued to stand at limited levels in aggregate terms due, in part, to the effect of the credit stimulus policies under favorable financial conditions implemented for debtors.

Low and decreasing relative share of loans to the private sector in foreign currency, with a limited currency mismatch of debtors (due to the effects of macroprudential regulation). The stock of lending to the private sector in foreign currency accounted for only 12.2% of the total credit stock intended for this sector by the end of the third quarter, posting a drop against the figure recorded in March and in a year-on-year comparison. It is worth mentioning that, in line with the current macroprudential regulation, this financing in foreign currency is provided to debtors with income in foreign currency or income with a positive correlation with the exchange rate —mainly involved in activities related to foreign trade. This situation limits any eventual credit risk materialization resulting from exchange rate fluctuations.

33 In the case of households, the estimate of the annual debt financial burden –without considering variations in the interest rate for loans arranged at a variable rate, early cancellations or refinancing– accounted for 14.1% of the wage bill as of October 2021.

Box 2. Financial Situation of Publicly-Traded Companies

Publicly-traded companies, a group used as a first approximation to the situation of the corporate sector,[34] have shown improved balance sheets in the first half of 2021. This trend applies to various financial indicators. A recovery has been observed against the same period of 2020 (impact of the COVID-19 shock [35]), with a relatively slight improvement on the margin.

So far in 2021, a year-on-year improvement has been observed in the operating income and the earnings before taxes (in terms of the median; see Table R.2.1).[36] In terms of payment capacity, this evolution resulted in a sustained improvement in the interest coverage ratio with income. In turn, liquidity has also shown signs of recovery. In relation with the level of leverage, even though a slight upward trend has been observed in the last six-month periods (which has been mixed across sectors),[37] there has been a lesser relative weight of short-term liabilities. Currency mismatch has shrunk (in absolute terms) against the previous six-month period, even though it has stood above the figures observed one year ago. In 2021, there were no specific cases of companies in distress to face their Corporate Bonds' service or capital payments, unlike what was observed in 2020.[38]

Table R.2.1 | Publicly-traded companies – Main indicators evolution

	Semester***					Quarter						
Main indicators (median):	**1H-19**	**2H-19**	**1H-20**	**2H-20**	**1H-21**	**IVQ-19**	**IQ-20**	**IIQ-20**	**IIIQ-20**	**IVQ-20**	**IQ-21**	**IIQ-21**
Final profitability as % of net worth -	5.0	2.6	0.5	11.1	0.4	14.4	(1.0)	3.3	6.6	12.3	12.8	(5.9)
Earnings before taxes as % of net worth - annualized	12.4	4.4	0.7	7.4	12.2	16.2	1.3	1.8	10.5	10.6	11.8	14.0
Operative results as % of net worth - annualized	12.7	17.0	7.1	13.5	13.3	16.7	8.3	6.6	13.1	15.6	11.9	15.3
Interest coverage: EBIT* / interests paid (times)	1.42	1.68	1.00	1.41	1.47	1.61	0.95	1.07	1.65	1.87	1.37	1.37
Leverage: Liabilities / assets (%)	57.5	58.3	57.7	58.0	58.5	57.8	57.1	57.9	57.1	57.6	56.1	59.5
Current liquidity: Current assets / current liabilities (%)	118.6	116.9	108.5	111.1	115.8	116.9	113.3	109.7	113.8	108.6	118.6	122.1
Acid test: (current assets - inventory) / current liabilities (%)	85.5	79.5	87.3	84.1	84.2	83.0	82.7	82.8	84.7	86.3	87.6	90.2
Short term debt / total debt (%)	56.3	51.7	50.6	51.9	46.0	49.4	48.3	47.3	54.4	46.8	47.7	37.3
Currency mismatch - companies that have debt in dollars: (foreign currency assets less foreign currency liabilities) / total assets**	(22.6)	(26.0)	(23.0)	(28.2)	(26.9)	(28.1)	(23.4)	(24.1)	(23.6)	(27.8)	(27.5)	(25.5)

(*) EBIT: earnings before interest and taxes. (**) ME: Foreign currency. Foreign currency assets less foreign currency liabilities expressed in pesos using the prevailing exchange rate at each time, divided by total assets (in pesos). (***) median of semi-annual calculation by company for each period.
Source: BCRA based on CNV/BCBA.

34 The publicly-traded companies considered herein are a group of firms of a large/medium relative size within the domestic non-financial corporate sector (the analysis does not include companies under the Simplified Tax Regime for SMEs). For further detail about coverage and methodology, see the sections on "Financial Situation of the Corporate Sector" in the IEF I-17, "Publicly-Traded Companies and Currency Mismatch" in the IEF I-18 and "Financial Situation of Publicly-Traded Companies" in the IEF I-19, II-20 and I-21.
35 For further information about the impact of COVID-19 on the balance sheets of companies in 2020, see "Financial Situation of Publicly-Traded Companies" (IEF II-20) and "Financial Situation of Publicly-Traded Companies in 2020" (IEF I-21).
36 The final profitability (ROE) exhibited a less favorable evolution, mainly due to the effect of some changes introduced to the income tax that affected the balance sheets in the second quarter of 2021.
37 With more marked increases in sectors such as services and construction, and a reduction in primary production and commerce.
38 Specific and insignificant cases (less than 1% of the total stock of outstanding Corporate Bonds). Some cases are still under a negotiation process with their creditors or have already proceeded to the opening of the reorganization proceedings.

The evolution of the corporate sector's ratios was evident in the reduction of the number of companies herein considered in a relatively more vulnerable situation.[39] By the end of the first half of 2021, there were 15 companies in such situation (12% of the sample total), standing below the recent maximum number of 19 firms (15%, late 2020) and only slightly above the values observed two years ago (12 companies —10%—, by mid- 2019). The financial debts[40] of these companies accounted for only 10% of the aggregate financial debt of all non-financial publicly-traded companies, posting a decrease against the share recorded by late 2020 (20%) and returning to the values of 2019 (pre-COVID). These firms entail a very limited credit exposure for the aggregate financial system (less than 1% of total bank loans to the corporate sector), while their Corporate Bonds account for 16% of the total stock of outstanding Corporate Bonds.[41]

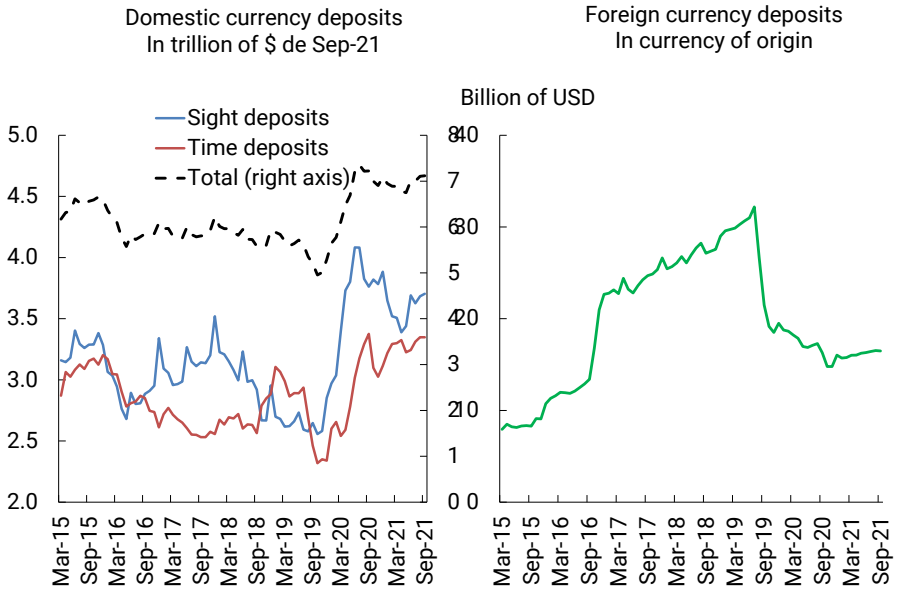
Implementation of a mechanism to provide liquidity to some instruments of the public sector which financial institutions may use to comply with the minimum cash requirements. Part of the increase observed in the financial system's exposure to the public sector was due to the changes introduced to the regulation on Minimum Cash in early 2021.[42] In this context and for the purpose of making such sovereign bonds sufficiently liquid, a mechanism was established for institutions to be able to sell them automatically to the BCRA.[43]

3.2. Evolution of the Financial System's Funding and Liquidity

Due to the effect of an improved economic activity, private sector deposits in domestic currency have grown for two quarters in a row, going up 3.4% in real terms from March to September 2021 (see Chart 14). Thus, there has largely been a reversal of the performance observed in late 2020 and early 2021. Within this segment of deposits, sight accounts went up 5.6% in real terms while time deposits rose 1.5% in real terms in the last six months. The momentum observed in UVA-denominated time deposits was especially remarkable, mainly in the first part of the year —even though their share continues to be relatively low. In addition, unlike what had been observed in previous releases of the IEF, private sector deposits in foreign currency grew in the past six months (2.9% in currency of origin).

39 A simple proxy is made on the basis of three financial ratios that are especially relevant to measure credit risk: interest coverage, leverage and acid-test ratio. For further detail on the methodology, see "Financial Situation of Publicly-Traded Companies" in IEF I-19.
40 According to balance sheet data, including bank loans, debt in bonds and other financial liabilities.
41 Out of the total outstanding Corporate Bonds of companies counted to be in a relatively vulnerable situation, 85% is denominated in dollars. However, the payments related to these Corporate Bonds account for only 10% of the dollar flows foreseen for the non-financial sector's bonds throughout 2022.
42 The use of some national sovereign bonds in pesos has been authorized to satisfy part of the minimum cash requirement.
43 See Communication "A" 7291 and Press Release (The BCRA creates mechanisms to promote capital market development).

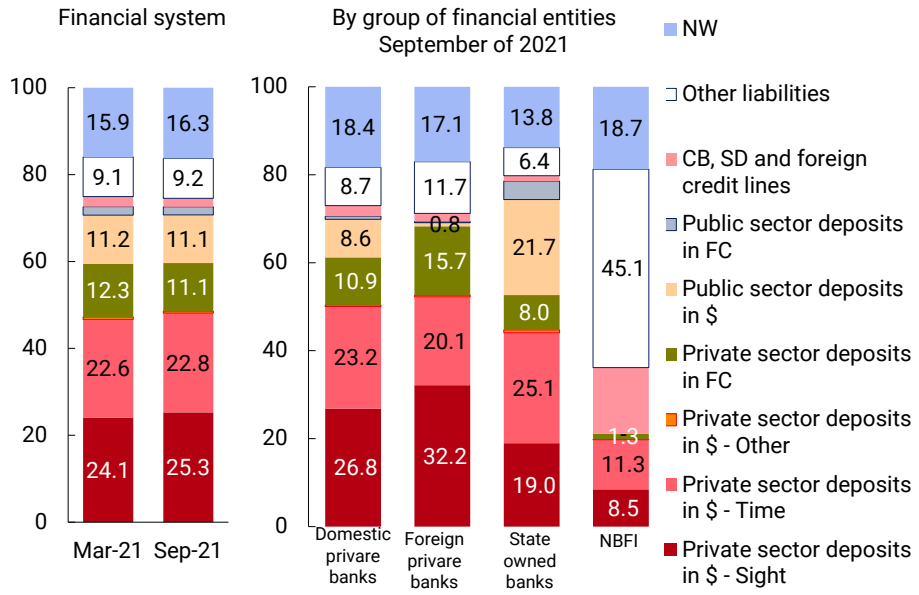
Chart 14 | Private sector stock of deposits
Financial system



Source: BCRA

The share of private sector deposits in pesos (given the performance of sight accounts), main component of liabilities, went up slightly in the financial system's total funding at aggregate level from March to September 2021 (+1.3 p.p. to 48.6%; see Chart 15). In turn, when considering the total funding of the ensemble of financial institutions according to currency of origin, a marked increase in the relative share of deposits in pesos without CER adjustment relative to total deposits has been observed since the publication of the previous IEF, while the share of liabilities in foreign currency went down over the same period.

Chart 15 | Composition of total funding
As % of total funding



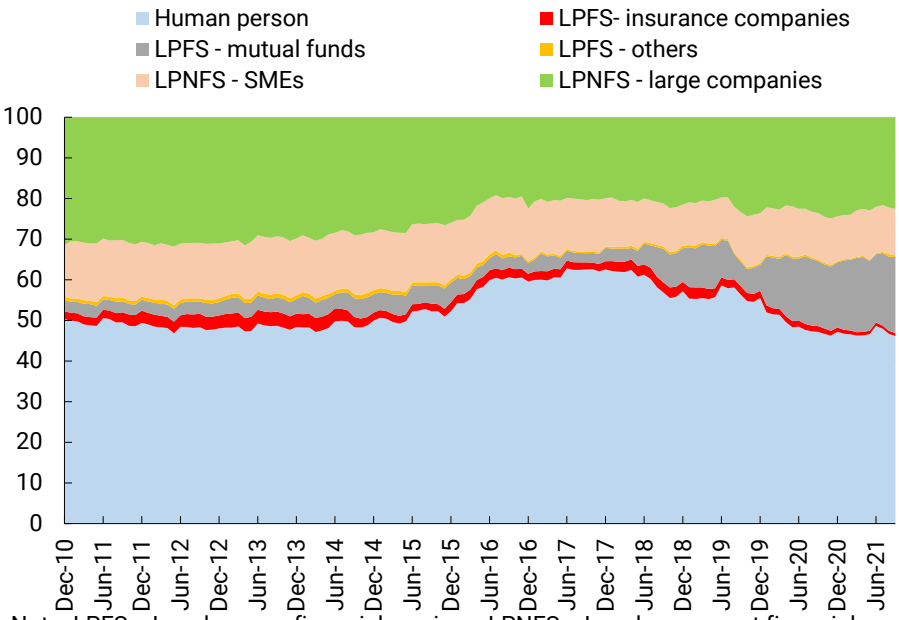
FC: Foreign currency. NBFI: Non-Banking Financial Institutions. Source: BCRA

Given the intrinsic nature of the banking business, eventual changes in the levels and composition of the funding sources may impact the financial system's position vis-à-vis the liquidity risk, and consequently they may also have an impact on the evolution and the conditions of credit supply. Therefore, it is also useful to monitor other relevant characteristics of funding such as the average maturity of liabilities, the ratio between sight accounts and time deposits, the concentration level of deposits and the type or profile of depositors (for instance, if they are related to wholesale or retail sectors).

When considering the type or profile of depositors, there has been an increase in recent years in the share of legal persons holding deposits of a larger relative size and pertaining to the sector of financial service providers (such as Mutual Funds —accounting for 18.8% of private sector deposits in domestic currency—, see Chart 16), a segment that may potentially show a higher relative volatility if compared to the retail segment.[44] In line with this evolution, it is estimated that the share of the main depositors in total deposits of each institution —an indicator useful to determine the level of concentration— has gone up during the first half of 2021 (see Chart 17). These ratios suggest that there is some level of exposure of the ensemble of institutions in the face of eventual changes in the behavioral patterns of depositors, a situation that the BCRA assesses and monitors periodically.

Chart 16 | Private sector deposits in domestic currency

Share % by type of depositor – Financial system

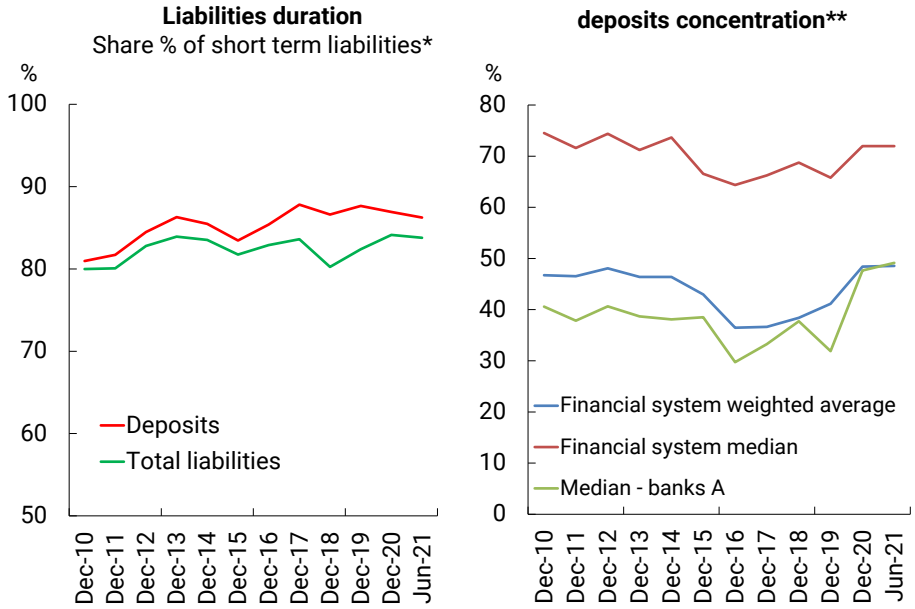


Note: LPFS = Legal person financial services. LPNFS = Legal person not financial services. Source: BCRA

44 The coefficient of variation (ratio of the standard deviation to the mean) for the monthly stock of private sector deposits in domestic currency in the last 10 years was equivalent to 1.8 for the segment whose holders are Mutual Funds, while for the rest of deposits it stood at 1 (same level as the segment of natural persons). It is worth mentioning that by the end of the third quarter of 2019 and in early 2020, some regulatory changes were introduced (associated with monetary policy objectives) resulting in the entrance to and further exit of Mutual Funds in the repo transactions market with the BCRA (Communication 50.953 and Communication "A" 6861). In return, within the context of these changes, there were first reductions and then increases in Mutual Funds deposits in the financial system. If these effects are isolated (for instance, in the time period from mid-2020 to the present), the coefficient of variation for the stock of deposits of Mutual Funds is still standing at higher levels than the remaining deposits, even though it has gone down markedly.

On the other hand, the ratios used to assess the changes in relative maturity in the aggregate financial system's funding did not exhibit relevant modifications if compared to the previous IEF. In particular, the share of short-term liabilities (up to a residual term of one month) in total funding has remained relatively stable in the last 6-month periods (see Chart 17), totaling 84% in June (latest information available), up only 3 p.p. against the average of the last 10 years.[45] In turn, the ratio between sight accounts and time deposits (private sector, in domestic currency) reached 1.11 by the end of the third quarter, standing slightly above the value recorded in the previous IEF, even though still standing below the average of the last 10 years.

Chart 17 | Ratios of the financial system's exposure to liquidity risk



*Up to 1 month residual term. ** 160 principal depositors of each entities as % of total. Source: BCRA

In short, the recent evolution of deposits has been relatively positive, added to some limited/moderate changes in terms of a higher exposure to the liquidity risk faced by the financial system. In this context, it must be considered that both the level and the composition of financial institutions' various sources of funding might be altered by the eventual materialization of any of the risk factors described in Section 2.

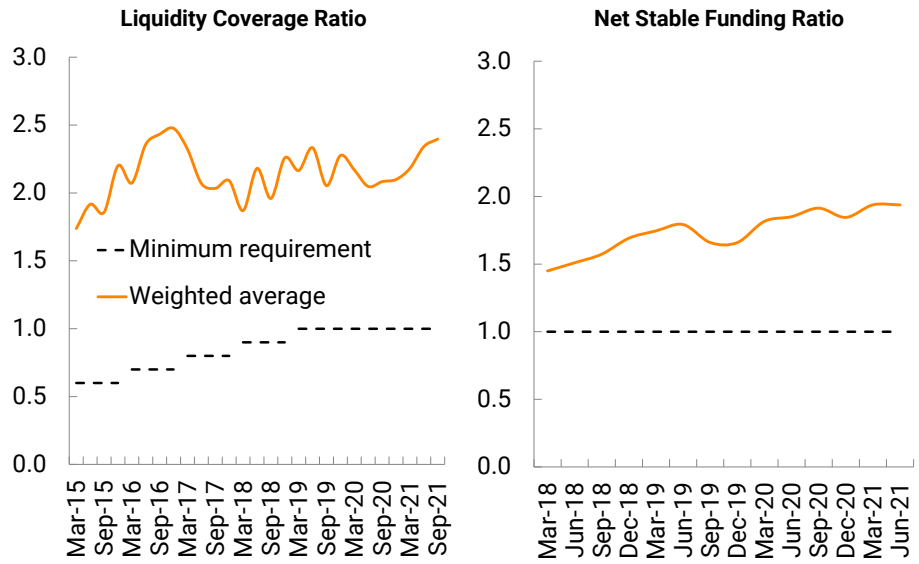
3.2.1 Elements of Resilience and Mitigating Measures:

Sizable liquidity margins of the aggregate financial system. The broad liquidity totaled 68.8% of deposits by the end of the third quarter of the year. Against the previous IEF, the liquidity ratio

45 A comparison with other economies shows that the domestic financial system has a higher share of short-term liabilities in total funding. This is a structural feature associated in part with the transactional bias that prevails in the operations performed by this sector.

went up in both items in pesos (+3.5 p.p. to 65%) and items in foreign currency (+1.7 p.p. to 86.3%). The current levels are high from a historical perspective; if compared, for example, with the average of the last 10 years, the liquidity ratio increased by 19.8 p.p. The evolution of the liquidity ratio occurs in a context where, as from mid-year, it was authorized to comply with part of the regulatory minimum reserve requirements (those already satisfied with LELIQs) with some sovereign bonds. In order to ensure that the sovereign bonds to be used to satisfy the minimum reserve requirements are sufficiently liquid at all times, a specific mechanism was established whereby institutions, if required, may sell such holdings to the BCRA.[46]

Chart 18 | Basel liquidity ratios
Group A of financial institutions



*The obligated entities belong to the group A (communication "A" 7169) and represent 88% of the assets up to Sep-21. Source: BCRA.

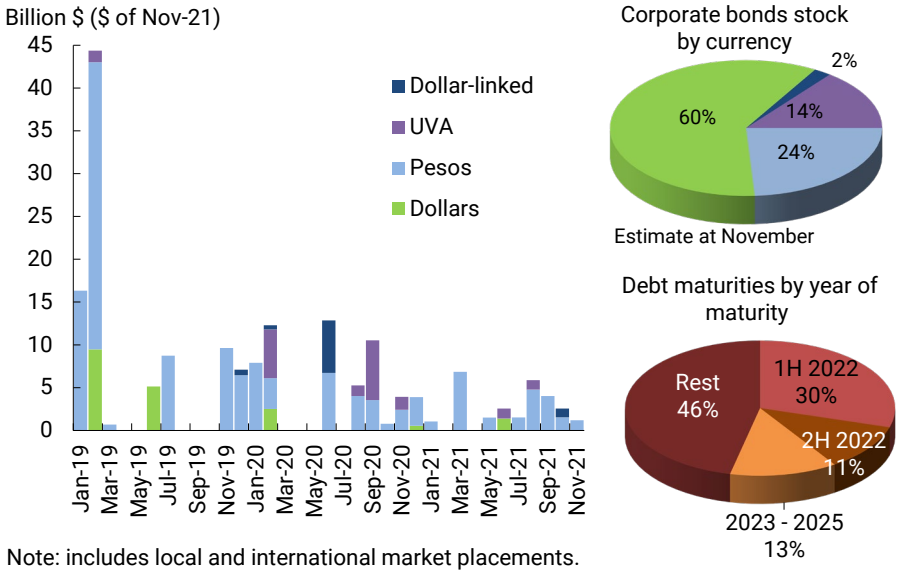
In turn, the group of domestic institutions subject to the regulation (Group "A") continued exhibiting liquidity ratios quite above the minimum ratios recommended by the Basel Committee and required at domestic level (see Chart 18). In particular, the Liquidity Coverage Ratio (LCR) stood at 2.4 in September at aggregate level, in line with the figure of the previous IEF and up 0.3 in a year-on-year comparison.[47] The BCRA's monetary regulation instruments were the high-quality liquid assets (LCR numerator) that have increased the most so far this year, while the unsecured wholesale funding —already weighted because of its condition as risk factor— was the potential cash outflow source that has gone up the most over the period under analysis (most relevant component of the LCR denominator). In turn, the Net Stable Funding Ratio (NSFR) of the ensemble of institutions subject to the regulation totaled 1.9 as of June (latest information available) and did not post relevant changes in the last quarters.[48] The availability of stable

46 For further detail, see Communication "A" 7290 and Press Release of 05/27/2021.
47 The LCR considers the liquidity available to face any potential outflow of funds within a stress scenario in the short term. See Consolidated Text on "Liquidity Coverage Ratio".
48 The NSFR considers the availability of institutions' stable funding in line with the terms of businesses to which it is applied. See Consolidated Text on "Net Stable Funding Ratio".

resources (NSFR numerator) mainly derived from deposits and regulatory capital (the most dynamic concepts over the period), funds largely intended to provide loans to the private sector (main concept of the NSFR denominator in terms of the relative weight and the estimated momentum).

The financial system funding via the markets continues to be limited, with manageable amounts to be paid at maturity or to refinance in the next months. The capital market continues to provide a marginal contribution to the financial system's funding structure in aggregate terms (as of September 2021, only 20 financial institutions out of 79 institutions had outstanding bonds), even though the weight may be relevant in the case of some specific institutions. In fact, by the closing date of the third quarter of the year, Corporate Bonds accounted for 0.6% of the aggregate financial system's total funding while, if only the group of institutions effectively holding outstanding Corporate Bonds is considered, these institutions account for 1.3% of total funding. Thirty per cent of the total stock of outstanding Corporate Bonds issued by the financial system will become due during the first half of 2022,[49] and most maturities are denominated in pesos.[50] Since the publication of the previous IEF (July-November period), 7 financial institutions issued Corporate Bonds in the domestic market for a total amount of $15.2 billion (at November constant pesos), down 26% in real terms against the same period of 2020 (see Chart 19). In turn,

Chart 19 | Financial system's corporate bond issues and characteristics of the stock



Note: includes local and international market placements.
Excludes swap operations.
Source: BCRA based in a CNV and BCBA.

86% of the amount issued was denominated in nominal pesos (at an average weighted term of 17 months) and the rest was denominated in UVA (at a 48-month term) and in dollar-linked (at an

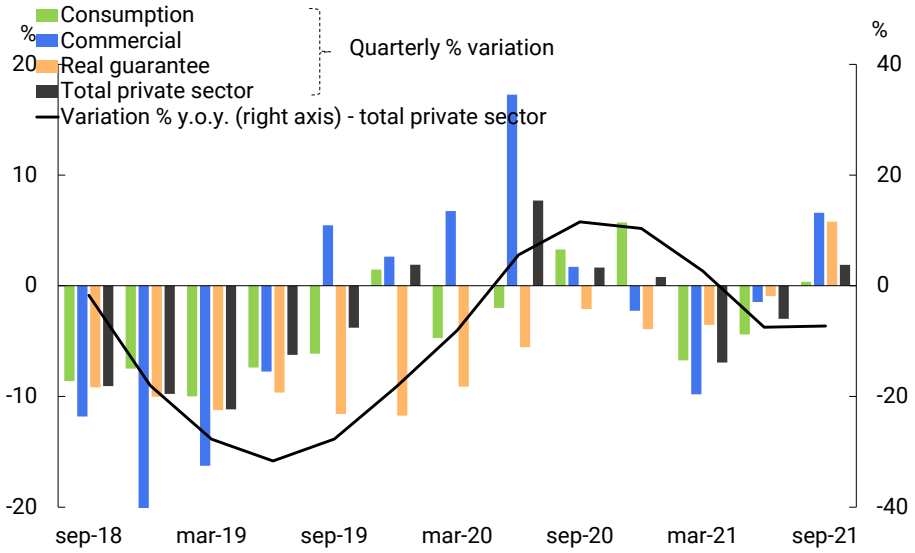
49 This estimate is based on the stock calculated at the end of November 2021.
50 Even though 60% of the financial institutions' total stock of Corporate Bonds is denominated in dollars, when considering the maturities corresponding to the first half of 2022, the percentages are as follows: 54% of debt in nominal pesos, 25% in UVA and 16% in dollars (including peso-linked instruments, denominated in pesos but underwritten and paid in foreign currency) and 5% in dollar-linked.

18-month term). Just as it happened in the previous six-month period, there were several repurchase transactions of Corporate Bonds by the financial institutions in the second half of 2021.

3.3. Moderate Performance of the Financial Intermediation Activity

In a context where economic activity continued to give signs of recovery since mid-2021, the financial system's intermediation process has exhibited a slight rise in recent months, even though it continued to stand at moderate levels. In particular, in the third quarter, the stock of loans in pesos to the private sector was on the rise in real terms, after declining for two consecutive quarters. The stock of private sector deposits in domestic currency grew in real terms in the third quarter. Despite this performance, the stock of loans to private sector and its

Chart 20 | Change in the stock of loans in pesos to the private sector In real terms*



*Non seasonally adjusted. Note: Commercial includes overdrafts, documents and leasing. Real guarantee: mortgages and pledge-backed. Consumption: Personal and credit cards.
Source: BCRA

deposits in pesos in real terms contracted in year-on-year terms. In the segment of foreign currency, the stock of loans to the private sector has gone down slightly since the publication of the previous IEF, while the deposits of such sector were on the rise (changes in currency of origin).

The stock of loans to the private sector in pesos rose 1.9% in real terms in the third quarter of the year (see Chart 20), even though it stood below the level seen last March (at the time of publication of the previous IEF). The performance on the margin was mainly led by commercial lines and, to a lesser extent, by loans with real property collateral (mainly pledge-backed loans) and by loans intended for households' consumption. Part of this growth was explained by the various assistance programs implemented by the BCRA jointly with the National Executive Branch, devoted to the sectors that have been hardest-hit by the pandemic (see Boxes 3 and 4). In a year-on-year comparison, the stock of lending in pesos to the private sector accumulated a drop of 7.3% in real terms in September.

Box 3. Scope of the Credit Line for Productive Investment (LFIP) of Micro, Small and Medium-Sized Enterprises (MSMEs) —2021 Quota

The Credit Line for Productive Investment of MSMEs[51] (LFIP) consolidated during 2021 and became the main credit stimulus tool driven by the BCRA, providing more flexible financial conditions to debtors. The LFIP for the 2021/2022 period keeps financial terms and conditions similar to those of the two previous quotas.[52] In this new edition: i. eligible benefits have been extended and now allow key economic sectors, such as the MSMEs involved in the production of meat and/or milk, to access this quota; ii. MSMEs and non-MSMEs producing poultry and/or pork meat will continue to be eligible to receive financing and iii. additional benefits were provided to companies operating in the sectors of gastronomy, hospitality as well as cultural and entertainment services, which will be able to access the Working Capital Line and will have a 6-month grace period.

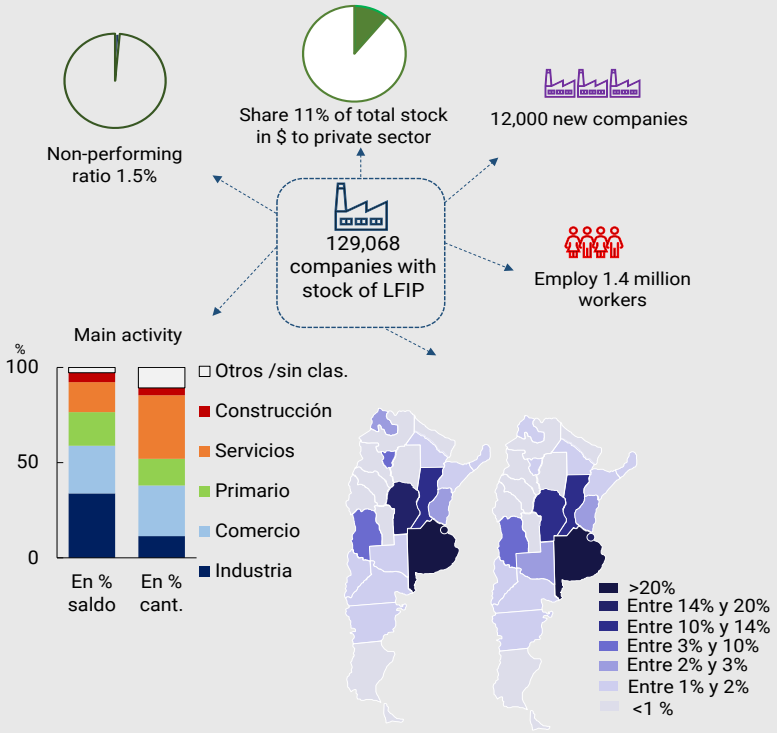
It is estimated that, as of September 2021, the stock of financing provided via the LFIP accounted for 11% of the stock of loans in pesos to the private sector (18% of total loans to companies).[53] The total bank debt of the ensemble of companies receiving loans under the LIFP is equivalent to 30% of the financial system's stock of credit.

In terms of the relevance of the LFIP for the productive structure, several dimensions should be analyzed (see Chart R.3.1). With reference to the scope of the LFIP at geographical level, this program exhibited a positive impact in all provinces of the country. It is estimated that, as of September, 26.3% of the stock corresponding to the 2021 quota was provided to companies with domicile for tax purposes in the Province of Buenos Aires, 21.3% in the Autonomous City of Buenos Aires (CABA), 14% in Córdoba and 10.3% in Santa Fe (the total stock of loans channeled by the financial system to these provinces accounted for 29.8%, 26.8%, 10.6% and 8.6%, respectively). Taking into consideration the various segments of activity, it is observed that 33.8% of the LFIP's would have been granted to industry, followed by commerce and agriculture (25% and 17.7%, respectively). In addition, it is estimated that the companies registered with this program provide formal jobs to over 1.4 million employees (around 12% of registered workers throughout the country[54]).

51 For further detail, see the Consolidated Text on "Credit Line for Productive Investment of MSMEs" and Communication "A" 7369.
52 The loans intended for Investment in Capital Goods will have a maximum nominal annual percentage rate of 30%, with an average minimum term of 2 years (weighted by the maturity date of the principal, while the total term cannot be shorter than 36 months). In turn, the financing devoted to Working Capital will have a maximum nominal annual percentage rate of 35%. Financial institutions may reduce their compliance with the minimum cash requirement for an amount equivalent to 14% of the financing to MSMEs, provided they use the loans for capital goods investment projects. For further detail, see the Consolidated Text on "Minimum Cash" and Communication "A" 7161.
53 For a follow-up of disbursements under the LFIP, see the releases of the Report on Banks.
54 According to data as of August 2021 provided by the Ministry of Labor, Employment and Social Security.

Chart R.3.1 | Credit Line for Productive Investment (LFIP) of MSMEs

Estimates about the 2021 Quota



The extension of credit via the LFIP (mainly to MSMEs) was promoted by resorting to two channels: i) an increase of resources for companies that already had bank credit (around 70% of the companies identified as takers of any loan under the LFIP would have taken part in the Line for MSMEs at a nominal annual percentage rate of 24% launched by the end of the first quarter of 2020 in view of the COVID-19 shock),[55] and ii) an easy access for companies that did not have any bank financing. In particular, it is estimated that 12,000 firms that had not been incorporated as debtors of the financial system as of February 2020 managed to be included by resorting to the LFIP (accounting for over 9% of total companies having loans granted under the LFIP effective in the 2021 quota and it is estimated that they explain 3.4% of the LFIP's stock of loans).

With reference to credit risk materialization indicators, it is worth noting that companies that have been granted with loans under the LFIP in the financial system[56] have exhibited a non-performing ratio that is relatively lower than that of the aggregate financial system: 1.5% and 5%, respectively. When breaking down the companies that have accessed the LFIP by economic sector, it is observed that construction firms exhibit the highest level in terms of non-performing ratio, while commercial firms have the lowest value in terms of such indicator.

55 For further detail, see Exhibit on "Measures adopted by the BCRA to sustain financing flows to the private sector" corresponding to IEF II-20.
56 It considers both the stock of loans provided under the LFIP and the credit granted outside such program.

The loans in foreign currency granted to the private sector —in currency of origin— have shown a mixed performance since the publication of the previous IEF: there was an increase in the second quarter and a reduction in the third one, and they have consequently accumulated a drop of 5.3% in real terms against March and a drop of 12.9% in real terms in a year-on-year comparison.

Box 4. Recent Measures Adopted by the BCRA to Promote Financing to the Private Sector

During the second part of 2021, the BCRA's credit policy continued to be focused on the economic sectors that have been hardest hit by the pandemic. The purpose of measures promoted over the period, which have addressed the conditions of liquidity and soundness of the financial institutions at individual and aggregate levels, was to invigorate a balanced and sustained economic recovery throughout the country.

Table R.4.1 | Main financial programs in force in 2021

Line	NAR	Group / Destination	Companies / Loans	Granted amount		Average credit (in thousands ARS)
				In billion ARS	Date	
2021 Zero Rate Credit Line	0%	Workers under the Simplified Tax Regime for Small Taxpayers -RS-	292,157 loans	34.2	Dec-21	117.1
Credit Line for Productive Investment of MSMEs - Working capital and special not MSME	35% fixed rate	MSME / Working capital / Discounting checks / Other	198,039 companies	1,127.1	Nov-21	6,760.5
Credit Line for Productive Investment of MSMEs- Investment projects	30% fixed rate	MSME / Acquisition of capital goods and/or construction of facilities / among others.		211.8		
Ahora 12	Depends on the term	Households	-	368.3*	Jul-21	-

*Residual stock. Source: BCRA

By the end of September, the BCRA extended the "Credit Line for Productive Investment of MSMEs" (LFIP) for the period 2021/2022, keeping financial terms and conditions similar to those established for the previous two quotas.[57] Likewise, additional measures were adopted in recent months to boost bank lending to households. In order to continue providing aid to workers under the Simplified Tax Regime (*monotributistas*) and self-employed workers, the BCRA implemented in August, jointly with the National Executive Branch, a program called "2021 Zero Interest Rate Credit Line" (see Table R.4.1). It consists in a loan of up to $150,000 at a 0% interest rate and with

57 For further detail, see the Consolidated Text on the "Credit Line for Productive Investment of MSMEs", Communication "A" 7369 and Box 3 "Scope of the Credit Line for Productive Investment (LFIP) of Micro, Small and Medium-Sized Enterprises (MSMEs) —2021 Quota" of this Report.

a 6-month grace period as from the granting of the credit, which will be paid back in at least 12 equal and consecutive installments. In line with the provisions of the "2020 Zero Interest Rate Credit Line", and as a partial compensation to financial institutions for the cost of the funds intended for these transactions, the BCRA established that financial institutions may reduce their compliance with the minimum cash requirement in pesos for an amount equivalent to 60% of the total amount of the loans granted.[58] In this new quota, around $15.9 billion have been granted until mid-October, including 135,000 loans (added to around $66.5 billion granted in the previous quota).

In turn, in August, the National Government extended the "Ahora 12" Plan until late January 2022,[59] giving the choice of making purchases in 24 and 30 fixed monthly installments via credit card. As from September and in order to boost a rise in the credit supply within the framework of this program, the BCRA increased by 2 p.p. (up to 8 % of the concepts in pesos subject to the regulation) the ceiling for the reduction in the compliance with the minimum cash requirement on the basis of the financing provided by means of this Plan.[60] It is estimated that there would be a stock of over $368 billion granted as of July 2021 via this instrument. These initiatives, adopted in 2021, are supplementary to those taken in 2020 to face the first effects of the shock (Table R.4.2).

Table R.4.2 | Other programs launched during the pandemic

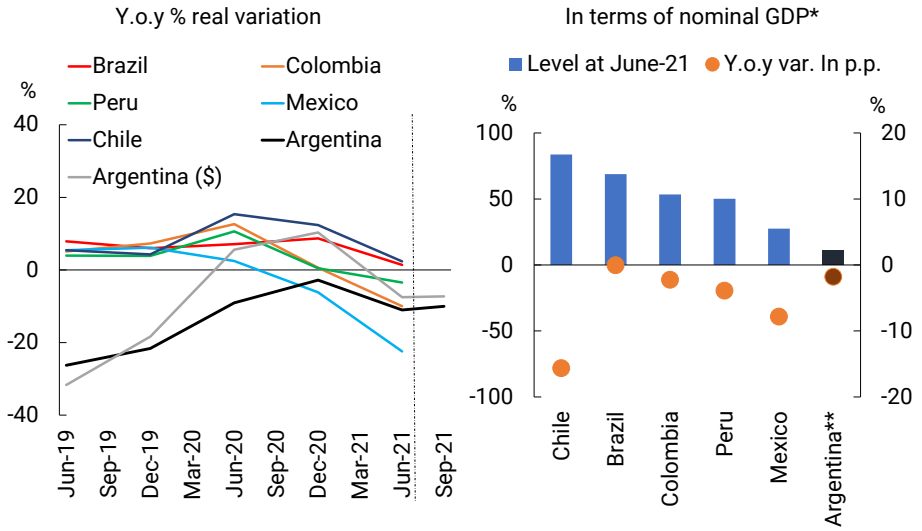
Line	NAR	Group / Destination	Companies / Loans	Granted amount		Average credit (in thousands ARS)
				In billion ARS	Date	
Special line to MSMEs and Health Service Providers	Up to 24%	-Working capital; -Acquisition of capital goods produced by local MSMEs; -Health Service Providers	327,844 companies	544.1	Nov-20	1,659.7
MSME plus	Up to 24%	MSMEs not reported in CENDEU	5,927 companies	2.9	Nov-20	490.1
2020 Zero Rate Credit Line	0%	Members of the simplified tax regime - monotributistas- and self-employed workers	562,340 loans	66.5	Oct-21	118.3
ZeroRate Culture Credit Line	0.0	Members of the simplified tax regime - monotributistas- and self-employed workers linked to culture	2,943 loans	0.3	Oct-21	104.7
Credit line at subsidized interest rates for companies	From 0% to 15 %	Payment of wages	20,939 loans	14.3	Oct-21	683.2

Source: BCRA

58 See Communication "A" 7342 and Executive Order 512/2021.
59 See Resolution 753/2021.
60 The reduction, equivalent to 50% of the credit, in the compliance with the minimum cash requirement was kept. See Communication "A" 7334.

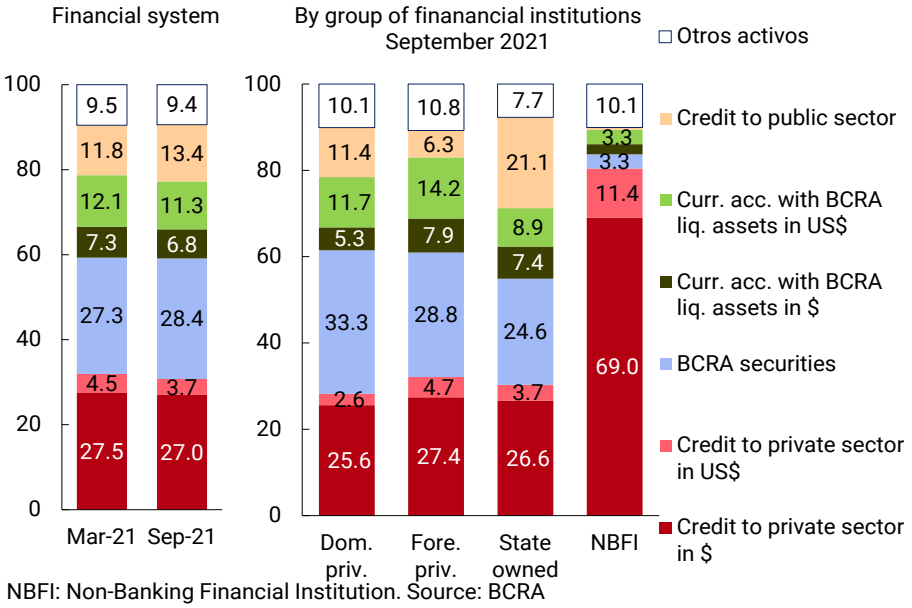
It is worth considering that, in the first part of 2021, there have been year-on-year drops in credit in real terms in most Latin American countries, within the context of the economic activity recovery at local and regional level and of some moderation and more targeted policies implemented to tackle the imbalances created by the pandemic context (see Chart 21). As a result of this evolution and of the improvement observed in the nominal GDP, there has been a reduction in the bank lending ratio in terms of GDP in nearly all Latin American economies. In particular, it is estimated that, in Argentina, this ratio stood at around 11% in September (-1.8 p.p. against the level observed one year ago), below the level recorded in other countries of the region, evidencing the low credit depth of the domestic economy.

Chart 21 | Stock of credit to private sector
International comparison



*For LATAM countries, the level of total credit to the private sector as of June 2021 and four quarters average of nominal GDP are considered .** For Argentina, the level of total credit to the private sector as of September 2021 and four quarters average (estimated) nominal GDP are considered. Source: BCRA, IFS and Haver

Chart 22 | Assets composition - Financial system
As % of total



NBFI: Non-Banking Financial Institution. Source: BCRA

In this context, the aggregate financial system's total assets increased slightly in real terms from March to September (see Chart 22). Regarding the composition of assets, the share of loans to the public sector has gone up, to some extent, in the past six months. In turn, the share of total lending to the private sector (in both domestic and foreign currency) has gone down slightly in total assets over the same period, together with broad liquidity.[61] Considering the composition of total assets by currency, the relative share of CER-adjusted items (including those denominated in UVA) has increased in the last six months, starting from low levels.[62]

During the next few months, the gradual regularization process of the economic activity is expected to continue and to have an impact on financial intermediation. However, if any of the abovementioned risk factors held true, this situation might slow down the intermediation performance and impact on the sector's main sources of income and on its solvency, and the effect could be even worse in the institutions that are still adversely affected by the pandemic context.

3.3.1 Elements of Resilience and Mitigating Measures:

The aggregate financial system's profitability indicators have kept positive levels. In the third quarter of the year, the financial system accrued a total comprehensive income in homogeneous currency that exceeded the levels recorded in the two preceding quarters (which were also positive), even though they are still low in a year-on-year comparison (see Table 2). Part of the increase recorded on the margin (when comparing the third quarter against the second quarter) lied in a higher income from premiums for repo transactions and a reduction of loan loss provisions, in a context of lower negative monetary gain/loss.[63] These effects were offset in part

Table 2 | Financial system's profitability table – In homogeneous currency*

Annualized (a.) - In %a. of netted assets	IQ-20	IIQ-20	IIIQ-20	IVQ-20	IQ-21	IIQ-21	IIIQ-21	2020	2021**
Financial margin	**12.2**	**11.2**	**10.4**	**13.2**	**11.7**	**12.0**	**11.6**	**11.7**	**12.1**
Interest income	10.3	8.1	7.7	8.0	8.0	7.6	7.7	8.5	7.8
CER and CVS adjustments	1.8	1.2	1.0	1.5	1.7	1.6	1.1	1.4	1.5
Foreign exchange price adjustments	0.7	0.7	0.9	0.9	0.8	0.5	0.5	0.8	0.7
Gains on securities	9.3	7.3	8.5	10.2	8.8	9.3	9.0	8.8	9.3
Returns on repo	0.9	1.0	1.4	3.0	3.3	4.2	4.9	1.6	3.8
Interest expense	-10.3	-6.9	-8.7	-10.1	-10.9	-11.3	-11.5	-9.0	-10.9
Other financial income	-0.4	-0.2	-0.4	-0.4	0.1	0.1	0.0	-0.3	0.0
Service income margin	**2.0**	**1.9**	**1.8**	**1.8**	**1.6**	**1.9**	**1.9**	**1.9**	**1.8**
Loan loss provisions	**-1.6**	**-2.1**	**-1.1**	**-1.6**	**-0.9**	**-1.4**	**-0.9**	**-1.6**	**-1.2**
Operating costs	**-7.0**	**-6.5**	**-6.4**	**-6.6**	**-6.3**	**-6.4**	**-6.4**	**-6.6**	**-6.4**
Net Monetary Position	**-0.2**	**-0.1**	**0.3**	**-6.4**	**-3.9**	**-3.5**	**-3.2**	**-1.6**	**-4.3**
Tax charges	**-2.0**	**-2.0**	**-1.6**	**-1.7**	**-1.6**	**-1.1**	**-1.6**	**-1.8**	**-1.4**
Results	**3.5**	**2.4**	**3.4**	**-1.3**	**0.6**	**1.5**	**1.6**	**2.0**	**0.6**
Other Comprehensive Income (OCI)	**-1.4**	**0.8**	**-1.3**	**3.6**	**-0.3**	**-0.3**	**-0.1**	**0.4**	**0.7**
Return on assets (ROA)	**2.2**	**3.2**	**2.1**	**2.3**	**0.3**	**1.3**	**1.4**	**2.4**	**1.3**
Return on equity (ROE)	**14.3**	**22.1**	**14.4**	**15.0**	**1.8**	**8.1**	**9.1**	**16.4**	**8.5**

*In accordance with Com. "A" 7211, as from 2021 the adjustments related to the effect of price changes are fully reflected in the monetary results. The aforementioned adjustments had an impact on different income statement accounts in the 2020 quarters..** Accumulated 12 months up to September.

Source: BCRA

61 In the last six months, the drop of the aggregate financial system's broad liquidity in total assets was mainly explained by the reduction in the stock of liquid assets and current accounts (in both domestic and foreign currency) held by the institutions at the BCRA, while the share of BCRA's instrument holding increased over the period.

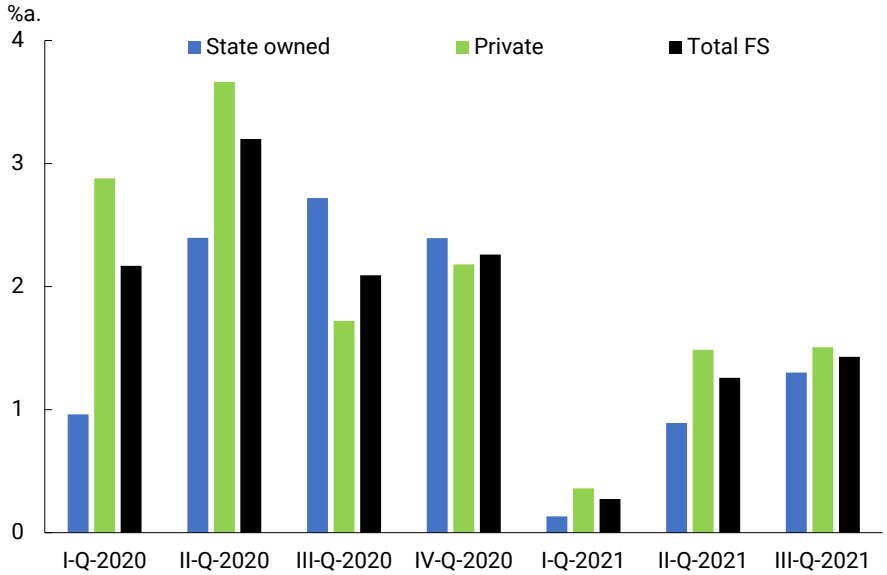
62 In a year-on-year comparison, the assets of the ensemble of financial institutions shrank by 3.2% in real terms in September. This evolution followed the remarkable increase observed in 2020, mainly driven by the rise of credit in domestic currency and of monetary regulation instruments (thus evidencing the monetary sterilization made by the BCRA, after the issue of pesos required to finance the extraordinary programs implemented by the National Executive Branch to face the impact of the COVID-19 shock).

63 They show the impact of inflation evolution on the profitability of institutions.

by profit reduction for CER adjustment, a higher income tax accrued and an increase of expenses for interest.

In the third quarter of 2021, a slightly higher ROA was observed in the group of private financial institutions (see Chart 23), but the performance was heterogeneous in the sector. In this context, all groups of institutions have exhibited high solvency indicators (see Table 1).

Chart 23 | Profitability by group of financial institutions - ROA



Source: BCRA

Risk-targeted supervision by the Superintendency of Financial and Foreign Exchange Institutions (SEFyC). Throughout 2021, the Superintendency of Financial and Foreign Exchange Institutions (SEFyC) redoubled its efforts to monitor and assess the individual performance of all financial institutions. It is noteworthy that, from the perspective of a macroprudential monitoring, domestic systemically important banks (DSIBs) as a whole have continued exhibiting adequate solvency and liquidity indicators (see Section 4.1).

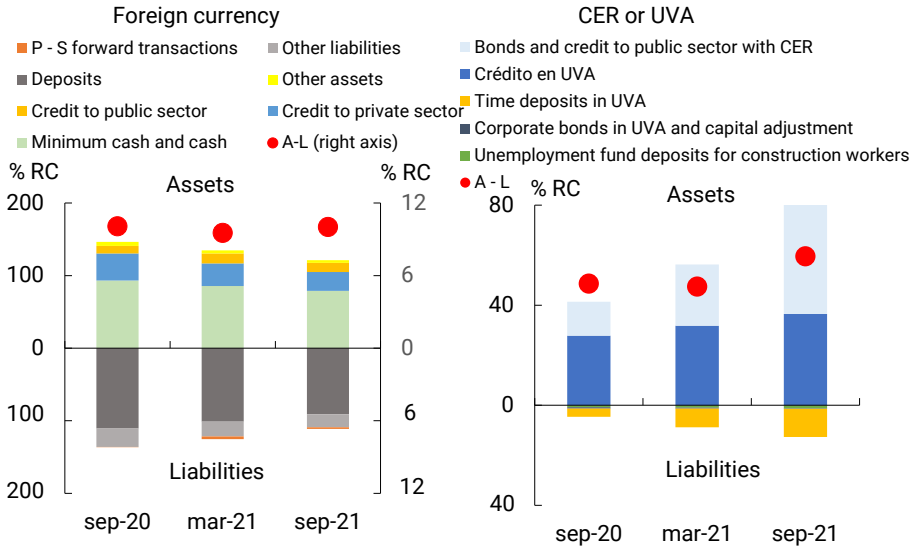
Targeted measures to support the gradual regularization of the economy. Since March 2021 and in line with the evolution of the pandemic, the BCRA and the National Government have mainly focused the measures intended to support economic recovery on the most vulnerable social sectors and on the companies that have been hardest hit by this context (see Box 3).

The ensemble of financial institutions has kept limited balance sheet currency mismatches (CER and foreign currency). It is estimated that the differential between assets and liabilities with capital adjustment by CER and/or UVA for the aggregate financial system has stood at 59.5% of the Regulatory Capital (RC) in September, increasing slightly against the level recorded in March and the level recorded one year ago (+12.1 p.p. and +10.9 p.p., respectively) (see Chart 24). This differential was mainly due to the performance of state-owned financial institutions. In turn, the differential between assets and liabilities in foreign currency (including forward purchases and

sales, off-balance) of the financial system stood at around 10% of RC in September and has grown

Chart 24 | Estimate of the differentials between assets and liabilities by currency

Financial System



A: Asset; L: Liabilitie; *In the case of the spread between assets and liabilities in foreign currency, purchase and sale forward transactions in such denomination are netted (classified off-balance sheet).
Source: BCRA

slightly in the last six months due to the performance of private financial institutions, even though it has not exhibited significant changes in year-on-year terms.

4. Other Matters of the Financial System Stability

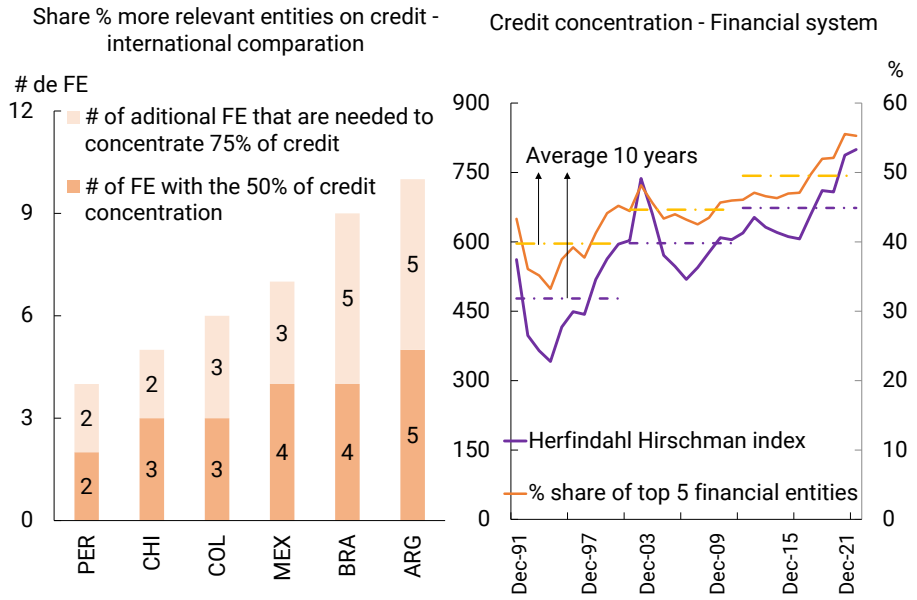
4.1 Domestic Systemically Important Banks (DSIBs)

The domestic financial system keeps some structural distinctive characteristics that help sustain moderate levels of systemic risk. These features include a relatively limited level of concentration, if compared to those observed in other emerging and developed economies. An indicator serving to illustrate this point is the number of financial institutions accounting for at least 50% (or 75%) of the stock of loans to the private sector, classifying such institutions in descending order on the basis of their stock of loans; in this respect, at domestic level, the highest record of the region is observed (see Chart 25, left panel). In terms of the Herfindahl-Hirschman Index[64] measured on loans to the private sector, in the context of low levels, it is seen that the sector has posted, in recent years, a slight increase in the level of concentration across institutions (see Chart 25, right panel).

64 The Herfindahl-Hirschman Index is calculated by squaring the market share of each institution in the loans and deposits market and then summing the resulting numbers; the higher the value obtained, the higher the concentration.

In addition to the relative size of each financial institution —which may be considered in terms of total assets, loans granted, number of branches, etc.—, used to define, in regulatory terms, the domestic systemically important banks (DSIBs), other dimensions are also taken into account such as the level of interconnectedness within the system, the complexity of business and the level of substitutability.[65] In the context of macroprudential monitoring, a differential follow-up of these institutions is conducted, since any potential episodes of stress in them might have an impact on the system and the economy as a whole.

Chart 25 | Concentration of banks offering loans to the private sector



Note: FE = Financial entities. Source: BCRA, Central Bank of each country and IMF.

As of September 2021, DSIBs accounted for 49.4% of the sector's assets, without any sizable changes when comparing information against the previous issue of the IEF. In regulatory terms, these institutions must especially verify an additional capital buffer above that defined for other institutions, equal to 1% of risk weighted assets (RWA). Like in previous 6-month periods, by the end of the third quarter of the year, all DSIBs posted a regulatory capital above the minimum requirement in order to comply with this specific additional buffer. In line with the rest of the system, solvency ratios of DSIBs have gone up in recent months. The profitability indicators of the group of DSIBs increased in the third quarter of the year against the first half of 2021 (below the levels recorded in 2020), in line with the values recorded for the remaining institutions of the sector.

The liquidity indicators of this ensemble of institutions continued to post high levels, going up if compared to the previous issue of the IEF (see Table 3), even though they were slightly lower if compared to those recorded by the rest of the system. Indicators associated with credit risk of DSIBs recorded a performance similar to that observed in the rest of the sector if compared to the previous publication of the IEF: a minor decrease of the gross exposure to the private sector, a

65 The determination of domestic systemically important banks (DSIBs) may be consulted HERE.

slight increase of exposure to the public sector and a rise of the non-performing ratio of loans, in the context of the strategic focus given to the financial relief measures.

Table 3 | Main indicators of DSIBs soundness

	Sep-20	Mar-21	Sep-21
Liquidity			
Broad liquidity (%)	56.7	57.5	60.0
In $	51.2	51.5	53.5
In US$	78.9	80.7	87.3
Liquidity Coverage Ratio	1.8	2.1	2.3
Net Stable Funding Ratio* (1)	1.8	1.8	1.8
Solvency			
Regulatory capital / RWA (%)	23.3	24.7	26.0
Regulatory capital / Loans net provisions (%)	38.0	43.6	46.5
Excess regulatory capital / Loans net provisions (%)	25.0	29.6	32.3
Leverage ratio (%)	11.4	13.1	13.5
Profitability			
ROE in homogeneous currency (quarterly %a.)	18.2	2.6	11.0
Private sector credit			
Exposure / Assets	35.4	35.0	33.2
Non-performing loan ratio (%)	4.3	3.9	5.2
Provisions / Loans to the private sector (%)	5.3	6.0	5.9
Public sector credit			
Exposure / Assets (%) (2)	15.5	16.0	17.6
Foreign currency position			
(Assets - Liabilities + Net undelivered purchases in foreign currency)	15.1	17.3	14.8

(1) June 2021 last available data.
(2) Position in government securities (not including BCRA securities) + Loans to the public sector.
RWA: Risk-Weighted Asset.
Source: BCRA

4.2 Interconnectedness in the Financial System

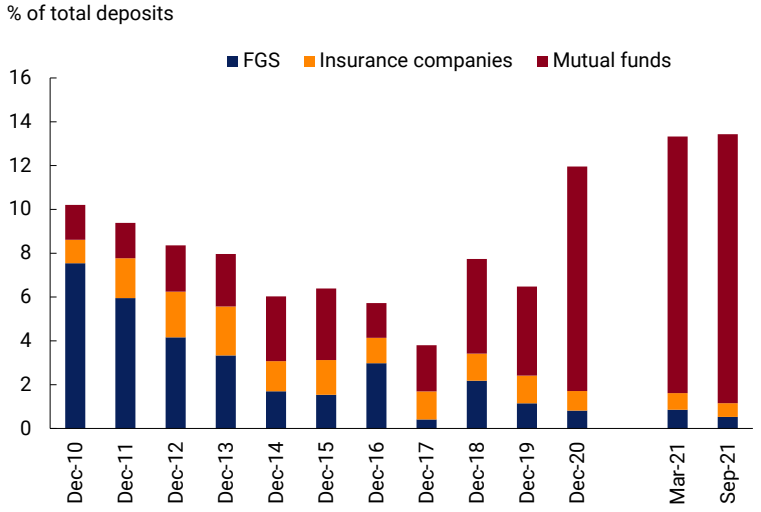
Time deposits and investments of institutional investors[66] are the main source of direct interconnectedness between them and the financial system (ensemble of financial institutions regulated by the BCRA). In this respect, the share of institutional investors' deposits in the funding of the financial system remained at a high level in historical terms by the end of the third quarter of 2021 (13.4% of the total and with no changes against March 2021; see Chart 26), doubling the average recorded in the last 10 years.

This performance resulted from an increase in the deposits of Mutual Funds (*Fondos comunes de inversión* - FCIs) measured in real terms, which offset the drop observed in the deposits of the Sustainability Guarantee Fund (FGS) and of insurance companies (there has been a contraction in the share of these two last investors in the funding for the financial system). In the case of Mutual Funds, the increase took place in a context of a rising managed portfolio, led by Money Market Mutual Funds. Likewise, Mutual Funds increased their managed portfolio by 9.4% between March

66 In terms of the volume of assets under management, the most important institutional investor at domestic level is still the Sustainability Guarantee Fund, followed by the industry of Mutual Funds and by insurance companies.

and September (in real terms), mainly via new underwriting (the positive net inflows grew 4.8% in the period) and the remainder due to the result of investments.[67] For Money Market Mutual Funds, the portfolio of which consists in deposits by more than 90% (half of the deposits of Mutual Funds), the growth of the net worth was 4.8% in the same period (with an increase of 2.3% of net flows). The main five Money Market Mutual Funds account for almost 50% of the segment's portfolio and 25% of the industry's portfolio.

Chart 26 | Share of institutional investors' deposits in funding of the financial system



Note: for mutual funds and insurance companies, deposits data published by BCRA are used. Source: BCRA and FGS.

With granular data at the level of funds and using network analysis, the direct interconnectedness among financial institutions and Mutual Funds grouped by deposits of each Managing Company (SG) of Mutual Funds is higher than that observed prior to the onset of the COVID-19 pandemic (December 2019) (see Table 4).[68] Nevertheless, as from March 2021, some indicators show a dissimilar performance. On the one hand, against March, there has been an increase in the aggregate of financial institutions with SGs deposits (from 36 to 40), the average size of deposits ($2.82 billion as of September 2021, +7.4% in real terms) and the number of financial institutions with which each SG has deposits (the median went from 10 up to 11). On the other hand, even though, during the same period, the number of links between SGs and financial institutions, i.e., the number of consolidated deposits at the level of each SG in each individual financial institution went from 504 up to 516, the truth is that in terms of the possible links such number decreased from 29% down to 26%. Moreover, a slight contraction was observed in the relevance of SGs

67 In August, the National Securities Commission (CNV), through Resolution 900/21, created a special regime for the creation of new money market mutual funds, the purpose of which is to invest in sovereign bonds. In turn, under RG885/2021, an authorization was given to create Mutual Funds intended to invest in tradable securities with environmental, social and governance (ESG) impact.

68 Deposits as links between financial institutions and Mutual Funds grouped at the level of SGs are considered, without making any difference between sight accounts and time deposits. There are other investments such as the holding of Corporate Bonds by Mutual Funds the issuers of which are financial institutions, or the holding of shares of financial institutions, which have not been covered by this analysis. See Exhibit 5 "Evolution of the Mutual Funds (FCI) Industry and its Interconnectedness with the Financial System" IEF, June 2021. As stated therein, after the reprofiling of Treasury instruments in August 2019, since the liquidity of financial markets was affected and there was high volatility, in December 2019, the BCRA was still making auctions of repos and purchases of Treasury Bills held in the portfolio of Mutual Funds, a measure it had taken on a temporary basis.

funding in aggregate at the level of each financial institution, from 18% down to 17% taking into account the total deposits of the Non-Financial Public Sector (NFPS).

Table 4 | Indicators of direct interconnectedness between Mutual Funds' deposits grouped by SG and financial institutions regulated by the BCRA

Indicator	Dec-19	Dec-20	Mar-21	Sep-21
Weighing of deposits over total balance of mutual funds	28%	44%	49%	49%
Quantity of financial entities with deposits of at least one fund management company (a)	34	36	36	40
Quantity of fund management companies (b)	50	48	49	49
Total observed links (higher than $100 thousand) (c)	325	459	504	516
Observed links/ possible (c)/((a)*(b))	19%	27%	29%	26%
Total deposits of fund management companies / total deposits non-financial private sector	5%	13%	14%	15%
Average deposit amount (link)*	$ 1.30	$ 2.50	$ 2.63	$ 2.82
Quantity of financial entities for each fund management company, median	6.0	9.0	10.0	11.0
Total deposits of fund management companies / deposits of non-financial private sector for each financial entity, median**	8%	14%	18%	17%
Size of each link / deposits of non-financial private sector for each financial entity, median***	0.3%	0.6%	0.7%	0.8%

*Amounts in billion $ of Sep-21. **Sum of deposits of all fund management companies with deposits by entity as % of deposits of non-financial private sector. ***Amount of deposits of each fund management company (individual) as % of deposits of non-financial private sector of each entity.
Note: Observed links (c): number of deposits of fund management companies in financial entities. Possible links: product between number of financial entities with deposits of at least one fund management company and number of fund management companies ((a)*(b)).
Source: BCRA based on CAFCI, INDEC and BCRA.

One of the main sources of direct interconnectedness within the financial system is the unsecured inter-financial loans market (call money). This relatively small market[69] is used by financial institutions for liquidity management. In a context where, in recent months, a slight increase was observed in the amounts traded in this market (even though they continue to be low in historical terms) and with a relative stability in the rates arranged and in relation to other reference rates (such as BADLAR), there has been an increase in the interconnectedness in general based on the indicators estimated according to network analysis. That notwithstanding, in most cases, indicators point to a drop in the level of interconnectedness against long-term values.[70]

5. Main Macroprudential Policy Measures

In the second half of 2021, the BCRA has kept the pillars of the prudential policy implemented during the pandemic, in a context where actions were focused, in the face of improvements of the epidemiological situation (see Section 1). As mentioned in prior issues of the IEF, most of the measures implemented domestically to deal with the shock are in line with those adopted by

69 Even though the average amount traded per day relative to the stock of private sector deposits is below 1%, it is relatively one of the main sources of direct interconnectedness among financial institutions.
70 A larger number of nodes (financial institutions participating in the market) and links (number of consolidated loans at financial institution level) is observed on average against the previous 6 months. The higher interconnectedness is recorded in indicators such as average degree, network density and distance. For a definition of such indicators and of the main terminology used in network analysis, see Exhibit 3 of IEF II-18.

other emerging and developed economies, and leave some lessons to be taken into account in the future (see Exhibit 3).

The pillars of the BCRA's prudential policy continue to be the following:

i. Achieve the goal that lending to the private sector, especially to MSMEs and households, may continue to expand gradually, in a scenario where some of the effects of the pandemic are still impacting on the economy. To such effect, several amendments have been made to the "Credit Line for Productive Investment (LFIP)" for micro, small and medium-sized enterprises (MSMEs), while the "2021 Zero Interest Rate Credit Line" was launched, thus seeking to mitigate any potential stress episodes on the payment capacity of a wide range of debtors, and the potential adverse effects on the financial system and the economy as a whole. (See Boxes 3 and 4.) Besides, the BCRA has kept unchanged and at zero (0%) the level required for the Countercyclical Capital Buffer[71] for financial institutions, in a context of financial intermediation that continues to be partially impacted by the evolution of the pandemic.
ii. Mitigate the financial situation of households and companies still impacted by the shock, in a more focused fashion. Therefore, one of the measures still in effect is the possibility of deferring unpaid installments to the end of the lifetime of the loan for employers subject to the "Productive Recovery Program II" —REPRO II— (accruing only compensatory interest)[72] (see Section 3.1).
iii. Promote savings in time deposits in pesos, especially in terms of the availability of UVA deposits (traditional and subject to early cancellation) and in traditional time deposits in pesos at a minimum rate regulated by the BCRA.
iv. Keep on encouraging prudential levels of capital by institutions, for instance, by temporarily extending the suspension of the possibility of distributing profits/dividends. The purpose is to have a sound system which may be capable of facing, with no sizable stress, an eventually more adverse operating scenario (in case of materialization of any of the risks analyzed in the preceding sections), and to reduce their potential procyclical impact on the economy.
v. Enhance exchange regulations and those applicable to financial institutions to keep on using international reserves efficiently, preventing any temporary imbalances between demand and supply.

These pillars are supplemented by the BCRA's strong encouragement to the growth of electronic means of payment in the economy, especially through the recent launch in full of payments by transfer under the 3.0 Transfers initiative. This new scheme, launched by the end of November, enables both stores and users to obtain advantages in electronic payments, in terms of security, promptness, irrevocability and reduced costs, thus facilitating a greater financial inclusion (in particular, of the relatively more vulnerable groups).

71 See Consolidated Text on Distribution of Profits. The Countercyclical Capital Margin is a macroprudential policy tool available to the BCRA, the main purpose of which is to protect financial institutions against accumulating systemic risk that may result in an excessive growth of credit at aggregate level.
72 And this also allows for the temporary modification of parameters to classify them.

Exhibit 1 / Rebuilding of the Public Debt Secondary Market in Pesos and Liquidity Risk

The existence of liquid and deep public debt markets contributes positively to the financial stability framework of an economy,[73] since they provide the following benefits, among other:

- reduction of the liquidity risk faced by investors (including banks),[74] since they may get rid of their positions as appropriate without having to face high costs associated with the transaction;
- more efficient debt management by the issuers and,
- more accurate assessment of the financial instruments (a relevant topic since it serves as benchmark of the remaining agents' valuation of instruments), thus contributing to the development of more efficient financial markets, so that saving can be effectively channeled into investments.[75]

The Argentine market of sovereign debt is, in part, influenced by the context-related conditions observed in recent years which led to several debt swaps at both domestic and international levels in 2020 (seeking to recover public debt sustainability). In this framework, the objective was to finance the National Government in pesos and regularize the market of public debt instruments in the same denomination,[76] for the purpose of achieving an attractive and sustainable relationship between term and yield.

As a result of this financial strategy, the domestic primary market counted on a wide range of instruments in pesos[77] which, over time, tended to concentrate the maturities in each segment. The objective was to generate increasingly larger issues, in line with international best practices on public debt management. To provide greater predictability, a schedule of auctions was announced for the following months. Consequently, it was possible to gradually extend the terms of debt issue in domestic currency, and its share increased in the total stock of the national public sector's debt.

Given that this market is still under development and has sufficient space for growth, the subsequent financial strategy sought to strengthen the operation of the primary and secondary markets of these instruments. Specifically, the purpose was to continue making progress in the building of a yield curve in domestic currency and to foster the development of the secondary market of public debt instruments in such currency. In the same line, the BCRA started to operate in the sovereign bonds futures market in order to improve market depth.

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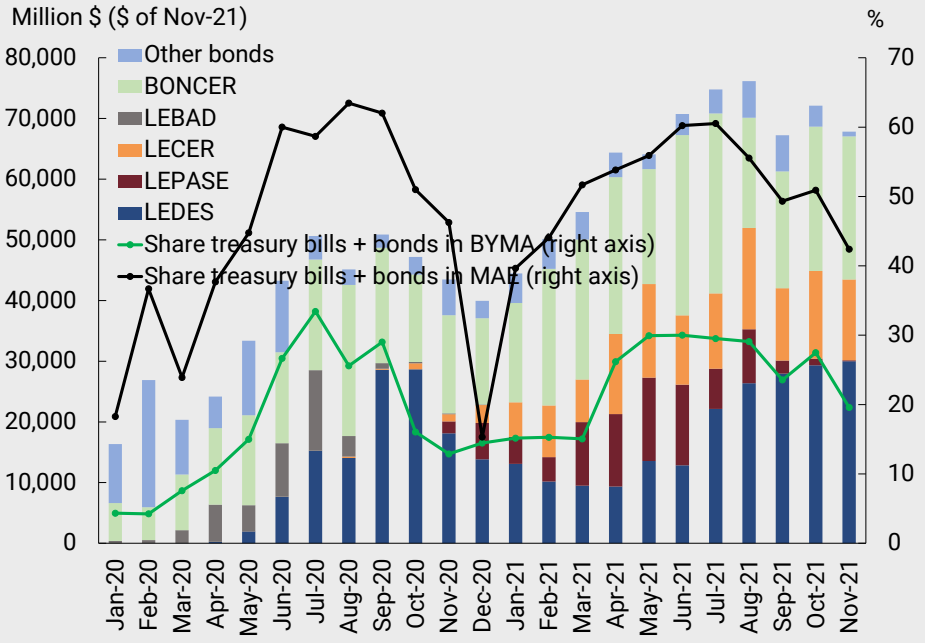
73 See, for example, "Financial Stability and Local Currency Bond Markets", Committee on the Global Financial System (CGFS) Papers No. 28, June 2007.
74 In Argentina, the main holders of sovereign public debt are institutional investors and financial institutions.
75 Das, U.; Surti, J.; Ahmed, F.; Papaioannou, M.; Pedras, G., "Managing public debt and its financial stability implications", IMF, Working Papers 10/280, December 2010.
76 See IEF Exhibit 3, First Half of 2020 and Exhibit 6 IPOM, November 2020.
77 This range included discount bills, coupon bonds in nominal pesos and in pesos with CER-adjustment, coupon bills and bonds at variable rate (BADLAR) and coupon bills at the 7-day reverse repo rate plus a margin (LEPASE). More recently, Treasury Liquidity Bills (LELITEs) started to be issued specifically for Mutual Funds, with partial pre-cancellation option and non-negotiable in the secondary market.

With reference to the secondary markets, instrument trading in pesos accounted for 30% of the total value traded in sovereign bonds in the Electronic Over-the-Counter Market (MAE) and BYMA (main trading markets) in the last three months.[78]

At present, two[79] different types of Treasury Bills are traded and they are both issued at a discount: in nominal pesos —LEDES, 5 instruments in effect— and in pesos with CER-adjustment —LECER, 8 instruments in effect—, and the former have a higher share (see Chart A.1.1). The bonds traded mainly include three different types of instruments: in pesos with capital adjustment by CER (BONCER, consolidation bonds and other bonds issued at the time of the 2005 and 2010 swaps), bonds in nominal pesos at a variable rate (BADLAR rate) and at a fixed rate. The bonds in pesos tradable in the secondary markets include a total of around 20 instruments, even though the CER-adjustment instruments prevail (14 surveyed).

Chart A.1.1 | Trading of instruments denominated in pesos
Amounts traded per day by instrument segment and share of the instruments in pesos in the total traded in the main markets



Source: BCRA based on Bloomberg.

Within the framework of the measures adopted, a gradual relative increase was observed in the public debt instrument trading in domestic currency in the main markets. However, other traditional indicators used to assess liquidity such as the bid-ask spread(see Chart A.1.2) and the

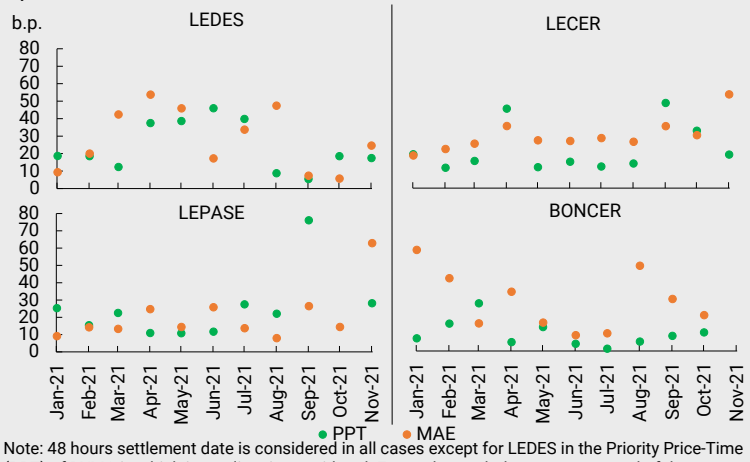
78 Considering the January-November period, the instruments in pesos accounted for 30% of the total volume traded. The rest of the trading is distributed as follows: 28% of the total in national sovereign bonds denominated (and payable) in foreign currency and the rest in other instruments such as those linked to the dollar and provincial bonds, among other. So far this year, the total amount traded in sovereign bonds has amounted to $222 billion (at constant values corresponding to November 2021) on average per day, including the bonds of the different segments (dollar, dollar-linked, pesos and other). Trading in the Price-Time Priority (PTP) segment and in the Bilateral Trading segment (SENEBI) of the Stock Exchange (BYMA) as well as trading in purchase-sale transactions at MAE have been considered.

79 Until November, LEPASEs were traded. These instruments were issued from November 2020 to August 2021, when the last issue was made by means of an auction of the instrument with maturity in November 2021.

amount traded based on the outstanding stock (turnover ratio)[80] (see Table A.1.1) reveal the existing heterogeneity per segment and the potential for improvement in terms of the depth of the debt secondary market in pesos.[81] Generally speaking, LEDES stand out as the most liquid instruments of the domestic market.

Chart A.1.2 | Bid-ask spread between instruments

In pesos



Note: 48 hours settlement date is considered in all cases except for LEDES in the Priority Price-Time (PPT) of BYMA in which immediate is considered. For each month the average spread of the two most liquid species of each type of instrument is considered. Source: BCRA based on Bloomberg.

Table A.1.1 | Daily turnover of instruments in pesos by segment

Period	LEDES	LEPASE	LECER	BONCER
Jan-21	3.0%	2.7%	1.3%	0.5%
Feb-21	3.2%	1.7%	1.5%	0.7%
Mar-21	4.7%	2.8%	1.3%	0.6%
Apr-21	4.2%	2.0%	2.2%	0.6%
May-21	5.1%	2.2%	2.0%	0.4%
Jun-21	3.2%	3.3%	2.9%	0.7%
Jul-21	5.0%	3.0%	2.1%	0.6%
Aug-21	5.5%	4.5%	2.0%	0.4%
Sep-21	4.5%	1.5%	1.2%	0.4%
Oct-21	3.4%	1.8%	1.3%	0.6%
Nov-21	4.2%	0.7%	0.8%	0.5%

SENEBI (BYMA) and MAE is computed, in relation to outstanding values at the end of each previous month. Then, monthly value for each segment is averaged based on all securities with liquidity. Source: BCRA based on Bloomberg and MECON.

In order to keep on advancing in the development of the secondary market of public debt instruments in pesos and to give more transparency to the prices of instruments that are taken as benchmark in the domestic yield curve, the Market Makers Program (MMP)[82] was launched in August. In its first stage, the program focuses on Treasury Bills and includes the performance of a selected group of 13 institutions willing to become market makers (9 are financial institutions).[83] In this context, the institutions operating as market makers (MM) commit to a minimum participation in the transactions made at both the primary market (1.5% of the total auction per quarter) and in the secondary markets, as well as to keep purchase and sale positions during a minimum period of the trading day.[84]

80 Thus, it is considered that the smaller the differential between purchase and sale prices measured in bp, the more liquid the instrument, usually below 5 bp in the benchmark instruments in deep markets such the US Treasury Bond market and also in the case of the most liquid sovereign bonds of Brazil, Mexico, etc. As reference, between 2006 and 2010, the spread of Boden 12 was standing at an average range of 25-30 bp. For the turnover, the ratio is generally calculated as the amount traded on a daily, weekly or monthly basis in terms of the outstanding value (close to the technical value) or market value of the instrument to indicate the turnover: the higher the turnover, the more liquid the instrument.

81 The estimate made for the market maker spread (or bid-ask spread), which included the most traded instruments in domestic currency from January to November 2021 at MAE and the PTP segment of the Stock Exchange, provided indicators (on the basis of the daily average per month) within a range of less than 10 bp for the more liquid LEDES and BONCER, a value that exceeds 60 bp in other instruments. Regarding the turnover ratio, the daily average per month traded at MAE and BYMA (PTP and SENEBI segments) was calculated from January to November 2021 in terms of the estimated outstanding value by the end of the previous month, seeking to include all instruments with secondary trading by segment. At instrument level, for the most liquid bills in pesos, such range stood between 2.1% and 5.4%, while for the BONCER the range was 0.5%-2.1%. For reference purposes, in the most liquid sovereign bonds in dollars, the daily turnover stands at a range between 4% and 27%.

82 See Joint Resolution 1/21.

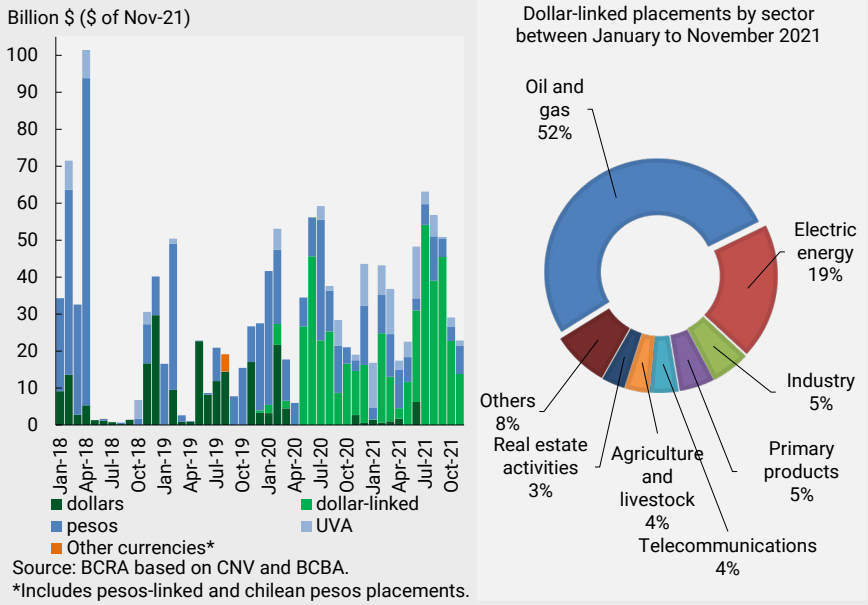
83 Among other requirements to be fulfilled for the institution to be accepted as Market Maker, it must be a Clearing and Settlement Agent (ALyC).

84 Regarding the rights of the Market Maker institutions, they will be able to take part in the second round of auctions and in meetings with the Undersecretariat of Financing regarding topics related to the development of capital markets and the design of instruments. They may have access to loans of public debt instruments (if available) and to economic incentives to be defined.

Exhibit 2 / Recent Trends in the Issue of corporate bonds

Corporate bonds are the companies' main financing instrument in the capital markets of Argentina. Within the context of rebuilding the public debt domestic market (see Exhibit 1), there has been a recovery in the amounts of corporate bonds issued in 2021, after the period of uncertainty undergone in 2018-2019 and the initial impact of the COVID-19 shock in 2020. However, the development of the domestic capital market is still incipient, given that it is still small in an international comparison and in relation with the Argentine economy.

Chart A.2.1 | Financing through corporate bonds



Source: BCRA based on CNV and BCBA.
*Includes pesos-linked and chilean pesos placements.

Gross financing via corporate bonds has accounted for $586 billion (at pesos corresponding to November) in year-to-date terms up to November 2021, up 39% against the same period of 2020.[85] In the case of corporate bonds issued in the domestic market, they account for nearly half the financing accumulated in 2021 within the range of instruments used (deferred payment checks, financial trusts, promissory notes, shares and other, in addition to corporate bonds).

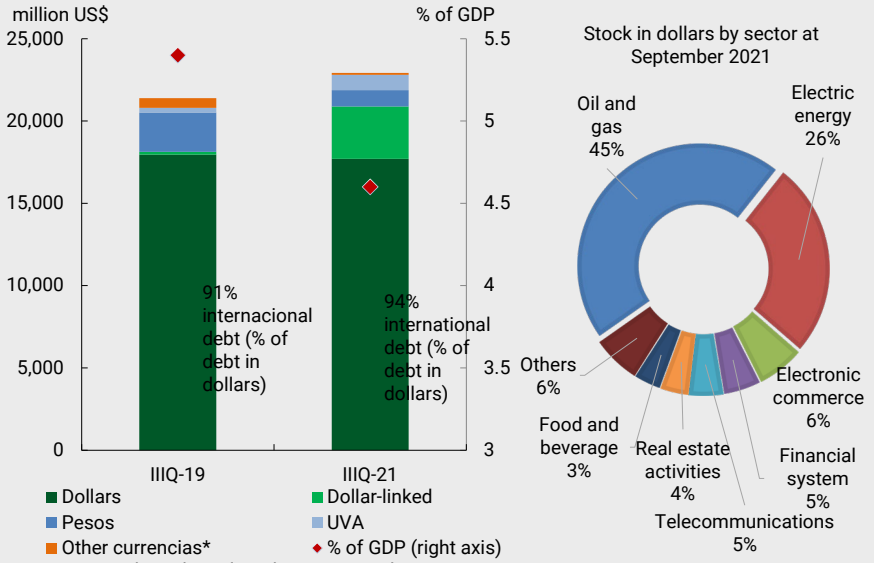
In terms of financing instruments, dollar-linked issues (denominated in dollars and payable in pesos) have been the main financial tool since 2020 and have accounted for over 60% of the corporate bond amount issued in 2021 in the domestic market[86] (see Chart A.2.1, left panel). The rest is distributed among issues in pesos (19%) and UVA (16%). Dollar-linked transactions in the domestic market are associated with higher amounts and longer terms. So far in 2021, the average amount per dollar-linked transaction (at November prices) is equivalent to $3.28 billion while, in the case of transactions in pesos and in UVA, the average figures amount to $862 million

85 Considering only genuine transactions (excluding swaps) under any legislation. If corporate bonds under international law are excluded, the amount in the same period reaches $408 billion at pesos corresponding to November 2021, growing 9% y.o.y.
86 Dollar-linked corporate bonds accounted for around 45% of the total amount in 2020. Regarding transactions made in 2021, several transactions are framed in the Guidelines for issuance of green, social and sustainable securities in Argentina from the National Securities Commission (CNV) (considering the 9 issues in this segment in 2021, 4 were dollar-linked transactions, 4 were in pesos and 1 was in UVA).

and $2.9 billion, respectively. In 2021, as regards terms, the average term of dollar-linked issues was 53 months (with issues of up to over 130 months); in the case of issues in pesos and UVA, the average term was 14 months and 42 months, respectively (with issues of up to 60 months in both segments).

This occurs in a context where corporate bond issues in dollars lost momentum (both domestically and internationally), and most of them are currently performed in the external market and involve specific issues of a large size. [87] So far this year, transactions in dollars have accounted for 32% of total corporate bond issues,[88] while in 2016-2017 they explained 70% of the total on average. In turn, dollar-linked issues were mainly performed by oil & gas companies followed, to a lesser extent, by sectors such as power generation and primary products (see Chart A.2.1, right panel), with companies that, in several cases, have at least part of their income in foreign currency.

Chart A.2.2 | Stock of outstanding corporate bonds



Source: BCRA based on Bloomberg, CNV and BCBA.
*Includes pesos-linked and chilean pesos placements.

As a result of the higher momentum of dollar-linked issues, the stock of outstanding corporate bonds went up (offsetting the contraction of corporate bonds in dollars and in pesos), and there has been an expansion in the share of this currency in the total stock. In fact, it is estimated that the total stock of outstanding corporate bonds (subject to both domestic and foreign law) stood at US$23 billion (4.6% of GDP) as of late September, against US$21.4 billion (5.4% of GDP) two years ago (pre-pandemic times). In turn, dollar-linked corporate bonds accounted for 14% of the total stock (+13 p.p. against two years ago) (see Chart A.2.2.). Corporate bonds in dollars

87 The transactions considered herein exclude swaps and, therefore, do not include transactions related to the refinancing processes performed on the basis of the new regulations implemented by the BCRA as from October 2020 (Communication "A" 7106 and, later on, Communication "A" 7230) regarding maturities in foreign currency. These transactions resulted in fewer net purchases in the exchange market for around US$1.8 billion against the original maturity dates for financial debts abroad and/or domestic securities in foreign currency (as from the effective date of the regulation and during the first six-month period of 2021; see "Private Sector External Debt Report"). In December, a decision was made to extend for six months the foreign exchange provisions that expire by the end of the year in relation with debt securities in foreign currency and other financial liabilities.
88 The total amount reached US$1.62 billion in 2021 and US$665 million in 2020. In turn, the average term of corporate bond issues in dollars has been 89 months from January to November 2021 (with transactions of up to 120 months).

continue explaining most of the stock (77% of the total, with over 90% of such stock in instruments under foreign law).[89] The corporate bonds payable in foreign currency (dollar, peso-linked and Chilean pesos) now account for 78% of the total, against 87% two years ago. In terms of the currency risk related to the stock of corporate bonds in dollars, a significant share corresponds to oil & gas companies (45%) with part of their income in foreign currency.

89 The international swaps carried out by early 2020 and the refinancing transactions made within the framework of Communication "A" 7106 (and then Communication "A" 7230) did not imply, in general, a reduction of principal, even though they involved an improvement in terms of maturity profiles.

Exhibit 3 / Challenges and Lessons Learnt in terms of the Financial Regulations Implemented to Cope with the Pandemic

As a response to the onset of the COVID-19 pandemic, the authorities at global scale adopted a series of extraordinary measures to mitigate the adverse effects of the shock. Although the pandemic has not been overcome yet, its length has led to discussions about the regulatory approach adopted so far as well as to the lessons drawn from the measures taken.

Even though the shock did not start in the banking sector, the regulatory agencies had to resort to more flexible regulations so as to encourage banks to sustain the credit flow to the real economy.[90] In this sense, the pandemic highlighted the importance of having a robust and resilient banking sector, which mostly resulted from the regulatory changes introduced as from the global crisis of 2008 (Basel III). On the other hand, it is worth stating that many international banks were reluctant to use the capital and liquidity buffers available in the face of the pandemic context.[91] One of the lessons learnt is that various prudential tools designed to face specific types of risk —such as Basel III buffers to mitigate the systemic financial risk— are not necessarily appropriate to face events originated outside the financial sector.

Although the actions taken by the banking sector helped mitigate part of the effects of the macroeconomic shock, not all players of the financial markets exhibited the same performance. The regulatory changes adopted against the 2008 global crisis, added to a context of low yields at international level as from that moment onwards, turned financial risks increasingly more relevant in non-banking financial institutions (EFNBs). As a result of the onset of the pandemic, several jurisdictions experienced episodes of liquidity stress in this sector due to the reversal of risk appetite within a context of a growing demand for assets considered to be safer. As a consequence, central banks had to intervene at a major scale to relieve the tensions in place in the markets, thus emphasizing the dimension acquired by non-banking financial institutions and their interconnectedness with the financial sector. Against this backdrop, there is international consensus now on the matter and global forums are making progress in the design of a regulatory scheme worldwide aimed at incorporating these increasingly relevant players.[92]

By early 2020, the unexpected nature of the pandemic led to the adoption of emergency measures with a wide scope and a short-term profile. In turn, the persistence of the pandemic resulted in the review of several support measures, whose validity terms were extended in many cases. During the second half of 2020, the credit policies implemented to face the initial situation were changed at global scale in order to target them towards the most vulnerable sectors or those hardest hit by the crisis.[93]

90 See IEF II-20. Exhibit 4 / COVID-19. Use of regulatory flexibility; FSB: COVID-19 Pandemic: Financial Stability Impact and Policy Responses (November 2020).
91 FSB: COVID-19 Pandemic: Financial Stability Impact and Policy Responses - Interim report (July 2021).
92 FSB: Enhancing the Resilience of Non-Bank Financial Intermediation: Progress Report (November 2021).
93 See IEF I-20 Exhibit 1 / Prudential approach to the COVID-19 shock by central banks and supervisory bodies.

Moreover, since mid-2021, the focus was targeted to planning the removal of the combined fiscal, monetary and financial policies adopted. Even though several jurisdictions started to unwind some of the measures taken, most relief actions are still in force, largely due to the differences in the recovery path across regions. In this respect, there were announcements about the end of the support measures that were later revised, mainly due to the health-related situation and its potential adverse effect on the economies.

At global level, there is consensus in the sense that the design of an exit strategy poses important challenges ahead and is present in the agenda of international organizations, which have stated the need for coordination among supervisors as well as for flexibilization and gradualness. These ideas are stated against a backdrop characterized by a considerable level of uncertainty about the economic situation (there have been improvements, but they might fade away in the face of an eventual new outbreak of the pandemic).[94]

This situation underlines the need for an assessment of the cost involved in keeping the measures for a protracted period vs. the cost of unwinding them too soon. In this sense, a large part of the international forums indicate that the longer the measures are in force, the greater the chance of impacting on credit discipline, on assigning resources to non-viable companies (for example due to high indebtedness, structural change of the productive framework, etc.), on generating opacity and heightened vulnerability in the credit providers' balance sheets and, finally, they might end up adversely affecting investment and the medium-term path of GDP and employment.

On the other hand, there is also some global consensus about the fact that the early elimination of support measures might create difficulties in the corporate sector, consequently, impacting on its creditors (banks and other investors), with second round effects. This challenge is sharper if we take into account that the pandemic did not impact on all sectors homogeneously, thus contributing to stress the economic feasibility of some sectors or companies. As a result, the arguments tend to emphasize that the exit strategy should adapt to the context of each country (sanitary, fiscal and financial situation, among other) and its capacity to keep on supporting the private sector. Given the challenges involved in the measures devoted to unwinding the pandemic-related policies, the communication of this strategy is highly relevant.

To conclude, the crisis has left some issues to be analyzed. From a regulation perspective, there is evidence about the need of having a holistic prudential approach, including the non-banking financial institutions, and of understanding that the tools designed for a specific purpose may not be efficient in other situations (such as the Basel III buffers) and that the regulations to mitigate banking procyclicality are not enough to deal with a crisis. Likewise, structural changes need to be incorporated, such as the increasing digitalization of the financial sector with a focus on operational resilience, particularly in the case of the increasingly frequent and sophisticated cyber-attacks. These lessons and the ones to come until the pandemic is definitely left behind will have an impact on future financial policies.

94 FSB: Lessons Learnt from the COVID-19 Pandemic from a Financial Stability Perspective - Final report

Exhibit 4 / Basel III: End of Post-Crisis Reforms

The regulatory framework commonly known as Basel III (BIII) resulted from a comprehensive review made by the Basel Committee on Banking Supervision (BCBS) on the occasion of the global financial crisis. The changes suggested were included gradually, and the process was completed with the reforms introduced in December 2017.[95] [96] These reforms have aimed at improving risk measurement and at promoting a better homogenization of the methodologies used by banks to design such measurement.

The measures will become effective in January 2023 and they will seek to restore the credibility of risk-based capital calculation, taking into account that the 2008 global crisis revealed that the various methodologies used by banks for risk measurement resulted in considerable differences in their capital ratios that could not be explained by discrepancies in the risk profile of their portfolios.[97] The way in which the internal ratings-based (IRB) approach was implemented — which, in principle, should have enabled a more accurate risk measurement than with standardized approach— gave rise to incentives to minimize risk weights and opacity in the information provided and, in addition, it turned out to be difficult to apply for certain types of assets. The variability observed in capital ratios hindered the comparison across institutions and damaged its reliability.[98] In this respect, the 2017 reforms have sought to limit the excessive complexity of the calculation by introducing restrictions on the estimates and removing, in some cases, the possibility of applying advanced models of the IRB approach for the calculation of risk-weighted assets (RWAs).[99]

In the case of **credit risk**, the review limits the use of the internal ratings-based models. Likewise, changes have been introduced to the standardized approach (SA) in order to enhance risk sensitivity and reduce the references to external risk ratings, allowing for the application of alternative methods and the due diligence requirement.[100] [101] The purpose of the due diligence analysis incorporated to the SA is not only to ensure that risk weights are appropriate and prudent but also that the bank has proper knowledge about its risk profile and the characteristics of its counterparties at all times. In addition, it also has implications for risk management since it

95 The first adjustments introduced in BIII focused on the strengthening of capital requirements and on the inclusion of measures tending to contain systemic risk and limit procyclicality of regulation (see Exhibits 5 II-11, 3 I-14, 4 II-14 and 7 I-16 of the Financial Stability Report (IEF) for detailed information about the first implementation stages). These adjustments incorporated the capital conservation buffer and the countercyclical capital buffer as supplementary capital requirements (see Exhibit 7 I-16 and Box 10 II-17 of IEF) and the leverage ratio (see Exhibit 4 II-14 of IEF) as a supplement of risk-based capital requirements; quantitative standards of liquidity (see Exhibits 3 I-14 and 3 II-15 of IEF); limits to large exposures to a counterparty and specific guidelines for systemically important banks. In addition, several areas of the framework for risk-based capital that had not been adequately designed were reviewed, including standards on market-risk, counterparty-risk and securitization.

96 Basel III: Finalising post-crisis reforms - 2017

97 Its original implementation date was January 2022 but it was postponed due to the crisis caused by the COVID-19 pandemic.

98 The analyses made for advanced jurisdictions found that the capital price determined by the market for these large banks had a positive correlation with a leverage ratio calculated by the investors themselves rather than with the regulatory capital. See, for example, Hoenig, T (2013): "*Basel III Capital: A Well-Intended Illusion -Research Conference*"; Basel, Switzerland.

99 The internal ratings-based (IRB) approach may be applied using two methods: advanced IRB and basic IRB.

100 The granularity of the risk weights to be allocated has been increased and this is especially relevant in mortgage-backed exposures to which BII assigned a constant risk weight.

101 Methods not based on external credit ratings (standard assessment method) have been incorporated for some credit exposures.

requires the use of higher weights than those set by the standard when the banks themselves identify higher implicit risks.

On the other hand, and in order to reduce the variability in the capital requirements of the institutions applying the IRB approach against those that do not, the calculation is subject to a floor (output floor) based on the RWAs calculated according to the new SA model. In addition, new restrictions have been introduced to the estimates of the parameters, while the possibility of using the advanced IRB model for some exposures has been removed.[102]

The standard for the calculation of the operational risk weighted assets (RWAs) was simplified due to the application of one single approach (SA), taking into account that the nature of the losses associated with this risk is an obstacle for their forecast when using IRB models. These measures facilitate the comparison of RWAs across banks since it eliminates the use of multiple approaches and the IRB method option stated in BII. The Standardized Approach method is more risk-sensitive and the requirements are defined on the basis of the bank's income and its historical operational losses. It is assumed that the operational risk goes up at an increasing pace in line with its income and that banks with higher historical operational losses are prone to suffer them again in the future.

The adjustments to the credit risk and operational risk framework supplement the buffer requirement of the leverage ratio (LR) for global systemically important banks (GSIBs). This measure is consistent with the risk-weighted buffer applied to such institutions in order to mitigate the externalities they create.

Likewise, the final adjustments released introduce some changes to capital calculation based on counterparty risk. The financial institutions must comply with capital requirements for potential losses derived from valuating the expected counterparty risk at market prices —losses known as "credit valuation adjustments" (CVA). During the global financial crisis, this risk resulted in significant losses for banks and, consequently, the objective was to enhance its sensitivity. The use of IRB models has been removed, thus allowing banks with low notional amounts to calculate the requirement by the CVA method as multiplier of its counterparty credit risk requirement.

With these final recommendations, which supplement the approach made until 2017, the BCBS is seeking to give a thorough and complete answer to the problems identified in the 2008 crisis. This new regulatory framework offers a relatively more prospective and complex vision than that of preceding regulatory frameworks since it includes the review of microprudential requirements and the development of macroprudential instruments.

102 The advanced IRB method is no longer applicable to exposures to banks and other financial institutions and to large companies belonging to economic groups with consolidated income above € 500M. The use of any of the approaches of the IRB method (advanced and basic) has been eliminated for the calculation of equity exposures.

Abbreviations and Acronyms

€: Euro
a.: Annualized.
AEIRR: Annual Effective Internal Rate of Return.
AFIP: *Administración Federal de Ingresos Públicos*. Argentina's Federal Tax Authority.
ANSES: *Administración Nacional de Seguridad Social*. Social Security Administration.
APR: Annual Percentage Rate.
ATM: Automated teller machine.
b.p.: basics 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.
BCBS: Basel Committee on Banking Supervision.
BCRA: *Banco Central de la República Argentina*. Central Bank of Argentina.
BIS: Bank of International Settlements.
BoE: Bank of England.
Bonar: *Bonos de la Nación Argentina*. Argentine National Bonds.
CABA: *Ciudad Autónoma de Buenos Aires*. Autonomous city of Buenos Aires.
CCP: Central counterparty.
CDS: Credit Default Swaps.
CEMBI: Corporate Emerging Markets Bond Index
CER: Coeficiente de Estabilización de Referencia. Reference Stabilization Coefficient.
CNV: *Comisión Nacional de Valores*. National Securities Commission.
CPI: Consumer Price Index.
CVS: *Coeficiente de Variación Salarial*. Wage variation coefficient.
D-SIBs: Domestic systemically important banks.
DEBIN: *Débito Inmediato*. Immediate Debit.
ECAI: External Credit Assessment Institution.
ECB: European Central Bank.
ECC: *Encuesta de Condiciones Crediticias*. Lending standards survey.
EMBI: Emerging Markets Bond Index.
EPH: *Encuesta Permanente de Hogares*. Permanent Household Survey.
EU: European Union.
Fed: Federal Reserve of US.
FGS: *Fondo de Garantía de Sustentabilidad*. Sustainability Guaranty Fund.
FSB: Financial Stability Board.
GDP: Gross Domestic Product.
IADB: Inter-American Development Bank.
IAMC: *Instituto Argentino de Mercado de Capitales*. Argentine Capital Markets Institute.
IBIF: *Inversión Bruta Interna Fija*. Gross domestic fixed investment.
IMF: International Monetary Fund.
INDEC: *Instituto Nacional de Estadísticas y Censos*. National Institute of Statistics and Censuses.
IPMP: *Índice de Precios de las Materias Primas*. Central Bank Commodities Price Index.
IPOM: *Informe de Política Monetaria*. Monetary Policy Report.
IRR: Internal Rate of Return.
LCR: Liquidity Coverage Ratio.
Lebac: *Letras del Banco Central de la República Argentina*. BCRA Bills.
LETES: *Letras del Tesoro en dólares estadounidenses*. US$ Treasury Bills.
LIBOR: London Interbank Offered Rate.
LR: Leverage Ratio.
MAE: *Mercado Abierto Electrónico*. Electronic over-the-counter market.
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.
MF: Mutual Funds.
MoT: Ministry of Treasury.
MSCI: Morgan Stanley Capital International.
MULC: *Mercado Único y Libre de Cambios*. Single free exchange market.
NBFI: Non-Bank Financial.
NPD: National public debt.
NFPS: Non-financial national public sector's.
NW: Net worth.
OB: *Obligaciones Negociables*. Corporate bonds.
OECD: Organization for Economic Cooperation and Development.
OPEP: Organization of the Petroleum Exporting Countries.
PEN: *Poder Ejecutivo Nacional*. Executive Branch.
PGNME: *Posición Global Neta de Moneda Extranjera*. Net Global Position in Foreign Currency.
p.p.: Percentage point.
PPM: *Plataforma de Pagos Móviles*. Mobile Payment Platform.
REM: *Relevamiento de Expectativas de Mercado*. BCRA Market expectation survey.
ROA: Return on Assets.
ROE: Return on Equity.
Rofex: Rosario Futures Exchange.
RC: Regulatory capital
RWAs: Risk Weighted Assets.
S&P: Standard and Poors.
s.a.: Seasonally adjusted.
SEFyC: Superintendence of Financial and Exchange Institutions.
SME: Small and Medium Enterprises.
TCR: *Tipo de cambio real*. Real Exchange rate.
TN: *Tesoro Nacional*. National Treasury.
US$: United States dollar.
US: United States of America.
UTDT: *Universidad Torcuato Di Tella*. Torcuato Di Tella University.
UVA: *Unidad de Valor Adquisitivo*. Acquisition Value Unit.
UVI: *Unidad de Vivienda*. Dwellings Unit.
VAT: Value Added Tax.
WB: World Bank.
WPI: Wholesale Price Index.y.o.y.: year-on-year.