Report on Banks

March 2020

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Executive Summary

- As of March 20, the activity of the financial system experienced an atypical context, defined by the "social, preventive and mandatory lockdown" (ASPO) measures adopted to mitigate the spread and impact of the COVID-19 pandemic. Faced with this situation, the BCRA promoted a set of measures to protect savers and boost credit, while ensuring Payment System's operation, seeking to preserve at all times the aggregate levels of liquidity and solvency coverage in force in the financial system.
- To channel resources to affected sectors in the current context, the BCRA has been promoting credit to MSMEs and health service providers since March, with an interest rate of up to 24% annual, both for businesses with and, more recently, without access to credit (Communications "A" 6937, "A" 6943 and "A" 7006). Likewise, progress was made in implementing zero-rate credits for members of the simplified tax regime (*monotributistas*) and the self-employed (Executive Order 332/2020 and Communication "A" 6993).
- The solvency indicators of the financial system increased in March. The Regulatory Capital (RC) of the financial system totaled 21.8% of risk-weighted assets (RWA), up 0.3 p.p. against last month. Regulatory capital position (RC minus minimum regulatory requirement) of the ensemble of financial institutions reached 153% of the requirement in March, up 4.9 p.p. in the month.
- From high levels, compared to the last 10 years, financial system liquid assets increased in March. Broad liquidity (liquid assets, liquidity requirements and BCRA's instruments, both in domestic and foreign currency) represented 64.6% of total deposits in the month (62% for the segment in pesos and 73% for items in foreign currency), up 0.8 p.p. against February and 5.8 p.p. y.o.y. During the month, the balance of banks' current accounts at the BCRA increased and LELIQ holdings fell.
- The stock of private sector deposits in pesos increased 5.8% in real terms in March (+9.4% in nominal terms), due to the performance of sight deposits (+11.8% in real terms, +15.6% in nominal terms), while time deposits fell (-4.3% in real terms, -1.1% in nominal terms). This performance was influenced by the lockdown, due to a greater demand for liquidity, added to the inability to make in-person deposits (part of time deposits maturities was reflected in increasing immobilized balances). Private sector deposits in foreign currency fell 2.2% —in currency of origin— in the month. The relative share of private sector deposits in total funding reached 59.6%, up 0.9 p.p. against February.
- In March, the stock of loans to private sector in pesos increased 2.9% in real terms (+6.3% in nominal terms), mainly due to the behavior of advances and promissory notes, given businesses' greater liquidity needs, and in the context of the measures implemented by the BCRA to improve access to credit. On the other hand, loans in foreign currency decreased 5.6% —in currency of origin—. The weighting of credit in the system's total assets was 36.2%, down 3.2 p.p. against the previous month.
- Non-performing loans to private sector stood at 5.3% of the total portfolio in March, down 0.8 p.p. against February (+1.1 p.p. y.o.y.), partly due to changes in debtors classification parameters as part of the measures implemented to mitigate the impact of the pandemic. In March, the ratio of non-performing loans to households fell 1.2 p.p., to 3.1% (-1.4 p.p. y.o.y.), while that of loans to companies decreased 0.6 p.p. to 7.5% (+3.6 p.p. y.o.y.). Non-performing mortgages to households decreased in March (to 0.49% for those in UVA). The stock of accounting provisions for non-performing loans represented 80.8% of such portfolio (+10.4 p.p. against February).
- In the first quarter of the year, the financial system recorded annualized income —measured in uniform currency— equivalent to 2% of assets (ROA) and 13.5% of equity (ROE).

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The data reported are provisional and subject to changes. Information corresponds to end-of-month data.
Data of charts and Latest Regulations of this issue. **Statistics Annexes** for the financial system and the ensemble of financial institutions. **Glossary** of abbreviations and acronyms.

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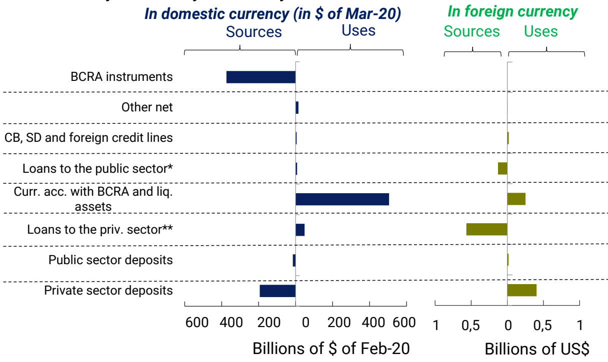
I. Financial Intermediation Activity

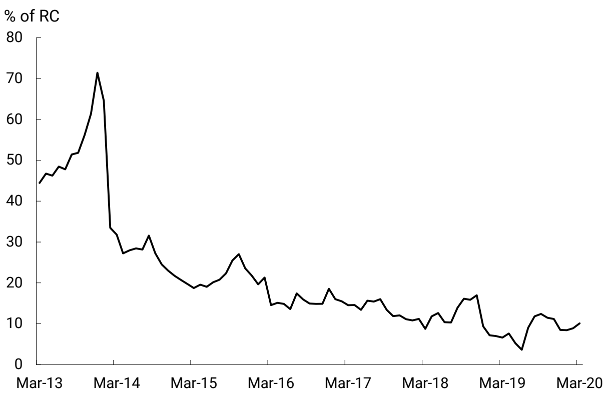
In March, the activity of the financial system experienced an atypical context mainly as a result of the "social, preventive and mandatory lockdown" (ASPO) implemented as of March 20 given the effects of the COVID-19 pandemic. In this context, according to the estimated flow of funds for items in local currency,[1] the reduction in holdings of BCRA instruments and the increase in private sector deposits were the main sources of funds for the financial system between ends of month (See Figure 1). These funds were used primarily to increase the balance of current accounts that banks hold at the BCRA and, to a lesser extent, to increase credit to private sector. These movements in local currency were observed in the ensemble of banks. In turn, in foreign currency, falling credit to private sector was the most prominent source of funds in the month. The reduction in private sector deposits and the increase in liquidity were the main allocations of resources in foreign currency during March. The dynamics of items in foreign currency were reflected in the ensemble of banks.

Figure 1 | Estimated monthly cash flow (Mar-20)
Financial system - By currency



*Considering assets admissible for calculation of compliance with minimum cash requirement. **Considering principal of loans (excluding accrued interest and capital adjustments). Source BCRA

Figure 2 | Foreign currency assets - Foreign currency liabilities + Foreign currency forward position
Financial System



Source: BCRA

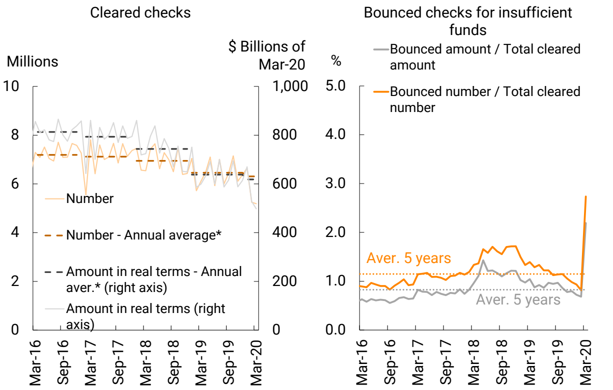
In this context, total banking assets increased 2.3% in real terms compared to February, showing a similar performance by group of banks.

Given the aforementioned changes, the foreign currency segment reduced its weighting within the banks' total balance sheet in the month. Assets in foreign currency represented 22.7% of total assets in March (down 0.8 p.p. against February), while liabilities in the same denomination totaled 21.4% of total funding (-0.7 p.p., m.o.m.). In turn, the difference between assets and liabilities in foreign currency —including forward transactions— was around 10.2% of regulatory capital in March, up 1.3 p.p. against last month (see Figure 2). The lower position sold in the forward market explained most of the monthly increase in this indicator.

1 Considering differences between March and February of balance sheet balances in uniform currency.

As to Payment System transactions, the daily average of instant transfers fell slightly in March compared to February (-1.6% in number and -2.3% in amount in real terms). However, compared to the same period of the previous year, immediate transfers climbed both in number and amount in real terms (16.7% and 9.4%, respectively). On the other hand, cleared checks during March continued to decline —both in amount and number—, below the annual average (see Figure 3). In the context of the social lockdown, bounced checks for insufficient funds compared to those cleared stood at 2.74% in number (up 1.9 p.p. against the previous month) and 2.19% in amount (up 1.5 p.p. against last February) in the month.[2]

Figure 3 | Cleared and bounced checks



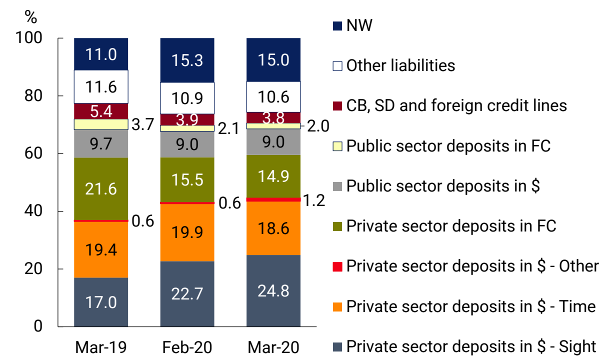
*For 2020 is considered the average of the last 12 month to March. Source: BCRA

II. Deposits and liquidity

In March, the performance of private sector deposits in pesos was influenced by the social lockdown implemented as of March 20 due to the effects of the COVID-19 pandemic. Between ends of month, the stock of private sector deposits in pesos increased 5.8% in real terms (+9.4% in nominal terms), due to the performance of sight deposits (+11.8% in real terms, +15.6% in nominal terms), while time deposits fell (-4.3% in real terms, -1.1% in nominal termsd). The increase in sight deposits and the reduction in time deposits occurred in a context of greater precautionary demand for liquidity by households and businesses given the new scenario. Furthermore, the performance of sight deposits was influenced by advanced payments of the extraordinary subsidy for beneficiaries of social allowances and pensioners.[3] The reduction in time deposits was boosted by the inability to make in-person deposits, leading to their non-renewal, reflected in a growth in immobilized balances. In turn, private sector deposits in foreign currency fell 2.2% —in currency of origin— in the month. Public sector deposits grew 1.7% in real terms compared to February (+5.1% in nominal terms). Thus, the stock of total deposits in the financial system increased 3.3% in real terms in March (+ 6.8% in nominal terms).

In the last 12 months, the stock of private sector deposits in pesos climbed by 7.3% in real terms (59.1% y.o.y. in nominal terms), with a 29.8% y.o.y. rise in sight deposits (+92.5% y.o.y. in nominal terms) and a 14% y.o.y. drop in time deposits (+26.2% y.o.y. in nominal terms). On the other hand, private

Figure 4 | Total funding - Financial system

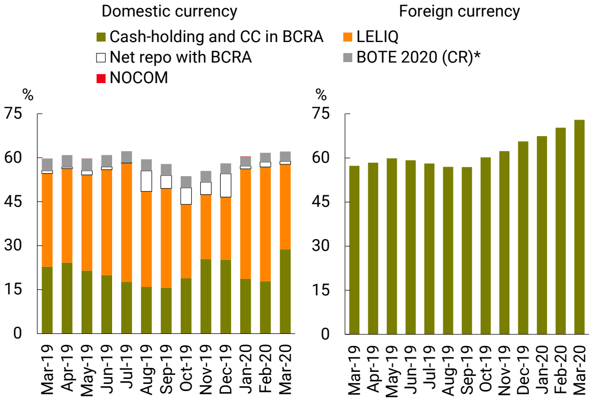


Source: BCRA

2 It should be noted that in March, check clearing was partially affected by the provisions adopted in the framework of the health emergency. Communications "A" 6942 and 6944, of the BCRA established, among other measures, a temporary interruption of electronic check clearing between March 20 and 25.
3 Executive Order 309/2020.

sector deposits in foreign currency —in currency of origin— accumulated a 39% y.o.y. fall. Total public sector deposits decreased in real terms compared to March 2019. Thus, the total stock of deposits fell 13% y.o.y. in real terms (+29% y.o.y. in nominal terms).

Figure 5 | Financial system liquidity
In % of deposits



*CR: Cash reserves. Source: BCRA

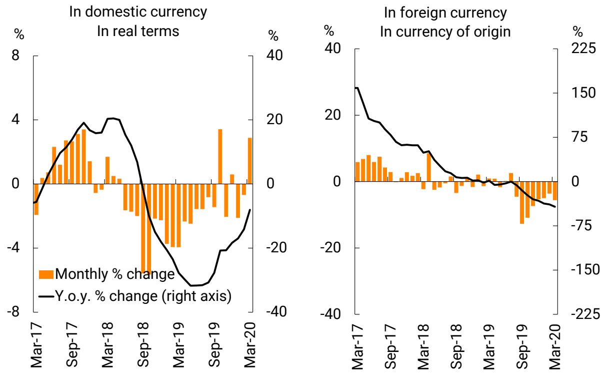
Based on this performance, the relative share of private sector deposits in total funding —liabilities plus net worth— reached 59.6% in March, up 0.9 p.p. against February and in year-on-year terms (see Figure 4).

In March financial system's liquid assets increased. The broad liquidity ratio[4] accounted for 64.6% of total deposits (62% for items in pesos and 73% for items in foreign currency) in the month, up 0.8 p.p. against February (+0.4 p.p. and 2,7 p.p. for the indicator in pesos and in foreign currency, respectively, see Figure 5). During the month, the balance of financial institutions' current accounts at the BCRA increased and LELIQ holdings decreased. In year-on-year terms, the broad liquidity indicator climbed by 5.8 p.p. (+2.3 p.p. y.o.y. for items in domestic currency and +15.6 p.p. y.o.y. for the segment in foreign currency).

III. Credit and portfolio quality

In March, the stock of bank financing in pesos to the private sector grew 2.9% in real terms (+6.3% in nominal terms), mainly due to the performance of advances and promissory notes. The increase in these credit lines partly reflected businesses' greater need for liquid resources as a result of the social lockdown. In this context, the BCRA has promoted since March a credit line for MSMEs and health care providers, at an annual interest rate of 24%.[5] Furthermore, since the beginning of May, the BCRA decided to incorporate a similar line for MSMEs that do not currently have access to credit.[6] Banks must compulsorily manage these loans for those MSMEs that have a public guarantee from the Argentine Guarantee Fund (FOGAR). Additionally, a "Zero Rate Credit"

Figure 6 | Stock of loans to the private sector by currency*



*Non-seasonally adjusted.
Source: BCRA

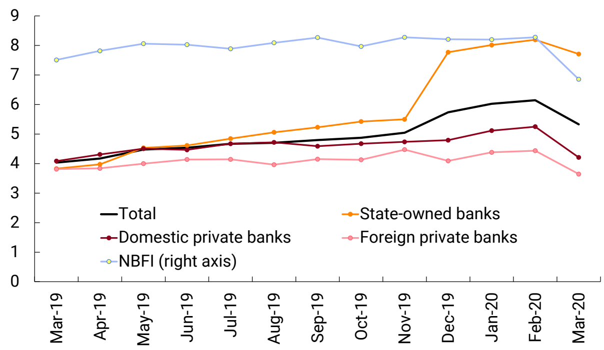
4 Liquid assets, compliance with minimum cash requirements and BCRA's instruments, both in domestic and foreign currency.
5 The minimum cash requirement in pesos was reduced by the equivalent of 40% of the loans channeled to these purposes. See Communication "A" 6937, Communication "A" 6943 and Press release "New measures of the BCRA to ease the impact of the crisis". Assistance to MSMEs is mainly channeled to financing working capital, payment of salaries and coverage of deferred checks. Communication "A" 6946 established that financing for MSMEs to pay salaries should be calculated at 130% for the purposes of this exemption. The most recent data on the amounts granted through this line can be found in the following press release "More than 91,000 MSMEs accessed loans at a subsidized rate".
6 The minimum cash requirement in pesos was reduced by the equivalent of 40% of the loans channeled to this purpose. See Communication "A" 7006.

line was launched in April for workers registered with the simplified tax regime and the self-employed.[7] On the other hand, the stock of loans in foreign currency fell 5.6% in the month –in currency of origin– (see Figure 6).

In year-on-year terms, loans to private sector in domestic currency accumulated an 8.1% fall in real terms, while the stock of loans in foreign currency dropped 42.6% —in currency of origin—.

Compared to February, loans to companies (in national and foreign currency) climbed 3.6% in real terms (+7% in nominal terms). In year-on-year terms, loans to companies fell 23.7% in real terms. In turn, loans to households (in domestic and foreign currency) fell 2.1% in real terms (+1.2% in nominal terms) in the month, observed throughout the different credit lines. In year-on-year terms, loans to households decreased by 14.4% in real terms.

Figure 7 | Non-Performing loans to the private sector
Non-Performing financing / total financing (%)



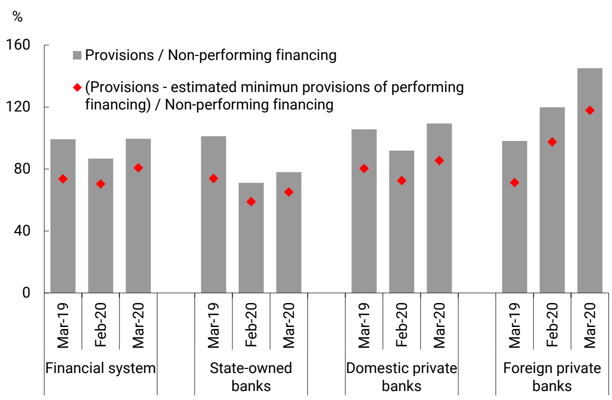
NBFI: Non-Banking Financial Institutions. Source: BCRA

The weighting of the stock of loans to private sector in the total assets of the aggregate financial system was 36.2% in March, down 0.5 p.p. against last month and 3.2 p.p. against the previous year.

In March, non-performing loans to private sector stood at 5.3% of the total portfolio, down 0.8 p.p. against the previous month (+1.1 p.p. y.o.y.). This performance was partly linked to the changes in the debtor classification parameters that the BCRA introduced in March as part of the plan implemented to mitigate the impact of the pandemic on households and businesses.[8] This monthly evolution was widespread among the ensemble of financial institutions (see Figure 7). The ratio of non-performing loans to companies fell 0.6 p.p. in the month (+3.6 p.p. y.o.y.) to 7.5%, while the ratio of non-performance loans to households dropped 1.2 p.p. to 3.1% (-1.4 p.p. y.o.y.). There was also a slight reduction in non-performing mortgages to households leading to the following values: 0.49% for the UVA segment (-0.2 p.p.) and 0.63% for the rest (-0.3 p.p.).

In March, the stock of total accounting provisions (performing and non-performing portfolio) represented 99.5% of the financial

Figure 8 | Provisioning and non-performing portfolio
By group of banks



Source: BCRA

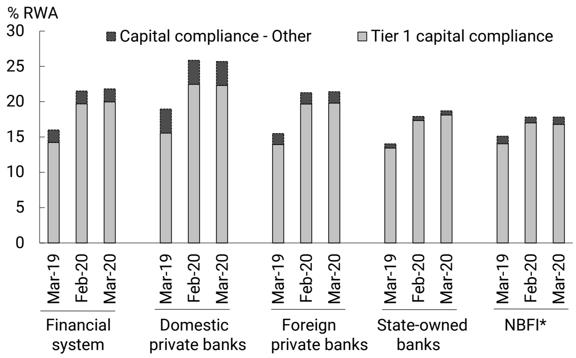
[7] Executive Order 332/2020. The minimum cash requirement in pesos was reduced by the equivalent of 60% of the loans channeled to this purpose (Communication "A" 6993).
8 See Communication "A" 6938.

system's non-performing loans to the private sector, up 12.8 p.p. against the previous month. This movement was mainly led by the reduction in the denominator of the index as a result of changes to debtor classification parameters mentioned in the previous paragraph (see Figure 8). In turn, the estimated stock of provisions for the non-performing portfolio was 80.8% of said portfolio.

IV. Solvency

The levels of the main solvency indicators of the aggregate financial system grew in March. The Regulatory Capital (RC) totaled 21.8% of risk-weighted assets (RWA) in the month for the ensemble of banks, up 0.3 p.p. against February. Tier 1 capital continued to explain 90% of the RC (see Figure 9).[9] In the month, the aggregate capital position (RC minus minimum regulatory requirement) represented 153% of the requirement, up 4.9 p.p. against February.

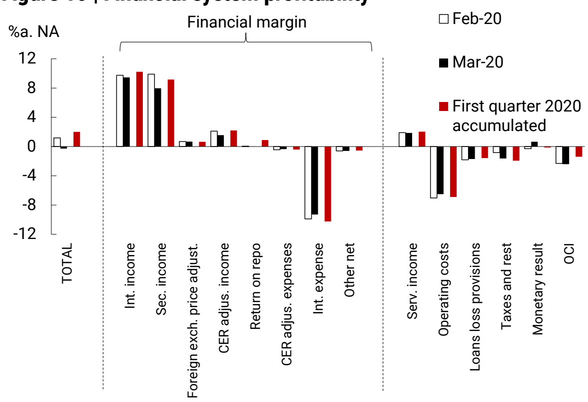
Figure 9 | Compliance with regulatory capital



Tier 1 Capital compliance: Basic Net Worth
Capital Compliance - Other: Supplementary Net Worth
*NBFI: Non-Banking Financial Institutions. Source: BCRA

In the month, the financial system recorded income —measured in uniform currency— equivalent to -0.3% a. of assets (ROA) and -1.9% a. of equity (ROE) (see Figure 10). In March, private banks recorded an 0.8% a. ROA (4.7% a. ROE), while public banks' ROA totaled -2% a. (-17.1% a. ROE).[10] Thus, the ensemble of financial institutions closed the first quarter of the year with a real income of around 2% a. of assets or 13.5% a. of equity.[11] So far this year, public banks recorded an 0.5% a. ROA (4.5% a. ROE) and private ones 2.9% a. (-17.8% a. ROE).

Figure 10 | Financial system profitability



Note: All topics are in $ of Mar-2020. Source: BCRA

The financial system's monthly income (loss) was influenced, in particular, by the behavior of securities in the aggregate balance sheet. This effect was reflected in part by the lower yield of the portfolio holdings —mainly due to the monthly reduction in

9 Consisting mainly of ordinary shares and income.
10 In view of the changes in the accounting criteria introduced at the beginning of 2020, certain concepts, such as the profitability ratios aforementioned, are not directly comparable with those of previous periods (not expressed in uniform currency). A comparison could be made when financial institutions present their quarterly financial statements, as there will be items expressed in uniform currency.
11The ROA and ROE numerator for the first quarter of 2020 considers accumulated income as of March, expressed at prices for that month. To construct the denominator of both indicators, the average of assets and equity, respectively, is used, both at March prices.

monetary policy interest rates and LELIQ positions— and by the widespread fall in prices of government bonds (for the share accounted for at market value). In accounting terms, this effect was reflected in “income from securities” that is part of the financial margin and in “other comprehensive income” (OCI).

The financial margin of the ensemble of banks represented 9.4% a. of assets in March, down 2.1 pp against last month. The monthly reduction was mainly explained by the lower income from securities and, to a lesser extent, by a decrease in income from CER adjustments and interest on loans. These effects were partially offset by lower expenses for interest on deposits. The financial margin accumulated in the first quarter of the year reached 11.9% a. of assets.

The financial system’s net income from services totaled 1.9% a. of assets in March, remaining stable compared to last month's level. In the first 3 months, this income was around 2% a. of assets.

In March, loss loan provisions for the ensemble of banks fell slightly in terms of assets, reaching 1.7% a. The monthly aggregate performance reflected the effect of a drop in public banks and an increase in private ones. So far this year these expenditures represented 1.6% a. of assets at the systemic level. On the other hand, financial system’s administrative expenses fell 0.5 p.p. of assets monthly to 6.5% a. In the first quarter of the year, these expenditures reached 6.9% a. of assets.

As in the previous month, financial institutions recorded losses in OCI in March. These expenditures were equivalent to 2.4% a. of assets in the month (a level similar to February) and were mainly explained by the aforementioned income from securities recorded at market value. In the aggregate of the first three months of 2020, banks recorded losses in OCI of around 1.4% a. of assets. Finally, in March the financial system recorded positive monetary results equivalent to 0.7% a. of assets.[12] Notwithstanding this performance, in the aggregate of the first quarter, the ensemble of banks recorded losses for this concept of 0.1% a. of assets.

12 Movement mainly explained by two large banks.