Report on Banks

May 2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Executive Summary

- In May, the solvency indicators of the financial system stood at high levels, in line with the average of recent years. The regulatory capital requirement-to-assets ratio (risk-weighted assets; RWA) stood at 15.8%, without significant changes against April. During the month, the regulatory capital requirement accounted for 183% of the regulatory minimum requirement.

- The stock of private sector deposits in pesos went up 0.9% in real terms in May (+4% in nominal terms) with a rise in sight accounts and time deposits. In turn, private sector deposits in foreign currency expanded 1.3% over the month (in currency of origin). Private sector total deposits accounted for 60.6% of total funding –liabilities plus net worth– of the financial system in May (+1.7 percentage points - p.p.- against April and +6.3 p.p. y.o.y.).

- The liquidity of the ensemble of institutions contracted slightly in May, but from high levels. The broad liquidity ratio reached 59.8% of total deposits (59.7% in pesos), 0.2 p.p. below the level of April (-1.1 p.p. for the segment in pesos). In the last 12 months, this indicator rose 17 p.p. of deposits (+19.8 p.p. for the ratio in pesos).

- During the month, the daily average of instant transfers of funds went up against April and also against May 2018 (+56.1% y.o.y. in number of transactions and 6.2% y.o.y. in amounts in real terms).

- In May, the stock of loans in pesos to the private sector went down 2.5% in real terms against April (+0.5% in nominal terms), accumulating a year-on-year drop of 31.7% in real terms. In turn, lending in foreign currency to this sector contracted 1.7% in the month and 5% y.o.y. (in currency of origin). Bank financing to the private sector stood at 39.2% of total assets.

- The non-performing ratio of loans to the private sector stood at 4.5% in May (+0.3 p.p. against April). The delinquency of loans to companies accounted for 4.2% of total financing to the sector, whereas the delinquency of loans to households was 4.9% in the period under analysis. The non-performing ratio of mortgage loans to households continued to stand at low levels in May: 0.3% in the UVA segment and 0.7% in the other segments. The provisioning continued to be relatively high: 96% of non-performing loans to the private sector (73% if only the provisions attributable to the non-performing portfolio are considered).

- In May, the nominal income accrued by the financial system totaled 4.3%a. of assets (ROA) and 40.7%a. of equity (ROE). In the aggregate of the last 12 months to May, the nominal ROA went up to 4.5%, and the nominal ROE to 41.6%.

Published on July 17, 2019.

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 Annex** for the financial system and ensembles of financial institutions. **Glossary** of abbreviations and acronyms

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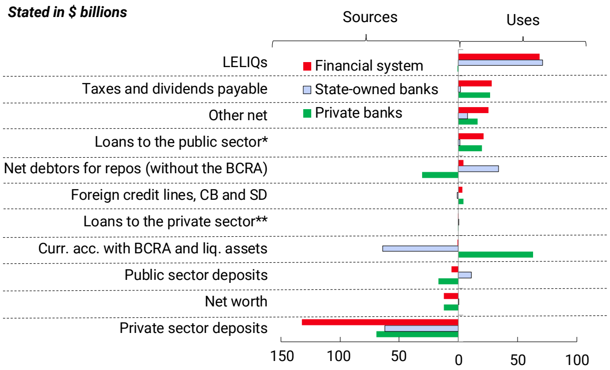
I. Financial Intermediation Activity

Considering the cash flow estimated for the financial system,[1] in May the nominal rise of private sector deposits was the most relevant source of funds (see Chart 1). In turn, these funds were mostly applied to the increase of the stock of LELIQs, followed to a lesser extent by the decrease of liabilities payable– for both taxes and dividends.

Chart 1 | Cash Flow Estimate – May 2019



* Including assets admissible for compliance with minimum cash requirement. ** Excluding accured interest and capital adjustments. Source: BCRA

In the context of these changes in terms of the aggregate balance sheet of the ensemble of banks, total assets contracted 3% in real terms in May. In a year-on-year comparison, assets went down 3.3% in real terms mainly due to the performance of state-owned banks.

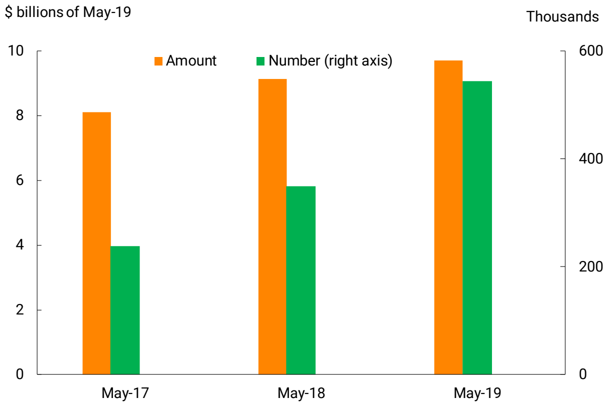
Assets in foreign currency of the financial system accounted for 31.4% of total assets in May, up 1.1 p.p. against April.[2] This rise was mainly evident in the stock of banks' current accounts with the BCRA. In turn, liabilities in foreign currency reached 30.8% of total funding in May, up 0.7 p.p. against the figures of April, mainly due to the performance of private sector sight deposits. Foreign currency forward net purchases –classified as off-balance items– went from a long position in April to a slightly short position in May (mostly due to the performance of private foreign banks). Given these movements, the spread between assets and liabilities in foreign currency –including foreign currency forward net purchases– reached the lowest level of recent years, equivalent to 6% of the regulatory capital requirement (down 2.3 and 7.3 p.p. against the previous month and against May 2018, respectively).

In relation to transactions in the National Payment System, the daily average of instant transfers increased in May against April and in year-on-year terms (+56.1 y.o.y. in number of transactions and +6.2% y.o.y. in real terms, see Chart 2). In relation to transactions with checks, clearing rose slightly in May (in both number and real amount of cleared checks), even though there is a declining trend. Besides, the number and amount of bounced checks for insufficient funds relative to the total of cleared checks did not post significant changes against April, standing below the peaks of May 2018 (see Chart 3).

1 Taking into account differences of the balance sheet stock.
2 In May, the nominal peso-dollar exchange rate went up 2% between ends of month.

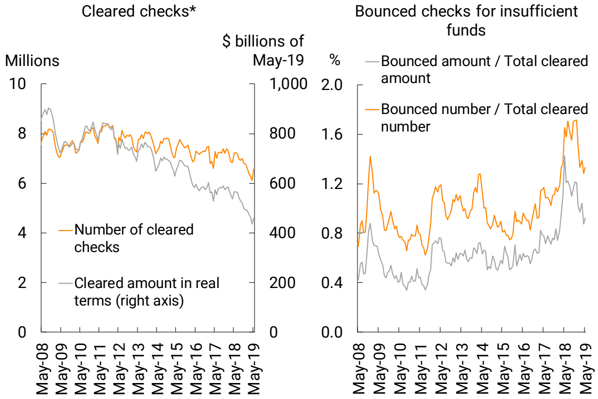
Chart 2 | Instant Transfers of Funds

Daily average



Source: BCRA

Chart 3 | Cleared and Bounced Checks



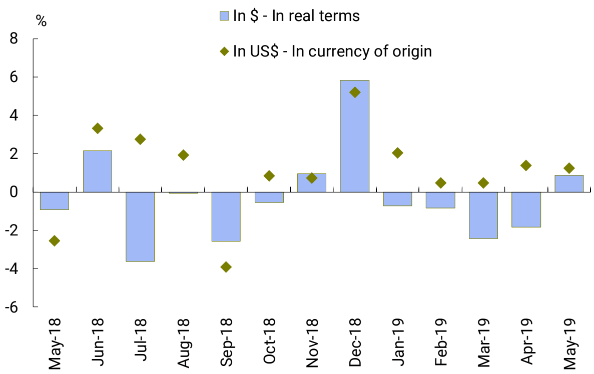
*Note: 3-month moving average. Source: BCRA

II. Deposits and Liquidity

The stock of private sector deposits in pesos went up 0.9% in real terms in May (+4% in nominal terms, see Chart 4) with an increase in sight accounts (+1.5% in real terms or +4.6% in nominal terms) and in time deposits (0.9% in real terms or +4% in nominal terms).[3] Private sector deposits in foreign currency grew 1.3% in May (in currency of origin). Given the decrease in real terms of public sector deposits, the stock of total deposits in the financial system did not show significant changes in real terms against April (+3.2% in nominal terms).

Chart 4 | Private Sector Deposits

Balance sheet stock monthly change*



*Non-seasonally adjusted.
Source: BCRA

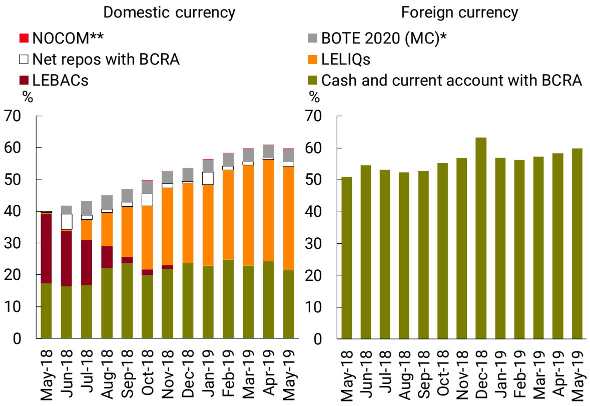
In a year-on-year comparison, private sector deposits in domestic currency decreased 3.1% in real terms, with an increase of time deposits (+6.3% y.o.y. in real terms) and a decline in the stocks of sight deposits (-11.1% y.o.y. in real terms). In turn, private sector deposits in foreign currency expanded 17.5% (in currency of origin) against May 2018. In turn, the stock of total deposits went down slightly in real terms during the last 12 months.

The weight of private sector deposits in total funding —liabilities plus net worth— of the financial system totaled 60.6% in May, up 1.7 p.p. against April and 6.3% against May 2018. In the last 12 months, the share of private sector deposits in foreign currency and time deposits in pesos expanded, to the detriment of sight accounts in pesos.

3 It is worth mentioning that for the purpose of giving users more options to channel their savings and promote competition in the financial system, in May the BCRA authorized financial institutions to take web time deposits from clients without a previous contractual relationship. These transactions are arranged through Immediate Debit Transfers (DEBIN) and their evolution helps understand the impact of this measure. The number of transactions through DEBINs went up from 592 in April to 37,927 in May while the amounts involved increased from $6.6 million in April to over $6.95 billion in May.

The liquidity of the financial system contracted slightly in May, but from high levels. The broad liquidity ratio[4] stood at 59.8% of total deposits over the month (59.7% for items in pesos), 0.2 p.p. below the level recorded in April (-1.1 p.p. for the segment in domestic currency, see Chart 5). The monthly reduction of the liquidity ratio was mainly due to the fact that the increase in the stock of deposits was relatively higher than the increase of liquid assets (mainly LELIQs). In a year-on-year comparison, the broad liquidity ratio grew 17 p.p. of deposits (+19.8 p.p. for the ratio in pesos). Liquid assets in foreign currency totaled 59.8% of deposits in the same denomination during the period (+1.5 p.p. and +8.8 p.p. against April 2019 and May 2018, respectively).

Chart 5 | Financial System Liquidity



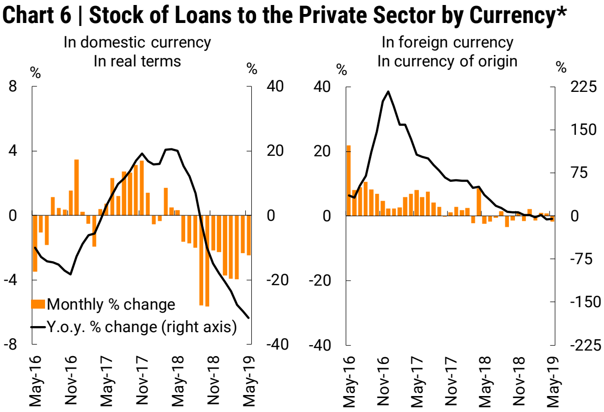
* MC: Minimum Cash. **NOCOM: BCRA´s Cash Clearing Notes. Source: BCRA

III. Credit and Portfolio Quality

In May, the stock of loans in domestic currency to the private sector decreased 2.5% in real terms (+0.5% in nominal terms), mainly due to the performance of commercial lines and pledge-backed loans.[5] In turn, loans in foreign currency contracted 1.7% in the period (in currency of origin, see Chart 6).

In year-on-year terms, the stock of loans in pesos to the private sector fell 31.7% in real terms, while financing in foreign currency contracted 5% y.o.y. in currency of origin.

Chart 6 | Stock of Loans to the Private Sector by Currency*



*Non-seasonally adjusted.
Source: BCRA

Total lending to companies (in domestic and foreign currency) dropped 3.1% in real terms against April (-0.2% in nominal terms).[6] This monthly performance was widespread and encompassed all economic sectors and groups of financial institutions. In year-on-year terms, loans to companies fell 22.2% in real terms, and this drop was relatively more marked in loans for commerce and construction (see Chart 7). Meanwhile, lending to households (in domestic and foreign currency)

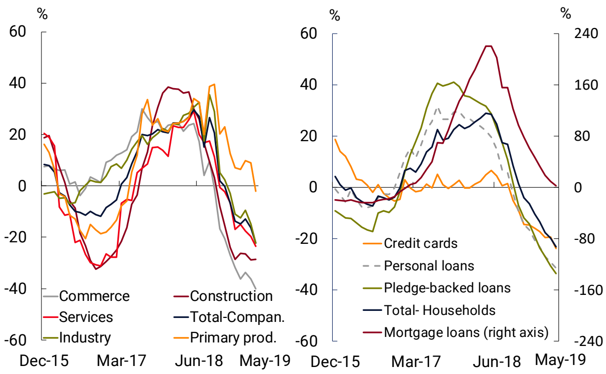
4 Liquid assets, compliance with minimum cash requirements, and BCRA's instruments, in domestic currency and in foreign currency.
5 Including adjustments of principal and interest accrued.
6 Information obtained from the Debtors' Database (domestic currency and foreign currency). Loans to residents abroad are not included. Any adjustments of principal and interest accrued are considered. Financing to companies is herein defined as those loans granted to legal persons and commercial loans granted to natural persons. In contrast, loans to households are those granted to natural persons unless such financing has a commercial purpose.

contracted 1.6% in real terms in May (+1.4% in nominal terms). In a year-on-year comparison, loans to households dropped 23.2% in aggregate in real terms. Pledge-backed and personal loans exhibited the sharpest relative year-on-year drops within this segment.

In May, bank financing to the private sector stood at 39.2% in terms of total assets, slightly above the figures observed in April (+0.2 p.p.). In year-on-year terms, this ratio has accumulated a 10.1 p.p. drop.

Chart 7 | Stock of Total Loans by Segment

Year-on-year changes in real terms



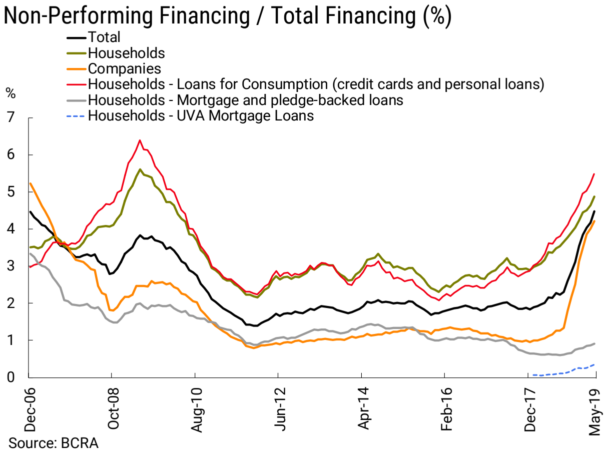
Source: BCRA

The non-performing ratio of loans to the private sector reached 4.5% of the total portfolio in May (+0.3 p.p. against April and +2.3 p.p. y.o.y; see Chart 8). The delinquency of loans to companies stood at 4.2% during the fifth month of the year (+3.1 p.p. y.o.y.), whereas the delinquency of lending to households stood at 4.9% in the month (+1.5 p.p. y.o.y.). The non-performing ratio of mortgage loans in UVA to households remained unchanged and stood at around 0.3% whereas the ratio of the other mortgage lines went up slightly to 0.7%.[7]

In May, the estimated stock of provisions attributable to non-performing loans accounted for 73% of such portfolio, posting a slight drop against April mainly due to the performance of state-owned banks (see Chart 9). Meanwhile, the stock of total accounting provisions (allocated to the performing and the non-performing portfolio) covered 96% of the portfolio of non-performing loans to the private sector.

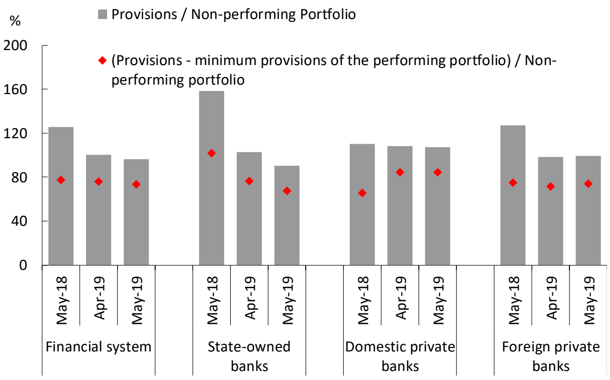
Chart 8 | Non-Performing Loans to the Private Sector

Non-Performing Financing / Total Financing (%)



Source: BCRA

Chart 9 | Financial System Provisions



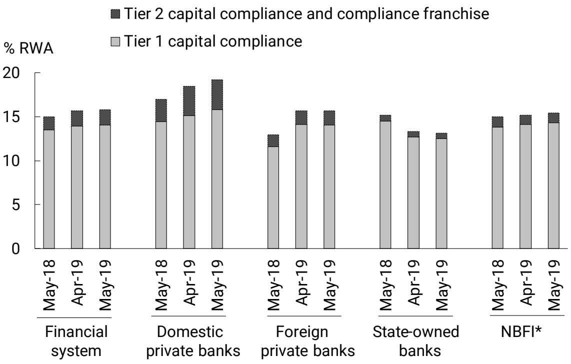
Source: BCRA

[7] As of May 2019, out of a total of 101,635 mortgage loans in UVA granted to natural persons in the financial system, only 479 were non-performing loans.

IV. Solvency

In May, aggregate solvency indicators remained at high levels. The regulatory compliance with capital requirement of the financial system reached 15.8% of risk-weighted assets (RWA), without significant changes against April and +0.9 p.p. in year-on-year terms (see chart 10). Among the concepts of the Adjusted Stockholder's Equity (RPC), Tier 1 Capital continued to account for almost 90% of the total. During the month, the regulatory capital compliance accounted for 183% of the regulatory minimum reserve requirement, up 8.8 p.p. against May 2018.

Chart 10 | Regulatory Capital Compliance

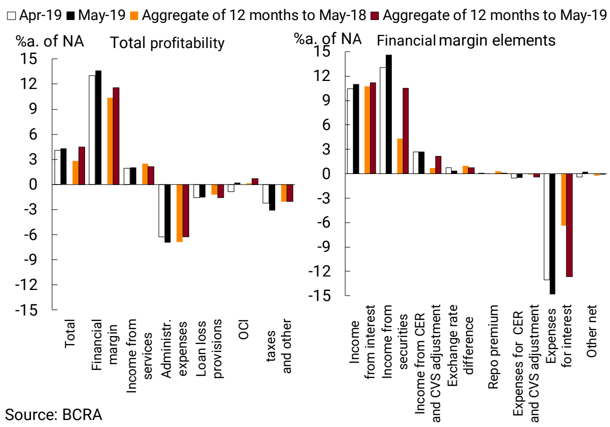


Tier 1 capital compliance: Basic net worth
Tier 2 capital compliance: Supplementary net worth
*NBFI: Non-Banking Financial Institutions. Source: BCRA

In May, the financial sector recorded a nominal income equivalent to 4.3%a. of assets (ROA) and 40.7% of equity (ROE), standing slightly above the figures observed last month. In the last 12 months, the nominal profitability of the ensemble of banks stood at 4.5% of assets and 41.6% of equity.

The financial margin of the sector reached 13.6%a. of assets in May, 0.6 p.p. above the figures of April (see Chart 11). The accrual of more income from securities and from interest on loans was partially offset by the rise of expenses for interest and the drop in income due to exchange rate differences. In the aggregate of the last 12 months to May, the financial margin accounted for 11.5% of assets, up 1.2 p.p. in a year-on-year comparison.

Chart 11 | Financial System Profitability



Source: BCRA

Following the trend of the last 4 months, net income from services accrued in May stood at 2%a. of assets for the ensemble of banks. Taking into account the aggregate of 12 months to May, such net income totaled 2.1% of assets (down 0.4 p.p. in year-on-year terms).

Administrative expenses of the financial system went up 0.7 p.p. of assets in the month to 6.9%a. In the aggregate of the last 12 months, these expenses accounted for 6.2% of assets, down 0.6 p.p. against May 2018. In turn, loan loss provisions contracted slightly in May, down to 1.5%a. of assets. As a result, in line with the evolution of the credit portfolio quality, in the aggregate from June 2018 to May 2019, loan loss provisions reached 1.6% of assets, recording a 0.4 p.p. y.o.y. rise.