

Monthly Monetary Report

May 2013



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Monthly Monetary Report

May 2013



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Contents

1. Summary | Page 3

2. Monetary aggregates | Page 4

3. Bank liquidity | Page 4

4. Loans | Page 5

5. Interest rates | Page 7

Central Bank securities | Page 7

Central Bank repo transactions | Page 9

Call money market | Page 9

Borrowing rates | Page 9

Lending rates | Page 10

6. International reserves and foreign exchange market | Page 11

7. Major policy measures taken by other Central Banks | Page 11

8. Capital markets | Page 13

Equity | Page 13

Sovereign bonds | Page 14

Corporate bonds | Page 14

Mutual funds | Page 15

Financial trusts | Page 15

9. Monetary and financial indicators | Page 17

10. Glossary | Page 21

Inquiries, comments or electronic subscriptions: analisis.monetario@bcra.gov.ar

The contents of this report can be freely quoted provided the source is specified: Monetary Report - BCRA

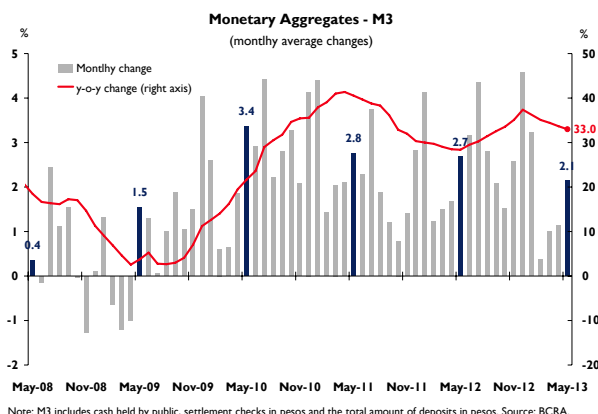
The closing date for statistics in this report was June 12, 2013. All figures are provisional and subject to review.

1. Summary¹

- In May, the broadest monetary aggregate in pesos (M3) reached \$783 billion, which amounted to a 2.1% growth. The M3 continued moderating its expansion rate in year-on-year (y.o.y.) terms, posting a 33% change, down 0.7 p.p. against April. A distinct performance is usually observed in May, as important tax expiration dates cause funds to be transferred from the private to the public sector, which is evidenced by a rise in public sector deposits and some deceleration in the increase of private sector deposits. A rise in loans to the private sector continued to explain monetary aggregate expansion, followed by foreign currency purchases by the Central Bank.
- A correlate of such transfer of deposits from the private to the public sector is a reallocation of bank liquidity from private to public banks. Thus, the broad liquidity ratio for all financial institutions virtually remained unchanged when compared to the previous month (shrinking 0.2 p.p., to 33.3%), whereas public banks reported a rise in liquidity (1.1 p.p.) and private financial institutions recorded a drop (-1.4 p.p.).
- Peso-denominated loans granted to the private sector maintained momentum, posting a 2.8% monthly expansion rate (\$10.2 billion), accelerating in growth above the increase observed in the same month a year earlier. The year-on-year change rate of loans was thus up 0.6 p.p. from April, standing at 42.8%. This monthly growth was mainly driven by financing through promissory notes and personal loans.
- Breaking down total loans in pesos to the private sector by recipient type, financing of productive activity evidenced a virtuous performance arising from measures adopted to facilitate businesses' access to bank lending. Loans granted to legal persons have increased above loans channeled to natural persons since 2012, with a change rate of 54.5% y.o.y. and 33.4% y.o.y., respectively, in April 2013 (latest available data). As a result, lending to legal persons raised their share in the stock of peso-denominated loans to the private sector.
- Reallocation of liquidity among the different groups of financial institutions (typical of May's seasonality) in a context of sustained growth of loans to the private sector led to a temporary expansion of the shortest term interest rates. Such increase was more marked in the call money market. The average interest rate on overnight transactions on the call money market rose 2.4 p.p., to 13.6%. In turn, the average interest rate on overnight transactions among financial institutions in the REPO round climbed 3.4 p.p., to 14.2%. However, increases were temporary, and these interest rates ended May at levels similar to April's.
- As for the private sector, interest rates on up to 7 day overdrafts granted to companies were most affected by specific liquidity conditions, with their average monthly figure rising 2.6 p.p. The remaining lending rates exhibited smaller increases, except for collateralized credit lines, which remained relatively stable against April. Interest rates paid by private financial institutions for time deposits also posted an increase in May. As usual, such increment was driven by interest rates in the wholesale segment, and the BADLAR rate at private banks averaged 15.7%, rising 0.7 p.p. in the month. As for the retail segment, the interest rate paid by private banks for time deposits of up to \$100,000 and at up to 35 days averaged 13.5%, with a 0.3 p.p. increase in the month.

¹ Unless otherwise stated, figures to which reference is made are monthly averages of daily data.

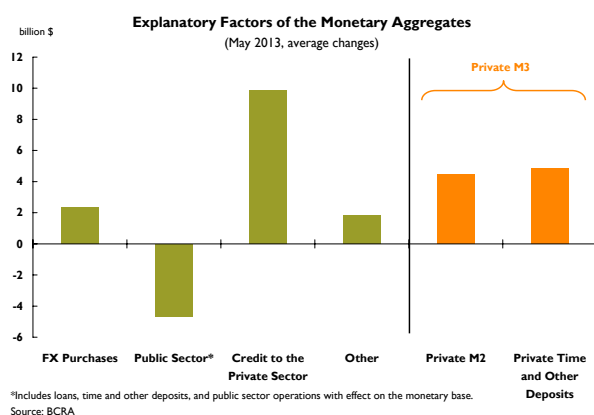
Chart 2.1



2. Monetary aggregates¹

In May, the broadest monetary aggregate in pesos (M3²) reached \$783 billion, which amounted to a 2.1% growth. The M3 continued moderating its expansion rate in year-on-year terms, posting a 33% change, down 0.7 p.p. from April (see Chart 2.1). As there are important tax maturities in May, funds move from the private to the public sector, which is evidenced by a rise in public sector deposits and some deceleration in the increase of private sector deposits. Time deposits stood out among M3 components, accounting for 37% of the balance of this aggregate, one of the highest numbers since 2004.

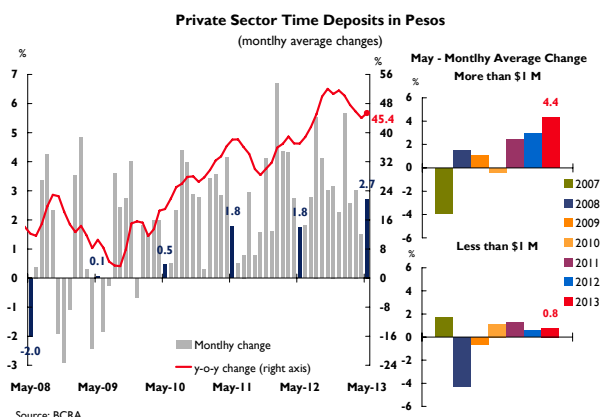
Chart 2.2



The broadest private monetary aggregate (private M3³) posted a monthly increase of 1.5%, accumulating a 35.3% expansion in the past 12 months, down 1.1 p.p. from April. The growth in peso-denominated loans to the private sector continued to be the main driver of such increase, followed by foreign currency purchases by the Central Bank, whereas public sector transactions had a contraction effect (see Chart 2.2).

Time deposits stood out among private sector deposits, climbing 2.7% over the month, above figures reported in May in the past few years (see Chart 2.3). Breaking down deposits by amount range, deposits above \$1 million and more drove such increase, despite a greater demand for liquidity by companies to comply with tax maturities. Time deposits continued to display historically high growth rates, changing 45.4% y.o.y.

Chart 2.3



Deposits in foreign currency fell 0.9% in the month, with decreases in private sector deposits being partially offset by a rise in public sector deposits.

The broadest monetary aggregate (M3*), which includes cash held by the public, settlement checks and total deposits in pesos and foreign currency (stated in pesos) went up 2.1%, changing 28.2% y.o.y.

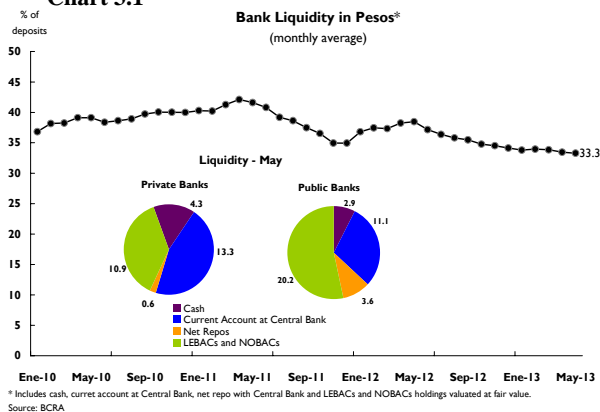
3. Bank liquidity¹

The transfer of deposits from the private to the public sector as a consequence of tax maturities in May translated into a reallocation of bank liquidity from

² It includes cash held by the public, settlement checks in pesos and deposits in pesos.

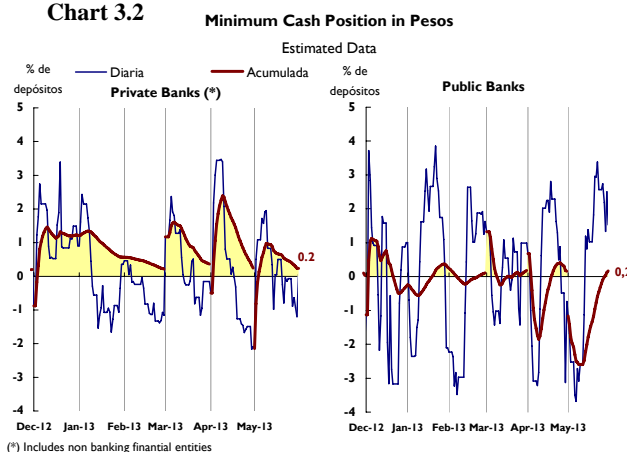
³ It includes cash held by the public, settlement checks in pesos and deposits in pesos from the non-financial private sector.

Chart 3.1



private to public banks. The broad liquidity ratio⁴ for the total of financial institutions posted a slight drop, 0.2 p.p., to 33.3% (see Chart 3.1), with increased liquidity in public banks (1.1 p.p.) and a fall in private financial institutions (-1.4 p.p.). In this scenario, changes were observed in financial institutions' repos with the Central Bank: public financial institutions' repos grew in terms of deposits, whereas private financial institutions' declined to their minimum level in the past 12 months, always stated as a percentage of deposits.

Chart 3.2

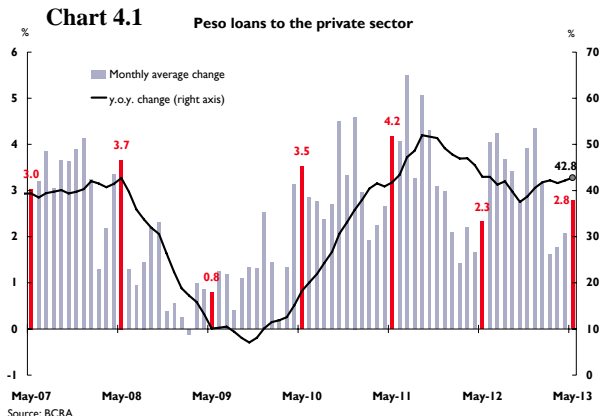


Minimum reserve requirements would have been met by financial institutions with a surplus position of minimum cash equal to 0.2% of deposits in pesos, which would be in line with the evolution observed in prior months (see Chart 3.2).

In turn, liquidity in the foreign currency segment continued recording a high level, standing at 102.6% of deposits in dollars in May.

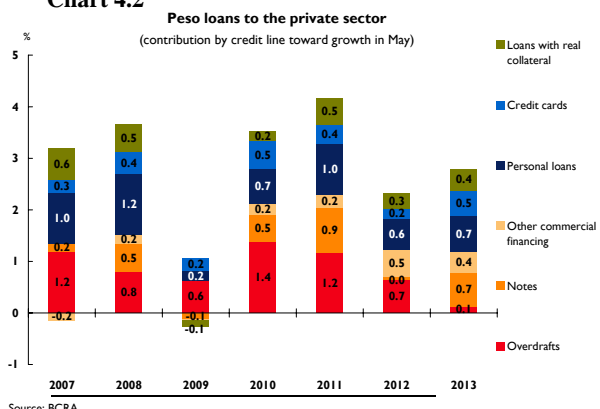
4. Loans^{1 5 6}

Chart 4.1



In May, loans in pesos to the private sector grew 2.8% (\$10.2 billion), accelerating their monthly expansion pace and exceeding the rise observed in the same month last year. The year-on-year change rate of loans was thus up 0.6 p.p. from April, standing at 42.8% (see Chart 4.1). This monthly growth was mainly driven by financing through promissory notes and personal loans, each of them contributing 0.7 p.p. to May's increase. The contribution from promissory notes was higher than the same month last year, whereas personal loans' was similar to that of 2012 (see Chart 4.2).

Chart 4.2



Credit lines mainly offered for commercial purposes showed a heterogeneous performance in May. On the one hand, financing through promissory notes had greater momentum than in prior months, with a monthly increase of 2.9% (\$2.4 billion). The year-on-year change rate of such credit lines remained increasing and reached 67.2%, above the levels observed prior to deceleration in late 2011 (see Chart 4.3). In contrast, overdrafts (current account and "other overdrafts") recorded a 0.9% increment (\$450 million), below the figures reported for the same month in previous years, in a context of

⁴ The bank liquidity ratio is measured as the sum of cash in banks, current accounts held at the Central Bank by financial institutions, net repos with the Central Bank, and LEBACs and NOBACs held by financial institutions with respect to deposits in pesos.

⁵ Monthly changes of loans are adjusted for accounting movements, which are fundamentally due to transfers of loans in financial institutions' portfolios to financial trusts.

⁶ In this report, "amounts granted" or "new loans" refer to loans (new and renewed) arranged in a given period. In contrast, a change in stock consists of arranged loans minus amortizations and repayments for the period.

Chart 4.3

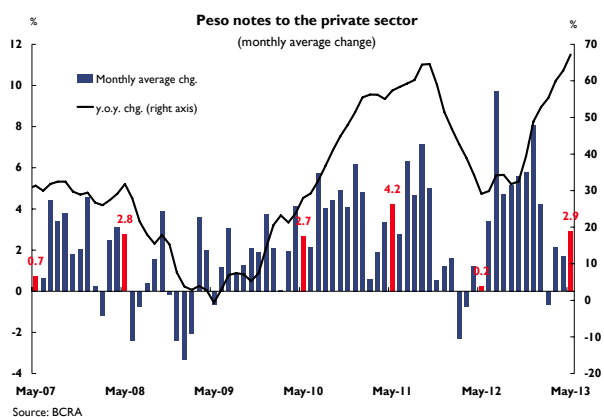
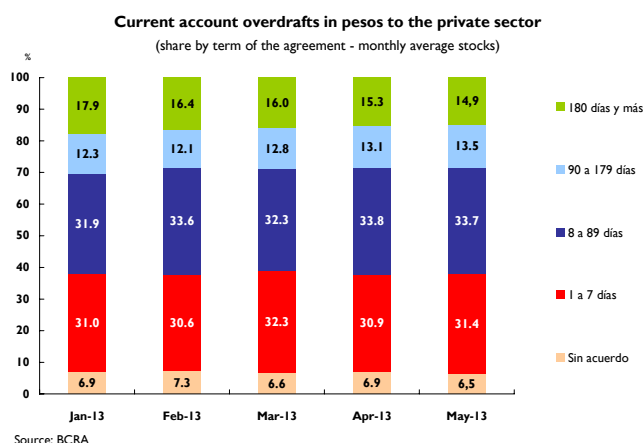


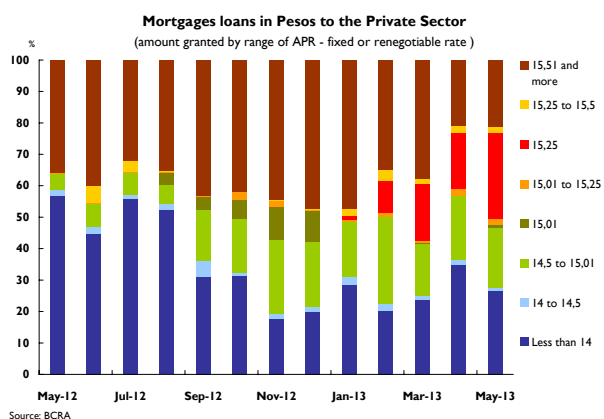
Chart 4.4



increased short-term lending rates. Consequently, some moderation in the year-on-year growth rate was observed in this type of loans, which stood at around 42%. This performance exhibited by overdrafts took place in a context of specific tension in bank liquidity (as a result of a transfer of bank liquidity from private to public banks) leading to temporary rises in interest rates on interbanking money markets (call and REPO round) and up-to 7-day current account overdrafts to companies. It should be noted that arranged current account overdrafts in pesos and with a 1 to 7-day term represented 31% of the total stock of overdrafts (see Chart 4.4) and generally involved large companies' transactions for amounts in excess of \$10 million. Throughout May, this segment's interest rate posted an increase of 2.4 p.p., with a peak of 19.7% in mid-May. As the term of agreements with banks was quite short, interest rates on current account overdrafts from 1 to 7 days rapidly responded to market fluctuations; this occurred at a slower pace in those under arrangements for a longer term. On the other hand, the remaining commercial loans, under "Other loans", posted an increase by 5.5% (\$1.6 billion).

As for loans for household consumption, personal loans recorded a 3.1% rise in May (\$2.5 billion), while the year-on-year change rate stood at 31.3%, up 0.5 p.p. from April. In turn, credit card financing posted an increase of 2.9% (\$1.8 billion), accelerating their monthly expansion pace after a moderate rise in March and April. The year-on-year change rate of credit card financing went up 2.4 p.p. compared to April, to 42.7%.

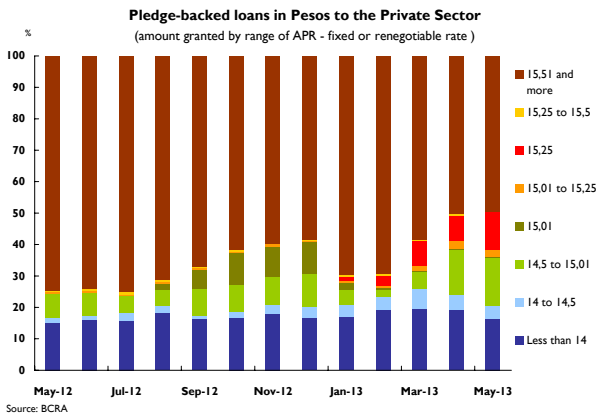
Chart 4.5



Regarding collateralized loans, mortgage-backed loans rose 1.7% (\$620 million), the highest increment in the past four months, while their year-on-year change rate remained relatively stable at 27.5%. In turn, pledge-backed loans, which were growing around 2.5% since the beginning of this year, recorded a 3.7% increase (\$910 million) in May. Such loans thus continued accelerating their year-on-year change rate, which stood at 42.3% in May, up 3.5 p.p. against the prior month. Legal persons continue to have an increasing share of new collateralized loans, with natural persons showing a corresponding downward trend, especially when it comes to mortgage-backed loans. Moreover, if breaking down new loans based on their interest rate range, a larger share is observed for the lower interest rate ranges, which are close to the interest rates of the "Credit Line for Productive Investment"⁷ (see Charts 4.5 and 4.6).

⁷ See Communications 5319 and 5380.

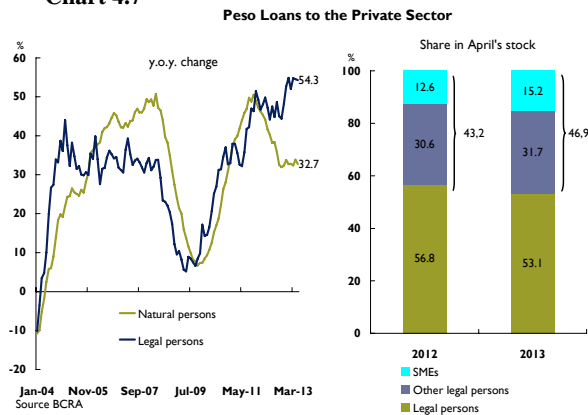
Chart 4.6



In this sense, according to preliminary data on the second round of the “Credit Line for Productive Investment”, more than half the target amount for the first half of 2013, set at \$17.4 billion, has been granted as of May. Around \$3.1 billion of the remaining loans agreed upon in 2012 —which had been arranged in a staggered manner— have been disbursed so far this year. Therefore, taking into account projects already financed in the first half of this year as well as disbursements for previous staggered loans, loans for around \$12 billion were provided between January and May 2013.

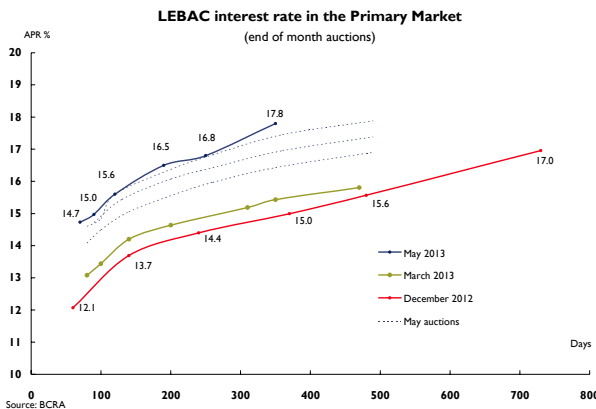
A new auction was conducted in May under the Bicentenary Productive Financing Program (PFPB). This time, \$440 million were auctioned, \$421.3 million of which were awarded. Therefore, the total amount awarded from the beginning of the PFPB was \$6.9 billion, whereas loans disbursed amounted to \$4.8 billion in total.

Chart 4.7



Breaking down total loans in pesos to the private sector by recipient type, positive data were recorded in terms of the policy objective of steering lending to the productive sector. Loans granted to legal persons have increased above loans granted to natural persons since 2012, with a change rate of 54.5% y.o.y. and 33.4% y.o.y., respectively, in April 2013 (latest available data). As a result, lending to legal persons raised its share in the stock of peso-denominated loans to the private sector from around 43% of the total in 2012 to around 47% in April of this year (see Chart 4.7). Although a part of foreign currency financing to companies last year started to be channeled in pesos, and even taking account of total financing in domestic and foreign currency, lending to legal persons has grown above lending to natural persons in the past 12 months.

Chart 5.1



Lastly, loans in foreign currency to the private sector, primarily aimed at financing the exporting sector, fell 0.6% (US\$32 million), with an average monthly stock of around US\$5.1 billion.

5. Interest rates⁸

Central Bank securities⁹

In May, the Central Bank validated a rise in LEBAC interest rates all along the yield curve. Therefore, at the last auction of the month, interest rates on issues at a predetermined interest rate, at 70 and 90 days, were

⁸ Interest rates mentioned in this section are expressed as annual percentage rates (APR).

⁹ In this section, figures are end of the month data unless otherwise stated.

Chart 5.2

Amount allocated of Central Bank Bonds in the Primary Market

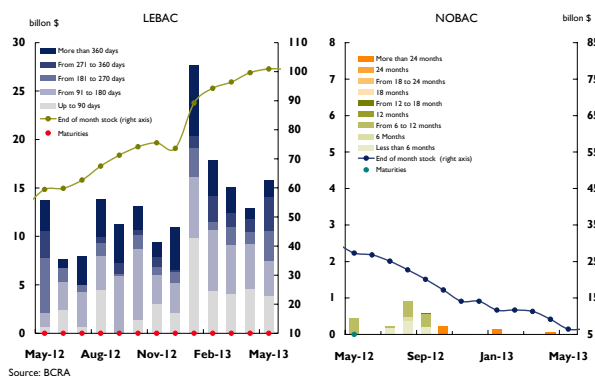


Chart 5.3

Amount Allocated of LEBAC at a Predetermined Rate

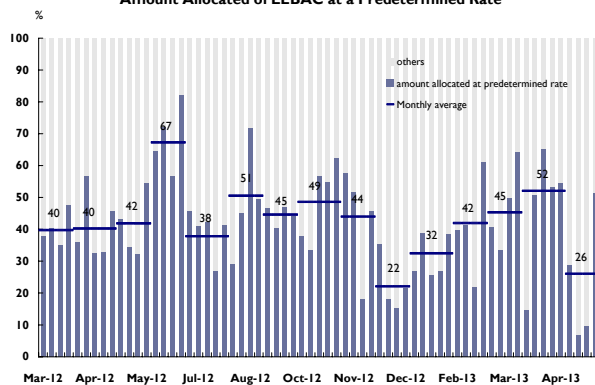
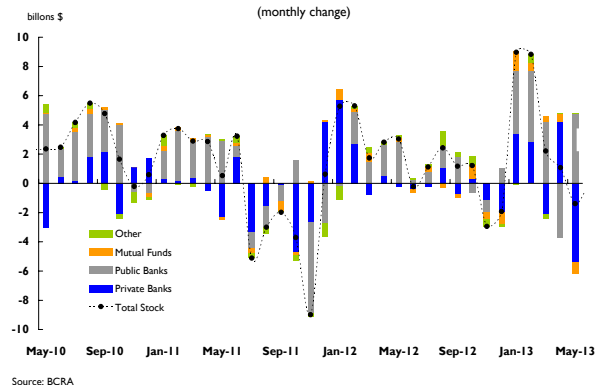


Chart 5.4

Central Bank Bonds Holdings (monthly change)



14.7% and 15%, respectively, up around 1 p.p. The longest-term interest rate, at 350 days, stood at 17.8%, up 1.9 p.p. in year-on-year terms (see Chart 5.1).

LEBACs accounted for all monthly issues on the primary market, for an average term of around 216 days. In May's last auction, the Central Bank modified the award procedure for LEBACs at a predetermined rate, which covers the two shortest instruments of each auction, rewarding banks that take time deposits for lower amounts, which are usually regarded as retail deposits¹⁰. It was thus decided that banks reporting an increase in time deposits below one million pesos could participate with an additional 10% share (based on the growth in total time deposits from the private sector in the past 4 weeks). Even if not reporting a rise in total time deposits from the private sector, financial institutions may participate in these auctions where their time deposits under \$1 million have increased.

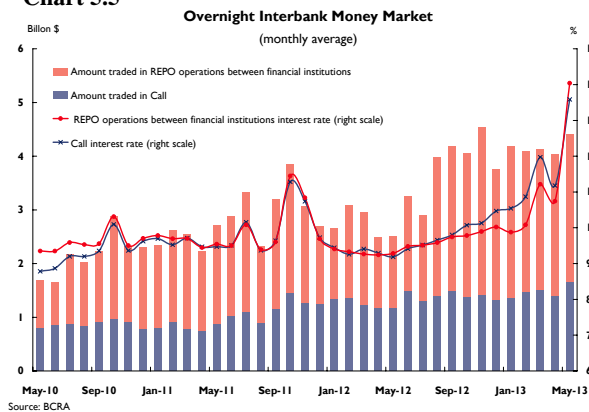
The total amount awarded of LEBACs (including financial institutions and other holders) was 1.3% (\$1.3 billion) higher than the stock that matured, so the balance was NV \$100.9 billion as of the end of May. In turn, the NOBAC balance fell for the third month in a row, 29.3% (\$2.7 billion) this time, standing at NV \$6.5 billion (see Chart 5.2). NOBACs' share in total stock thus continued on the decrease and accounted for just 6% of the security stock.

As a result of this dynamics, the outstanding balance of instruments issued by the Central Bank decreased 1.3% (\$1.4 billion) as of the end of May against April, standing at \$107.4 billion. Such decline was driven by falls in private banks' holdings and, to a lesser extent, by mutual funds' (FCI) holdings. Consequently, the total stock remained at around 17% of total deposits (see Chart 5.4).

LEBAC interest rates were somewhat volatile in the secondary market, especially in the case of shorter-term instruments, in line with the performance exhibited by rates in the call money market. As of the end of May, an increase was observed in instruments with terms longer than 20 days, whereas interest rates at shorter terms went back to the levels reported in late April, leading to a steepening of the yield curve. The daily average amount operated dropped \$370 million, reaching \$910 million. In turn, NOBAC operated volumes continued being scarce against LEBAC transactions, standing at \$30 million on a daily basis.

¹⁰ See Communication P 50.219 and B 10.299.

Chart 5.5



Central Bank repo transactions¹

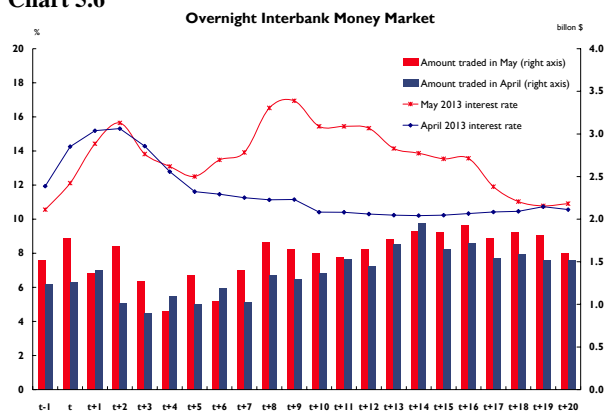
The Central Bank repo interest rate band remained unchanged. Interest rate on reverse repos stood at 9% overnight and 9.5% at 7 days, whereas rates on repo loans stood at 11% overnight and 11.5% at 7 days.

The average stock of Central Bank reverse repos, considering all transaction methods used by this institution, rose 11.6%, standing at \$15.2 billion; no repo loans for the Central Bank were recorded.

Call money market¹

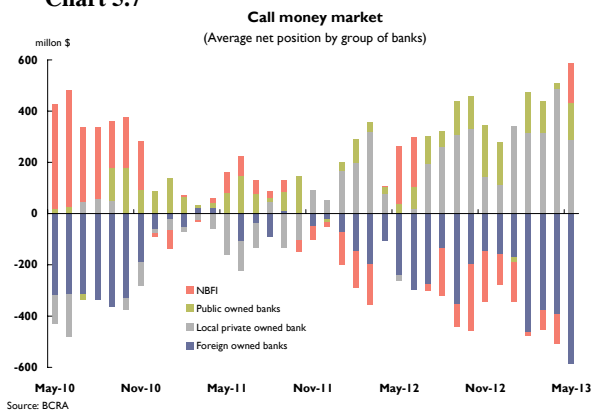
Interest rates on the call money market rose in May. Such performance was associated with a liquidity policy framed by some financial institutions, which decided to exceed compliance with the minimum cash requirements in the first days of the month, and with a reallocation of liquidity from private to public financial institutions as a result of tax maturities. However, such raises were temporary, and interest rates as of the end of May were at the same level as those at the end of April. The average interest rate on overnight transactions climbed 2.4 p.p., to 13.6%, on the call money market. In turn, the average interest rate on overnight transactions between financial institutions on the secured market (REPO round) increased 3.4 p.p., to 14.2% (see Chart 5.5).

Chart 5.6



The performance of interest rates on the interbank market took place in a context where the daily average volume traded posted an increase, mostly in the call money market, where the amount rose \$300 million, to \$1.7 billion (see Chart 5.6). To a lesser extent, the volume on the REPO round expanded \$90 million, standing at \$3 billion.

Chart 5.7



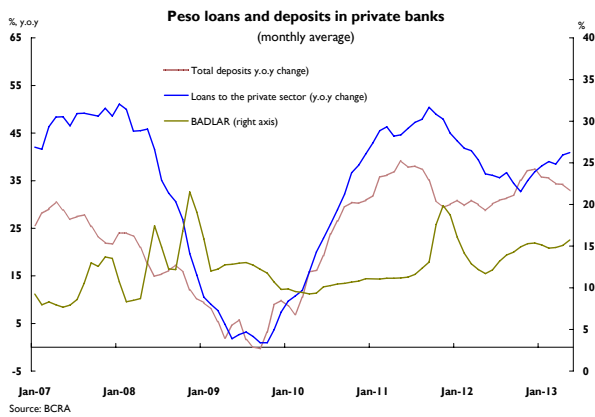
In the call money market, domestic private institutions reduced their position as net fund lenders, while public institutions increased such position. Non-bank financial institutions shifted from being borrowers in April to net lenders, whereas foreign institutions were the only net fund borrowers (see Chart 5.7).

Borrowing rates¹

Interest rates paid by private financial institutions increased once again in May. As it is usual, such increment was driven by interest rates of the wholesale segment.

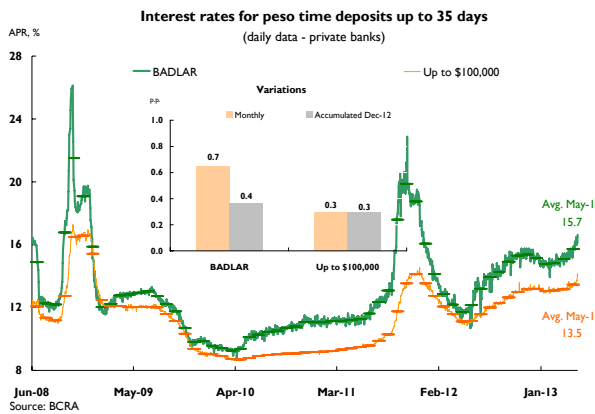
Indeed, the BADLAR of private banks —interest rate on deposits for \$1 million and more for 30-35 days— averaged 15.7%, increasing 0.7 p.p. in the month. As

Chart 5.8



usual in a context where growth in loans exceeds the expansion of deposits, the BADLAR of private banks started increasing in March, accumulating a 1 p.p. increment in the past three months (Chart 5.8). Such hike more than offset the drops recorded in the first two months of the year. In May, the BADLAR of private banks stood 0.4 p.p. above the interest rate of December 2012 (Chart 5.9).

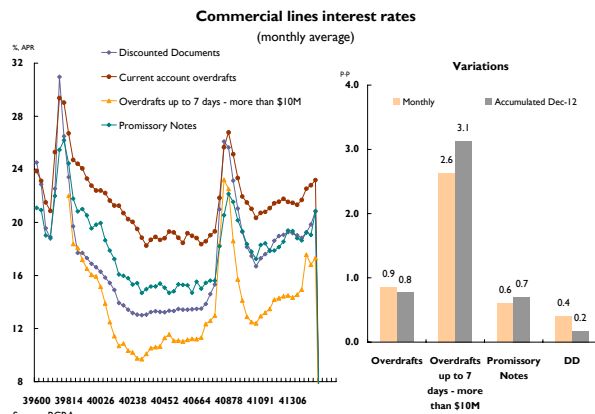
Chart 5.9



As regards the BADLAR futures market, only contracts maturing at the end of May were traded in the month, at an average interest rate of 15.7%. In turn, the amount traded was considerably lower than in the past few months.

As far as the retail segment is concerned, the interest rate paid by private banks on time deposits up to \$100,000 and at up to 35 days averaged 13.5%, hiking 0.3 p.p. in the month. This interest rate is, thus, 0.3 p.p. higher than the level recorded last December.

Chart 5.10

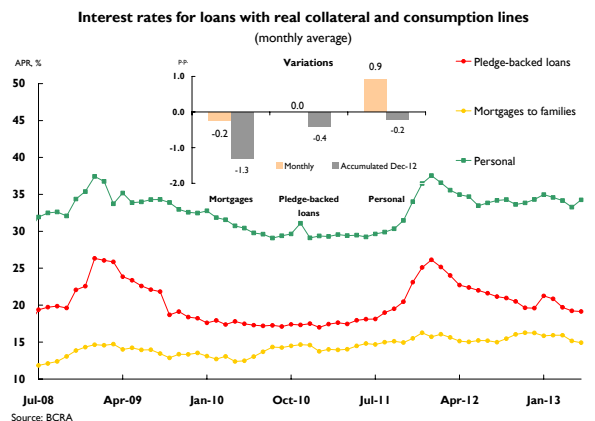


Lending rates¹¹

In May, interest rates on loans in pesos granted to the private sector increased, except for those applied on collateralized loans.

Interest rates on commercial lines increased, especially on current account overdrafts. Interest rates on current account overdrafts averaged 22.5%, rising 0.9 p.p. in the month. In turn, the monthly average interest rate on overdrafts granted to companies for more than \$10 million and up to 7 days increased 2.6 p.p., to 17.6%, in May. Increases were mainly observed in the first days of the month, in line with the performance observed in interest rates on the call money market. Thus, interest rates on current account overdrafts started to gradually fall in the second half of the month. In turn, interest rates on discounted documents and those applied on financing through unsecured promissory notes averaged 19.2%, hiking 0.4 p.p. and 0.6 p.p., respectively (Chart 5.10).

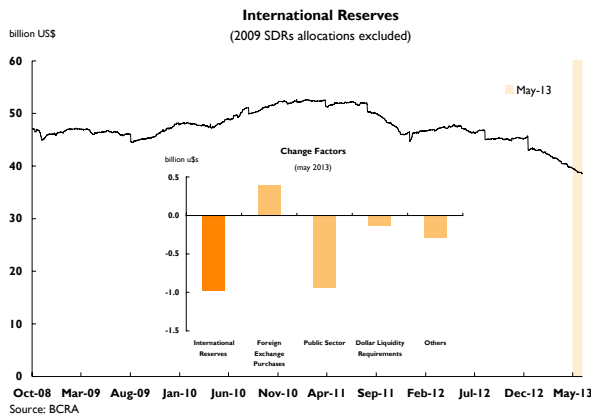
Chart 5.11



In the case of longer-term lines, interest rates exhibited a mixed performance. Interest rates on personal loans averaged 34.1%, the first monthly increase (0.9 p.p.) after three months of decline. As for collateralized loans, interest rates on pledge-backed loans remained unchanged at 19.2%, remaining at its lowest level since August 2011, whereas the monthly average interest rates on mortgage-backed loans granted to natural persons

¹¹ Interest rates mentioned in this section are annual percentage rates and do not include assessment or granting expenses or other expenditures (e.g. insurance) which are taken into account in the total financial cost of loans.

Chart 6.1

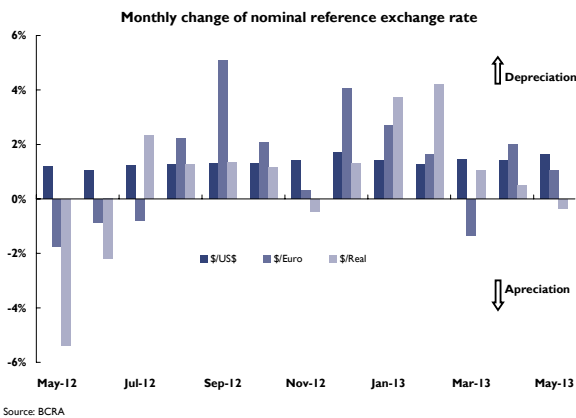


stood at 14.9%, declining 0.2 p.p. from April, and reaching its lowest level since October 2011 (Chart 5.11).

6. International reserves and foreign exchange market¹²

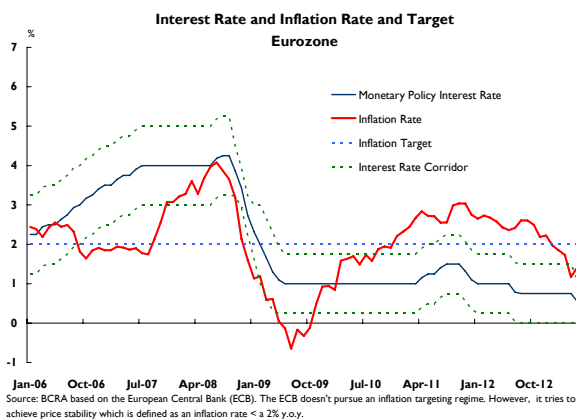
The stock of the Central Bank international reserves was US\$38.5 billion as of the last day of May (see Chart 6.1), down US\$981 million from the end of April. This change was mainly explained by the repayment of dollar-denominated debt and, to a lesser extent, by a decreased exchange rate of other foreign currencies against the US dollar and a decline in foreign-currency current accounts held by financial institutions with the Central Bank. However, the effect of these factors was partially offset by an increment in reserves associated with a purchase of foreign currencies on the Free and Single Foreign Exchange Market (MULC) by the Central Bank, which totaled US\$391 million in the month.

Chart 6.2



Regarding the foreign exchange market, the peso depreciated against the US dollar and the euro, slightly appreciating against the real for the first time in the past six months. Average exchange rates in May stood at 5.24 \$/US\$ (up 1.6% against April), 2.57 \$/real (-0.4%) and 6.8 \$/euro (1%, see Chart 6.2). In turn, the daily average amount traded on the futures market (ROFEX) was \$915 million, down 5% from April. This was mainly due to the number of contracts executed, as the depreciation expectation for upcoming months remained stable.

Chart 7.1



7. Major policy measures taken by other Central Banks

In May, one of the monetary policy measures taken by other Central Banks that should be highlighted is the European Central Bank's (ECB) decision to reduce its monetary policy interest rate, which is applied to main refinancing operations (MRO), to a historical minimum. The ECB also modified rates on lending and deposit facilities bringing them to 1% and 0%, respectively, thus reducing the band's width from ± 0.75 p.p. to ± 0.5 p.p. (see Chart 7.1). Additionally, at the press conference following the announcement, the ECB's President said that the Bank was operationally ready for a negative deposit facility rate. Moreover, the ECB decided to

¹² Figures in this section are end of the month data unless otherwise stated.

Chart 7.2

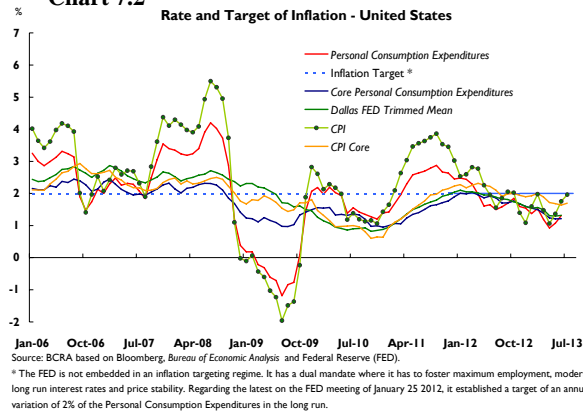


Chart 7.3

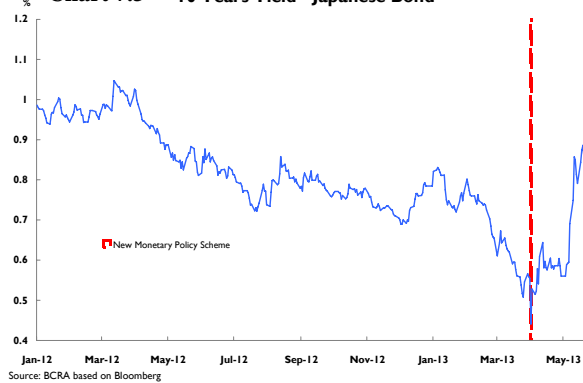


Chart 7.4

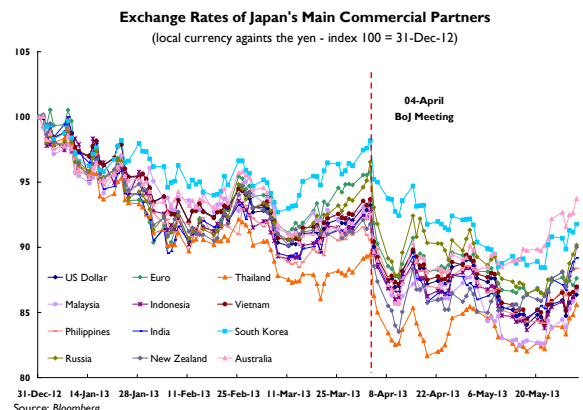


Tabla 7.1

Reference Interest Rate Summary Chart

Country	Monetary Policy Interest Rate	Change (p.p.)	Monetary Policy Interest Rate (%)	Inflation	Target
Eurozone	MRO	-0.25	0.50%	1.17%	-
Brazil	Selic	0.50	8.00%	6.49%	4,5% ± 2 p.p.
Turkey	1 Week Repo Rate	-0.50	4.50%	6.13%	5,5% ± 2 p.p.
Australia	Overnight Cash	-0.25	2.75%	2.50%	2-3%
India	Liquidity Assistance Facility	-0.25	7.25%	4.89%	-
Thailand	Repurchase Rate	-0.25	2.50%	1.19%	3% ± 1,5 p.p.
South Korea	1 Week Repo Rate	-0.25	2.50%	1.20%	2,5-3,5%
Israel	Monetary Policy Rate	-0,25 (x2)	1.25%	0.83%	1-3%

Source: Central Banks' websites

¹³ The total amount requested is awarded.

¹⁴ The BoE modified its lending program -*Funding for Lending Scheme*- and increased incentives for banks to grant loans to SMEs.

¹⁵ Some operators regard this increase in bonds' yield as a sign of market confidence that the BoJ will meet its inflation target. Thinking that inflation might rise in the short term, the market disposes of fixed income assets.

extend the fixed-rate, full-allotment liquidity provision procedure¹³ until, at least, July 2014.

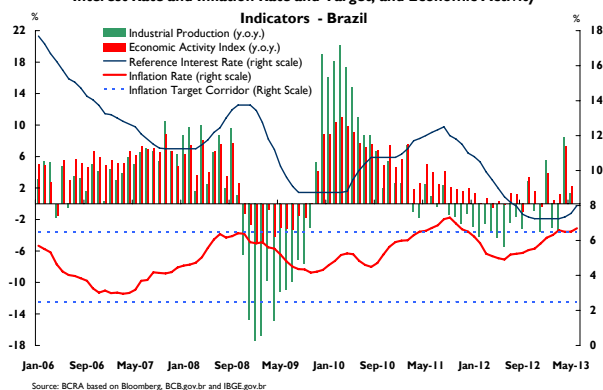
The ECB also said that it is working with other bodies of the Euro Zone to find a procedure to invigorate funding to SMEs and reduce fragmentation in interest rates and conditions among member countries of the Monetary Union. This measure is in line with that adopted by the Bank of England (BoE) in late April¹⁴.

As regards the United States, members of the Federal Open Market Committee made various statements along the month to the effect that there would be consensus to keep the level of monthly asset purchase at US\$85 billion until December. The reasons for this consensus are directly connected with the FED's dual mandate. Indeed, most of the latest price indexes are anticipating a deceleration in inflation, with the labor market showing minor improvements. In March, the household expenditure (PCE) deflator, the inflation measure preferred by the FED, was 0.97%, well below the 2% long-term target set by the FED (see Chart 7.2). However, with a higher increase in real estate prices and an improvement in consumers' confidence towards the end of the month, the market started to fear that the FED might reduce their asset purchase pace before December, which led to a rise in volatility in fixed and variable income markets in the US.

In Japan, after a decision of its Central Bank (BoJ) to substantially amend its monetary policy in order to double the monetary base by April 2015, asset market volatility posted a sharp increase (see Capital Markets). The BoJ announced that it set a 2% inflation target to be reached "as soon as possible, but with a two-year horizon". For the purposes of doubling its monetary base in that period, the BoJ is conducting open market operations whereby it also seeks to increase the maturity of its Japanese Treasury bond portfolio, at the same time trying to reduce their yields. In the first few days, such measure succeeded in decreasing the bonds' yield, but then it began to rise (see Chart 7.3 for 10-year bonds), adversely affecting the BoJ's goal to achieve greater monetary stimuli in order to end with almost 13-year-long deflation¹⁵.

Furthermore, in May central banks in countries which were directly or indirectly affected by the Bank of Japan's monetary stimuli introduced measures to avoid

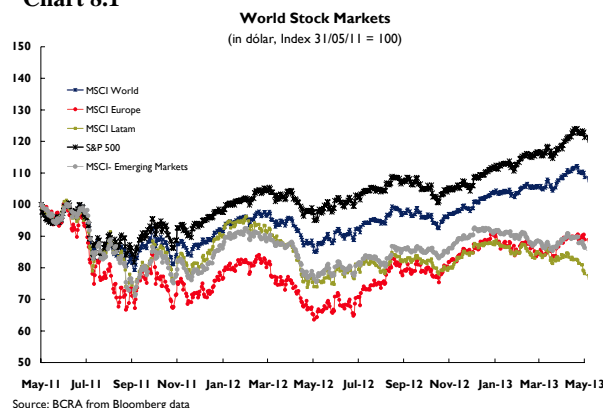
Chart 7.5
Interest Rate and Inflation Rate and Target, and Economic Activity



greater appreciation of their respective currencies (see Chart 7.4). Particularly, the monetary authorities in Australia, Thailand, South Korea, Taiwan, Israel and New Zealand either instituted specific measures on the foreign exchange market or sought to indirectly influence it, whether through statements by the authorities or a reduction in interest rate spreads in relation to more developed economies (see Table 7.1).

In turn, the Central Bank of Brazil (BCB) decided to raise the target for the SELIC rate by 0.5 p.p. to 8%. This is the second increase in SELIC's target since July 2011 (see Chart 7.5). Such rise occurs in a context where April's inflation (6.49% y.o.y.) stands at the upper limit of the target (4.5% ± 2 p.p.), although growth in activity levels in the first quarter was lower than that estimated by the market.

Chart 8.1

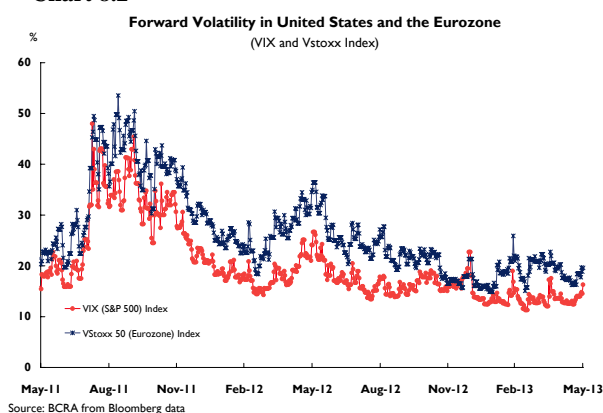


8. Capital markets¹⁰

Equity¹⁶

Prices of variable income assets declined as a result of the performance observed in Asia and Latin America's stock markets. Considering major markets in advanced economies, Japan's NIKKEI dropped 5.7%. In turn, the S&P 500, the main index for the US market, went up 2.1%, whereas the European market, measured by the MSCI index, recorded a 0.5% profit (see Chart 8.1). Such performance was observed in a scenario where volatility levels increased compared to the previous month. The expected volatility for the S&P 500, measured by the VIX index, grew 0.5 p.p., while the index measuring the Stoxx 50's volatility (benchmark index of the stock market in the Euro Zone) rose 2.8 p.p. (see Chart 8.2).

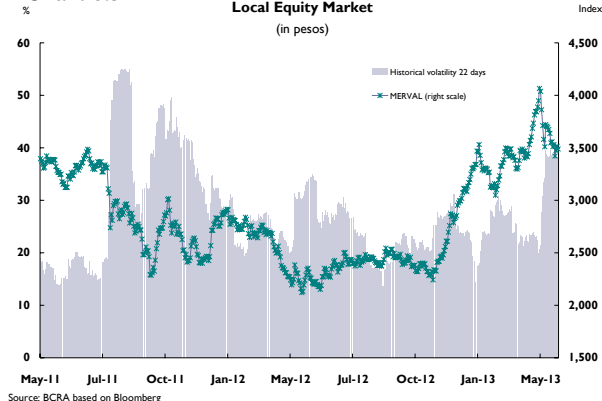
Chart 8.2



Prices of variable income assets in emerging economies fell in a month marked by net outflows from international equity funds, which may be regarded as a change in the trend identified in the past few months. Thus, the MSCI Emerging Markets index thus fell 0.4% in the month. The decrease was more marked in the MSCI Latin American index, which posted a 7.2% loss as a consequence of the performance observed in most of the main stock markets. The Bovespa (Brazil), benchmark index for the region, declined 10.5% in dollars; the IPC (Mexico), 6.8% and the IGPA (Chile), 7.7%. In all cases, such performance was explained by both depreciation in their currencies against the dollar and the evolution of indexes in domestic currency. The

¹⁶ Unless otherwise stated, the change in indexes is represented in US dollars.

Chart 8.3



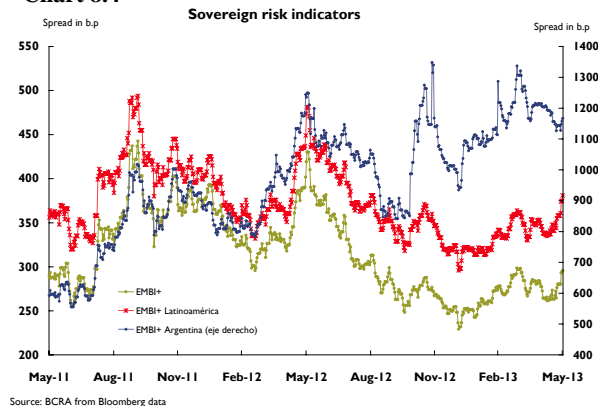
real depreciated 7% against the dollar; the Chilean peso, 6.3% and the Mexican peso, 5.6%.

Following this performance, the local benchmark index (Merval) measured in dollars ended with a monthly decrease of 10.9%, reversing the profits reported a month earlier (see Chart 8.3). Except for two instruments, reductions were observed in all sectors, especially in banks. The average daily traded volume was \$95 million, up 26% from the previous month.

Sovereign bonds

In May, there was a rise in the yields of the US government bonds. Particularly, the return on 10-year treasuries posted a 46 b.p. increase. In this context, the spreads of yields between emerging sovereign bonds and American Treasury bonds rose 18 b.p., to 296 b.p., as measured by the EMBI+. At a regional level, the EMBI Latin America climbed 35 b.p. to 381 b.p.

Chart 8.4

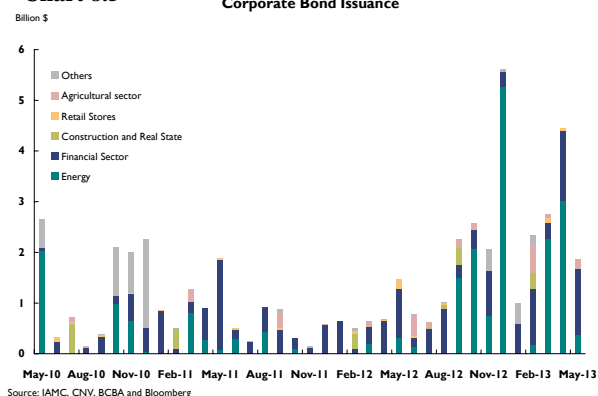


In Argentina, as opposed to the trend observed in the region, the risk spread against treasuries shrank 43 b.p., to 1,167 b.p. at the end of the month (see Chart 8.4).

Corporate bonds

In May, the corporate debt domestic market exhibited issues for a nominal amount of \$1.9 billion, against \$4.4 billion reported a month earlier (the amount issued in April was influenced by YPF issues, which accounted for 68% of the total). Twenty issues were recorded in May, 19 of which were denominated in pesos, while one issue was represented in dollars, to be paid in pesos as adjusted following the evolution of the foreign exchange rate, by a company from the agricultural sector.

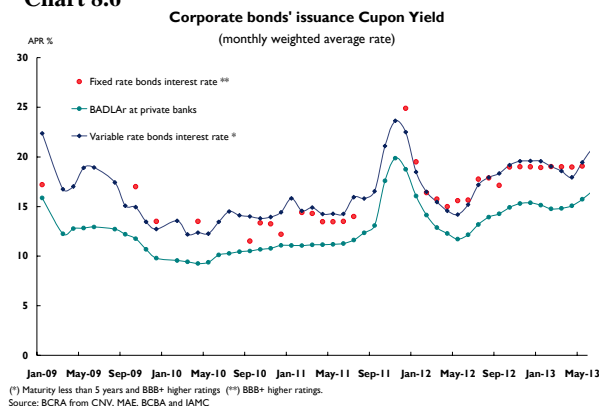
Chart 8.5



Financial institutions were the leading issuers in the month with \$1 billion, accumulating \$3.7 billion so far in 2013, which is 23% of the total amount issued. The group of companies with the second largest issues — \$380 million— were from the energy sector, whereas firms conducting Other Financial, Stock Exchange and Insurance Activities issued \$296 million and firms from the agricultural sector, \$194 million (see Chart 8.5).

Similarly to the rest of the interest rates on the money market, the cost of financing in pesos at a floating rate posted an increase in the month, although such change is more marked as a result of April's exceptionally low rates on corporate bonds due to YPF issues. The cut-off rate (over Arg BBB+ rating, and a maturity below 5 years) rose 1.5 p.p. to 19.4%. As regards the segment in

Chart 8.6



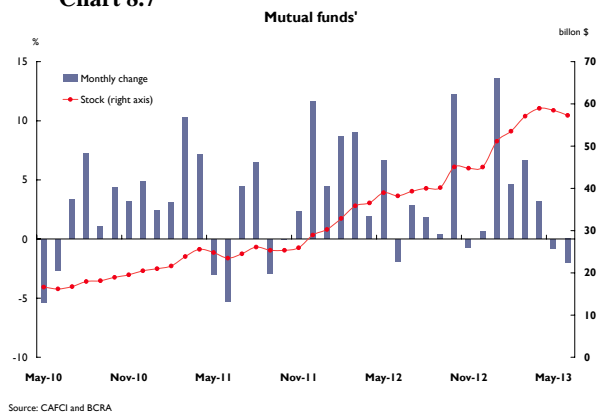
pesos at a fixed rate (over Arg BBB+ rating), the interest rate remained unchanged, at 19% (see Chart 8.6).

Mutual funds

After a growth in the first four months of the year, the equity of FCIs in pesos and in foreign currency decreased 0.8% (\$470 million), standing at \$58.5 billion (see Chart 8.7). Such performance might be of a seasonal nature as a result of the use of funds for tax maturities.

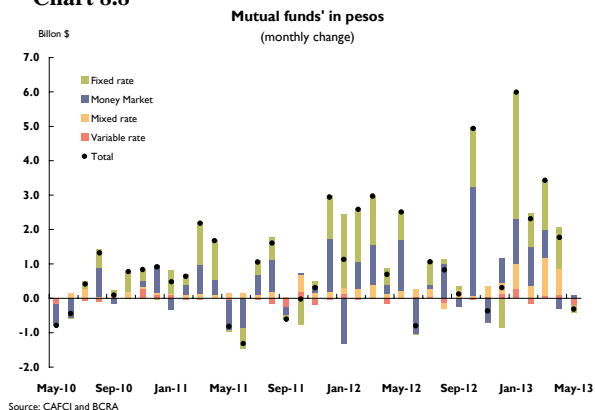
Within the segment of FCIs in pesos, accounting for 96% of total equity, a \$310 million (0.6%) decline was seen, which was driven by fixed income funds. Dropping \$210 million (0.8%), these funds contributed to 45% of the change. In the same direction, funds investing in variable income assets fell \$190 million (12.4%) on account of the performance observed in the domestic stock market. In turn, counteracting this evolution, mixed income funds went up \$20 million (0.2%) and money market funds increased \$70 million in the month (0.4%; see Chart 8.8).

Chart 8.7



Regarding profitability of FCIs in pesos, variable income funds decreased 9.3% on average in the month and mixed income funds declined 1.2%. In turn, money market funds went up 0.8% on average and fixed income funds, 0.2%. However, variable income funds continue to show the best relative performance so far this year, accumulating a 21% profit in line with the performance of the domestic stock market (see Chart 8.9).

Chart 8.8



FCIs in foreign currency, in turn, shrank 7.8% (US\$40 million), with equity amounting to around \$470 million. Fixed and variable income funds explained nearly the entire reduction.

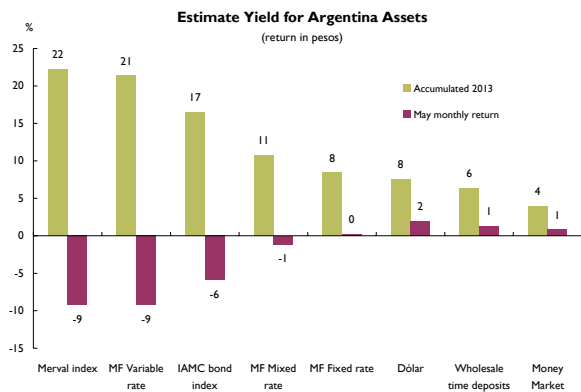
Financial trusts¹⁷

Financial trust (FT) issues totaled around \$1.8 billion in May, up 12% from April. The total issued in the month was the greatest after the record set in December last year (see Chart 8.10). Likewise, there was an increase in the number of transactions in the month, as 21 issues were made, 5 more than in April and the highest number since November 2012.

As for trustors, the retail segment issued a record amount close to \$1 billion (up 43% from April and nearly twice as much in year-on-year terms). This

¹⁷ Only publicly traded financial trusts are considered.

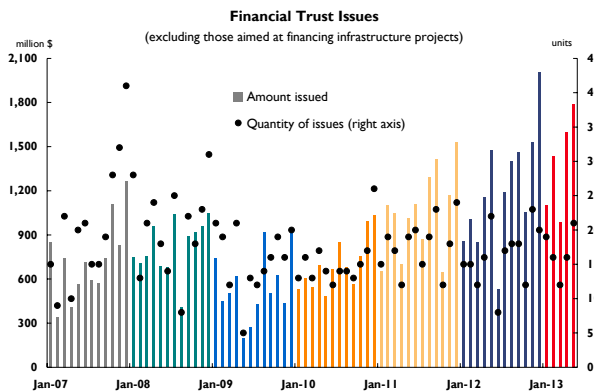
Chart 8.9



Source: BCRA

segment thus accounted for more than half the volume of securitized assets in the month. In turn, financial institutions issued \$510 million, similarly to April and up 53% from May last year. Assets securitized by both types of trustors were consumption-related loans. In turn, mutuals, cooperatives, non-bank credit card issuers and other financial service providers securitized assets for around \$230 million, including loans for consumption purposes and pledge-backed loans. This amount went down 48% from the amount issued a month earlier and 60% in year-on-year terms. It is of note that the rest corresponded to issues by agricultural companies that securitized commercial loans.

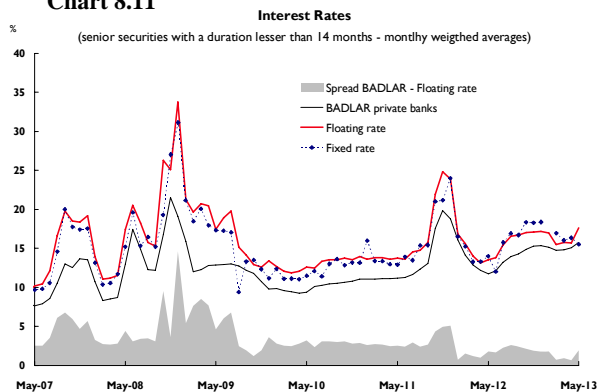
Chart 8.10



Source: BCRA based on CNV data

Cut-off interest rates (weighted average by amount) on senior bonds in pesos with a duration not exceeding 14 months and at a floating rate posted an increase. Indeed, they stood at 17.5%, up 1.8 p.p. from April, in line with the performance of the BADLAR rate at private banks, although the increase in the latter was considerably lower (see Chart 8.11). Just as last month, there was only one issue in the fixed rate segment, the cut-off rate of which was 15.5%, down 0.9 p.p. from April.-

Chart 8.11



Source: BCRA based on CNV data

9. Monetary and financial indicators

Figures in millions, expressed in their original currency.

Main monetary and financial system figures	Monthly average				Average change in percentage	
	May-13	Apr-13	Dec-12	May-12	Monthly	Last 12 months
Monetary base	300,486	297,658	292,138	223,779	1.0%	34.3%
Currency in circulation	229,551	228,055	224,211	172,401	0.7%	33.1%
Held by public	208,408	205,372	199,335	154,278	1.5%	35.1%
Held by financial entities	21,142	22,681	24,872	18,121	-6.8%	16.7%
Settlement check	2	2	4	0	-1.7%	0.0%
BCRA current account	70,935	69,603	67,927	51,378	1.9%	38.1%
Repos stock						
Reverse repos	15,206	13,626	17,432	28,111	11.6%	-45.9%
Repos	0	0	0	0	0.0%	0.0%
BCRA securities stock (in face value)	107,589	102,078	88,681	85,619	5.4%	25.7%
In banks	95,021	92,996	77,641	75,905	2.2%	25.2%
LEBAC						
In pesos	99,592	91,837	74,569	56,646	8.4%	75.8%
NOBAC	7,996	10,241	14,112	28,974	-21.9%	-72.4%
International reserves excluded 2009 SDRs allocations	39,015	40,075	44,134	47,436	-2.6%	-17.8%
Private and public sector deposits in pesos ⁽¹⁾	574,586	561,216	525,028	434,453	2.4%	32.3%
Current account ⁽²⁾	153,883	151,331	150,959	120,779	1.7%	27.4%
Savings account	109,136	110,190	104,730	79,286	-1.0%	37.6%
Not CER-adjustable time deposits	289,942	277,754	248,802	216,896	4.4%	33.7%
CER-adjustable time deposits	7	7	7	9	0.0%	-19.9%
CEDRO adjusted by CER	0	0	0	0		
Other deposits ⁽³⁾	21,618	21,934	20,530	17,483	-1.4%	23.7%
<u>Private sector deposits</u>	<u>407,848</u>	<u>401,587</u>	<u>372,490</u>	<u>301,142</u>	<u>1.6%</u>	<u>35.4%</u>
<u>Public sector deposits</u>	<u>166,738</u>	<u>159,629</u>	<u>152,538</u>	<u>133,311</u>	<u>4.5%</u>	<u>25.1%</u>
Private and public sector deposits in dollars ⁽¹⁾	8,305	8,383	9,393	12,576	-0.9%	-34.0%
Loans to private and public sector in pesos ⁽¹⁾	414,103	403,744	373,913	293,668	2.6%	41.0%
<u>Loans to private sector</u>	<u>376,849</u>	<u>367,023</u>	<u>339,103</u>	<u>263,926</u>	<u>2.7%</u>	<u>42.8%</u>
Overdrafts	52,438	51,985	47,326	36,950	0.9%	41.9%
Promissory bills	84,320	81,909	76,170	50,433	2.9%	67.2%
Mortgages	37,578	36,958	34,475	29,463	1.7%	27.5%
Pledge-backed loans	25,310	24,402	22,135	17,780	3.7%	42.3%
Personal loans	83,837	81,759	75,069	63,862	2.5%	31.3%
Credit cards	63,328	61,551	56,352	44,383	2.9%	42.7%
Other loans	30,038	28,458	27,576	21,055	5.5%	42.7%
<u>Loans to public sector</u>	<u>37,254</u>	<u>36,721</u>	<u>34,810</u>	<u>29,742</u>	<u>1.5%</u>	<u>25.3%</u>
Loans to private and public sector in dollars ⁽¹⁾	5,158	5,190	5,549	9,213	-0.6%	-44.0%
Total monetary aggregates ⁽¹⁾						
M1 (currency held by public + settlement check in pesos+ current account in pesos)	362,292	356,704	350,298	275,059	1.6%	31.7%
M2 (M1 + savings account in pesos)	471,429	466,895	455,028	354,345	1.0%	33.0%
M3 (currency held by public + settlement check in pesos + total deposits in pesos)	782,996	766,589	724,367	588,732	2.1%	33.0%
M3* (M3 + total deposits in dollars + settlement check in foreign currency)	826,478	809,789	770,217	644,682	2.1%	28.2%
Private monetary aggregates						
M1 (currency held by public + settlement check in pesos + priv.current account in pesos)	314,071	309,838	299,301	240,115	1.4%	30.8%
M2 (M1 + private savings account in pesos)	412,556	408,081	395,489	313,564	1.1%	31.6%
M3 (currency held by public + settlement check in pesos + priv. total deposits in pesos)	616,258	606,961	571,829	455,421	1.5%	35.3%
M3* (M3 + private total deposits in dollars + settlement check in foreign currency)	653,849	644,468	609,684	506,727	1.5%	29.0%

Explanatory factors	Average Change							
	Monthly		Quarterly		YTD 2011		Last 12 months	
	Nominal	Contribution ⁽⁴⁾	Nominal	Contribution ⁽⁴⁾	Nominal	Contribution ⁽⁴⁾	Nominal	Contribution ⁽⁴⁾
Monetary base	2,829	1.0%	8,096	2.8%	8,349	2.9%	76,707	34.3%
Financial sector	-1,414	-0.5%	3,344	1.1%	3,096	1.1%	15,314	6.8%
Public sector	1,883	0.6%	2,663	0.9%	12,454	4.3%	51,901	23.2%
Private external sector	2,320	0.8%	2,436	0.8%	4,884	1.7%	17,670	7.9%
BCRA securities	389	0.1%	526	0.2%	-10,603	-3.6%	-5,463	-2.4%
Others	-348	-0.1%	-874	-0.3%	-1,482	-0.5%	-2,715	-1.2%
International reserves excluded 2009 SDRs allocations	-1,060	-2.6%	-3,165	-7.5%	-5,118	-11.6%	-8,420	-17.8%
Foreign exchange market intervention	447	1.1%	466	1.1%	967	2.2%	3,744	7.9%
International financial institutions	-55	-0.1%	-188	-0.4%	-133	-0.3%	-52	-0.1%
Other public sector operations	-1,295	-3.2%	-2,476	-5.9%	-4,173	-9.5%	-4,534	-9.6%
Dollar liquidity requirements	97	0.2%	-292	-0.7%	-942	-2.1%	-609	-1.3%
Others (incl. change in US\$ market value of nondollar assets)	-254	-0.6%	-675	-1.6%	-838	-1.9%	-6,970	-14.7%

1 Excludes financial sector and foreign depositors. Loans's figures correspond to statistical information, without being adjusted by financial trusts. Provisory figures.

2 Net of the use of unified funds.

3 Net of deposits pending of swap by public bonds (BODEN).

4 "Contribution" field refers to the percentage of change of each factor versus the main variable corresponding to the month respect which the change is being calculated.

5 Provisory data subjected to changes in valuation.

Sources: BCRA Accounting Department and SISCEN Informative Regime.

Minimum Cash Requirement and Compliance

	May-13	Apr-13	Mar-13
	(1)		
Domestic Currency	% of total deposits in pesos		
Requirement	12.0	12.1	12.0
Compliance	12.3	12.3	12.2
Position ⁽²⁾	0.2	0.2	0.2
<i>Residual time structure of term deposits used for the calculation of the requirement ⁽³⁾</i>	%		
Up to 29 days	60.9	60.7	59.6
30 to 59 days	25.3	24.3	23.0
60 to 89 days	8.3	9.3	10.2
90 to 179 days	4.4	4.5	6.0
more than 180 days	1.1	1.1	1.2
Foreign Currency	% of total deposits in foreign currency		
Requirement	19.2	19.4	19.5
Compliance (includes default application resource)	94.1	91.5	88.8
Position ⁽²⁾	74.9	72.1	69.3
<i>Residual time structure of term deposits used for the calculation of the requirement ⁽³⁾</i>	%		
Up to 29 days	48.4	51.0	51.7
30 to 59 days	22.5	22.2	23.8
60 to 89 days	11.5	10.6	9.9
90 to 179 days	14.8	13.0	11.3
180 to 365 days	2.6	3.1	3.2
more than 365 days	0.1	0.1	0.1

⁽¹⁾ Estimates data of Requirement, Compliance and Position.

⁽²⁾ Position= Requirement - Compliance

⁽³⁾ Excludes judicial time deposits.

Source: BCRA

Interest rates in annual nominal percentage and traded amounts in million. Monthly averages.

b

Borrowing Interest Rates	May-13	Apr-13	Mar-13	Dec-12	May-12
Interbank Loans (overnight)					
Interest rate	13.72	11.59	12.02	10.77	9.31
Traded volume (million pesos)	1,671	1,390	1,511	1,313	1,181
Time Deposits					
<u>In pesos</u>					
30-44 days	14.61	13.97	13.52	13.69	11.26
60 days or more	13.12	13.13	13.58	15.43	11.28
Total BADLAR (more than \$1 million, 30-35 days)	14.88	14.50	13.19	13.43	11.08
Private Banks BADLAR (more than \$1 million, 30-35 days)	15.73	15.08	14.83	15.37	11.71
<u>In dollars</u>					
30-44 days	0.51	0.51	0.55	0.60	0.39
60 days or more	1.00	0.87	1.03	1.11	0.85
Total BADLAR (more than \$1 million, 30-35 days)	0.60	0.63	0.68	0.65	0.42
Private Banks BADLAR (more than \$1 million, 30-35 days)	0.80	0.75	0.93	0.61	0.62
Lending Interest Rates	May-13	Apr-13	Mar-13	Dec-12	May-12
Stock Repos					
Gross interest rates 30 days	17.19	15.32	14.75	15.57	11.41
Traded volume (all maturities, million pesos)	272	249	221	235	236
Loans in Pesos ⁽¹⁾					
Overdrafts	22.55	21.69	21.35	21.79	20.99
Promissory Notes	19.25	18.64	18.82	18.58	17.59
Mortgages	16.12	14.62	16.75	17.23	13.85
Pledge-backed Loans	19.17	19.24	19.72	19.60	22.37
Personal Loans	34.14	33.28	34.20	34.31	34.73
Credit Cards	s/d	33.10	33.45	34.90	34.91
Overdrafts - 1 to 7 days - more than \$10 million	17.57	14.94	14.55	14.44	12.49
International Interest Rates	May-13	Apr-13	Mar-13	Dec-12	May-12
LIBOR					
1 month	0.20	0.20	0.20	0.21	0.24
6 months	0.42	0.44	0.45	0.51	0.73
US Treasury Bonds					
2 years	0.24	0.23	0.25	0.25	0.27
10 years	1.93	1.72	1.95	1.70	1.78
FED Funds Rate	0.25	0.25	0.25	0.25	0.25
SELIC (1 year)	7.57	7.38	7.25	7.25	8.95

(1) Observed data from Monthly Informative Regime SISCEN 08 up to April and estimated data based on Daily Informative Regime SISCEN 18 for May and June.

Interest rates in annual nominal percentage and traded amounts in million. Monthly averages.

Reference Interest Rates	May-13	Apr-13	Mar-13	Dec-12	May-12
BCRA Repo Interest Rates					
Overnight reverse repo	9.00	9.00	8.53	9.00	9.00
7-day reverse repo	9.50	9.50	9.50	9.50	9.50
7-day repo	11.50	11.50	11.50	11.50	11.50
Total Repo Interest Rates					
Overnight	10.64	9.72	10.04	9.36	9.03
7 days	9.63	9.68	9.60	9.53	9.50
Repo traded volumen (daily average)	10,820	10,364	7,054	10,111	14,288
Peso LEBAC Interest Rate¹					
1 month	s/o	s/o	s/o	11.60	s/o
2 months	14.73	13.13	12.96	11.98	11.10
3 months	14.75	13.33	13.35	12.93	11.80
9 months	15.97	15.21	15.05	14.52	12.40
12 months	17.16	15.60	15.47	14.99	s/o
Peso NOBAC with variable coupon Spread¹					
9 months BADLAR Private Banks	s/o	s/o	s/o	s/o	s/o
1 year BADLAR Private Banks	s/o	-2.68	s/o	s/o	s/o
2 years BADLAR Private Banks	s/o	s/o	s/o	s/o	s/o
3 years BADLAR Private Banks	s/o	s/o	s/o	s/o	s/o
LEBAC and NOBAC traded volume (daily average)	1115	1356	1134	786	878
Foreign Exchange Market	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
Dollar Spot					
Exchange agencies	5.24	5.16	5.08	4.88	4.45
BCRA Reference	5.24	5.16	5.09	4.88	4.46
Future dollar					
NDF 1 month	5.38	5.28	5.28	4.98	4.61
ROFEX 1 month	5.27	5.24	5.16	4.95	4.50
Traded volume (all maturities, million pesos)	915	963	1,054	818	1,159
Real (Pesos/Real)	2.57	2.58	2.57	2.35	2.24
Euro (Pesos/Euro)	6.80	6.73	6.60	6.41	5.69
Capital Market	May-13	Apr-13	Mar-13	Dec-12	May-12
MERVAL					
Index	3,679	3,506	3,368	2,672	2,255
Traded volume (million pesos)	64	95	75	54	46
Governement Bonds (parity)					
BODEN 2015 (US\$)	146.58	149.81	140.21	120.57	110.64
DISCOUNT (US\$ - NY legislation)	103.90	103.73	99.52	97.99	86.15
BODEN 2014 (\$)	93.45	94.85	96.29	92.24	92.38
DISCOUNT (\$)	50.52	52.28	50.62	46.02	47.52
Country risk					
Spread BODEN 2015 vs. US Treasury Bond	1,337	1,273	1,350	1,204	1,269
EMBI+ Latin America (without Argentina)	318	314	313	298	380

¹ Corresponds to average results of each month primary auctions.

10. Glossary

- ANSES:** *Administración Nacional de Seguridad Social.* Social Security Administration
- APR:** Annual percentage rate.
- BADLAR:** Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial institutions
- BCRA:** *Banco Central de la República Argentina.* Central Bank of Argentina
- BODEN:** Bonos optativos del Estado Nacional. Optional federal bonds
- BOVESPA:** Sao Paulo Stock Exchange Index (Brazil)
- CAFCI:** *Cámara Argentina de Fondos comunes de inversión*
- CDS:** Credit Default Swaps
- CER:** Coeficiente de Estabilización de Referencia. Reference Stabilization Coefficient
- CNV:** Comisión Nacional de Valores. National Securities Commission
- CPI:** Consumer Price Index
- CPI GBA:** Consumer Price Index for the Greater Buenos Aires metropolitan area
- DISC:** Discount Bond
- EMBI:** Emerging Markets Bonds Index
- FCI:** Mutual Funds
- Fed:** Federal Reserve
- FTs:** Financial Trusts
- GBA:** Greater Buenos Aires metropolitan area
- GDP:** Gross Domestic Product
- IGBVL:** Lima Stock Exchange Index (Peru)
- IGPA:** Santiago Stock Exchange Index (Chile)
- LEBAC:** *Letras del Banco Central.* BCRA Bills
- LIBOR:** London Interbank Offered Rate
- M2:** Notes and Coins + Current Accounts and Savings Accounts in \$
- M3:** Notes and Coins + Total Deposits in \$.
- M3*:** Notes and Coins + Total Deposits in \$ and US\$
- MERVAL:** *Mercado de Valores de Buenos Aires.* Buenos Aires Stock Exchange Index
- MEXBOL:** Mexico Stock Exchange Index
- NDF:** Non Deliverable Forward
- NOBAC:** Notas del Banco Central. BCRA Notes
- NV:** Nominal value
- ONs:** Corporate Bonds
- PyME:** Small and medium enterprises
- ROFEX:** Rosario Futures Exchange Rate Market
- SAFJP:** AFJP Superintendency
- SELIC:** Brazilian Central Bank's Benchmark Interest Rate
- SISCEN:** *Sistema Centralizado de Requerimientos Informativos.* BCRA Centralized Reporting Requirement System
- S&P:** Standard and Poor's 500 Index
- y.o.y.:** Year-on-year