# Report on Banks

March 2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

# Executive Summary

- The financial system continues to exhibit significant soundness, with relatively high liquidity and solvency levels and reduced exposures to intrinsic and structural risks and those risks related to the financial cycle.[1]

- The broad liquidity indicator stood at 58.9% of total deposits in March (59.7% for the segment in pesos), up 1.2 percentage points (p.p.) against February (+1.5 p.p. for domestic currency items). In the last 12 months, the broad liquidity rose 15.2 p.p. of deposits (+18.4 p.p. for the ratio in pesos). The liquidity in foreign currency reached 57.3% of deposits in the same denomination.

- Solvency indicators for the aggregate of financial institutions continued at high levels. By the end of the first quarter of 2019, compliance with capital requirements accounted for 15.9% of risk-weighted assets. This level of capital compliance of the financial system sizably exceeds the minimum regulatory capital requirement for the sector, standing for 184% of the latter.

- In March, the stock of deposits in pesos of the private sector went down in real terms, accumulating a year-on-year (y.o.y.) drop of 4.5% in real terms. Against March 2018, there was an increase of time deposits (+11% y.o.y., in real terms) which partially offset the reduction in sight accounts (-16.9% y.o.y., in real terms). Foreign currency deposits of the private sector expanded 14.5% in the last 12 months (in currency of origin). In March, the weight of deposits of the private sector in the total funding of the financial system stood at 58.9% (+4.5 p.p. y.o.y.).

- The stock of lending in pesos to the private sector in real terms decreased in March against the values of February (+0.6% in nominal terms) and accumulated a drop of 27.7% y.o.y. In turn, lending in foreign currency to the private sector rose slightly during the month and against March 2018 (in currency of origin). By the end of the first quarter of 2019, lending to the private sector accounted for 39.4% of total bank assets (falling slightly against February 2019 and -8.8 p.p. y.o.y.).

- In March, the non-performance ratio of loans to the private sector stood at 4%, up 0.2 p.p. in the month (+2.1 p.p. y.o.y.). The delinquency of loans to companies was 3.8% (+2.8 p.p. y.o.y.) whereas delinquency of loans to households reached 4.5% (+1.4 p.p. y.o.y.). The non-performing ratio of mortgage loans to households remained at very low levels (0.26% in the UVA segment and 0.61% in other segments). The balance of accounting provisions remained at high levels.

- As of March, the nominal income accrued by the financial system in the aggregate of the last 12 months accounted for 4.5% of assets —ROA— and 40.7% of equity —ROE.

*Published on May 22, 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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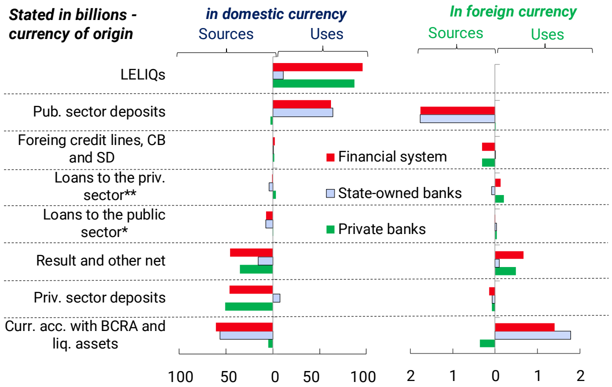
[1] For further detail, see Financial Stability Report – May 2019.

# I. Financial Intermediation Activity

Based on the monthly cash flow estimate for March,[2] among the domestic currency items, the most relevant sources of funds were the reduction of the balance of current accounts with the BCRA —especially in public banks— and the increase of private sector deposits —mainly in private banks (see Chart 1). These funds were mostly applied to increasing the holdings of LELIQs —in private banks— and to reducing the stock of deposits of the public sector —in state-owned banks. Taking into consideration the foreign currency segment, in March, the main source of funds was the increase of deposits of the public sector, whereas the most relevant application of funds was the increase of liquidity; state-owned banks were mainly behind such source and application of funds.

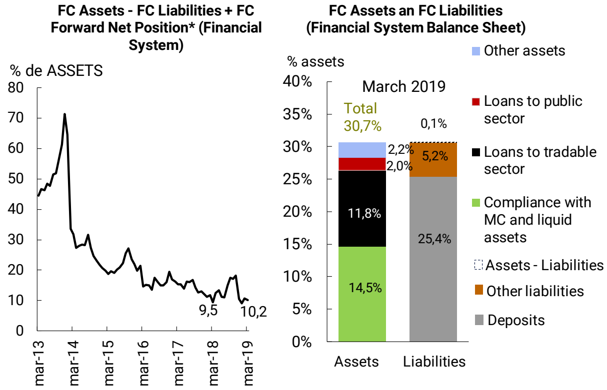
**Chart 1 | Cash Flow Estimate – March 19**




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

Given the evolution of the main items stated above, in March, the total assets of the financial system grew in real terms: 1% against February and 3.7% year-on-year (y.o.y.).

**Chart 2 | Foreing Currency Balance Sheet of the Financial System**




*Off-balance. Source: BCRA

By the end of the first quarter of the year, assets in foreign currency of the financial system accounted for 30.7% of total assets (+2.7 p.p. in the month and +10.2 p.p. y.o.y.). Foreign currency assets still consist of liquidity and loans to tradable sectors (see Chart 2). In turn, the share of foreign currency liabilities in total funding reached 30.6% in the period (+3 p.p. in the month and +10.9 p.p. y.o.y.), and such share was mostly explained by deposits. Against this backdrop, the spread between assets and liabilities in foreign currency in the month and the foreign currency forward net position totaled 10.2% of regulatory capital, slightly below the level recorded in February.

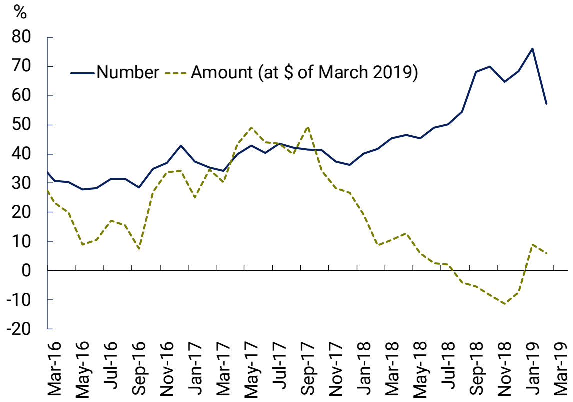
With respect to transactions of the National Payment System, instant transfers of funds increased, both during the month (+5.3% for the number of transactions and +6.1% in real terms for amounts) and against March 2018 (+57.2% y.o.y. for the number of transactions and +6.1% y.o.y. in real terms, see Chart 3).[3] In the third month of the year, the number of cleared checks continued to go

[2] Taking into account differences of the balance sheet stock.
[3] In relation to electronic means of payment, the BCRA has recently decided to simplify the operation of DEBIN —immediate debit transfers. For further detail, see HERE and Communication "A" 6698.

down, whereas the ratio of bounced checks for insufficient funds relative to the total of cleared checks rose slightly, even though it stood below the values recorded by late 2018 (see Chart 4).

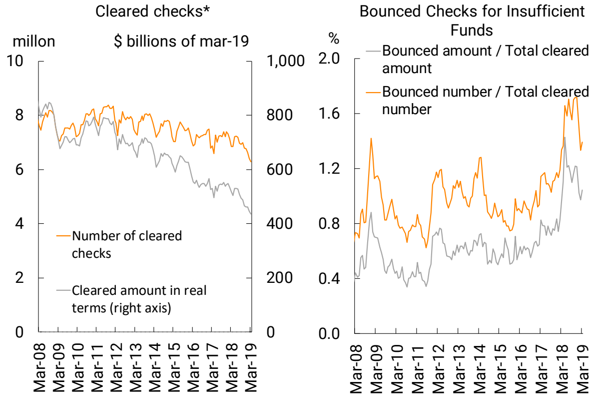
**Chart 3 | Instant Transfers**

Year-on-year % change




source: BCRA

**Chart 4 | Cleared and Bounced Checks**

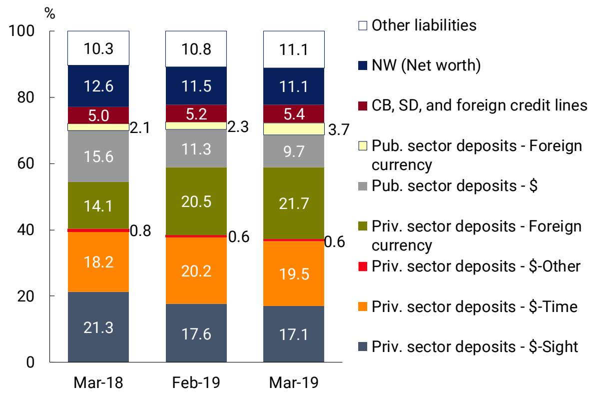



*Note: 3-month moving average. Source: BCRA

# II. Deposits and Liquidity

The stock of private sector deposits in pesos decreased 2.4% in real terms in March (+2.1% in nominal terms). This evolution was explained by the performance of time deposits and of sight accounts (with nominal increases of 2.1% of these stocks in the month).[4] In spite of the fact that public sector deposits in pesos also went down in real terms in March, the stock of total deposits rose 0.5% in real terms in March, mainly as a result of the increase of public sector deposits in foreign currency.[5]

**Chart 5 | Total Funding (Liabilities + NW) – Financial System**




Source: BCRA

In a year-on-year comparison, the stock of private sector deposits in pesos decreased 4.5% in real terms, with an increase of time deposits (+11% y.o.y. in real terms) that partially offset the reduction of sight accounts (-16.9% y.o.y. in real terms). Private sector deposits in foreign currency grew 14.5% in the last 12 months in currency of origin. Total deposits went up 4.6% in real terms in the same period.

In March, the relative share of private sector deposits in total funding —liabilities plus net worth— of the financial system stood at 58.9% (with no significant changes against February and +4.5 p.p. y.o.y.), whereas the share of public sector deposits reached 13.4% (-0.2 p.p. in the month

[4] The BCRA established that financial institutions may offer to teenagers (from 13 to 17 year old) a savings account in pesos, not requiring them to be accompanied by legal representatives to open such accounts. For further detail, see HERE and Communication "A" 6700.

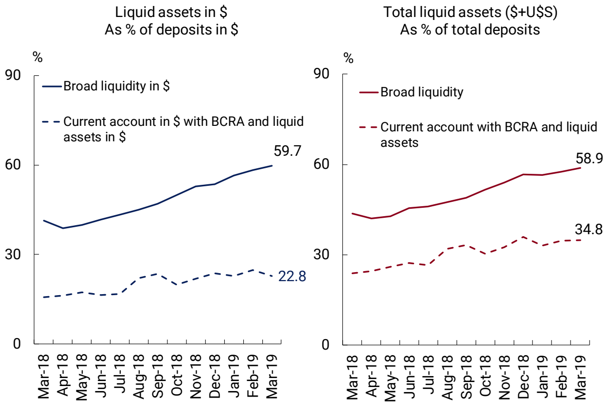
[5] The increase of the nominal peso-US dollar exchange rate in March (11.2%) impacted on the re-statement in pesos of items of the foreign exchange balance sheet.

and -4.2 p.p. y.o.y.). Taking into consideration private sector deposits, in terms of a year-on-year comparison, there was an increase of the share of foreign currency deposits and time deposits in pesos, to the detriment of sight accounts in pesos (see Chart 5).

The average nominal interest rate for time deposits in pesos of the private sector increased during the month, in line with the performance of the reference interest rate of LELIQs.

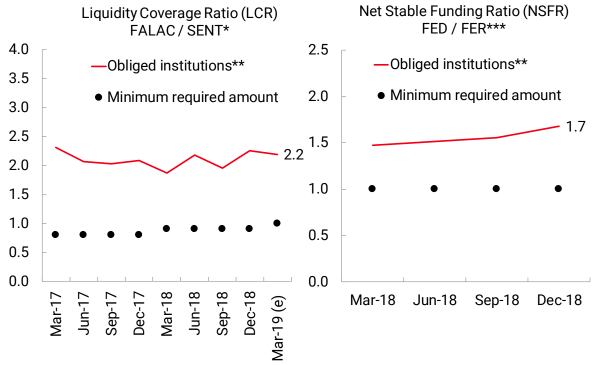
The liquidity of the financial system rose again in March. The broad liquidity indicator[6] stood at 58.9% of total deposits in the month (59.7% considering the domestic currency segment), 1.2 p.p. above the level recorded in the previous month (+1.5 p.p. for items in pesos) (see Chart 6). The monthly increase of liquidity was mainly due to the higher stock of LELIQs. In the last 12 months, broad liquidity rose 15.2 p.p. of deposits (+18.4 p.p. for the ratio in pesos). Liquidity in foreign currency accounted for 57.3% of deposits in foreign currency in the period, +0.9 p.p. and +5.7 p.p. against February 2019 and March 2018, respectively.

**Chart 6 | Financial system Liquidity**




Source: BCRA

**Chart 7 | Basel III Liquidity Indicators**




* FALAC Stock of High Quality Liquid Assets. SENT Total Net Cash Outflows estimated for a 30-day period under a stress scenario. ** Obliged institutions belong to Group A (Communication "A" 6538) and accounted for 88% of assets as of Mar-19. *** Stable funding amount available / Stable funding amount required.
Source: BCRA

The context of relative broad liquidity in the financial system is also observed in terms of indicators resulting from the regulatory standards recommended at global level (according to the Basel Committee). In aggregate, for the ensemble of banks subject to such requirements, both the Liquidity Coverage Ratio (latest level recorded, 2.2) and the Net Stable Funding Ratio (1.7) continued exhibiting values sizably exceeding the minimum regulatory capital requirements (1 for both indicators) (see Chart 7).[7]

# III. Credit and Portfolio Quality

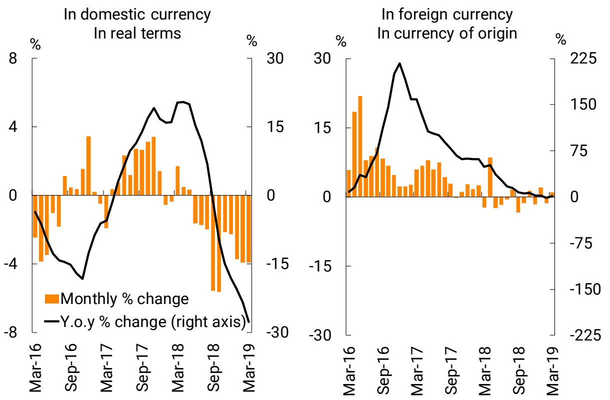
In March, the stock of loans in pesos to the private sector fell in real terms against February (+0.6% in nominal terms).[8] All credit lines in pesos contracted in real terms against the previous month. In

[6] Liquid assets, compliance with minimum cash requirements, and BCRA's instruments, in domestic currency and in foreign currency.
[7] For further detail, see Section 3.1 and 3.3 of the Financial Stability Report – May 2019.
[8] Including adjustments of principal and interest accrued.

turn, loans in foreign currency to the private sector grew 0.9% in the month (in currency of origin, see Chart 8).

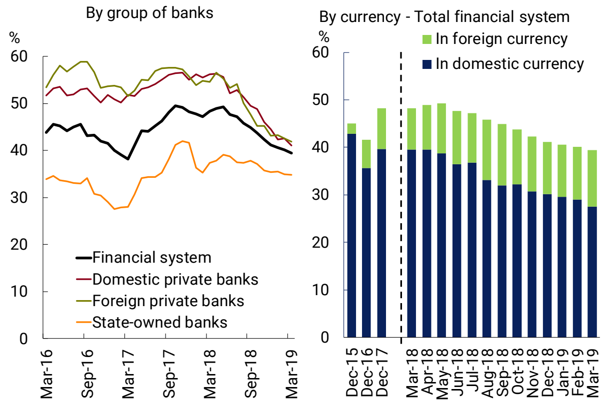
In year-on-year terms, loans in pesos to the private sector contracted 27.7% in real terms, whereas loans in foreign currency expanded slightly (+1.5% y.o.y. in currency of origin).

**Chart 8 | Stock of Loans to the Private Sector by Currency**




Source: BCRA

**Chart 9 | Stock of Loans to the Private Sector / Total assets**




Source: BCRA

The total stock of lending to companies (in domestic currency and in foreign currency) went up 1.2% in real terms against February (+6% in nominal terms).[9] Against March 2018, the stock of lending to companies fell 13% in real terms. In turn, the stock of lending to households went down 3.2% in real terms against February (+1.3% in nominal terms). In year-on-year terms, loans to families contracted 17.7% in real terms.[10]

By the end of the first quarter of 2019, lending to the private sector accounted for 39.4% of total bank assets, slightly below the value recorded in the previous month (-0.7 p.p.).[11] In a year-on-year comparison, this ratio contracted 8.8 p.p. in the aggregate, with a more marked relative decrease in private banks and in domestic currency items (see Chart 9).

In line with the performance of the reference interest rate, lending interest rates mainly for short-term transactions in pesos —like overdrafts— and unsecured promissory notes gradually increased throughout March. Interest rates agreed for personal loans exhibited fewer changes in March reaching, on average, levels similar to those recorded in February.

In March, the non-performing ratio of loans to the private sector reached 4%, going up 0.2 p.p. against February (+2.1 p.p. y.o.y.; see Chart 10). The delinquency ratio of loans to companies rose by 0.3 p.p. up to 3.8% (+2.8 p.p. y.o.y.). The delinquency ratio of lending to households reached 4.5% in March, slightly exceeding the figure recorded in February (+1.4 p.p. y.o.y.). The non-performing ratio of mortgage loans to households stood at relatively low levels by the end of the first quarter of the

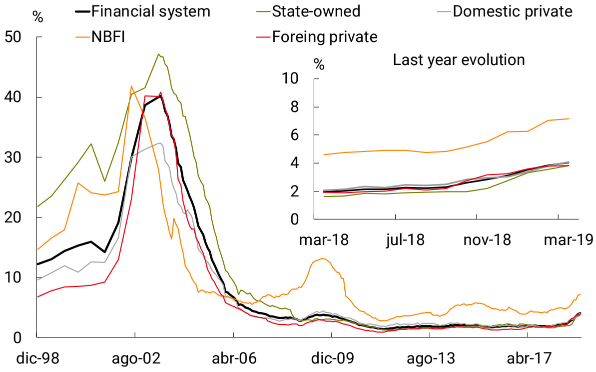
[9] This monthly variation was mainly due to the effect of the depreciation of the peso against the US dollar between ends of month on credit lines in foreign currency.

[10] 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 the 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.

[11] It reached 39.6% in terms of netted assets.

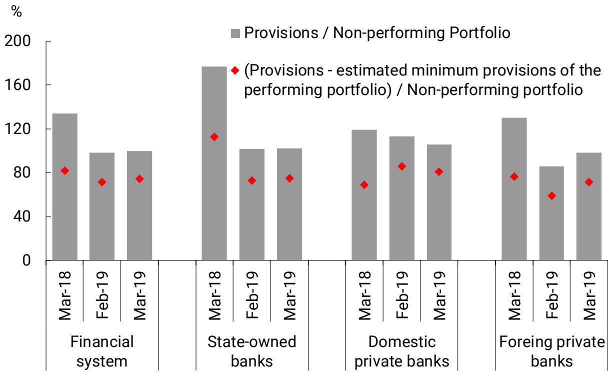
year: 0.26% for the UVA segment and 0.61% for other segments, with no significant changes so far in 2019.

**Chart 10 | Non-Performing Loans to the Private Sector**
Non-Performing Financing / Total Financing (%)




NBFI: Non-Banking Financial Institutions
Source: BCRA

**Chart 11 | Financial System Provisions**




Source: BCRA

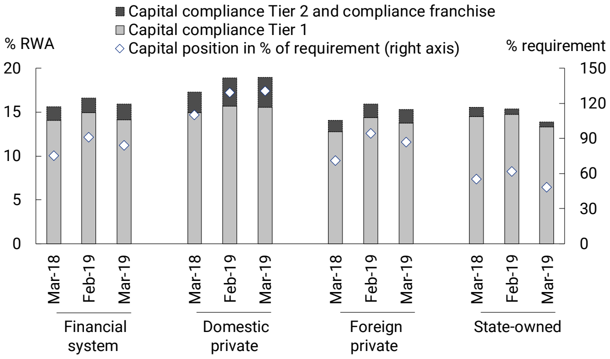
In the aggregate, the estimated stock of provisions attributable to non-performing loans accounted for 74% of such portfolio in March (see Chart 11), sizably exceeding the minimum regulatory capital requirement (estimated at 44% of the non-performing portfolio). Taking into consideration the total stock of accounting provisions (in other words, provisions allocated to the performing and the non-performing portfolio), in the month, provisioning in the aggregate covered an amount equal to 100% of the portfolio of non-performing loans to the private sector.

The high relative levels of provisioning and of capital (see Section IV), in addition to the moderate weight of lending with respect to total assets and the current levels of non-performing loans, contribute to determining a significant degree of resilience of the financial system in the aggregate in the event of a potential materialization of the credit risk taken.[12]

# IV. Solvency

In March, solvency ratios of the aggregate financial system remained at high levels. Compliance with capital requirements accounted for 15.9% of risk-weighted assets (RWA) by the end of the first quarter of 2019 (see Chart 12), slightly below the figure recorded last February, but above the value of the same month a year ago. In the period, the excess of the minimum regulatory capital requirement stood at 84%.

**Chart 12 | Compliance and Excess of Regulatory Capital**



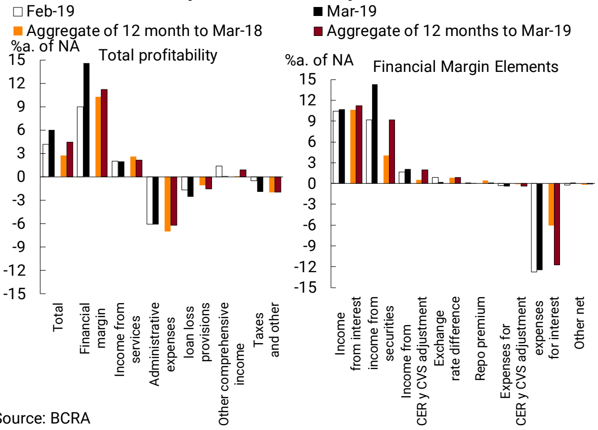

Capital compliance Tier 1: Basic Net Worth
Capital compliance Tier 2: Supplementary Net Worth
Source: BCRA

[12] For further detail, see Section 3.2 of Financial Stability Report – May 2019.

The financial system recorded a nominal income that in March accounted for 6%a. of assets —ROA (see Chart 13). Taking into account the aggregate of the last 12 months to March 2019, nominal income reached 4.5% of assets (+1.7 p.p. y.o.y.) and 40.7% of equity (+17.9 p.p. y.o.y.).[13]

The financial margin of the ensemble of banks stood at 14.6%a. of assets in the month, going up with respect to February mainly due to an increase of income from securities. In the aggregate of 12 months to March, the financial margin accounted for 11.2% of assets, up 0.9 p.p. in a year-on-year comparison.

**Chart 13 | Financial System Profitability**




Source: BCRA

Net income from services remained at around 2%a. of assets during March, and taking into consideration the aggregate of the last 12 months, such income accounted for 2.2% of assets (-0.5 p.p. y.o.y.).

Loan loss provisions increased in March, up to 2.5%a. of assets (1.6% of assets in the aggregate for the last 12 months, +0.5 p.p. y.o.y.). Administrative expenses reached 6.1%a. of assets in the month, with no significant changes against February (6.2% of assets in the last 12 months, -0.8 p.p. y.o.y.).

[13] Considering income and loss, including Other Comprehensive Income (*Otros Resultados Integrales* - ORI).