

Report on Banks

April 2020



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Executive Summary

- In April, the financial system continued to operate in the context of the health emergency. To mitigate the effects of this atypical scenario the BCRA has been implementing a broad set of measures to stimulate credit to the most vulnerable sectors, mainly MSMEs and the self-employed since the end of first quarter of this year. In particular, the new credit lines implemented by the BCRA for this purpose showed rapid growth in the second quarter of this year, easing the situation of those sectors most affected by the consequences of the pandemic. Furthermore, this Institution introduced actions to safeguard bank savings in pesos and relieve the financial situation of the private sector. In parallel, the BCRA sought to preserve financial system's liquidity and solvency.
- In April, the aggregate solvency indicators of the financial system remained high compared to recent years. The Regulatory Capital (RC) accounted for 21.9% of risk-weighted assets (RWA) (+6.2 percentage points – p.p.– in year-on-year –y.o.y.– terms). Regulatory capital position was 155% above minimum regulatory requirement (+74 p.p., y.o.y.).
- The liquidity indicators of the financial system increased in April. The broad liquidity ratio reached 66% of total deposits (62.3% for items in pesos and 78.2% for the segment in foreign currency), up 1.3 p.p. and 6 p.p. against last March and April 2019, respectively.
- Boosted by a set of measures adopted by the BCRA, the stock of loans to private sector in pesos increased 3.4% in real terms in April (4.9% in nominal terms), with greater relative dynamism among commercial lines. The special credit line for MSMEs launched by this Institution at the end of March with a 24% ANR (Communication ["A" 6937](#) and amendments) accumulated disbursements for almost \$141 billion at the end of April, which expanded to about \$253 billion in mid-June. Total financing to private sector in terms of financial system assets fell 0.5 p.p. in the month, to 35.7%.
- In April, the stock of private sector deposits in pesos grew 5.7% in real terms (7.3% in nominal terms), with a 9.1% rise in sight deposits (10.7% in nominal terms) and 2.2% in time deposits (3.7% in nominal terms). To encourage savings in pesos, as of April 20, the BCRA established a minimum interest rate for time deposits, currently 30% ANR (34.5% EAR). Private sector deposits in pesos represent 45.8% of the system's total funding.
- As part of the measures to stimulate credit to households, in April the National Executive Branch and the BCRA implemented a 0% credit line for workers registered with the simplified tax regime *-monotributistas-* and the self-employed [Executive Order 376/20](#) and Comm. ["A" 6993](#)). During the month, the BCRA reduced once again the maximum interest rate for credit card financing to 43% (ANR), establishing that outstanding credit card payments as of 04/30 shall be automatically refinanced at a one year term (Comm. ["A" 6949](#)).
- To promote an adequate means of payments operation in the current context of the pandemic, the BCRA extended the decision of suspending fees and commissions on ATM transactions until 09/30 (Comm. ["A" 7044](#)). There has been a strong increase in instant electronic transfers in April and May (29.7% and 5.9% respectively, in real terms).
- In the first four months of 2020, the financial system recorded annualized (a.) income in uniform currency equivalent to 2.8% of assets (ROA) or 18.9% of equity (ROE). In April the ROA was 5.1% a. (ROE of 34.9% a.), thus exceeding the March value, mainly due to the impact of the significant monthly adjustment in the prices of government bonds held by financial institutions.

Published on June 24, 2020.

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.

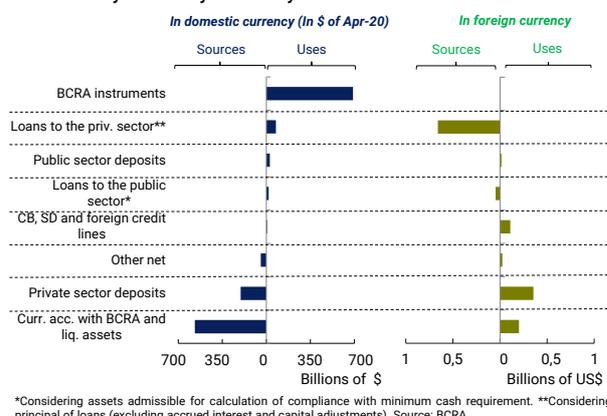
[Electronic subscription](#) | [Opinion Poll](#) | [Previous issues](#). For comments and inquiries: [analisis.financiero@bcra.gob.ar](mailto: analisis.financiero@bcra.gob.ar)

The content of this Report may be freely reproduced provided reference is made to: "Report on Banks - BCRA"

I. Financial Intermediation Activity

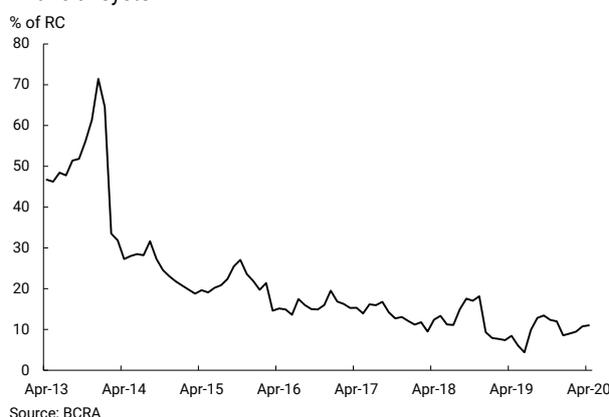
During April, the financial system continued to operate in the context of the Compulsory and Preventive Social Lockdown (ASPO).¹ Considering the monthly flow of funds of the ensemble of financial institutions² for items in domestic currency, the most prominent source of funds between the ends of month was the reduction in the balance of current accounts at the BCRA (see Figure 1), followed by the rise in private sector deposits. The increase in the stock of BCRA instruments (mostly repos³) was the main application of resources for the financial system in April. To a lesser extent, the funds were also used to increase the stock of loans to private sector in pesos in the period. Regarding items in foreign currency, the institutions' main source of funds was the monthly reduction in loans to private sector. Funds in foreign currency were mostly used to increase liquidity and to cater for declining private sector deposits.

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



Based on the aforementioned changes, financial system's assets climbed 3.1% in real terms (+4.7% in nominal terms) in April, an increase mainly explained by private banks.

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



In this context, items in foreign currency reduced their share in the aggregate of financial institutions in April. Assets in foreign currency totaled 22.5% of total assets (-0.2 p.p. m.o.m.), while liabilities in the same denomination reached 21.2% of total funding (-0.2 p.p. m.o.m.). Including forward purchase and sale transactions in foreign currency, the difference between assets and liabilities in this currency was 11% of the regulatory capital of the financial system in the period. This indicator increased slightly in the month, mainly explained by forward transactions, although well below the values recorded years ago (see Figure 2).

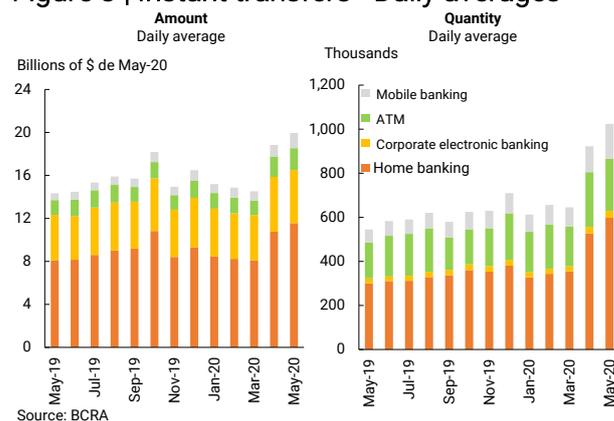
1 Executive Orders [325/20](#), [355/20](#) and [408/20](#).

2 Based on differences between March and February of balance sheet balances in uniform currency.

3 For further details, see the Deposits and liquidity section of this report.

The effects of the lockdown were also reflected in the operation of the Payment System. In particular, April and May saw a sharp increase in instant transfers. The amount and number of transfers under this modality increased by 29.7% in real terms and 42.9%, respectively in April (5.9% in real terms and 11% in May).⁴ Home banking and mobile banking transactions experienced the largest growth in relative terms (see Figure 3). On the other hand, checks continued to decline, below the annual average in (real) amount and number, respectively. The amount of bounced checks for insufficient funds in terms of total cleared checks increased 5.6 p.p. in April, totaling 7.8% and then fell 4.2 p.p. in May, down to 3.7%.

Figure 3 | Instant transfers - Daily averages



II. Deposits and liquidity

In April, the evolution of deposits was influenced by the context marked by the health emergency. The stock of private sector deposits in pesos grew 5.7% in real terms (7.3% in nominal terms), with a 9.1% rise in sight deposits (10.7% in nominal terms) and 2.2% in time deposits in real terms (3.7% in nominal terms) in April. The largest relative increase in sight deposits reflects the effect of households and businesses liquidity preference, as well as the collection of the Emergency Household Income (IFE)⁵ and the extraordinary allowance for ANSeS beneficiaries.⁶ The positive performance of time deposits in the month —after the contraction in March— reflected the gradual normalization of service at bank branches,⁷ which allowed in-person deposits, in addition to the implementation by the BCRA of a minimum interest rate from 04/20/20 to encourage savings in pesos in the financial system.⁸ In turn, private sector deposits in foreign currency fell by 1.9% (in currency of origin) in April. Total public sector deposits decreased by 2.8% in real terms compared to May (-1.4% in nominal terms). Taking into account all these monthly movements, the stock of total deposits climbed 3% in real terms in the month (4.6% in nominal terms).

In a y.o.y. comparison, the stock of private sector deposits in pesos increased 15.5% in real terms (68.2% y.o.y. in nominal terms), with a 41.4% rise in sight deposits (105.8% y.o.y. in nominal terms) and a 9.3% drop in time deposits (+32.0% y.o.y. in nominal terms). On the other hand, private sector deposits in foreign currency fell 41%—in currency of origin— compared to April 2019.

⁴ Considering daily averages for each month.

⁵ For further details, see [Executive Order 310/2020](#).

⁶ For further details, see [Executive Order 309/2020](#).

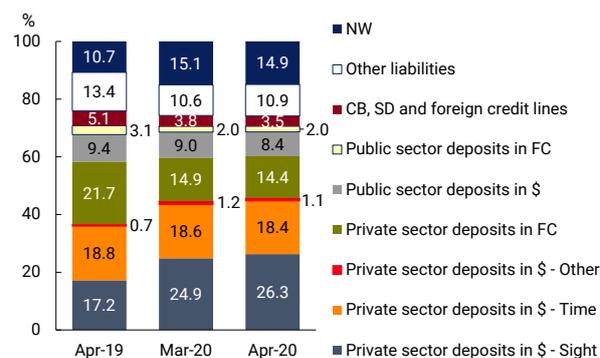
⁷ Since mid-April, branches serve in-person through shifts previously arranged with customers. For further details, see Communication "A" [6958](#).

⁸ As of 04/20/2020, the minimum rate for natural persons' 30-day deposits below \$1 million was established at 26.6% ANR (70% of the LELIQ rate, see Communication "A" [6980](#)). As of 05/01/20, the limit was extended for natural persons' deposits below \$4 million (Communication "A" [7000](#)), covering all private sector deposits as of 05/18/20 (regardless of the amount of the deposit and the type of depositor —natural/legal person—) (see Communication "A" [7018](#)). More recently, as of 06/01/20 the minimum rate for deposits at Group A institutions and GSIBs not belonging to this group was established at 30.02% ANR (34.5% EAR, equivalent to 79% of the LELIQ rate, see Communication "A" [7027](#)), except for those clients who are debtors from special credit lines defined by the BCRA (for further details, see Section on credit and portfolio quality); for the remaining institutions, the latter minimum interest rate is optional.

Public sector deposits decreased 22.8% y.o.y. in real terms (+12.3% y.o.y. in nominal terms). Thus, the total stock of deposits in the financial system decreased 8% y.o.y. in real terms (+33.9% y.o.y. in nominal terms).

In terms of the financial system’s total funding structure (liabilities plus net worth), total deposits from private sector accounted for 60.2% of the total as of April 2020, slightly increasing its share compared to the levels observed last March and in April 2019. Considering only private sector deposits in pesos, the weighting reached 45.8% of the total funding, increasing its relative share,

Figure 4 | Total funding - Financial system

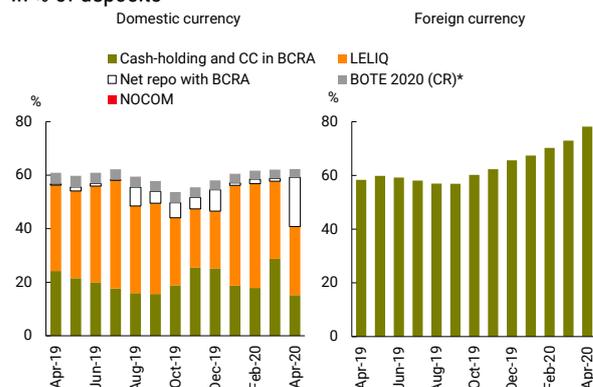


Source: BCRA

mainly due to demand’s performance (see Figure 4).

Figure 5 | Financial system liquidity

In % of deposits



*CR: Cash reserves. Source: BCRA

Financial system’s liquidity indicators remained high compared to the levels observed in the last 10 years. In April the broad liquidity ratio⁹ reached 66% (62.3% for items in pesos and 78.2% for the segment in foreign currency), up 1.3 p.p. against March (+0.3 p.p. and +5.2 p.p. for items in pesos and in foreign currency, respectively, see Figure 5).¹⁰ There was a change in the composition of the ensemble of financial institutions’ liquid assets in pesos in the month. The liquidity share in the current account at the BCRA and in LELIQ holdings dropped, and the relative share of repos with the BCRA increased. These changes occur in the context of the regulatory changes implemented.¹¹ Broad liquidity increased 6 p.p. of deposits from April 2019 (+1.5 p.p., y.o.y. for the segment in pesos and +19.8 p.p., y.o.y. for items in foreign currency).

⁹ Considering liquid assets, compliance with minimum cash requirements and BCRA’s instruments, both in domestic and foreign currency, in terms of total deposits.

¹⁰ The ensemble of banks increased their broad liquidity indicator in the month.

¹¹ To increase their lending capacity, the BCRA established in March that financial institutions shall reduce their position in LELIQ (corresponding to unused holdings to comply with the minimum cash requirements). In addition, the BCRA established a reduction in the minimum cash requirement in pesos for financial institutions granting loans to MSMEs under favorable conditions (see Credit and portfolio quality section of this report) by up to 40% of them. See Communication "A" [6937](#), Communication "A" [6943](#) and Communication "A" [7006](#).

III. Credit and portfolio quality

In April, the stock of bank financing in pesos to private sector increased by 3.4% in real terms (+4.9% in nominal terms) (see Figure 6).¹² Within this segment, commercial credit lines – promissory notes and advances– showed greater relative dynamism in the month, in part due to businesses' need for funds to pay salaries and maintain working capital in the context of the social lockdown. This performance was favored by the measures adopted by the BCRA to temper the economic

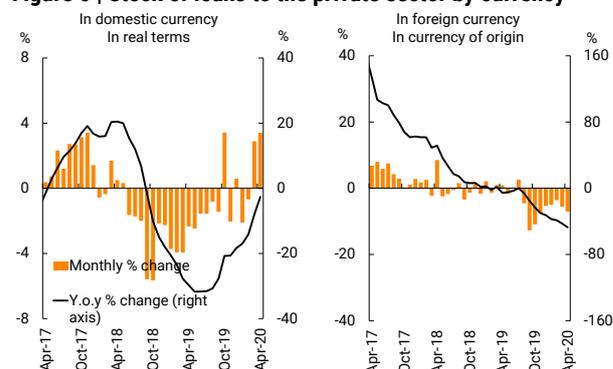
effect of the pandemic, with a special focus on MSMEs. In particular, the special credit line for MSMEs launched by this Institution at the end of March¹³ accumulated disbursements for almost \$141 billion at the end of April, an amount that reached almost \$253 billion in mid-June. This line has been mainly used to finance salary payments of the aforementioned businesses, checks coverage and other working capital needs of MSMEs.¹⁴

Furthermore, in April the National Executive Branch and the BCRA implemented a no-cost credit line for workers registered with the simplified tax regime (*monotributistas*) and the self-employed, to mitigate the impact of the new scenario on households.¹⁵ This line has a maximum amount of \$150,000 per individual (with a 7-month grace period before starting the 12 interest-free payments), and financial institutions are obliged to credit this line to those who request it (provided defined requirements are met). By mid-June, this line accumulated \$46 billion in granted loans (approximately \$20 billion credited) to 376,000 people.

Additionally, to support the financial capacity of households, the BCRA once again reduced in April the maximum credit card financing rate to 43% ANR¹⁶ and established that unpaid credit card balances as of April 30 shall be automatically refinanced at a one-year term. The BCRA also established the elimination of punitive interest on unpaid loan installments until 09/30/20 (considering all types of debtors), as well as the possibility of requesting the institution to defer their payment.¹⁷

In April, the stock of loans to the private sector in foreign currency fell 7.1% from March –in currency of origin–.

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



*Non-seasonally adjusted.
Source: BCRA

¹² Including adjustments of principal and interest accrued.

¹³ Communication "A" 6937 and amendments.

¹⁴ For further details on the measures adopted by the BCRA and their impact, see Exhibit 4 of [IEF June 2020](#).

¹⁵ [Executive Order 376/20](#) and Communication "A" 6993.

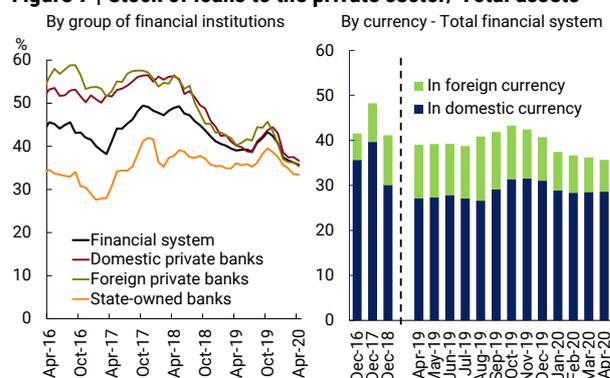
¹⁶ Communication "A" 6964.

In year-on-year terms, loans to private sector in domestic currency accumulated a 2.6% fall in real terms in April, while the stock of loans in foreign currency dropped 47.2% —in currency of origin—.

Loans to private sector as a share of financial system assets fell 0.5 p.p. in the month, to 35.7% (see Figure 7). In the last twelve months, this indicator accumulated a 3.4 p.p. drop, mainly due to the performance of foreign private banks and the segment in foreign currency.

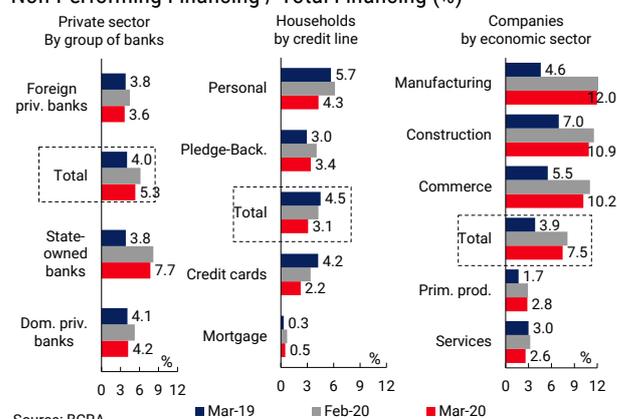
As of March of the current year¹⁸ (information published in the previous edition of the Report on Banks), the non-performing ratio of loans to private sector reached 5.3% (see Figure 8). Non-performing loans to companies stood at 7.5%, with a monthly drop mainly led by industrial and commercial companies. The non-performing ratio of loans to households totaled 3.1%, with a monthly decrease mainly led by personal loans. In turn, total provisioning (for the performing and non-performing portfolio) was equivalent to the non-performing portfolio (81% when considering only the estimated provisioning for the non-performing portfolio) in March.

Figure 7 | Stock of loans to the private sector/ Total assets



Source: BCRA

Figure 8 | Non-Performing loans to the private sector
Non-Performing Financing / Total Financing (%)



Source: BCRA

The gross exposure of the financial system to public sector represented 9.1% of total assets in April, slightly lower than last month (down 0.3 p.p. against the level of last year). When considering the public sector’s deposits of all jurisdictions, the financial system becomes a net debtor of this sector at a consolidated level, for the equivalent of 1.2% of the ensemble of financial institutions’ total assets in the month.

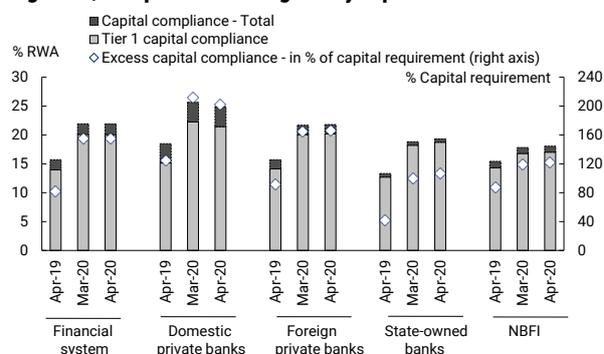
IV. Solvency

In April, the aggregate solvency indicators of the financial system remained at high levels. In particular, the Regulatory Capital —RC— remained at 21.9% of risk-weighted assets —RWA— in the month, without significant changes compared to March (+6.2 p.p. y.o.y., see Figure 9). Tier 1

¹⁸ In the context of the social isolation measures implemented to face the COVID-19 pandemic, the deadlines for filing and processing the different reporting regimes that financial institutions present to the BCRA were extended. As a result, non-performing data for April 2020 were not yet available upon the release of this report. This information shall be updated and included over the next few days in the Excel document of the [Annex to the Report on Banks](#) available on the BCRA website.

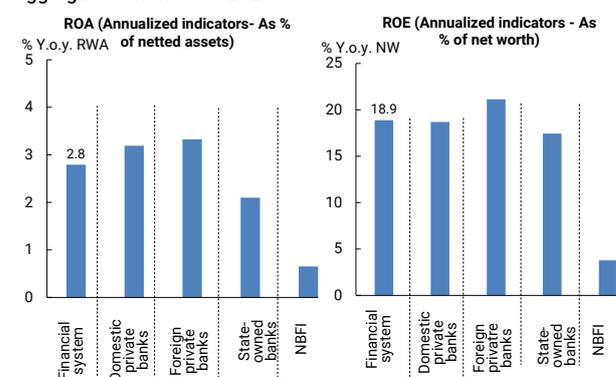
capital, with the greatest capacity to absorb eventual losses, totaled 20% of RWA in April.¹⁹ In turn, the sector's aggregate regulatory capital position stood at 155% above of minimum regulatory requirement, a record similar to last March (+74 p.p. y.o.y.). The ensemble of financial institutions continued to record a regulatory capital position above minimum requirements.²⁰

Figure 9 | Compliance with regulatory capital



Tier 1 capital compliance: basic net worth
Tier 2 capital compliance: complementary net worth.
NBFi: Non-banking financial institutions. Source: BCRA

Figure 10 | Profitability by group of financial institutions
Aggregate 4 months of 2020



Note: Profitability in pesos of Apr-20. Source: BCRA

In April, the financial system recorded annualized income equivalent to 5.1% of assets (ROA) and 34.9% of equity (ROE), reversing the performance observed in March. This was mainly explained by the change in the sign of “other comprehensive income” (ORI), in the context of the improvement in the prices of government bond holdings, and the higher financial margin. Considering the aggregate of the first four months of 2020, the ROA of the sector totaled 2.8% a. and ROE was 18.9% a (see Figure 10).²¹ The ensemble of financial institutions recorded income in uniform currency in the first four months of 2020.

In April, the financial margin of the ensemble of institutions reached 11.7% a. of assets, up 1.7 p.p. against March. This increase was mainly explained by the reduction in the flow of interest expenses for deposits in pesos (given the average lower interest rates on deposits²² and the decrease in the share of time deposits on total deposits²³) and, to a lesser extent, by higher profits from repo premiums,²⁴ net income from CER adjustment and price differences. With lower relative effect on the financial system's financial margin, a decrease in interest income from loans in pesos was observed in the month (gradual reduction in lending interest rates, with a mixed performance among credit lines) and, some reduction in the income (loss) flow from securities

¹⁹ Consisting mainly of ordinary shares and income.

²⁰ For further details on the solvency ratios of the sector see [IEF June 2020](#).

²¹ Both the numerator and denominator of these indicators are considered expressed at April 2020 prices. The profitability ratios obtained so far in 2020 (expressed in uniform currency) are not comparable with those of previous years (for further details, see Exhibit 5 of [IEF June 2020](#)).

²² It should be noted that only as of April 20, a minimum annual nominal rate of 26.6% (70% of the LELIQ rate) began to apply for 30-day time deposits of less than \$1 million (Communication "A" [6980](#)), a limit increased to \$4 million at the end of the month (Communication "A" [7000](#)). For further details, see the section on deposits and liquidity.

²³ See section II of this report. In the context of the social lockdown, there has been greater demand for precautionary liquidity by the private sector, which boosted the increase in the share of bank sight deposits at the expense of time deposits. Between the end of March and the beginning of April, the performance of time deposits was also affected by difficulties in operating normally in person, leading to the failure to renew part of them, which was reflected in the evolution of immobilized balances. These effects have moderated since mid-April.

²⁴ See section II of this report.

(reflecting the effect of the fall in the average stock of LELIQ holdings). The aggregate financial margin between January and April 2020 reached 12% a. of the sector's assets.

In April, financial system' service income was 1.8% a. of assets, decreasing slightly compared to last month. In the first six months of the year, this income totaled 2% a. of assets.

Loss loan provisions for the financial system remained at 1.8% a. of assets in the month, reaching 1.7% a. of assets so far in 2020. On the other hand, administrative expenses of the ensemble of financial institutions fell slightly in the month, to 6.5% a. of assets. In the aggregate of the four months of the year, these expenditures totaled 6.8% a. of assets.

In April, the monetary result of the sector was positive, around 0.7% a. of assets. Between January and April, the ensemble of financial institutions had a virtually zero monetary result.

The flow of results by OCI of the financial system went from a negative level in March (-2.5% a. of assets) to a positive one in April (0.9% a.). As mentioned above, this movement was mainly influenced by the overall improvement in the prices of government bonds held by financial institutions and its effect on the share accounted for at market value (in OCI). Despite April's performance, in the aggregate of the four months of 2020, the financial system posted negative OCI of 0.8% a. of assets.