Report on Banks

October 2023

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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

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Executive Summary

- In October, the financial intermediation activities of the ensemble of financial institutions with the private sector resulted in a monthly increase of the stock of loans in pesos in real terms. Regarding the supply of payment services, the electronic means of payments have continued to keep an upward path over the month. Against this backdrop, the aggregate financial system has preserved its high liquidity and solvency levels.

- Instant transfers of funds in the system have continued to grow steadily in October. In year-on-year (y.o.y.) terms, instant transfers have more than doubled in number (+119.4%) and have grown 56.2% in amount in real terms. This evolution was mainly due to the performance of transactions involving an interaction between accounts held in financial institutions and accounts with payment service providers (PSPs), and to transactions made exclusively via accounts in PSPs. In turn, electronic checks (ECHEQs) have also posted a positive performance, accounting for nearly 70% of monthly transactions in number and 42% in amount.

- In October, the stock of loans in pesos to the private sector rose 5.3% in real terms (-4.2% y.o.y. in real terms), mainly resulting from the evolution of credit lines for consumption (due, in part, to the seasonality of cards) and, to a lesser extent, from the performance of commercial lines. The stock of private sector deposits in pesos went down 3.1% in real terms over the month (-8.4% y.o.y.), mainly because of the evolution of time deposits.

- In the tenth month of the year, the non-performing ratio of loans to the private sector stood at 2.8%, down 0.2 percentage points (p.p.) over the month (-0.3 p.p. y.o.y.). The delinquency ratio did not exhibit significant differences between the segment of loans to households and the segment of loans to companies, standing at around 2.8%. The financial system's total provisions accounted for 3.5% of the stock of loans to the private sector and for 125.5% of the non-performing portfolio of loans.

- The financial system's liquid assets in a broad sense amounted to 80% of deposits by the end of October, down 0.9 p.p. against the figure recorded in September but up 6.6 p.p. in a year-on-year comparison. Over the period, the ratio for the items in pesos stood at 78.8% while the ratio for the items in foreign currency stood at 87.2%.

- The financial system's solvency indicators have continued to stand at high levels. In October, the Regulatory Capital (RC) of the ensemble of financial institutions accounted for 30.9% of risk-weighted assets (RWAs), up 1.6 p.p. y.o.y. The capital surplus position (ASE minus the capital regulatory requirement) stood at 285.8% of the requirement at systemic level, going up 21.2 p.p. y.o.y.

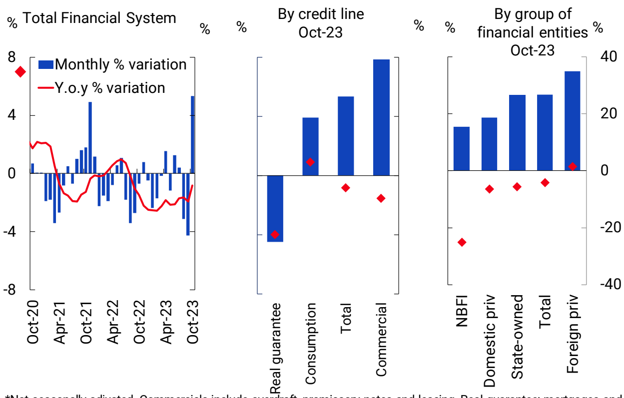
- In the aggregate of the last 12 months up to October, the financial system as a whole has accrued a total comprehensive income in homogeneous currency equivalent to 4% of assets (ROA) and to 21.1% of equity (ROE). These profitability ratios have gone up in a year-on-year comparison.

I. Financial Intermediation Activity

Taking into account the most relevant movements of the aggregate financial system's balance sheet items in pesos, from the perspective of the origin of the funds, there was a decrease in the stock of broad liquidity in real terms, accompanied by a reduction in the lending to the public sector over the month. In turn, from the perspective of the uses given to the funds, the stock of loans in pesos to the private sector in real terms went up, while the stock of deposits in pesos in real terms from the private and public sectors went down.[1]

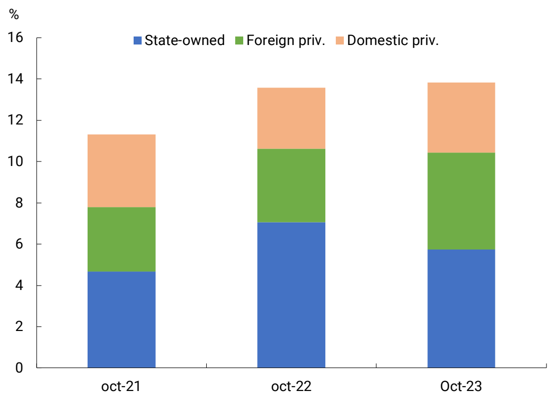
In October, the stock of financing in domestic currency to the private sector went up 5.3% in real terms. This performance was widespread across all groups of financial institutions. It was mainly accounted for by credit lines for consumption (due, in part, to the seasonality of cards) and, to a lesser extent, by commercial lines (see Chart 1).[2] In a year-on-year comparison, the stock of loans in pesos to the private sector went down 4.2% in real terms.

Chart 1 | Stock of loans in pesos to the private sector
In real terms*



*Not seasonally adjusted. Commercials include overdraft, promissory notes and leasing. Real guarantee: mortgages and pledge-backed. Consumption: Personal and credit cards. Capital adjustements are included in each segment. The total also includes accrued interest. Source: BCRA

Chart 2 | Estimated stock of the Credit Line for Productive Investment (LFIP) –
As % of the total stock of loans to the private sector – By group of financial institutions



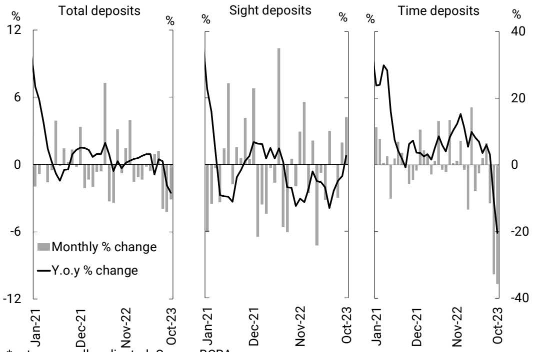
Source: BCRA

In recent months, the "Credit Line for Productive Investment (LFIP)" of Micro, Small and Medium-Sized Enterprises (MSMEs) has continued to be one of the main tools for credit stimulus.[3] From its launch (in October 2020) to November 2023, around ARS9.3 trillion were disbursed to nearly 527,300 companies. The estimated stock under the LFIP stood at ARS2.5 trillion in October, accounting for 13.8% of the total stock of loans provided to the private sector (see Chart 2).

1 Upon considering the segment in foreign currency, from the perspective of the main origins of the funds, the stock of public sector deposits went up while liquidity went down over the period. The increase of financing to the public sector and the drop of private sector deposits resulted from the most relevant monthly uses of resources in foreign currency at aggregate level. In turn, within the framework of the "Export Increase Program", in October, there was an increase in the stock of deposits in real terms with variable yield based on the evolution of the foreign exchange rate. On the other hand, a rise was observed in the institutions' holdings of BCRA Internal Bills in US dollars and payable in pesos according to the Benchmark Exchange Rate (LEDIV) at zero interest rate.
2 Including capital adjustments and accrued interest.
3 For further detail, see Box 2 of IEF II-23.

In October, the stock of loans in foreign currency to the private sector contracted 2% against September.[4] In this context, the stock of total lending (in domestic and foreign currency) provided to the private sector rose 4% in real terms over the period (-4.6% y.o.y. in real terms), due to the impact of the monthly increase of credit in pesos.

Chart 3 | Stock of private sector deposits in pesos
In real terms* - Financial System



*not seasonally adjusted. Source BCRA

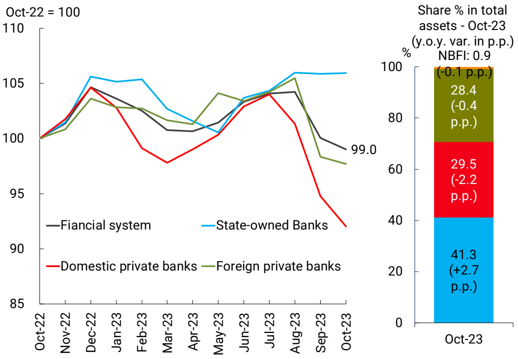
Regarding the financial system’s funding, the stock of private sector deposits in pesos contracted 3.1% in real terms (see Chart 3), mainly due to the performance of the time deposits segment, which was lessened in part by the increase in the stock of sight accounts in real terms.

The stock of private sector deposits in foreign currency dropped 4.5% in October.[5] Against this backdrop, the stock of private sector total deposits (in domestic and foreign currency) went down 4.4% in real terms against September. In a year-on-year comparison, the stock of private sector deposits in domestic currency accumulated an 8.4% drop in real terms in October. Thus, the total stock of deposits (considering all currencies and sectors) contracted 8.2% y.o.y. in real terms.

II. Aggregate Balance Sheet Evolution and Composition

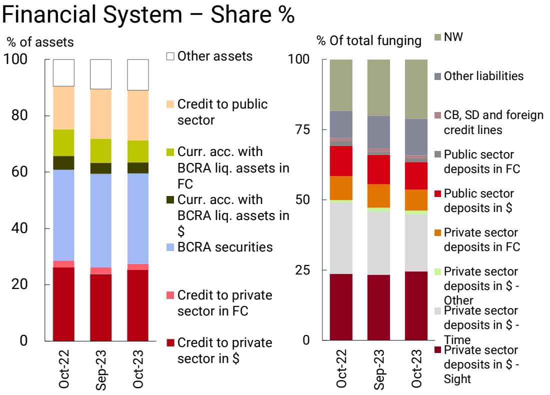
The financial system’s total stock of assets contracted 1% in real terms in October, mainly due to the performance of domestic private financial institutions (see Chart 4). In year-on-year terms, total assets recorded a slight drop in real terms, but there was a mixed performance across all groups of financial institutions: a reduction in total assets in the case of private banks and an increase in state-owned banks, as evidenced by the shares of these groups in the total figure.

Chart 4 | Total assets in real terms
Financial System



Source: BCRA

Chart 5 | Composition of assets and total funding
Financial System – Share %



FC: Foreign currency. Source: BCRA

In terms of the main components of the sector’s total stock of assets, there was a slight reduction in the share of BCRA’s instrument holdings, liquid

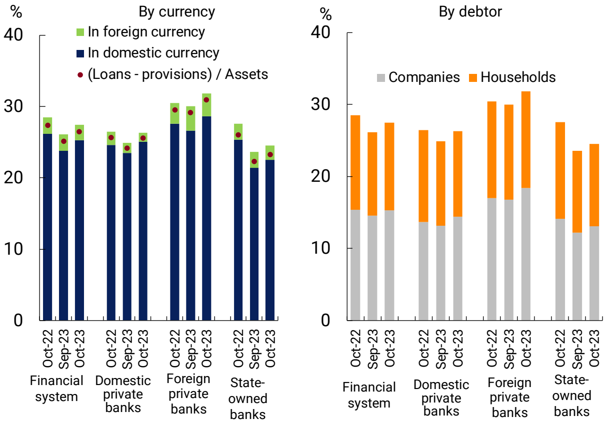
4 Expressed in currency of origin.
5 Expressed in currency of origin.

assets and current accounts in foreign currency, accompanied by an increase in the relative share of loans in pesos to the private sector. In October, regarding the most relevant items of the financial sector's total funding, there was a contraction in the share of private sector time deposits in pesos, and also in private sector deposits in foreign currency and in public sector deposits in pesos, accompanied by an increase in the relative share of private sector sight accounts in pesos and of net worth (see Chart 5).

In October, the estimated differential between the items of assets and liabilities denominated in foreign currency [6] stood at 38.8% of the Regulatory Capital (RC) at systemic level, slightly below the figure recorded in September (+16.1 p.p. y.o.y.). In turn, the estimated mismatch between assets and liabilities in pesos adjusted by CER (or denominated in UVA) totaled 62.9% of ASE at aggregate level, down 1.1 p.p. against September (+7.7 p.p. y.o.y.).

III. Portfolio Quality

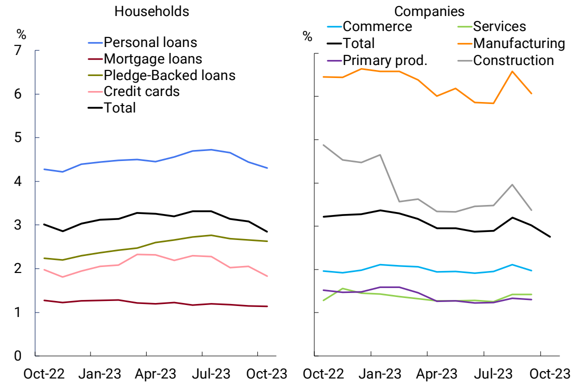
Chart 6 | Stock of loans to the private sector in terms of assets



Source: BCRA

In October, the financial system's gross exposure to the private sector credit risk (considering financing in both domestic and foreign currency) stood at 27.4% of assets (+1.3 p.p. month-on-month (m.o.m.) and -1 p.p. y.o.y., see Chart 6). In relation with financing in pesos, the indicator stood at 25.3% over the period. The stock of loans to the private sector net of provisions for the ensemble of financial institutions accounted for 26.5% of assets over the month.

Chart 7 | Non-performing ratio of loans to the private sector - Financial system



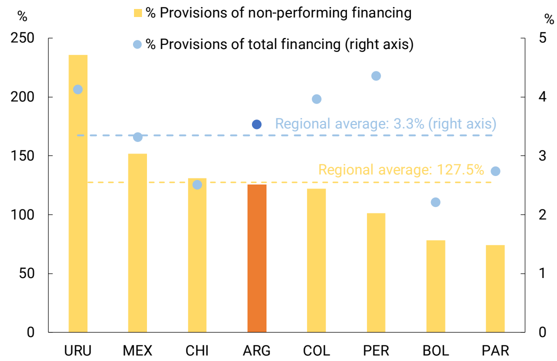
Source: BCRA

In October, the non-performing ratio of loans to the private sector reached 2.8%, down 0.2 p.p. against September (-0.3 p.p. y.o.y..), given the monthly growth of the stock of loans to the private sector in real terms (denominator of the ratio, see Section 1) and the monthly reduction of the non-performing stock of loans in real terms (numerator). The monthly decline in the non-performing ratio was widespread across all groups of financial institutions —the state-owned banking financial institutions posted the highest relative drop— and types of debtors (see

6 Including purchase and sale forward transactions in foreign currency, classified as off-balance. The deposits subject to a variable yield based on the evolution of the exchange rate (associated with the Export Increase Program) are included in liabilities, while BCRA's LEDIVs are included in assets.

Chart 7). The delinquency ratio of loans to households stood at 2.8% over the period (-0.2 p.p. m.o.m.), and this performance was mainly driven by the portfolio of loans intended for consumption.[7] In the same line, in October, the non-performing ratio of loans to companies also stood at 2.8% (-0.3 p.p. m.o.m.), and this performance was widespread across the various economic sectors, even though a deeper relative drop was observed in the industrial sector and the construction business.

Chart 8 | Financial sector's provisions
International comparison*



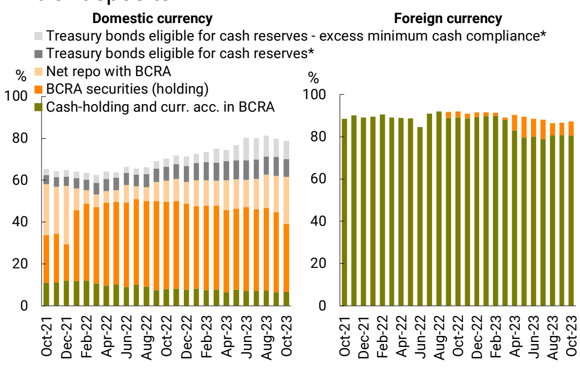
* URU (Jun-23), MEX (Aug-23), CHI (Aug-23), ARG (Oct-23), COL (Aug-23), PER (Jun-23), BOL (Aug-23), PAR (Aug-23). Source: BCRA y IMF (FSI)

The financial system's total provisions accounted for 3.5% of the stock of loans to the private sector (-0.1 p.p. m.o.m. and -0.4 p.p. y.o.y.) and for 125.5% of the non-performing stock of loans (+3.7 p.p. m.o.m. and -1.3 p.p. y.o.y.). These levels are in line with the average value observed in the countries of the region (see Chart 8). In turn, the stock of provisions attributable to the non-performing portfolio of loans accounted for 89.4% of such portfolio at systemic level.[8]

IV. Liquidity and Solvency

The financial system's liquid assets in a broad sense[9] accounted for 80% of deposits by the end of October, down 0.9 p.p. against the value recorded in September. Over the period, the ratio for the items in pesos stood at 78.8%, and the ratio for items in foreign currency stood at 87.2% (see Chart 9). Upon considering the components of liquidity in domestic currency, between ends of month, there was an increase in the share of net repo transactions with the BCRA, accompanied by a drop in the holdings of the monetary authority's LELIQs. Broad liquidity (in pesos and in foreign currency) went up 6.6 p.p. in terms of deposits against October 2022.

Chart 9 | Financial system's liquidity
In % of deposits

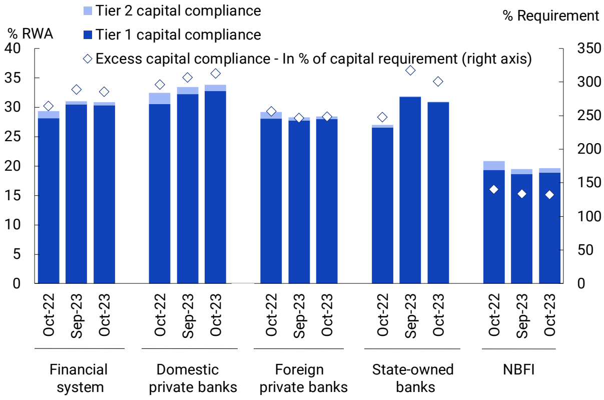


Note: Special deposit accounts related to the "Programa de Incremento Exportador" are considered in the foreign currency segment. Source: BCRA

7 For a further detail and analysis of the risk taken by the ensemble of financial institutions in their exposure to credit to households, see Exhibit 3: "Exposure to credit risk originated in natural person debtors of financial institutions and non-financial credit providers" and Exhibit 5: "Evolution of household indebtedness in terms of income" in IEF II-23.
8 Total provisions net of the minimum regulatory provisions for debtors' categories 1 and 2, according to the criteria set by the rules on regulatory minimum provisions for loan loss exposure.
9 It considers liquid assets, BCRA instruments in domestic and foreign currency and all sovereign bonds admitted for compliance with the minimum cash requirement.

The financial sector's solvency ratios have continued to stand at high levels against the average of the last 10 years. Over the month, the Regulatory Capital (RC) of the ensemble of financial institutions stood at 30.9% of risk-weighted assets (RWAs), down 0.2 p.p. against the value recorded in September (+1.6 p.p. y.o.y., see Chart 10). It is worth mentioning that over 98% of the financial system's ASE consisted in Tier 1 Capital, the segment with a greater capacity to absorb potential losses. The capital surplus position (ASE minus the capital regulatory requirement) stood at 285.8% of the requirement at systemic level (-3.2 p.p. against September and +21.2 p.p. y.o.y.) and at 49.8% of the stock of loans to the private sector net of provisions, quite above the average of the last 10 years (20.6%).[10]

Chart 10 | Capital compliance and capital position



Source: BCRA

In the aggregate of the last 12 months up to October, the financial system as a whole has accrued a total comprehensive income in homogeneous currency equivalent to 3.8% of assets (ROA) and to 20.5% of equity (ROE) (see Table 1). These profitability ratios have gone up in a year-on-year comparison mainly due to a higher financial margin (increase of income from securities and income from interest and exchange rate differences, even though lessened by higher expenditure for interest), an effect which has been offset in part by higher losses due to exposure to monetary items and to tax expenditure, among other concepts.

Table 1 | Financial system's profitability

	12 months accumulated to...	
In % of netted assets	oct-22	oct-23
Financial margin	**15.8**	**24.6**
Interest income	9.0	12.3
CER and CVS adjustments	1.7	4.3
Foreign exchange price adjustm	1.2	4.2
Gains on securities	16.4	27.4
Returns on repo	2.7	6.9
Interest expense	-15.2	-30.5
Other Financial Income	0.0	0.1
Service income margin	**1.9**	**1.6**
Loan loss provisions	**-0.8**	**-1.0**
Operating costs	**-6.6**	**-7.1**
Net Monetary Position	**-6.4**	**-10.5**
Tax charges	**-2.1**	**-3.9**
Other Comprehensive Income (O	**-0.2**	**0.1**
Return on assets (ROA)	**1.6**	**3.8**
Return on equity (ROE)	**9.7**	**20.5**

Source: BCRA.

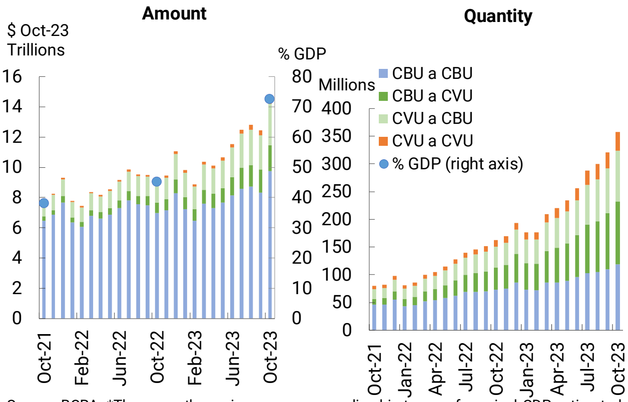
V. Payment System

In October, the transactions made via the most relevant retail electronic means of payment continued to exhibit a positive performance. Instant transfers went up significantly over the month: 11.3% in number and 15.7% in amount in real terms (see Chart 11). The monthly evolution was widespread across all segments (instant transfers between Uniform Banking Codes (CBUs), funds debited from accounts held in financial institutions and credited in accounts with Payment Service Providers (PSPs) and vice versa, and transactions made exclusively between accounts of PSPs —Uniform Virtual Code (CVU) to CVU).[11] [12] In year-on-year terms, instant transfers have

10 The available coverage in terms of capital has been relatively high in recent years, which is one of the main strength features of the ensemble of financial institutions. For further detail, see Section 2 of IEF II-23.
11 In October 2023, instant transfers from CBU to CVU accounted for 31.8% of the total number of instant transfers (12.3% of the total amount) and instant transfers from CVU to CBU accounted for 25.7% of the total number of instant transfers (19.5% of the total amount).

more than doubled (+119.4%) in number and have gone up 56.2% in amount in real terms. This performance has largely resulted from transactions involving the interaction between accounts held with financial institutions and accounts with PSPs, and also from segment of transfers exclusively arranged between accounts with PSPs.[13 14] In this context, it is estimated that the amount transacted via all instant transfers in the last three months (annualized) accounted for around 72.6% of GDP, up 27.4 p.p. against the same month of 2022.

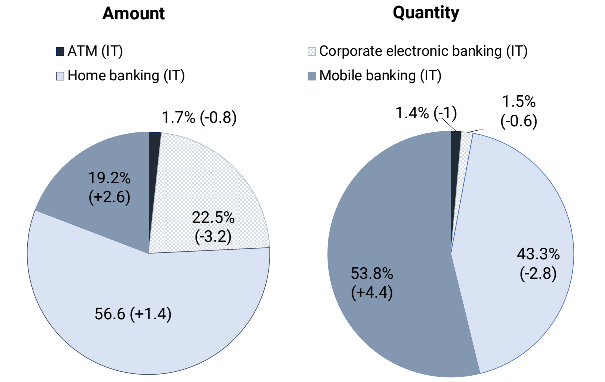
Chart 11 | Instant Transfers



Source: BCRA. *Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted. Note: Transfers between accounts within the same financial entity and between internal accounts of the same PSP are not included.

In October, instant transfers between CBUs —excluding those made between accounts of the same financial institution— accounted for 33.1% of total instant transfers in number (65.2% in amount). Within this group, transactions made via Mobile Banking recorded a monthly increase of 9.6% in number (12.7% in amount in real terms). In turn, transactions arranged via Online Banking grew 7.8% in number (18.4% in amount in real terms). On the other hand, transactions made via ATMs went up 0.9% in number (3.3% in amount in real terms), while transactions via Corporate Electronic Banking rose 4.9% in number (8.9% in amount in real terms). In this context, the relative share of Mobile Banking continues to be on the rise, going up 4.4 p.p. y.o.y. in number and standing at 53.8% (+2.6 p.p. up to 19.2% in amount) (see Chart 12).

Chart 12 | Instant Transfers from CBU to CBU* by channel
Composition as of Oct-2023 (y.o.y. change in p.p.)



Source: BCRA. *Note: Transfers between accounts within the same financial entity are not included

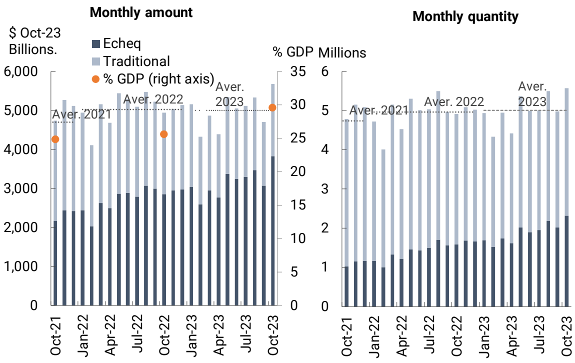
The transactions involving Payments by Transfer (PCTs) via interoperable QR codes continued to expand significantly in October (around 23%, in terms of both number of transactions and amount in real terms). In a year-on-year comparison, this payment method expanded 337.5% and

12 Over the month, instant transfers between CVUs (excluding transfers made between accounts of the same PSP) accounted for 9.4% of the total number of instant transfers (3% of the total amount).
13 Against the same period of 2022, transfers between CBUs have grown around 56.6% in number (8.8% in amount in real terms), transfers from CBU to CVU have gone up 179% in number (147% in amount in real terms), transfers from CVU to CBU have risen 131% in number (80% in amount in real terms) and transfers between CVUs have jumped 172% in number (155% in amount in real terms).
14 In October, the average transaction made via instant transfers stood at around ARS39,300 (ARS77,500 for instant transfers between CBUs, ARS12,500 for instant transfers between CVUs, ARS14,000 for transfers from CBU to CVU, and ARS29,800 for transfers between CVU and CBU).

340.2% in number and amount in real terms, respectively, proving the increasing adoption and preference for this method shown by users.[15]

Regarding the withdrawal of cash via ATMs, a monthly reduction was observed in both the number of transactions (-1.3%) and the amount in real terms (-4.5%). In year-on-year terms, the number of withdrawals has remained relatively steady (+1%), even though the amounts contracted nearly 27% in real terms.[16] It is estimated that cash withdrawals via ATMs (corresponding to the last three months and annualized) accounted for 9.6% of GDP (-1.4 p.p. y.o.y.).

Chart 13 | Clearing of checks



Source: BCRA. *Three-month moving average annualized in terms of nominal GDP estimated for the same period, Not-seasonally adjusted.

In turn, the clearing of checks was on the rise in October against the value recorded in September (+12.1% in number and +20.8% in amount in real terms) and against the same period of 2022.[17] A breakdown by type of check shows that electronic checks (ECHEQs) have expanded significantly (46.3% y.o.y. in number and 34.1% y.o.y. in amount in real terms). As a result, there was an increase in their share in the total clearing of checks (accounting for 41.6% and 67.5% in number and amount, respectively, of the values traded in October, see Chart 13). It is estimated that the total amount of cleared checks in the last three months (annualized) was equivalent to 29.6% of GDP (+4 p.p. y.o.y.). On the other hand, the bouncing of checks for insufficient funds in terms of total cleared checks posted virtually no changes over the month (0.66% and 0.44% in number and amount, respectively), standing at levels lower than the average of 2023.

15 Over the month, the average transaction involving PCTs amounted to ARS5,600.
16 Over the month, the average transaction amounted to ARS17,400.
17 In October, the average cleared check reached ARS1,000,000 (physical checks average = ARS570,000 and ECHEQs average = ARS1,650,000).