

Monthly Monetary Report

May 2014



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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

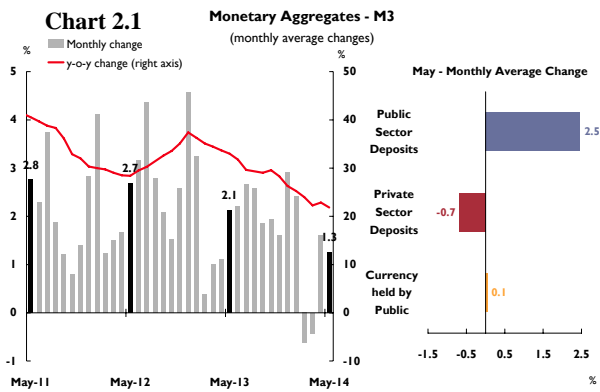
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The closing date for statistics in this report was June 11, 2014. All figures are provisional and subject to review.

1. Summary¹

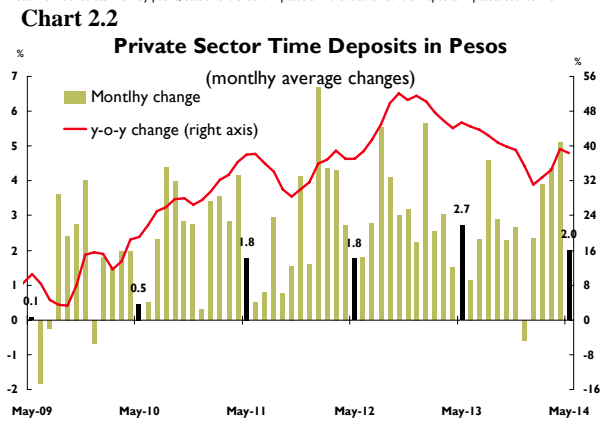
- Private sector sight and time deposits posted an increase in May. Time deposits continued rising, mainly driven by the segment under \$1 million, which evidenced the greatest growth of the last few years (4.3%). The stock of deposits of the wholesale segment remained relatively stable in a period of high demand for liquidity by companies in order to meet their tax maturities.
- As usual, companies' highest liquidity needs translated into an increase in current account overdrafts. It was this line of credit that boosted the growth in the stock of peso-denominated loans to the private sector in May. As a whole, financing in pesos to the private sector climbed 1% (\$4.9 billion), up 26.9% y.o.y.
- The Central Bank continued fostering lending for productive purposes through the Bicentenary Productive Financing Program (PFPB) and the Credit Line for Productive Investment (LCIP). Under the PFPB, it continued disbursing long-term funds for investment at a fixed total financial cost in pesos. Thus, the total amount disbursed since the launching of the program is \$6.3 billion, which accounts for about 80% of the amount awarded. As for the LCIP, the Central Bank established that financial institutions may also allocate in June up to 10% of the quota for the first half of 2014 to discounting deferred payment checks of micro, small and medium-sized enterprises (MiPyMEs) (up to 40% in aggregate), but without being allowed to carry over any amounts not allocated in May to June. Based on the preliminary information available as of April, 28 out of the 31 institutions included in the LCIP had already granted loans, reaching 41% of their aggregate target for the first half of 2014.
- A rise was observed in liquidity in pesos (cash, current accounts with the Central Bank, net repos with the Central Bank, plus LEBAC and NOBAC holdings), which stood at 36.6% of total deposits in pesos, up 0.8 p.p. against April, mainly accounted for by larger holdings of LEBACs and NOBACs.
- In May, the Central Bank lowered by 1 p.p. the interest rates on securities issued every week on the primary market. Such decrease at the beginning of the month applied to all terms in the yield curve. Interest rates on LEBACs auctioned at a pre-determined value—at 85 and 105 days—stood at 26.7% and 26.9%, respectively.
- In this context, interest rates paid by financial institutions on time deposits posted a decrease, returning to the levels registered in late January. Particularly in the wholesale segment, the BADLAR of private banks—interest rate on time deposits for \$1 million and more for 30-35 days—averaged 24.7%, down 1.6 p.p. in the month. In turn, the monthly average of interest rates paid by private institutions on time deposits of up to \$100,000 and at up to 35 days was 21.2%, down 0.4 p.p. against April.
- In general, interest rates on loans in pesos to the private sector have been falling since the second half of April. Among commercial lines, interest rates on financing arranged through promissory notes recorded the largest drop. The monthly average of interest rates on discounted documents stood at 27.8%, down 1.8 p.p. in the month. Among longer-term loans, the interest rate on personal loans dropped 1.6 p.p. — 44.5% on average— whereas the interest rate on pledge-backed loans went down 2.1 p.p. to 25.4%.
- In early June, the Central Bank changed some regulations in order to expand lending under more favorable conditions for households. First, a benchmark interest rate was adopted for loans to natural persons, basically personal and pledge-backed loans, with a view to limiting the cost of lending to the most vulnerable segments of the population. In turn, the Central Bank established that financial institutions must request authorization in advance to raise the cost of basic financial products and services. For the purpose of avoiding any distortion, the Central Bank further required financial institutions to disclose their total financial cost as annual percentage rate, rather than as annual effective rate. Finally, considering the growth of financing granted by non-financial credit providers, especially in places where financial institutions lack infrastructure to render services, the monetary authority laid down a sets of rules for credit assistance to these lenders (mutuals, cooperatives, non-financial credit or store card issuers, among others).

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

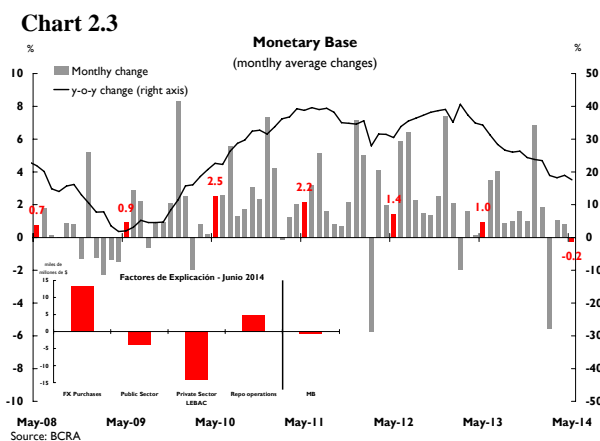


2. Monetary aggregates¹

In May, the broadest monetary aggregate in pesos (M3²) grew 1.3% (see Chart 2.1). Its y.o.y. change rate stood at 21.8%, down 1 p.p. against April. Such monthly increase was explained by a rise in private sector deposits (2.5%), while public sector deposits recorded a drop (0.7%) and the stock of cash held by the public remained virtually stable.

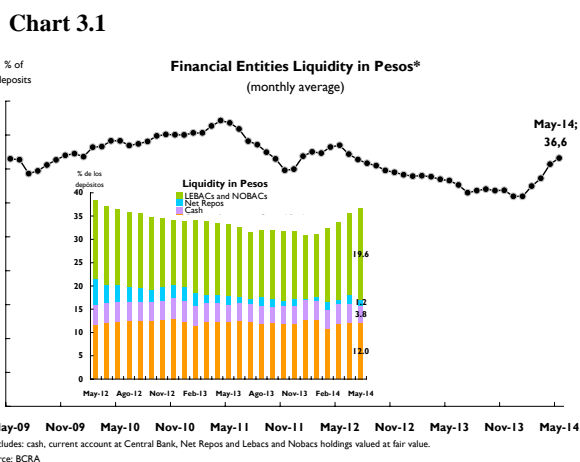


As regards private sector deposits, both sight and time deposits posted an increase. Encouraged by current yields, time deposits continued growing in May (2%; see Chart 2.2), mainly driven by the segment under \$1 million, which exhibited the greatest rise of the last few years (4.3%). The stock of deposits of the wholesale segment remained relatively stable, in a context of high demand for liquidity by companies in order to meet tax maturities. Private sector time deposits changed 38.2% y.o.y., exhibiting a historically high level.



In May, the stock of deposits in foreign currency climbed 0.6%; whereas public sector deposits recorded a decrease, which was more than offset by an increase in the private sector segment. The broadest monetary aggregate—M3³—rose 1.2%, accumulating a 23.8% y.o.y. change rate.

In a month when the public sector contributed to the contraction of the monetary base, the Central Bank sterilized surpluses derived from its foreign currency purchases in the foreign exchange market, with a view to keeping the money market balanced (see Chart 2.3). In the first five months of 2014, the Central Bank sterilized \$58.4 billion by issuing securities and conducting repo transactions. The monetary base declined 0.2% in the month, changing 17.6% y.o.y., the lowest figure recorded since early 2010. Among its components, cash held by the public remained stable while a drop was observed in bank reserves (consisting of cash held by financial institutions and the stock of current accounts of financial institutions with the Central Bank).



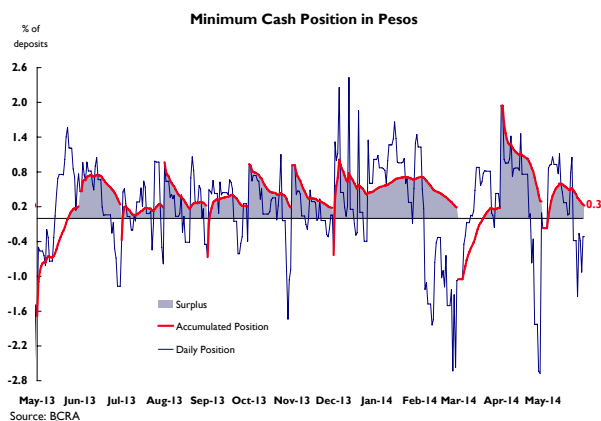
3. Financial institutions' liquidity¹

In May, financial institutions' liquidity (measured as the sum of cash in banks, current accounts of institutions at

² It includes cash held by the public, settlement checks in pesos and deposits in pesos of the non-financial private and public sectors.

³ It includes M3 and deposits in foreign currency of non-financial public and private sectors.

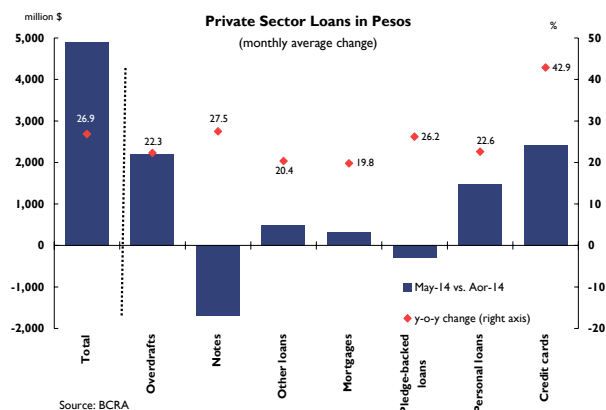
Chart 3.2



the Central Bank, net repos with the Central Bank and LEBAC and NOBAC holdings) rose for the fourth consecutive month, accounting, on average, for 36.6% of total deposits in pesos. This ratio was 0.8 p.p. higher than April's (see Chart 3.1). Among its components, LEBAC and NOBAC holdings increased, while cash in banks and repo transactions with the Central Bank decreased. In turn, current accounts at the Central Bank remained stable; thus, the month's surplus in minimum cash requirements accounted for 0.3% of total deposits in pesos (see Chart 3.2).

As for the foreign currency segment, liquidity fell, standing at 103.6% of total deposits in dollars (down 9.2 p.p. against April's ratio). This was caused by a lower share in the amount of current accounts in dollars held by financial institutions at the Central Bank.

Chart 4.1

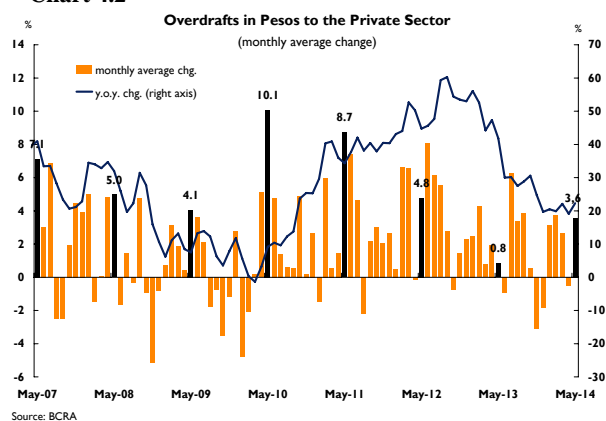


4. Loans^{1 4}

In May, loans in pesos to the private sector grew 1% (\$5 billion), after being virtually stable for two months. These loans thus accumulated an increase of 26.9% in the past 12 months. Overdrafts led the monthly increase, followed by credit card financing (see Chart 4.1).

A heterogeneous performance was seen in credit lines financing mostly commercial activities. Overdrafts grew at a good pace, in a period when companies raised their demand of funds to meet their tax obligations. The increase reported in the month was 3.6% (\$2.2 billion) and the y.o.y. change rate was 22.3%, up 3.2 p.p. against April (see Chart 4.2). Financing arranged through promissory notes posted a 1.6% decrease (\$1.7 billion), changing 27.5% y.o.y. The remaining commercial lines, grouped under "Other loans", climbed 1.4% (\$490 million).

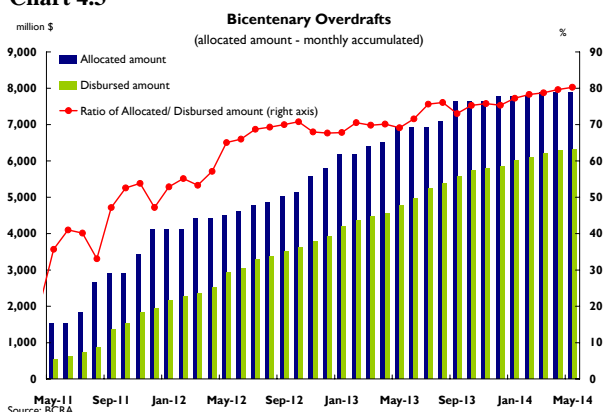
Chart 4.2



The Central Bank continued fostering lending for productive purposes through the Bicentenary Productive Financing Program (PFPP) and the Credit Line for Productive Investment (LCIP). Under the PFPP, it continued disbursing long-term funds for investment at a fixed total financial cost in pesos. Thus, the total amount disbursed since the launching of the program is \$6.3 billion, about 80% of the amount awarded (see Chart 4.3). As for the LCIP, the Central Bank established that financial institutions may also allocate in June up to 10% of the quota for the first half of 2014 to discounting

⁴ Monthly changes of loans are presented in accounting records and are fundamentally caused by transfers of loans in financial institutions' portfolios to financial trusts. 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.

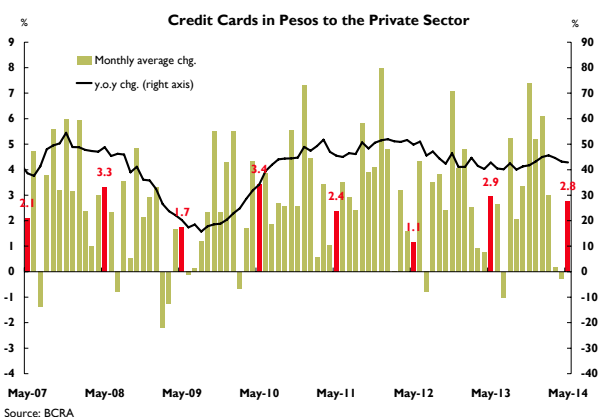
Chart 4.3



deferred payment checks of micro, small and medium-sized enterprises (MiPyMEs) (up to 40% in aggregate), but without being allowed to carry over any amounts not allocated in May to June⁵. As for the level of compliance for the tranche currently underway, based on the preliminary information available as of April, 28 out of the 31 participating financial institutions had already granted loans, reaching 41% of their aggregate target for the first half of 2014.

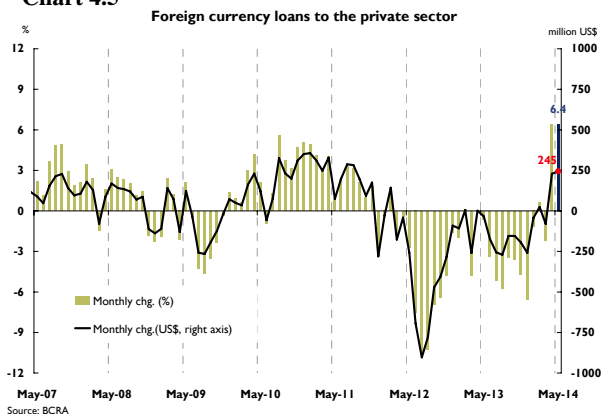
Regarding loans mainly channeled for household consumption, after two months of relative stability, credit card financing went up by 2.8% in May (\$2.5 billion), changing over 40% y.o.y. (see Chart 4.4). In turn, the 1.4% (\$1.5 billion) increase in personal loans was slightly above the rise reported the previous month, increasing 22.6% y.o.y.

Chart 4.4



As regards collateralized loans, mortgage loans rose 0.7% (\$310 million)—at a pace similar to the performance observed since February,—changing 19.8% y.o.y. The possibility of including mortgage loans for the purchase, construction or remodeling of housing units for a minimum term of 10 years into the LCIP new quota might positively affect the credit line as long as these loans are granted throughout the first half of 2014. It is worth mentioning that part of the demand for mortgage-backed loans (individuals) is not computed in the statistics of bank loans because it is channeled through the Bicentennial Credit for Housing Program (Pro.Cre.Ar). In turn, pledge-backed loans declined 0.9% (\$300 million), though they changed 26.2% y.o.y.

Chart 4.5



Finally, loans in foreign currency granted to the private sector increased once again in May, rising 6.4% (US\$245 million, see Chart 4.5). As was the case in April, the hike was explained again by financing associated with foreign trade. The monthly average stock thus stood at around US\$4.1 billion.

5. Interest rates⁶

Central Bank securities⁷

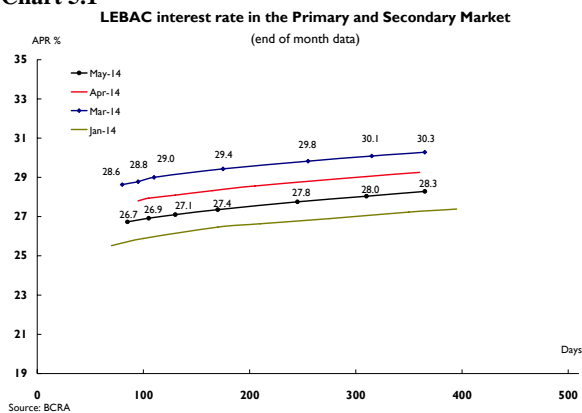
In May, the Central Bank lowered by 1 p.p. the interest rates on securities issued every week on the primary market. Such decrease, at the beginning of the month applied to all terms in the yield curve. Predetermined cut-off rates on LEBACs at 85 and 105 days stood at 26.7% and 26.9%, respectively. The interest rate on the

⁵ Communication “A” 5586.

⁶ Interest rates mentioned in this section are expressed as annual percentage rates (APR).

⁷ In this section, figures are end of the month data unless otherwise stated.

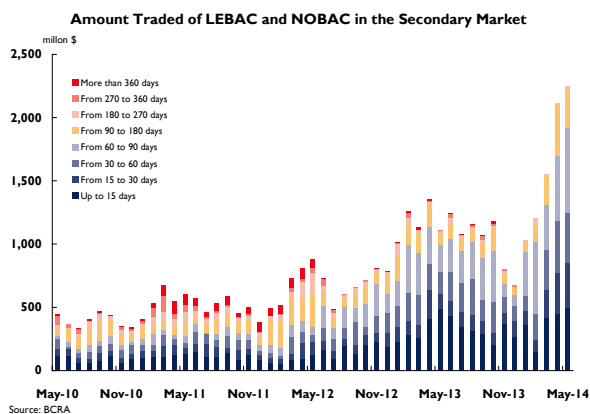
Chart 5.1



instrument with the longest term (365 days) stood at 28.3% (see Chart 5.1). As for NOBACs, with terms of 160 and 180 days, the spread over the BADLAR rate at private banks stood at 0.9 p.p., showing a downward trend.

In the secondary market, interest rates on LEBACs with maturities over 70 days posted a decrease, in line with the performance seen in the primary market. In turn, interest rates for the shortest terms remained relatively stable, except for instruments at less than 30 days, which exhibited temporary rises following the performance in call money markets. In May, the total average turnover increased once again and reached a new historical peak, standing at \$2.2 billion per day. Like in April, the growth was boosted by LEBAC transactions with terms not exceeding 90 days (see Chart 5.2).

Chart 5.2

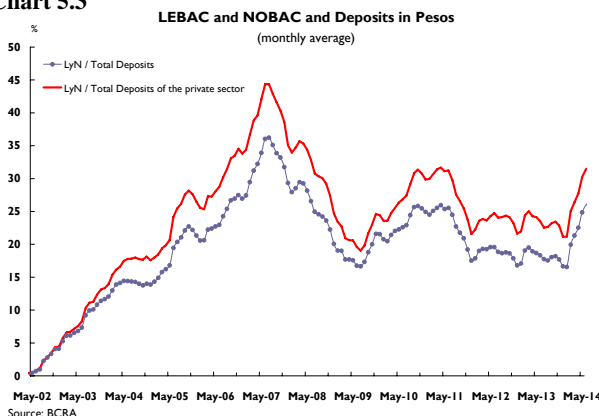


The outstanding nominal stock of LEBACs and NOBACs in pesos went up by \$9.4 billion, to \$184.4 billion. As in the previous month, the rise in stock was driven by an increase in the stock of LEBACs, which grew by \$8.8 billion. The stock of securities in terms of deposits thus stood around 22.7% in May, still below the historical peaks (see Chart 5.3).

Most LEBAC and NOBAC holders (banks, mutual funds) increased their holdings, public institutions leading the rise (see Chart 5.4).

Finally, as far as the foreign currency segment is concerned, in May financial institutions allocated a part of their new private sector time deposits in dollars to LEBAC issues. As a result, the outstanding stock climbed US\$48 million, to US\$955 million. Such rise was boosted again by more holdings by private banks, accounting for 76% of the expansion. Such performance occurred in a context where interest rates paid on the Central Bank's securities remained unchanged.

Chart 5.3

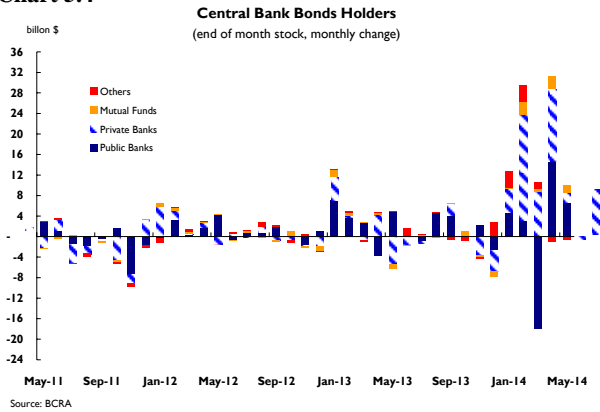


Central Bank repo transactions¹

The Central Bank reverse repo rates remained unchanged in May against April, standing 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 the transactions conducted by this institution, declined \$4.9 billion to \$13.5 billion. However, no repo loans were recorded for the Central Bank yet.

Chart 5.4

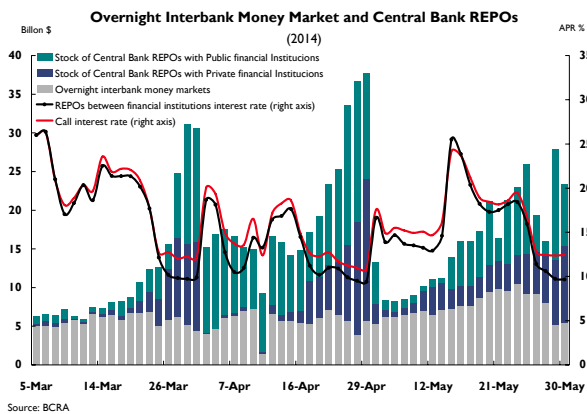


Call money markets¹

As a consequence of tax maturities, which caused a flight of deposits and a demand for short-term credit, temporary rises were observed in mid-May in the interest rates of some, mostly private, financial institutions. Following tax maturities, interest rates decreased, reaching, by the end of the month, the same levels reported in late April (see Chart 5.5).

Thus, the average interest rate on overnight transactions in the unsecured market (call) climbed 2.3 p.p., to 17%. In turn, the average interest rate on overnight transactions among financial institutions in the secured market (REPO round) grew 3.1 p.p., to 16% (see Chart 5.6).

Chart 5.5



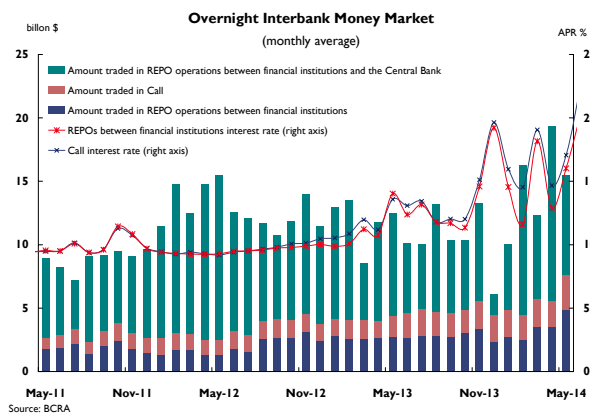
This performance of interest rates occurred together with an increase in the daily average amount traded in the call money market (including the REPO round among institutions and the call market) of \$2.2 billion (39%), totaling around \$7.7 billion, the highest amount in the series. In the call market, foreign institutions and non-banking financial institutions (NBFI) increased, on average, their position as net fund borrowers, whilst, mainly, domestic private institutions and, to a lesser extent, public institutions were the net lenders (see Chart 5.7).

Borrowing rates¹

In May, interest rates paid by financial institutions on time deposits declined to the levels observed in late January. May's decrease was thus led by rates of the wholesale segment—which tend to immediately adjust to market conditions,—deepening the downward trend of the second half of April; while rates of the retail segment—which adjust at a slower rate and are less volatile—declined to a lesser extent.

Particularly, in the wholesale segment, the BADLAR at private banks—interest rate on time deposits of \$1 million and more and for 30-35 days—averaged 24.7%, down 1.6 p.p. in the month. In turn, the monthly average of the interest rate paid by private institutions on time deposits of up to \$100,000 and at up to 35 days stood at 21.2%, 0.4 p.p. below April's figure (see Chart 5.8).

Chart 5.6



Lending rates¹⁸

Chart 5.7

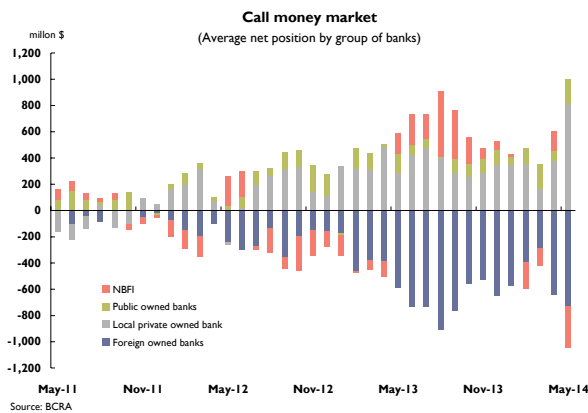


Chart 5.8

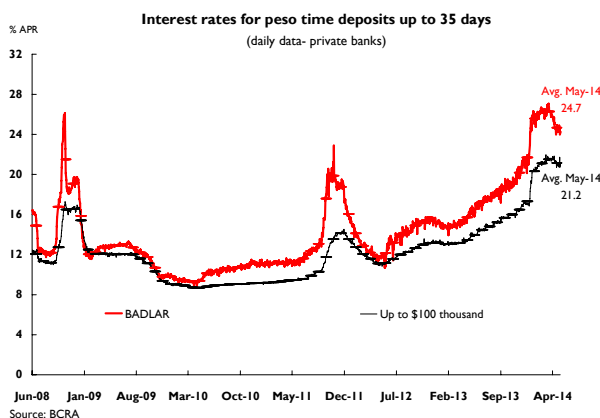
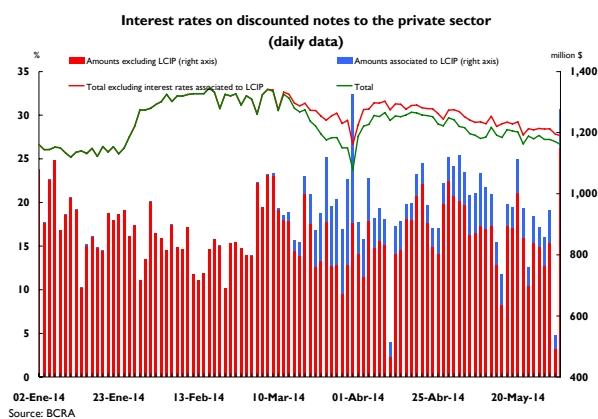


Chart 5.9



In general, interest rates on loans in pesos granted to the private sector continued decreasing, as observed since the second half of April, in line with the performance of the remaining interest rates in the market.

Among commercial credit lines, interest rates on loans granted through promissory notes led the decrease. Particularly, the monthly average interest rate on discounted documents was 27.7%, down 1.9 p.p. in the month. Analyzing new loans granted in May, a large portion of the quota was allocated to discounting deferred payment checks of MiPyMEs under the LCIP, the interest rate of which is not to exceed 17.5%. In any case, even excluding these loans, interest rates on discounted documents showed a marked decrease in the month (see Chart 5.9). In June, a further 10% of the LCIP quota may be allocated to discounting deferred payment checks of MiPyMEs; moreover, as the current LCIP tranche ends, the interest rate is likely to drop once again.

In addition, the monthly average of interest rates on unsecured promissory notes stood at 29.4%, down 1.1 p.p. in the month. As with discounted documents, the share of lending under the LCIP in unsecured promissory notes is expected to increase in June — as mentioned above — due to the completion of its fourth stage, further contributing to a decline in the average interest rate.

In turn, the monthly average of interest rates on current account overdrafts was 32.2%, down 0.6 p.p. in the month. As for this credit line, the interest rate on overdrafts to companies, for over \$10 million and up to 7 days, averaged 24.2%, falling 0.5 p.p., close to the levels observed at the beginning of this year (see Chart 5.10).

In general, interest rates on credit lines for longer terms also posted a decrease in the month. Particularly, the interest rate on personal loans dropped 1.6 p.p., averaging 44.5%. The monthly average of the interest rate on pledge-backed loans fell 2.1 p.p. to 25.4%. In turn, the interest rate on mortgage loans granted to natural persons averaged 18%, up 1.3 p.p. against April, when a marked decline was observed (1.7 p.p.), thus recovering part of the previous month's decrease and still remaining below March's average (Chart 5.11).

¹⁸ 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 5.10

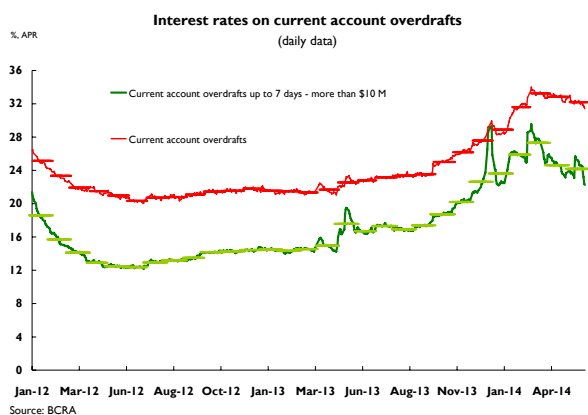


Chart 5.11

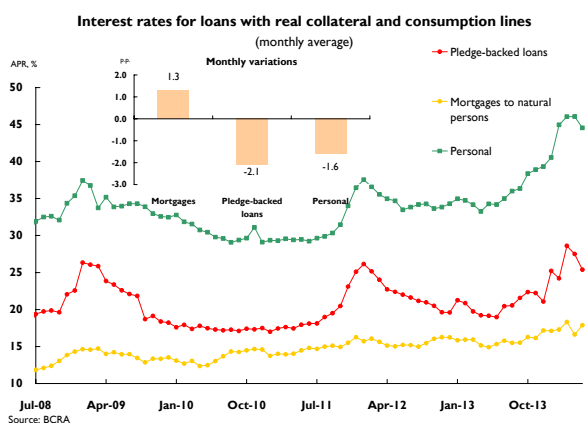
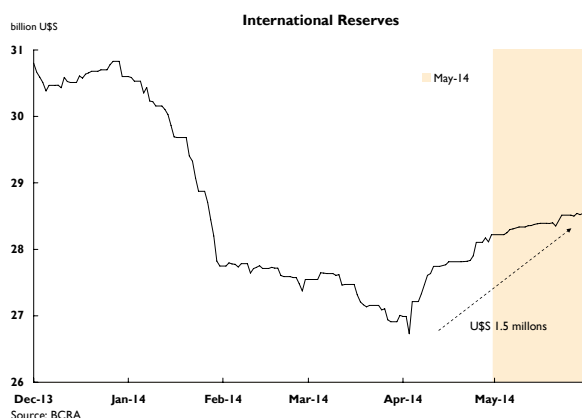


Chart 6.1



6. International reserves and foreign exchange market¹

In a context of higher seasonal settlement of foreign currencies by agricultural exporters, international reserves continued climbing (US\$322 million in May, accumulating a US\$1.5 billion growth in the past two months), totaling US\$28.5 billion at the end of the month (see Chart 6.1). This rise is mainly explained by purchases by the Central Bank in the foreign exchange market, which were partially offset by the repayment of dollar-denominated public debt and by an adjustment to the value of some assets which are part of the reserves.

In the foreign exchange market, the US dollar exchange rate remained stable, exhibiting the lowest monthly change in the past two years. On average, it was 0.6% above April's exchange rate (8.05\$/US\$; see Chart 6.2). In turn, the real and euro average exchange rates were 3.6\$/real (1%) and 11\$/euro (-0.2%). In turn, there was a slight decrease in the exchange rates expected for the coming months in the futures market (ROFEX). The volume traded rose 19.9%, with the daily average amount traded being \$2.6 billion.

7. Collective investment vehicles

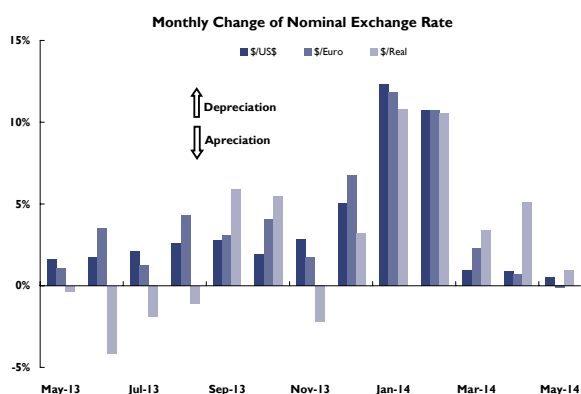
Mutual funds

In May, equity of mutual funds (FCI) in pesos and in foreign currency continued growing, despite the drop observed in mid-May in money market funds as a consequence of the use of funds to meet tax maturities.

The equity of FCI increased \$4 billion against the previous month to \$92.6 billion. Such monthly rise was driven by the segment in pesos, with a remarkable performance of fixed income funds, which climbed \$2.6 billion (6.4%), followed by mixed income funds, which rose \$1.4 billion (9.3%) and funds investing most of their portfolio in variable income assets, where a \$630 million (23.3%) increase was observed. Money market funds partially offset such performance, falling \$850 million (3.1%), driven by the redemption of unit shares in mid-May.

As for variable income and mixed income funds, the change in stocks was boosted by the good performance of prices in the local market and, to a lesser extent, by a rise in the number of unit shares. Variable income funds in pesos continued to post the best performance in terms of profitability, with a monthly return of 13.5%,

Chart 6.2



Source: BCRA

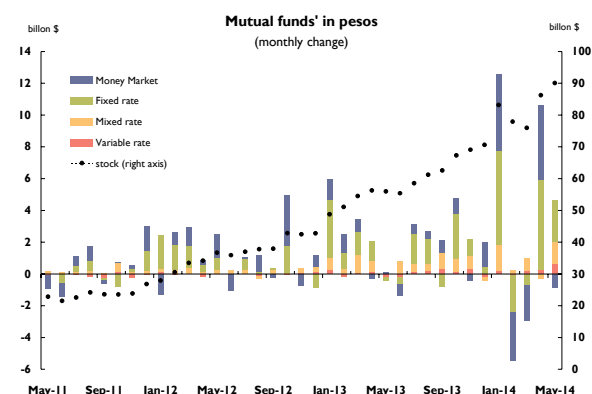
followed by mixed income funds in pesos, with a monthly return of 4.5%. In turn, the increase in fixed income funds derived from a hike in the number of unit shares and, to a lesser extent, from increased profitability. The monthly return of fixed income funds stood at 3.1%.

Finally, the equity of FCI in foreign currency grew US\$20 million, to US\$307 million. This performance was evenly driven by mixed and fixed income funds.

Financial trusts⁹

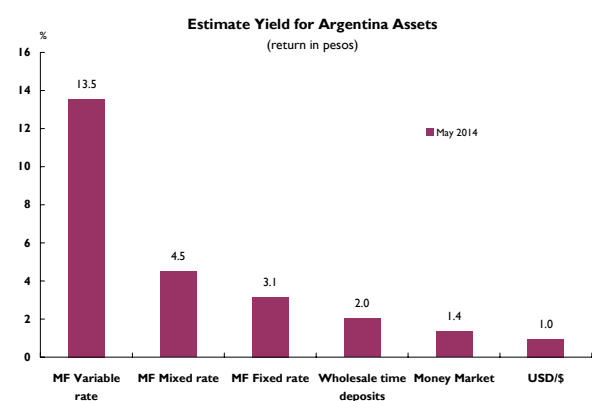
In May, financial trust (FT) issues totaled around \$1.5 billion, 23.5% below the previous month. This decrease was due to a lower average amount per issue (from \$113 million to \$86 million), as the number of transactions in the month stayed at 18 (see Chart 7.3). Among May's issues a trust for real estate development in the cities of Santa Fe and Paraná was recorded. The amounts paid by underwriters of trust certificates (\$2.2 million) will be allocated to the purchase of lots and the construction of buildings, with the resulting dwelling units being handed over to the holders of participation certificates. It should be noted that in November 2013 the National Securities Commission (CNV) issued a resolution¹⁰ according to which real estate financial trusts could issue participation certificates granting a right to acquire a dwelling unit, with participation certificates being traded in the secondary market. Such measure sought to broaden investors' access beyond real estate developers' geographical scope, as most real estate trusts were privately structured.

Chart 7.1



Source: CAFPI and BCRA

Chart 7.2



Source: BCRA

As for trustors, retail businesses accounted for more than half the amount issued in the month, through the securitization of consumer loans. Indeed, they issued \$855 million, rising 58% against April, and reached the highest amount since the second half of 2013. In turn, financial institutions issued nearly \$360 million, about half of April's amount, whereas "Mutuals, cooperatives, non-bank credit card issuers and other financial service providers" securitized assets for around \$265 million, 32% below the previous month. The rest was issued by a company selling agrochemicals, which securitized commercial loans, and by the real estate trust mentioned above.

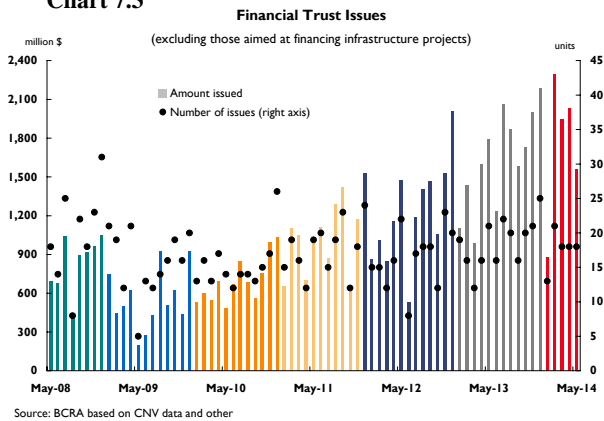
The cut-off interest rate (weighted average by amount) on senior bonds in pesos with a term below 14 months and agreed upon at a variable rate declined 0.5 p.p. to

⁹ Only publicly-traded financial trusts are considered.

¹⁰ CNV General Resolution No. 623/2013.

26.5% (see Chart 7.4). No transactions were recorded in the fixed rate segment.

Chart 7.3

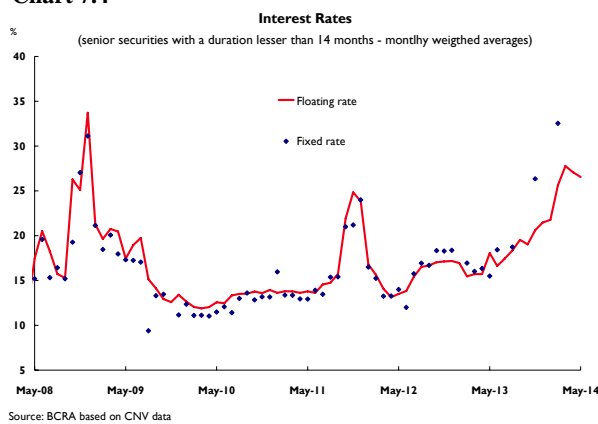


8. Major policy measures taken by other Central Banks

Like in the previous month, in May there were no major changes to monetary policy in the main advanced and emerging countries. In general, monetary authorities kept the bias of their respective policies, with growing expectations about future measures. In this sense, the announcements made by the European Central Bank before the issue of this report in early June stood out.

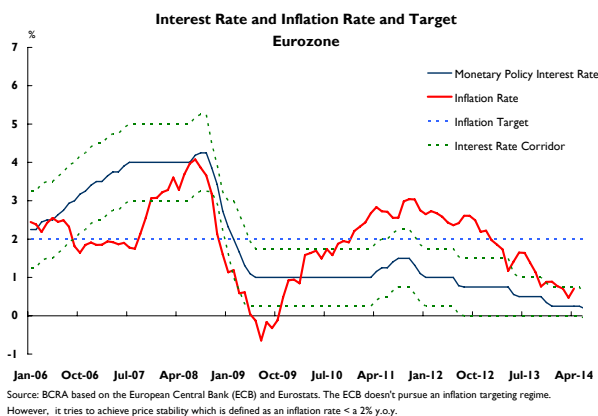
With respect to advanced countries, the European Central Bank (ECB) decided, at its meeting on May 8, to keep its benchmark interest rate (at 0.25%) and its corridor unchanged, leaving the interest rates on lending facility and deposit facility at 0.75% and 0%, respectively. However, at the press conference following the announcement, Mario Draghi, President of the ECB, said he was “dissatisfied with the projected path of inflation” and that he was “comfortable” with acting at the next meeting (in June). Markets thus started to analyze the potential measures that the ECB finally implemented in early June.

Chart 7.4



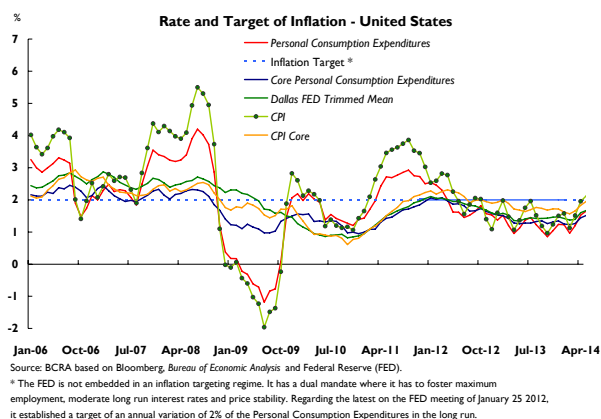
This time, the ECB announced a package of measures to pursue a more expansionary monetary policy and support lending to the real economy. First, it cut its benchmark, lending facility and deposit facility interest rates to 0.15%, 0.4% and -0.1%, respectively, dropping the latter into negative terrain for the first time (see Chart 8.1). Moreover, the ECB implemented supplementary measures, including *Targeted Longer-Term Refinancing Operations* (TLTROs) auctions, thereby increasing financial institutions’ liquidity provided that such institutions raised the stock of loans to the euro area non-financial private sector. It also announced it would intensify preparatory work related to outright purchases of asset-backed securities (loans with underlying assets consisting of claims against the non-financial private sector) and continue with its liquidity monetary policy (as fixed rate procedures with full allotment) until December 2016.

Chart 8.1



Although a meeting of the United States Federal Reserve (FED) was not scheduled until June, there was some expectation in the markets with regard to the release of some indicators. Standing out among them was the second GDP estimate for the first quarter of 2014, which was revised downwards from 0.1% (annualized quarterly rate) to -1%, as a result of a revision of inventory (dis)accumulation (due to weather

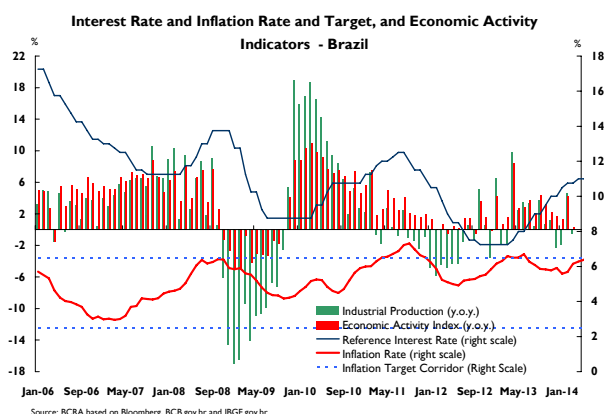
Chart 8.2



conditions). However, several inflation indicators improved in the last period, approaching the FED's target (2%). Among them, the household expenditure (PCE) deflator grew 1.6% y.o.y. in April, up 0.5 p.p. compared to March, whereas the core PCE increased 1.4% y.o.y., up 0.2 p.p. against the previous month.

As for Latin American countries, the Central Bank of Colombia raised its benchmark rate by 0.25 p.p. to 3.75%, continuing with a policy aimed at a gradual adjustment to reduce the need for potential dramatic adjustments in the future. However, the rest of the central banks (Brazil, Chile and Peru), which held their meetings in May, maintained their benchmark interest rates, waiting for previously implemented measures to take effect. In this context, the Central Bank of Brazil, in view of a worse macroeconomic scenario and in line with market expectations, kept its SELIC rate target at 11% after nine consecutive increases (see Chart 8.3). Economic activity is indeed slowing down, partly as a consequence of a worse performance in industrial production. In addition, inflation continued rising (by 0.1 p.p., to 6.3%) and would be nearing the upper limit of the inflation target (2.5%-6.5%).

Chart 8.3



Finally, with respect to other emerging countries, the Central Bank of Turkey lowered its benchmark rate by 0.5 p.p. to 9.5%, with its interest rate corridor remaining unchanged at 8%-12%. In a context of less exchange uncertainty and improved risk premium indicators, the monetary authority would have started to gradually reverse the strong contractionary measures implemented early this year to fight the local currency's significant depreciation.

10. Recent regulatory changes

In early June, the Central Bank of Argentina changed some regulations in order to increase lending to households under more favorable conditions, in a context of high liquidity levels at financial institutions, significant potential for growth in terms of lending/GDP and a credit market with reduced delinquency levels when compared to international standards.

In order to curb the cost of lending for the most vulnerable sectors of the population and in accordance with the powers granted by its Charter, the Central Bank set benchmark interest rates for lending in pesos to natural persons which are basically granted through

personal and pledge-backed loans¹¹ (Communication “A” 5590).

The interest rates of such loans may not exceed the product of the interest rate of LEBACs with the term closest to 90 days (of the second month immediately preceding the month when financing is disbursed) and a coefficient that depends on the type of loan and the group¹² to which each financial institution belongs, between 1.25 and 2. Such coefficient is greater for smaller financial institutions, as they operate, for scale-related reasons, at a higher funding cost, higher administrative expenses and greater delinquency levels in their credit portfolio. Within each group, the coefficient is lower for car loans than for the other loans included. The Central Bank will release the benchmark interest rate every month for Group I and Group II institutions which applies to every type of loan (car loans, portfolio purchases and other financing).

Financial institutions setting interest rates in excess of the Central Bank’s benchmark interest rate must comply with a higher minimum cash requirement in pesos. However, the loans granted to MiPyMEs under, though not allocated to, the LCIP may be computed to counterbalance the increase in such minimum cash requirement. With this regulatory change in place, the Central Bank would be regulating a large portion of the new loans granted to natural persons.

Apart from this, in protecting financial service users’ rights and following the rules on “Protection of financial service users”, the Central Bank issued Communication “A” 5591 to specify which financial services are to be considered basic (savings account fees, ATM withdrawals, debit card reissues and additional services related to social security accounts, among others) and to provide that financial institutions and non-financial companies that issue credit cards must request the Central Bank’s authorization to raise the fees of those financial services.

In turn, Communication “A” 5592 established that the total financial cost of lending transactions must be disclosed as annual nominal rate (instead of annual effective rate) in order to contribute towards the transparency of interest rates and total financial cost and with a view to avoiding unwanted distortions in the information so released. On the basis that 98% of debtors are in a normal (performing) situation, this

¹¹ It includes all loans in pesos granted to natural persons, except for current account overdrafts, credit card financing and mortgage loans.

¹² Institutions will be broken down into Group I (financial agents of the national, provincial or municipal government and/or other institutions with at least 1% of total deposits from the non-financial private sector) and Group II (any other institutions).

change aims to remove the inconsistency between the annual effective rate — which involves the monthly capitalization of interest accrued on each loan and on items computed as total financial cost (such as VAT and insurance) — and the fact that interest is paid on a monthly basis. Furthermore, the total financial cost disclosure must state the tax on the loan separately.

Finally, Communication “A” 5593 established regulations on access to financing granted by non-financial credit providers, which are those legal persons offering loans to individuals without being financial institutions themselves under the supervision of the Central Bank. Included are mutuals, cooperatives and non-financial credit or store card issuers, among other providers.

Considering the growth of financing granted by non-financial credit providers to their clients, especially in places where financial institutions lack infrastructure to render services, two registries were created for this type of lender: “non-financial credit and/or store card issuers registry” and “other non-financial credit providers registry”. Being thus registered will be mandatory for accessing financing granted by financial institutions. These companies must, in turn, disclose information on financing to financial service users to the Central Bank. Now with this requirement, performing borrowers will benefit from access to financial products and services under more convenient terms as a result of their good credit behavior.

9. . Monetary and financial indicators

Figures in millions, expressed in their original currency.

Main monetary and financial system figures	Monthly average				Average change in	
	May-14	Apr-14	Dec-13	May-13	Monthly	Last 12 months
Monetary base	353,311	354,170	361,580	300,486	-0.2%	17.6%
Currency in circulation	267,035	269,313	277,095	229,551	-0.8%	16.3%
Held by public	239,921	239,779	247,142	208,389	0.1%	15.1%
Held by financial entities	27,112	29,532	29,952	21,161	-8.2%	28.1%
Settlement check	2	2	2	0	-	-
BCRA current account	86,276	84,857	84,484	70,935	1.7%	21.6%
Repos stock						
Reverse repos	13,493	18,426	6,351	15,206	-26.8%	-11.3%
Repos	0	0	0	0	0.0%	0.0%
BCRA securities stock (in face value)						
In banks	185,585	165,269	111,491	107,589	12.3%	72.5%
LEBAC	158,586	138,911	98,364	95,021	14.2%	66.9%
In pesos	162,191	139,477	107,309	99,592	16.3%	62.9%
In Dollars	926	811	0	0	-	-
NOBAC	15,951	19,301	4,183	7,996	-17.4%	99.5%
International reserves excluded 2009 SDRs allocations	28,386	27,680	30,612	39,015	2.6%	-27.2%
Private and public sector deposits in pesos ⁽¹⁾	713,844	702,206	667,664	574,531	1.7%	24.2%
Current account ⁽²⁾	200,998	191,109	190,935	153,862	5.2%	30.6%
Savings account	133,582	131,801	140,305	109,293	1.4%	22.2%
Not CER-adjustable time deposits	350,828	351,350	309,664	289,779	-0.1%	21.1%
CER-adjustable time deposits	7	7	6	7	6.6%	0.5%
Other deposits ⁽³⁾	28,429	27,940	26,753	21,589	1.7%	31.7%
<u>Private sector deposits</u>	<u>532,051</u>	<u>519,184</u>	<u>484,466</u>	<u>407,978</u>	<u>2.5%</u>	<u>30.4%</u>
<u>Public sector deposits</u>	<u>181,793</u>	<u>183,022</u>	<u>183,197</u>	<u>166,553</u>	<u>-0.7%</u>	<u>9.2%</u>
Private and public sector deposits in dollars ⁽¹⁾	8,337	8,283	8,263	8,308	0.6%	0.3%
Loans to private and public sector in pesos ⁽¹⁾	520,926	516,482	498,207	414,024	0.9%	25.8%
<u>Loans to private sector</u>	<u>478,034</u>	<u>473,704</u>	<u>457,091</u>	<u>376,789</u>	<u>0.9%</u>	<u>26.9%</u>
Overdrafts	64,104	61,888	56,653	52,401	3.6%	22.3%
Promissory bills	107,529	109,232	111,437	84,347	-1.6%	27.5%
Mortgages	45,017	44,707	43,074	37,578	0.7%	19.8%
Pledge-backed loans	31,950	32,249	31,304	25,311	-0.9%	26.2%
Personal loans	102,779	101,936	98,481	83,836	0.8%	22.6%
Credit cards	90,614	88,137	80,706	63,378	2.8%	43.0%
Other loans	36,041	35,554	35,435	29,938	1.4%	20.4%
<u>Loans to public sector</u>	<u>42,892</u>	<u>42,778</u>	<u>41,117</u>	<u>37,235</u>	<u>0.3%</u>	<u>15.2%</u>
Loans to private and public sector in dollars ⁽¹⁾	4,074	3,828	3,695	5,157	6.4%	-21.0%
Total monetary aggregates ⁽¹⁾						
M1 (currency held by public + settlement check in pesos+ current account in pesos)	440,920	430,890	438,079	362,253	2.3%	21.7%
M2 (M1 + savings account in pesos)	574,502	562,691	578,384	471,546	2.1%	21.8%
M3 (currency held by public + settlement check in pesos + total deposits in pesos)	953,767	941,987	914,807	782,921	1.3%	21.8%
M3* (M3 + total deposits in dollars + settlemente check in foreign curren	1,022,903	1,010,529	968,739	826,417	1.2%	23.8%
Private monetary aggregates						
M1 (currency held by public + settlement check in pesos + priv.current account in pesos)	368,831	363,729	367,378	314,059	1.4%	17.4%
M2 (M1 + private savings account in pesos)	491,429	483,850	493,846	412,700	1.6%	19.1%
M3 (currency held by public + settlement check in pesos + priv. total deposits in pesos)	771,973	758,965	731,610	616,368	1.7%	25.2%
M3* (M3 + private total deposits in dollars + settlemente check in foreign currency)	830,793	814,206	775,740	653,833	2.0%	27.1%

Explanatory factors	Average Change							
	Monthly		Quarterly		YTD 2014		Last 12 months	
	Nominal	Contribution ⁽⁴⁾	Nominal	Contribution ⁽⁴⁾	Nominal	Contribution ⁽⁴⁾	Nominal	Contribution ⁽⁴⁾
Monetary base	-859	-0.2%	5,604	1.6%	-8,269	-2.3%	52,824	17.6%
Financial sector	4,944	1.4%	4,174	1.2%	-6,985	-1.9%	2,760	0.9%
Public sector	-4,052	-1.1%	1,617	0.5%	20,494	5.7%	98,018	32.6%
Private external sector	13,244	3.7%	31,308	9.0%	25,331	7.0%	-7,461	-2.5%
BCRA securities	-14,218	-4.0%	-29,313	-8.4%	-51,647	-14.3%	-46,200	-15.4%
Others	-777	-0.2%	-2,182	-0.6%	4,538	1.3%	5,707	1.9%
International reserves excluded 2009 SDRs allocations	706	2.6%	708	2.6%	-2,225	-7.3%	-10,629	-27.2%
Foreign exchange market intervention	1,655	6.0%	3,928	14.2%	2,975	9.7%	-2,503	-6.4%
International financial institutions	-88	-0.3%	-415	-1.5%	-380	-1.2%	465	1.2%
Other public sector operations	156	0.6%	-691	-2.5%	-1,344	-4.4%	2,632	6.7%
Dollar liquidity requirements	-1,090	-3.9%	-2,418	-8.7%	-3,089	-10.1%	-2,475	-6.3%
Others (incl. change in US\$ market value of nondollar assets)	74	0.3%	294	1.1%	-400	-1.3%	-8,762	-22.5%

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 SISGEN Informative Regime.

Minimum Cash Requirement and Compliance

	May-14	Apr-14	Mar-14
	(1)		
	% of total deposits in pesos		
Domestic Currency			
Requirement	11.6	11.7	11.7
Compliance	12.0	12.0	11.9
Position ⁽²⁾	0.3	0.3	0.2
<i>Residual time structure of term deposits used for the calculation of the requirement ⁽³⁾</i>	%		
Up to 29 days	68.7	68.9	69.3
30 to 59 days	19.5	20.7	20.4
60 to 89 days	6.4	5.5	5.5
90 to 179 days	4.0	3.5	3.3
more than 180 days	1.4	1.4	1.5
Foreign Currency	% of total deposits in foreign currency		
Requirement	48.5	49.4	37.7
Compliance (includes default application resource)	82.6	94.2	95.6
Position ⁽²⁾	34.1	44.9	57.9
<i>Residual time structure of term deposits used for the calculation of the requirement ⁽³⁾</i>	%		
Up to 29 days	48.2	49.8	49.6
30 to 59 days	23.2	21.7	23.9
60 to 89 days	11.2	12.2	10.5
90 to 179 days	12.8	12.2	12.9
180 to 365 days	4.3	3.9	2.8
more than 365 days	0.3	0.2	0.3

⁽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

b

Borrowing Interest Rates	May-14	Apr-14	Mar-14	Dec-13	May-13
Interbank Loans (overnight)					
Interest rate	17.12	14.85	19.36	19.67	13.69
Traded volume (million pesos)	2,810	1,990	2,073	2,144	1,672
Time Deposits					
<u>In pesos</u>					
30-44 days	21.29	21.68	21.42	17.67	14.61
60 days or more	24.45	25.70	24.98	19.00	13.12
Total BADLAR (more than \$1 million, 30-35 days)	20.17	20.00	19.90	17.45	14.72
Private Banks BADLAR (more than \$1 million, 30-35 days)	24.66	26.28	26.17	20.18	15.73
<u>In dollars</u>					
30-44 days	0.97	0.99	0.97	0.34	0.51
60 days or more	1.64	1.62	1.60	0.65	1.00
Total BADLAR (more than \$1 million, 30-35 days)	0.79	0.98	0.86	0.39	0.56
Private Banks BADLAR (more than \$1 million, 30-35 days)	0.99	1.30	1.02	0.33	0.80
Lending Interest Rates	May-14	Apr-14	Mar-14	Dec-13	May-13
Stock Repos					
Gross interest rates 30 days	23.74	25.01	27.98	21.64	17.19
Traded volume (all maturities, million pesos)	274	288	324	316	272
Loans in Pesos ⁽¹⁾					
Overdrafts	32.20	32.85	33.27	27.59	22.56
Promissory Notes	29.42	30.52	29.54	22.38	19.26
Mortgages	17.44	17.19	17.79	16.53	16.12
Pledge-backed Loans	25.43	27.49	28.57	21.08	19.15
Personal Loans	44.51	46.09	46.07	39.32	34.29
Credit Cards	s/d	39.08	39.47	37.16	32.47
Overdrafts - 1 to 7 days - more than \$10 million	24.17	24.62	27.31	21.39	17.57
International Interest Rates	May-14	Apr-14	Mar-14	Dec-13	May-13
LIBOR					
1 month	0.15	0.15	0.15	0.17	0.20
6 months	0.32	0.32	0.33	0.35	0.42
US Treasury Bonds					
2 years	0.37	0.40	0.39	0.33	0.24
10 years	2.55	2.69	2.72	2.88	1.93
FED Funds Rate	0.25	0.25	0.25	0.25	0.25
SELIC (1 year)	11.00	10.99	10.75	10.00	7.57

(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-14	Apr-14	Mar-14	Dec-13	May-13
BCRA Repo Interest Rates					
Overnight reverse repo	9.00	9.00	9.00	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	12.16	10.29	14.88	15.81	10.64
7 days	12.47	13.63	12.99	13.12	9.63
Repo traded volumen (daily average)	12,691	17,279	10,127	3,981	10,820
Peso LEBAC Interest Rate¹					
1 month	s/o	s/o	s/o	s/o	s/o
2 months	s/o	s/o	s/o	s/o	14.73
3 months	26.80	28.25	28.78	15.52	14.75
9 months	s/o	29.85	29.88	s/o	15.97
12 months	28.26	29.66	30.30	17.80	17.16
Peso NOBAC with variable coupon Spread¹					
200 days BADLAR Private Banks	0.90	0.98	1.06	s/o	s/o
Dollars LEBAC Interest Rate¹					
1 month	2.50	2.50	2.50	s/o	s/o
3 months	3.00	3.00	3.00	s/o	s/o
6 months	3.50	3.50	3.50	s/o	s/o
12 months	4.00	4.00	4.00	s/o	s/o
LEBAC and NOBAC traded volume (daily average)	2239	2116	1552	673	1115
Foreign Exchange Market	Jul-12	Aug-12	Aug-12	Oct-12	Nov-12
Dollar Spot					
Exchange agencies	8.04	8.00	7.93	6.32	5.24
BCRA Reference	8.05	8.01	7.93	6.33	5.24
Future dollar					
NDF 1 month	8.20	8.13	8.08	6.75	5.38
ROFEX 1 month	8.20	8.12	8.06	6.56	5.32
Traded volume (all maturities, million pesos)	2,621	2,134	2,300	1,618	916
Real (Pesos/Real)	3.62	3.59	3.41	2.69	2.57
Euro (Pesos/Euro)	11.04	11.05	10.98	8.67	6.80
Capital Market	May-14	Apr-14	Mar-14	Dec-13	May-13
MERVAL					
Index	7,166	6,543	5,937	5,330	3,679
Traded volume (million pesos)	141	110	86	109	64
Governement Bonds (parity)					
BODEN 2015 (US\$)	125.35	117.65	121.08	132.63	146.58
DISCOUNT (US\$ - NY legislation)	105.13	99.09	95.75	106.64	103.90
BODEN 2014 (\$)	98.32	98.85	99.08	93.47	93.45
DISCOUNT (\$)	78.53	81.60	86.05	63.95	50.52
Country risk					
Spread BODEN 2015 vs. US Treasury Bond	921	921	1,112	826	1,337
EMBI+ Latin America (without Argentina)	361	366	400	412	318

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 Pablo 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

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

IAMC: Instituto Argentino de Mercado de Capitales.

IGBVL: Lima Stock Exchange Index (Peru)

IGPA: Santiago Stock Exchange Index (Chile)

LEBAC: *Letras del Banco Central.* BCRA Bills

LCIP: Credit Line for Productive Investment.

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

NBFI: Non-Banking Financial Institutions

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

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

TIR: Internal rate of return (IRR).

y.o.y.: Year-on-year