Objectives and Plans for the Development of Monetary, Financial, Credit and Exchange Policy for 2018

December 2018

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Objectives and Plans for the Development of Monetary, Financial, Credit and Exchange Policy for 2018

"The purpose of the Bank is to promote — within the framework of its powers and the policies set by the National Government — monetary and financial stability, employment, and economic development with social equality."

Section 3 | **Charter of the Central Bank of Argentina**

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Table of Contents

1 | General Guidelines

Pursuant to Section 3 of the Central Bank's Charter, the main purpose of the Central Bank is to ensure monetary stability in Argentina. As from January 2017, inflation targeting has enabled to consolidate—for the first time in many years—a declining inflation expectation for the coming years. Moreover, the Central Bank seeks to encourage the stability and growth of the financial sector with a view to achieving its ultimate objective: economic development with social equality. The third pillar of the Central Bank is to promote the streamlining of means of payment. Based on these fundamental guidelines, the Central Bank announces the following objectives and plans for the coming year.

2 | Monetary Policy and Inflation Targeting

Pursuant to Section 3 of the Central Bank's Charter, the main purpose of the Central Bank is to ensure monetary stability in Argentina. This means moving in the direction of a long-term inflation target of 5% set by the Executive. The BCRA will use the tools available in order to achieve this objective.

In 2017, Argentina had a favorable macroeconomic performance. Inflation dropped, and the economy returned to growth.

In November 2017 inflation, measured by the general level of prices, fell close to 21 p.p. on a y.o.y. basis. In turn, November's year-on-year core inflation fell to its lowest rate since 2012 when the Autonomous City of Buenos Aires published it for the first time: 21.2%. Its three-month moving average stood in November 2017 at around 1.4% per month (18.3% annualized). Moreover, disinflation expectations remained strongly anchored during the year. Based on data available as of November 2017, the market expected inflation rate to go down to 16.6% in 2018 and to 11.3% in 2019.

The economy's growth rate has enabled to forecast an expansion of about 3% in 2017. The economy has been growing for five quarters at an annual rate of 4%, with no evidence of any slowdown. The BCRA's contemporary projection showed a seasonally adjusted growth rate of 1.13% in the fourth quarter and the BCRA's leading indicator foresaw no phase shift in the activity. Regarding demand, investment is the leading activity; and consumption is estimated to grow at a slightly higher pace than the Gross Domestic Product (GDP). Lower levels recorded in domestic savings coupled with higher levels of domestic investment have a direct impact on the increase of foreign savings for investment funding.

The multilateral real exchange rate remained stable during the year, standing 23% above the value observed by the end of foreign exchange restrictions. In 2017, the BCRA continued with its macroprudential policy of international reserve accumulation, reaching a record level of more than 56 billion dollars. This accumulation of reserves was financed by the issuance of LEBAC bills.

At the same time, loans and monetary aggregates continued to grow dynamically. In November 2017, credit in real terms increased 23% y.o.y., with mortgage loans expanding, also in real terms, to 8% monthly over the last two months, and accumulating 64% throughout the year.

In this context, the Executive has decided to delay for a year the long-term 5% annual inflation target announced in January 2016. Indeed, intermediate inflation targets of 15%

in 2018 and 10% in 2019 are expected to be achieved before reaching the long-term 5% target in 2020. The monetary policy is the tool that will be used to ensure that these targets are met.

At the same time, the BCRA and the Executive have agreed on a transfer scheme (from the monetary authority to the National Treasury) consistent with a lowering inflation rate. These transfers amount to AR$140 billion in 2018 (1.1% of GDP [1] and AR$70 billion in 2019 (0.5% of GDP[2]). For subsequent years it was agreed that these transfers would be equivalent to the product of the monetary base and the real growth rate of the economy.

2.1 | Inflation and Expectations

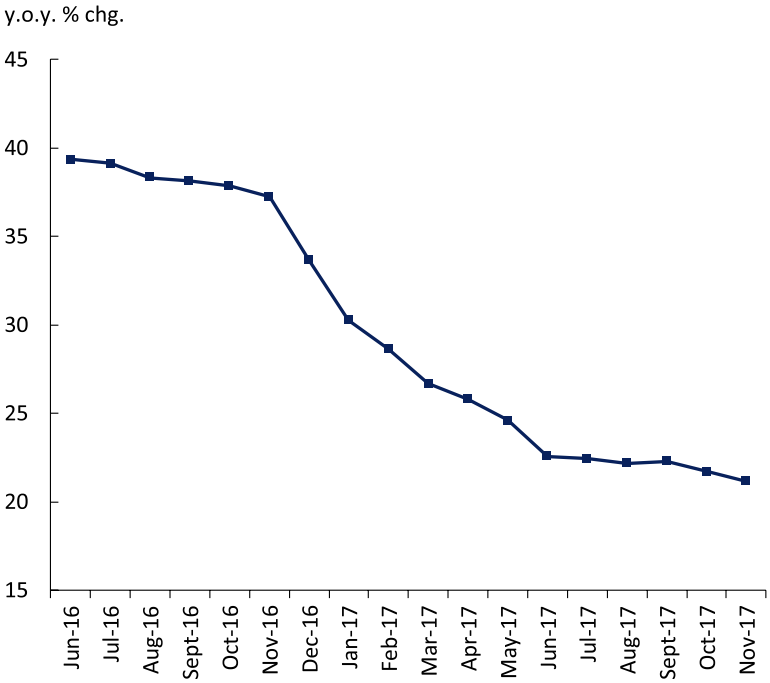
The measures adopted by the BCRA from the end of 2015 have been key to achieving a lowering inflation rate for the years to come, as a clear example of the commitment undertaken by the economic policy to deactivate the mechanisms that have led to high inflation in the past.

Consequently, not only disinflation is being achieved, but also public services rates are being updated in a context of free floating exchange rates and prices. In this sense, core inflation performance is the indicator that best represents the achievements of monetary policy, since it includes less volatile consumption basket components, leaving aside most of the specific increases in public services rates. Core inflation's moving average of the last three months amounted to 18.3% in annualized terms; the lowest figure recorded since core inflation data for the City of Buenos Aires became available for comparison purposes (September 2012). It is estimated that the year will end with a y.o.y. inflation rate of about 24% and a core inflation rate of around 21%, while the inflation of regulated goods and services is expected to reach around 37% by year-end. Likewise, the basic food basket (surveyed by FIEL) increased by 17.9% in the last twelve months, a relevant figure considering its huge impact on the consumption of the most vulnerable households.

1 Projected GDP

2 Projected GDP

Chart 1 | Core inflation



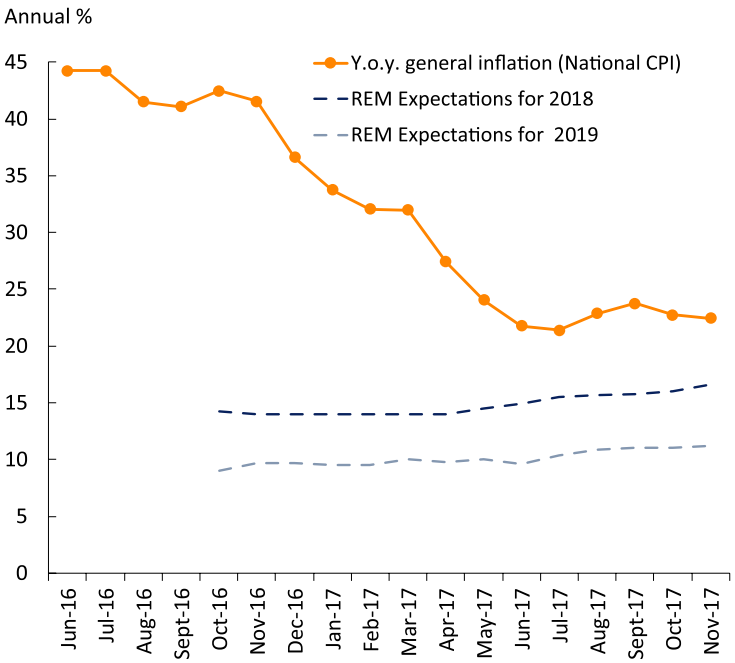
Note | Prior to May 2016, the CPI of the City of Buenos Aires was used. Between May 2016 and December 2016, the CPI-GBA of the INDEC was used, and from January 2017 onwards, the National CPI series of the INDEC were used.
Source | INDEC and Statistical Office of the City of Buenos Aires.

At the same time, inflation expectations[3] show a clear downward trend, in line with inflation targets for the coming years. Inflation expectations for 2018 and 2019 have remained relatively anchored in the last fourteen months, even though the inflation rate in such period was much higher than inflation expectations (see Chart 2). In addition, inflation expectations for 2018 show, based on the data available as of November 2017, that inflation will fall to its lowest level recorded since 2009 and will approach one digit in 2019.

The objectives and plans for 2018 envisage a slower convergence to the long-term 5% annual inflation target than the one formulated in the objectives and plans for 2017. Intermediate annual inflation targets are set at 15% for 2018, and 10% for 2019. In order to reach the inflation target, the BCRA will continue to implement its monetary policy by means of the interest rate on repo transactions, placing it at the center of the repo-reverse repo corridor. This is the best indicator of the monetary policy bias.

3 Inflation expectations are extracted from the Market Expectations Survey (Relevamiento de Expectativas de Mercado, REM) carried out by the BCRA. It consists of a systematic follow-up of the forecasts of specialized analysts on the evolution of a range of variables in the Argentine economy (retail prices, monetary policy rate, exchange rate, economic activity and the primary balance of the public sector). It usually has more than fifty participants.

Chart 2 | Decrease in General Inflation and Anchoring of Expectations for 2018 and 2019

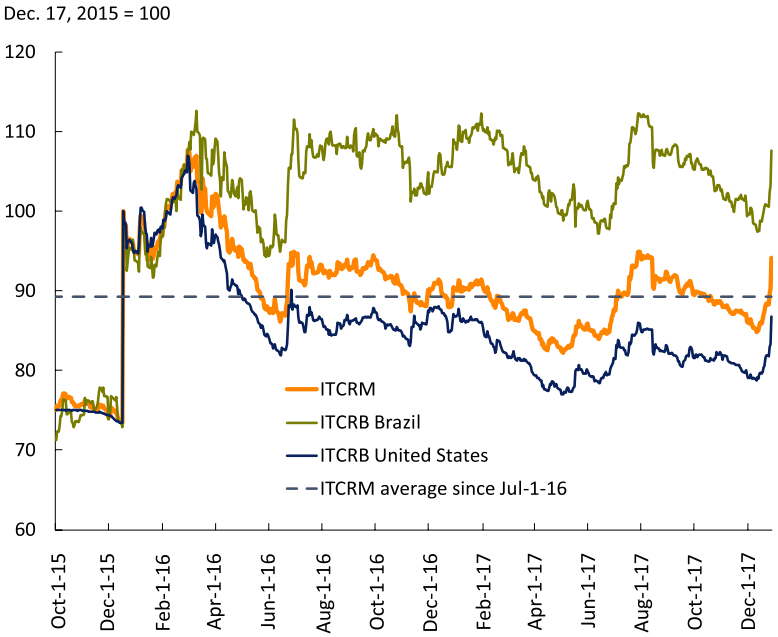


Nota | the series corresponds to the CPI with national coverage published by the INDEC as from December 2016, together with the CPI for the Greater Buenos Aires area up to April 2016 and the weighted national consumer price index (expenditure-based weighted average of CPIs for the City of Buenos Aires, Córdoba and San Luis).
Source | BCRA, INDEC and provincial statistical offices.

2.2 | Exchange Rate

Since the implementation of the inflation targets, the exchange rate has been fluctuating freely. As a result, disinflation has taken place with no multilateral real exchange rate appreciation. In fact, last year the real exchange rate fluctuated around a relatively stable figure, slightly depreciating against the average recorded since July 2016 (see Chart 3). A floating scheme means that external shocks are absorbed by the exchange rate, minimizing costs in terms of activity, thus safeguarding macroeconomic equilibrium. In a context where, since the beginning of 2016, the Brazilian real appreciated against the US dollar, the real multilateral exchange rate of Argentina effortlessly positioned itself in the middle of the two currencies. Thus, since the removal of foreign exchange restrictions, the peso depreciated relatively more against the real (48%) and relatively less against the US dollar (18%). The economy is now in its fifth consecutive quarter of growth, increasing at a quarterly seasonally adjusted rate of 1% without being affected by external shocks.

Chart 3 | Multilateral Real Exchange Rate



Note | ITCRM: Multilateral Real Exchange Rate Index; ITCRB: Bilateral Real Exchange Rate Index.
Source | BCRA.

The floating exchange rate also discourages short-term capital flows. Exchange rate swings prevent investors from having any guarantee of profit when buying Argentine assets from abroad. During 2016 and until November 2017, a gross amount of 310 billion US dollars entered the Argentine economy from exports of goods and services, tourism throughout the country, collection of interest, placements of debt, inflow of capital and other items. Meanwhile, the net inflow of capital for portfolio investments amounted to 11 billion dollars. Portfolio flows are much lower than the rest; moreover, they fluctuate in the opposite direction to exchange rate swings, providing stability to the multilateral real exchange rate.

2.3 | Reserve Accumulation

As from March 2016, the BCRA's policy has been largely aimed at building up international reserves. This strategy resulted in a real reduction by 10.5% in the Central Bank's net debt, equal to a 1.1% fall in terms of GDP. The goal is to maintain this policy until the international reserves reach 15% of GDP.

Reserve accumulation entails an increase in the stock of LEBAC bills and net repos: by making sterilized purchases of international reserves, the Central Bank's balance sheet expands. Balance sheet expansion by way of increased reserves on the asset side and LEBAC bills and net repos on the liabilities side is common practice in many emerging countries. An advantage of this policy is that, in times of financial turmoil, central banks have tools to deal with disruptions in the markets.

The BCRA's policy has been questioned on account of its cost. The discussion has focused on whether the return on these reserves (the international interest rate plus the devaluation rate of the domestic currency) exceeded or not the interest rate paid on those liabilities (LEBACs + repos). The interest arbitrage condition indicates that these returns even out in the medium-term, with temporary mismatches at specific times.

Between early March 2016[4] and late December 2017, the BCRA bought USD 30.914 billion worth of reserves—5.7% of GDP. In the same period, the stock of LEBAC bills and net repos increased from 7.2% to 11.8% of GDP. Therefore, the BCRA's debt, net of the amount of foreign currency purchased, fell by more than one point of GDP (see Table 1). In other words, the BCRA's debt in terms of GDP was reduced and its balance sheet improved accordingly.

Table 1 | Change in the stock of LEBAC bills net of purchased international reserves as from March 2016[5]

	million $	% of GDP
LEBAC bills and net repos as of Mar-01-2016	**453,077**	**7.2%**
LEBAC bills and net repos as of Dec-12-2017 (1)	1,202,855	11.8%
Reserves bought by the BCRA as from Mar-01-2016 (2)	582,102	5.7%
LEBAC bills and repos as of Dec-12-2017, net of bought reserves (1-2)	**620,753**	**6.1%**
Difference Dec-12-2017 vs. Mar-01-2016	**167,676**	**-1.1%**

Note | These ratios have been calculated on the basis of the 12-month moving average of nominal GDP. The nominal GDP data for 2017 have been completed based on forecasts of inflation and real GDP included in the REM.
Source | BCRA.

2.4 | Relationship with the National Treasury

In 2018, the monetary policy will be consistent with a fiscal policy that seeks to gradually correct imbalances in public accounts. The coordination between monetary and fiscal policies should focus on consistency between inflation targets and the BCRA's transfers to the Treasury during the fiscal convergence period.

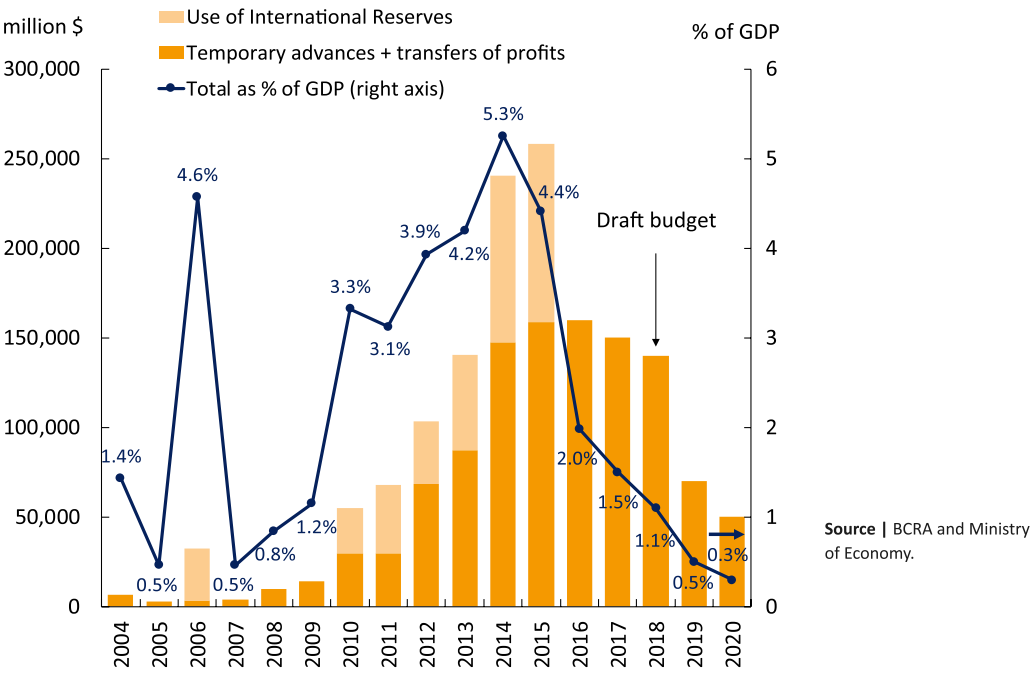
To build credibility in the disinflation scheme, it is important to determine the amounts of transfers to the Treasury on an accurate basis. To do so, and in order to strengthen people's trust in the new targets, the Executive made known—on December 28, 2017—the agreed path for such transfers. It further confirmed 140 billion pesos for 2018 and a drop to 70

4 The starting point is March 2016 because most of the excess amount of circulating pesos coming from foreign exchange restrictions and liabilities in the futures market had been absorbed by that date.
5 The nominal GDP as of December 2017 was calculated using: the annual growth forecast included in the Market Expectations Survey (REM) of November 2017; the cumulative inflation rate (national headline CPI released by the INDEC) over the first 11 months of 2017; and the estimated monthly inflation for December 2017 included in November's REM.

billion pesos for 2019. From 2020 onwards, the Central Bank will transfer the product of the monetary base and the real growth rate of the Argentine economy. This means that the Central Bank will transfer the genuine increase of demand for money (monetary base) to the National Treasury. In other words, what is transferred is the increase of demand for money derived from the real growth of the economy. Moreover, the BCRA will retain the difference between the amount transferred and the nominal increase of demand for money in order to support its balance sheet by purchasing assets or discharging non-monetary liabilities.

The BCRA's financing to the Treasury—which decreased from 4.4% of GDP in 2015 to 2% in 2016—will amount to approximately 1.5% of GDP in 2017, 1.1% in 2018, 0.5% in 2019 and around 0.3%[6] from 2020 onwards (see Chart 4)[7]. By tackling the factor that lay behind previous years' inflationary acceleration, the reduced financing to the Treasury removes the main cause of high inflation in Argentina.

Chart 4 | Monetary financing in terms of GDP



Source | BCRA and Ministry of Economy.

Achieving a stable, low inflation rate would be the BCRA's greatest contribution to economic development with social equality. A lower inflation rate fosters growth, reduces the burden on low-income sectors and allows for greater development of the financial system. The consistency of monetary and fiscal policies ensures the sustainability of the economic trajectory and helps to consolidate the ongoing disinflation process.

6 With a monetary base at 10% of GDP, as is the case today, and a real growth rate of 3%, transfers would amount to 0.3% of GDP.
7 The chart also shows that significant amounts of international reserves were transferred to the National Treasury up to 2015. From then on, that type of transfers came to a halt.

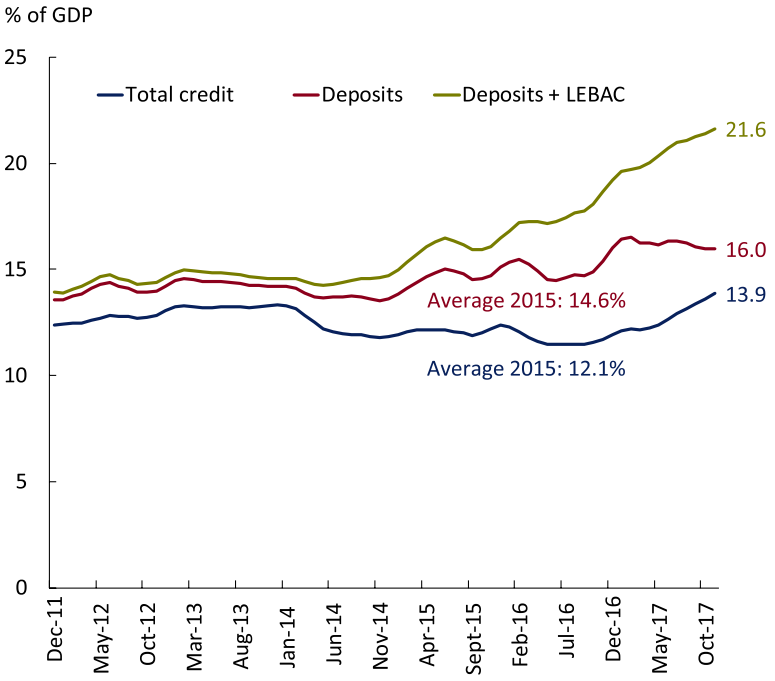
3 | Financial and Credit Policies

In 2018, the BCRA will continue encouraging household and corporate saving in the domestic financial system, thus channeling more funds to banks for them to finance investment and consumption with more accessible interest rates and amortization terms. Banks' business models must be adjusted to achieve sustainable profitability as inflation goes down. The BCRA will thus keep on stimulating technological innovations to lower costs and promoting enhanced efficiency and competition in the industry. Increased access to financial services is key to the financial inclusion agenda. The regulatory framework will remain in line with international best practices and recommendations safeguarding financial stability. The adoption of International Financial Reporting Standards (IFRS) by banks will be a step forward in terms of transparency and information quality. Moreover, the full enforcement of IFRS will lead to a rise by just above 11% in the total net worth of the financial system, mainly as a result of the revaluation of the premises where financial institutions provide services to the public. This would let large, medium and, specially, small financial institutions continue driving credit growth in 2018.

The actions taken by the BCRA in the last two years have started to bring about positive effects on financial intermediation, from which both households and businesses have derived benefit. In 2017, credit to the private sector rose considerably—with the credit-to-GDP ratio increasing by 2 p.p.[8] to 13.9% in November—posting a real growth rate of 23% year-on-year. In turn, the ratio of companies' and households' deposits to GDP remained at around 16%[9], climbing 4.2% year-on-year in real terms as of November (see Chart 5). This greater growth in credit compared to that of deposits has meant a reduction—from very high levels—in financial institutions' liquidity, which in turn resulted in raised interest rates on deposits in the last months of the year. Greater competition for deposits is expected in 2018.

8 Latest data as of November.
9 If LEBAC bills held by the non-financial private sector are included, the ratio rises to 21.6% of GDP as of November 2017 (2.4 p.p. up against December 2016).

Chart 5 | Intermediation with the private sector – As a % of GDP



Note | Quarterly averages are considered for both the numerator and the denominator. Private sector's LEBAC bills (excluding banks and non-residents).
Source | BCRA and INDEC.

3.1 | Competition

The main challenge for the financial system is to offer users a wider range of products with improved quality and costs. Therefore, the BCRA introduced various initiatives along 2017 and will continue adjusting regulations with a view to fostering competition. Financial institutions can now engage in more activities and compete in the market of technology-based financial services (known as fintech[10]). A cap was placed on interchange fees (the main component of bank fees paid by merchants for every sale) to encourage competition in the card acquiring market. Additionally, financial institutions were allowed to pay interest on deposits on current accounts and thus compete to raise more funds.

The Credit Line for Production and Financial Inclusion will gradually be reduced in 2018, allowing for increased competition in business lending and removing the scheme of subsidies that has forced banks to grant loans at negative real rates.[11] The burden of cost of such subsidies was shifted onto depositors in the form of lower deposit rates and onto borrowers under other credit lines in the form of higher lending rates. By removing this cross subsidy, resources will be allocated more efficiently.

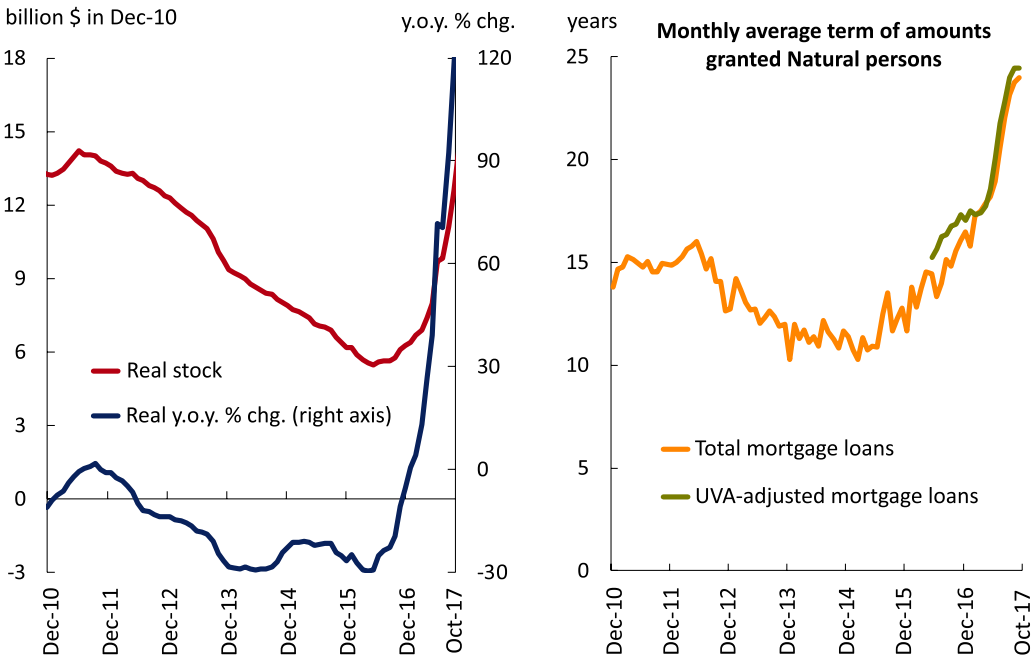
10 For more details on the fintech market, see Exhibit 3 of the Financial Stability Report for the second half of 2017.
11 For more information on the BCRA's regulations mentioned in this section, see the Financial Stability Reports for the first and second half of 2017, and various issues of the Report on Banks.

3.2 | Credit

The BCRA will go on implementing initiatives to generate more resources in order to finance investment and consumption under more favorable interest rates and amortization terms.

In 2017, the BCRA broadened the channels for financial institutions to appraise borrowers' real estate in support of mortgage loans with the aim of promoting and accelerating their granting. Since the launch of credit facilities adjusted by units of purchasing power (UVA) at the beginning of 2016, household mortgage loans have evidenced a truly dynamic performance, with a y.o.y. real growth rate of nearly 136% as of November 2017. From April 2016 to the beginning of December 2017, the amount of UVA-adjusted loans increased amounting to more than AR$67.7 billion for the entire financial system[12], out of which over two thirds corresponded to mortgage lines. The average term for mortgage loans has been extended significantly, going from nearly twelve years at the end of 2015 to more than twenty-four years at the end of 2017 (see Chart 6). Measured in dollars, mortgage loans granted in November were the highest credit lines ever recorded.

Chart 6 | Stock of mortgage loans directed to households



Source | BCRA.

UVA-adjusted loans also have a positive effect on small and medium-sized enterprises (SMEs). By the end of 2017, different public and private financial institutions started providing SMEs with new credit lines—some of which are UVA-denominated—for the provision of working capital and the purchase of capital goods.

12 In pesos, on the granting date (not adjusted by the Reference Stabilization Coefficient [CER]).

During the last few months, the BCRA increased the number of collaterals that can be given as security for loans (including preliminary agreements for the purchase of real estate, trusts for real estate construction, and surface right, among others); and raised the caps on credit assistance using screening and credit scoring techniques; it further set up a new communication channel with the public through a new website. Moreover, it made more information available to the public regarding the companies and households included in the Debtors' Database of the Financial System, which serves as a tool for improved credit assessment.

In view of the strong growth of deposits in foreign currency, the BCRA continued increasing the options to use them to fund cattle rearing projects and foreign trade, among others. Thus, the BCRA seeks to reduce production costs, without neglecting potential currency mismatches.

In addition, new tools were offered to boost bank funding, thus favoring higher credit development, such as UVA-adjusted corporate bonds and the reduction of minimum cash requirements for deposits.

3.3 | Financial Inclusion

It is crucial for the population to have an increased access to financial services in order to achieve a deeper and fairer financial system. The BCRA will go on implementing measures to broaden the geographical and socio-economic scope of the financial system. During 2017, the BCRA loosened the requirements for ATM refilling staff and enabled ATMs installation in non-bank institutions. The types of operating offices of financial institutions were simplified as well as their opening mechanisms. Their minimum security measures were readjusted and several initiatives were encouraged towards reducing the operating costs of branches.

Within this framework, the number of branches stood at 5,390 as of November 2017, showing a rise of 1% y.o.y. The number of ATMs, self-service terminals and other automatic devices increased 5.6% y.o.y., reaching 20,900 units in November 2017.Moreover, the requirements for opening sight accounts by electronic means were relaxed, and the under aged became eligible to open savings accounts. Also, the maximum amount for bank transfers were removed where the funds so transferred involved automobile or real estate purchases, among other transactions.

In 2018, the BCRA will go on analyzing other options to increase the population's access to financial services with the aim of reaching similar levels to those observed in other countries of the region. These measures include actions that seek to ease the remote opening of accounts and hiring of other financial products and services (to avoid spending time and money when attending a bank branch), and supplement with those measures

already taken and the ones to be implemented in order to develop access to bank services through electronic means.

As financing is closely linked to the financial system's savings, the BCRA will continue, in 2018, adopting measures to encourage deposits with a view to promoting lending. In addition, it is crucial for financial institutions to streamline the process of "digital inclusion" of their bank clients, the formalities of their transactions, and the updating of files.

3.4 | Profitability and Efficiency

The interaction between the disinflation process and the composition of the balance sheet of the financial system remains a challenge for banks: they still have to redesign their business models with sustainable profitability sources. Lower inflation will continue being translated into fewer earnings on transactional deposits raised to be subsequently lent at higher nominal rates. Moreover, increasing competition and higher interest rates in real terms paid to depositors will continue exerting downward pressure on profitability, a trend that was partially observed in the 2016 and 2017 balance sheets (see Table 2).

Table 2 | Financial system profitability

Annualized (a.) - %a. of netted assets	Annual			Quarterly								
	2015	2016	2017*	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17*
Financial margin	**11.8**	**11.4**	**10.2**	**12.8**	**12.1**	**12.0**	**11.2**	**10.6**	**9.5**	**11.0**	**10.5**	**9.9**
Income from interest	12.6	12.5	10.4	12.8	12.8	13.4	12.8	11.2	9.9	10.4	10.6	11.1
CER and CVS adjustments**	0.2	0.3	0.3	0.2	0.4	0.4	0.4	0.2	0.1	0.3	0.2	0.5
Exchange rate differences	0.8	0.9	0.7	1.5	1.4	0.7	0.7	0.9	0.4	1.0	0.9	0.6
Gains (losses) on securities	5.6	5.5	3.9	5.6	6.0	6.5	5.4	4.4	3.7	4.0	4.3	3.7
Repo premiums	0.1	0.2	0.6	0.2	0.1	0.3	0.2	0.1	0.9	0.9	0.2	0.2
Interest outflows	-7.3	-7.9	-5.6	-7.6	-8.4	-9.1	-8.3	-6.2	-5.4	-5.6	-5.6	-5.9
Other financial income	-0.2	-0.1	-0.1	0.1	-0.2	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.2
Foreign currency forward trans.	0.1	0.0	0.0	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	-0.1
Others	-0.3	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Service income	**4.2**	**3.8**	**3.6**	**4.2**	**3.6**	**3.9**	**4.0**	**3.8**	**3.5**	**3.6**	**3.6**	**3.6**
Loan losses	**-0.9**	**-0.8**	**-1.0**	**-1.1**	**-0.7**	**-0.8**	**-0.9**	**-0.9**	**-0.9**	**-1.1**	**-1.0**	**-1.1**
Overhead expenses	**-7.7**	**-7.7**	**-7.1**	**-7.8**	**-7.4**	**-8.0**	**-7.7**	**-7.6**	**-7.0**	**-7.3**	**-6.9**	**-7.3**
Taxes and others	**-3.3**	**-3.1**	**-2.6**	**-3.3**	**-3.3**	**-3.2**	**-2.9**	**-3.0**	**-2.1**	**-3.1**	**-2.8**	**-2.4**
Income tax	-2.0	-1.7	-1.4	-2.0	-2.0	-1.9	-1.6	-1.4	-1.5	-1.5	-1.3	-1.3
Total income (ROA)	**4.1**	**3.6**	**3.0**	**4.8**	**4.3**	**3.9**	**3.7**	**2.8**	**3.0**	**3.0**	**3.3**	**2.7**
Total income / Net worth (ROE) - In %	**32.4**	**29.6**	**25.7**	**38.5**	**35.4**	**30.8**	**29.0**	**24.5**	**27.1**	**26.0**	**26.8**	**22,1**

* up to november.
** CER = Reference Stabilization Coefficient. CVS = Wage Change Ratio.

Within this framework, financial institutions are to increase their turnover and be more efficient, mainly through the use of new technologies. The BCRA will go on promoting higher intermediation, lower costs and higher productivity.

In 2017, there was an increase in the number of technological activities that financial institutions can decentralize or outsource (for instance, cloud data processing and storing).

Progress was made with respect to digital communication between banks and the Central Bank (formerly carried out in paper) and a reduction of redundant reporting requirements (doubled, at times) that institutions had to comply with.

Actions were adopted to foster digital transactions (for instance, for the opening and closing of bank accounts, for purchasing other financial products, and for depositing checks by electronic means) as well as digital communication with users, which resulted in a more efficient use of branches.

3.5 | Prudential Regulation

The BCRA fosters a higher level of bank intermediation between households and companies, strengthening the micro and macro prudential regulatory framework for achieving financial stability. To this respect, by mid-2017 the BCRA set new parameters to authorize institutions to invest in provincial and municipal bonds, with more strict conditions to public sector exposure. In line with the recommendations provided by the Basel Committee on Banking Supervision, there was an adjustment of the capital requirements for counterparty credit risk regarding exposures to central counterparties and derivatives transactions. In addition, the net stable funding ratio (NSFR) was introduced (effective as of 2018) so that institutions could finance their longer-term assets with stable resources. In order to stabilize the financial system's liquidity levels by the end of 2017, the BCRA removed, at the end of October, the quarterly calculation of bank minimum reserve requirements for the December-February period, setting a monthly calculation.

In 2018, financial institutions will start recording transactions and net worth variations, and preparing their financial statements in accordance with the IFRS. These standards contribute to promoting transparency and the quality of the information provided to the public and to regulators. Moreover, those responsible for preparing financial reports as well as those in charge of their interpretation and analysis derive benefit from these standards as they allow for reducing costs, unifying criteria, making comparison easier and promoting transparency. In addition, their implementation makes it easier for foreign investors to read, compare and analyze institutions' financial statements, which allows for a better international positioning.

Finally, it is worth mentioning that as in previous years, the BCRA will go on adopting international standards in terms of liquidity and solvency to keep its prudential regulation in line with that of the Basel Committee on Banking Supervision and the Financial Stability Board, organizations of which the BCRA is a member.

4 | Access to Bank Services and Means of Payment

The BCRA will continue taking measures to diversify electronic means of payment, providing users with new, secure, flexible and efficient options as well as mechanisms promoting competition and facilitating the inclusion of new participants in the system of payments. The strategy is in line with good practices and advances at an international level in relation to the timely development of online payments. Particularly, the most recent practices implemented refer to instant credits and debits linked to the so-called "fast payments".

4.1 | Electronic Means of Payment: Recent Measures and Outcome

Different measures were implemented in 2017 to continue intensifying the use of electronic means of payment.

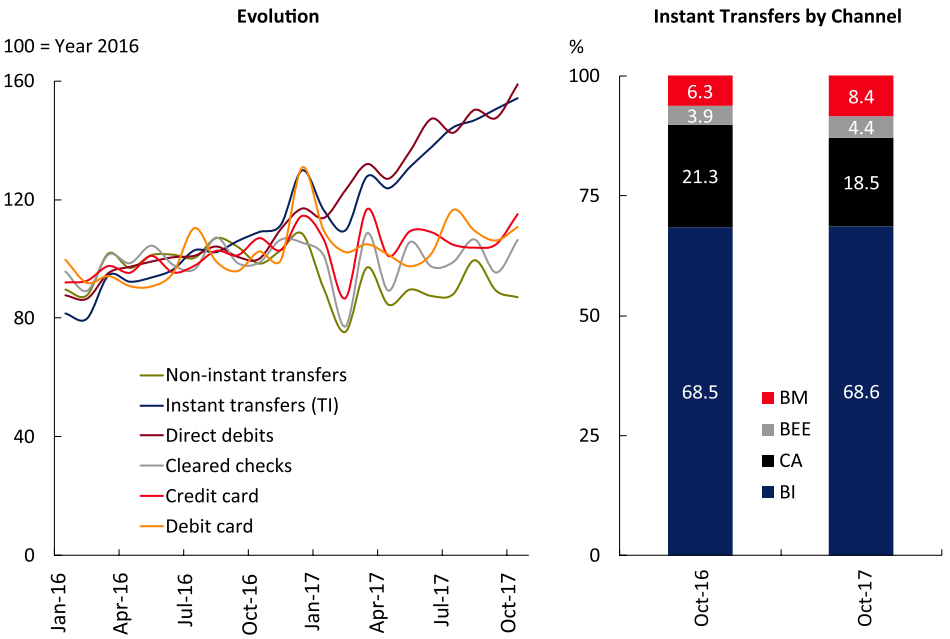
Financial institutions were requested to identify, in the traditional electronic channels, transfer originators within the 24 hours following the transfer, so that recipient may see their account movements easily and fast.

For clients to have more flexibility when channeling "payment upon delivery" transactions (e.g., purchase and sale of registered assets) in excess of the limits permitted by the BCRA, institutions are now required to temporarily increase such limits upon the clients' request. Instant Debit (DEBIN) was implemented. This is a payment instrument that involves the sending of a debit request and its express acceptance by the client, the account of which will be debited.

The regulatory framework of the different payment instruments included in the Mobile Payments Platform was adjusted anew, especially, to avoid participants' misuse. This platform includes three methods: electronic wallet; mobile POS, and payment button.

These advances are reflected in a greater use of electronic means of payments by households and companies, especially, in the case of instant transfers. In addition, given the widespread use of smart phones, mobile banking has grown significantly among all available channels to make instant transfers (see Chart 7). The use of mobile payment services is expected to increase in 2018 for regular transactions.

Chart 7 | Means of Payments in Number of Transactions

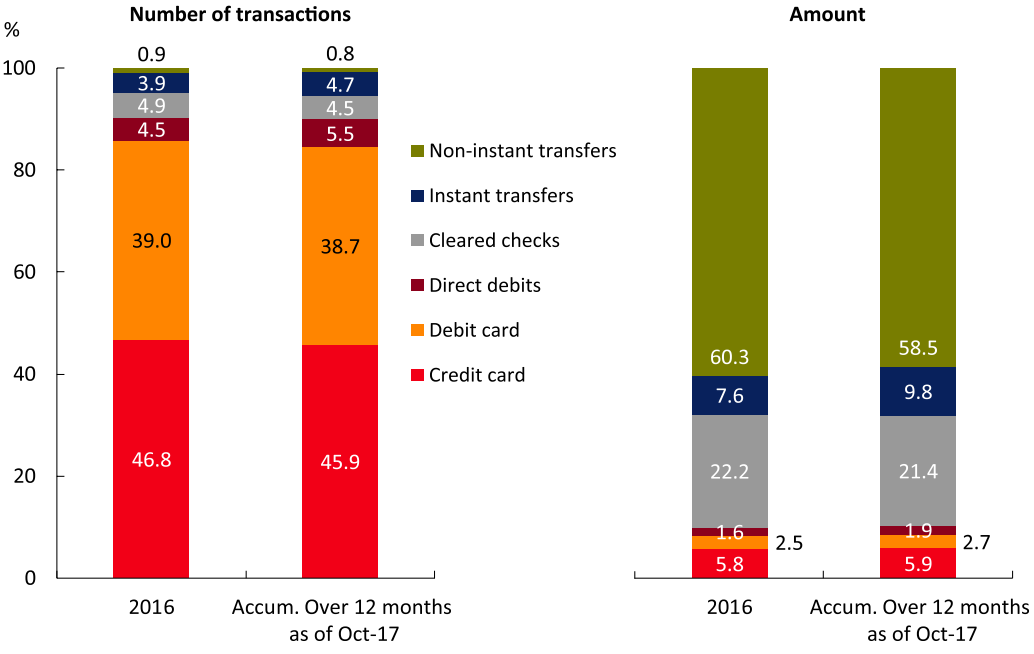


MB: Mobile Banking; BeB: Business Electronic Banking; ATM: Automated Teller Machine; OLB: Online Banking

Source | BCRA.

Instant transfers increased their share in the group of means of payment other than cash by 2.2. p.p. in terms of amount and by 0.8 p.p. in terms of number of transactions over the 12-month period as of October 2017 against 2016. In addition, the use of direct debits increased significantly, while the use of checks slightly reduced its share in the total (see Chart 8).

Chart 8 | Means of Payment - Share



Source | BCRA.

In turn, the use of payment instruments known as "PEI" (immediate electronic payments) has increased, though at very low levels, and will probably call for more time to mature. From their implementation to October 2017, over 139,000 transactions had been carried out as follows: 64% through the Electronic Wallet; 35% through mobile POS; and 1% through the Payment Button.

4.2 | Banknotes

The BCRA has also taken measures to ease daily cash transactions, while electronic means of payments become widespread. The new AR$1,000 banknote featuring the image of the *hornero*[13] was released into circulation. They will continue to be distributed along the country by the network of bank branches and ATMs throughout 2018. The purpose of renewing cash in circulation is to promote more efficiency in daily transactions and reduce financial institutions' cost of cash transport, handling or storage.

The new banknotes pertaining to the peso line called "Argentina's Fauna" will be released into circulation in 2018; this new series includes the AR$50 banknote featuring the image of a condor, and the AR$100 banknote with the design of a taruca. In addition, the new coins of the monetary set featuring "Trees of the Argentine Republic" will also come into circulation in 2018: the new AR$2 coin will show a silk floss tree, and the AR$10 coin, a *caldén*.

In line with the process to improve the quality of banknotes that are currently in circulation, worn-out banknotes for 850 million will be withdrawn. Forecasts suggest that 35% of low denomination banknotes and 65% of high denomination banknotes will be in circulation by December 31, 2018, thereby improving logistics and meeting the needs of the public and banks alike.

An interbank cash management platform was created in 2017 and is called the Electronic Open Market. It has been designed to streamline the exchange of banknotes among institutions (without transportation to the BCRA). This also means lower transport costs for financial institutions.

4.3 | New Initiatives for Means of Payment Other Than Cash

In 2018, the BCRA will work on all these means of payments to ease the use of more efficient and cheaper means of payment by the entire population.

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13 This new banknote together with the new AR$500, AR$200, and AR$20 banknotes are part of the new series called "Argentina's Fauna" and seek to raise awareness on the preservation of the environment.

In order to continue promoting "usability" of electronic means of payment, the limits authorized for regular transactions carried out through such channels are likely to be raised to strike a balance between efficiency and security.

DEBIN will continue to be streamlined by including new mechanisms to pre-authorize a specific originator to make general payments; quantity and amount parameters can also be pre-authorized. Moreover, a legal process will be defined to deal with such payments that could turn out to be fraudulent or incorrect, including clear rules for assigning responsibilities to the parties involved in a transaction.

The BCRA will continue working with banks, clearing houses and payment system providers in the development of electronic means for the purchase of real estate and other registered assets, ensuring security and transparency to the parties.

One of the ultimate objectives is the universal interoperability of all means of payment, including bank and non-bank accounts, and all operating channels, allowing money transfers from any virtual or digital account to another virtual or digital account of another payment service provider.

As standardization is a must to create open access to markets for service payment providers, the starting point will be the identification of non-bank transactional accounts in the same way bank accounts are standardized through a single banking code (CBU). This project envisages the adoption of a uniform code called single virtual code ("CUV" in Spanish) for all direct and indirect participants of the low-value automated clearing house (CEC-BV) that operate with third parties' transactional accounts (e.g., electronic wallets).

Payments through QR codes (two-dimensional bar code) using a global standard will be assessed. High speed reading of these codes is key to achieving the intended payment speed. Additionally, the use of this tool is expected to expand the group of providers of electronic payment alternatives, which includes traditional means of payment, mobile wallet and payment platforms.

In search of efficient means of payment that can also serve as credit instruments, the BCRA will work on a new instrument for making payment orders to be fulfilled on a date following issuance as determined by the originator. This instrument will provide current accounts' holders with a transferable, deferrable and divisible means of payment which is also secure, fast and transparent; thus discouraging the use of physical documents of payment, such as deferred payment checks.

Moreover, the BCRA will continue to actively monitor the adjustment of systemically important infrastructures to the Principles for financial market infrastructures supported by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO). In turn, the BCRA will keep on working on periodic self-assessments of compliance with the principles and responsibilities

related to the activities of the Electronic Means of Payment (MEP) system, the Center for Registration and Settlement of Public Liabilities and Financial Trusts (CRYL), Clearing Houses and ATM networks.

Finally, the fintech phenomenon poses the challenge of defining a favorable scenario that combines security, competition and efficiency with innovation. Thus, further progress will be made regarding the comprehensive treatment of different payment proposals in areas such as the Innovation Desk, which is coordinated by the BCRA.