Financial Stability Report

First Half 2009

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Preface

Financial stability is a state of affairs in which the financial services sector can channel the savings of the population and provide a nationwide payments system in a manner that is efficient, secure and sustainable over time. In the framework of the execution of consistent and stable macroeconomic policies, the resilience of the financial sector in the face of negative shocks serves to define the degree of approach towards a financial stability scheme.

The strong interrelationship between financial stability and sustained economic growth explains why the former is a social good that the state has to generate and protect. This is why the promotion of financial stability is one of the principal functions of most central banks.

The Central Bank of Argentina, according to article 4 of its charter, has a mandate "to supervise the sound operation of the financial market". It is the Central Bank understanding that in order to enhance the effectiveness of the policies that it undertakes its usual regulatory and supervisory powers must be complemented by a communications strategy that is transparent and accessible to the public in general.

With this purpose in mind it publishes the Financial Stability Report (FSR) that presents an overall assessment of developments in the conditions of financial stability. In the FSR the different channels of information that are available on the subject are merged, to provide the Central Bank's views on the outlook for the financial system. Furthermore, between each half-yearly issue of the FSR, the Central Bank releases a monthly Report on Banks to keep the public up to date about the more recent developments in the financial system.

According to the depth of detail that the reader requires, the FSR can be approached in two different ways. Reading the Central Bank Outlook and the Balance of Risks, together with the summary and main topics of each chapter, enables the reader to grasp the gist of the FSR. Naturally, a full reading of the FSR provides an in depth evaluation of the issues it covers, enriched by the treatment of special topics that are included in the Boxes.

The date of publication of the next issue of the FSR will be on September 30, 2009, on the Central Bank website.

Buenos Aires, March 31, 2009

Contents

Central Bank Outlook

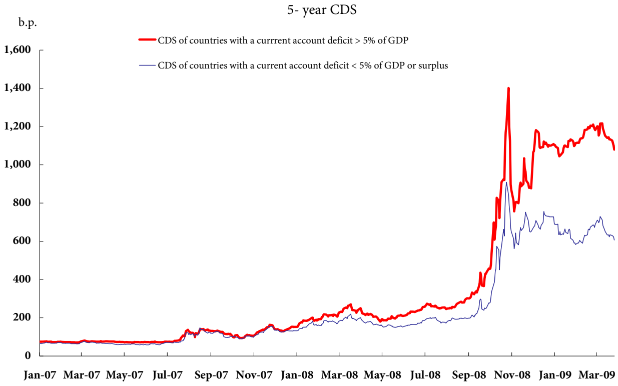
The stability of international financial markets started to be severely jeopardized as from September 2008, when uncertainty reached critical levels. The confidence crisis intensified due to the proliferation of new focal points of risk and as the generalized worsening of economic activity in the major developed economies became evident. Governments responded by implementing new and different measures of economic policy (both monetary and fiscal), trying to prop up the market situation, avoid a credit crunch and support economic activity.

Emerging economy assets (which until mid 2008 had shown a degree of relative strength) were affected by the search for safety in more liquid assets, the sharp global deleverage and the growing need for funds for coverage positions. The macroeconomic fundamentals of these countries started reflecting the impact of the crisis, with deceleration of the activity level (associated with weaker external demand and the falling commodity prices). A noticeable retraction of capital flows was added, which impacted more severely on the economies with growth models based on foreign financing (and economic agents with debts in different currencies that of their flow of revenues). Facing this adverse scenario, some central banks in these economies started to deploy measures to provide liquidity to the markets and to avoid abrupt fluctuations in exchange rates. These measures were accompanied by more flexible monetary policies and counter-cyclical fiscal measures.

Chart 1

Emerging Countries Credit Default Swaps (CDS) by Current Account Balance

5- year CDS



Source: BCRA from Bloomberg data

In this scenario the Argentine economy is better prepared to face crisis episodes than in the past, due to the existence of fiscal and current account surpluses (during seven consecutive years) and by the BCRA implementation of adequate monetary and financial policies. The latter are based on four pillars: 1) a consistent and prudent monetary policy that ensures the adequate balance between supply and demand for money, 2) counter-cyclical financial policies with an active accumulation and management of international reserves, 3) a managed floating exchange rate regime, and 4) regulatory policies that boost the soundness of the financial system, limiting exposures to risks.

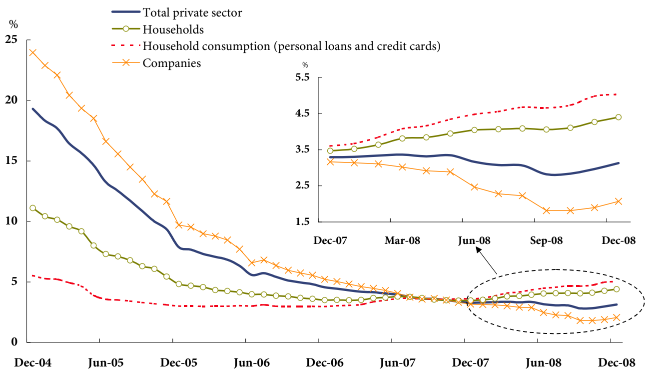
Despite these relative strengths, the seriousness of the global scenario is reflected by the worsening of local economic activity, with some economic sectors starting to adjust their output levels. For the first time following the sustained economic expansion of recent years a decline of GDP was recorded at the end of 2008, while the leading indicators of activity are showing signs that a further contraction is ahead. In this framework, the growth of financial intermediation with companies and households show some deceleration.

In recent months the BCRA adopted additional measures in order to face the more unfavorable financial and economic scenario. Contributing towards monetary and financial stability, different mechanisms were put into practice to face the expectations of currency depreciation, stabilizing the demand for money while providing systemic liquidity. For this purpose, the policy of international reserves accumulation started to supply concrete and tangible benefits during the external crisis, providing adequate buffers for the BCRA to take part in the foreign exchange markets. The BCRA thus contributes by providing two public good: monetary and financial stability, proving its capacity to mitigate stress episodes like last October (a 4.8% fall of private sector peso deposits) by rapidly normalizing the market.

Chart 2

Non-Performing Credit to the Private Sector

Non-performing portfolio / Total financing (%)



Source: BCRA

Domestic financial entities continued exhibiting high liquidity levels. The liquid assets of banks reach 28% of deposits, 40% if holdings of Central Bank Bills (Lebac) and Notes (Nobac) are included, recording a generalized rise during recent months. In order to ensure the adequate management of liquidity risk, the BCRA continues ratifying a gradual decline of the outstanding Lebac and Nobac stocks, while still carrying out repurchase transactions on the secondary market. This strategy supplements the development of additional liquidity windows, larger facilities on the repo market and the readjustment of liquidity requirements. These factors, together with the BCRA role as lender of last resort, consolidate a sound banking system position to face liquidity risk. This situation provides the conditions needed to face temporary unbalance in the demand for money due to market volatility.

In a scenario of more uncertain economic conditions, the repayment capacity of firms came under some pressure. Durable goods producers were those most affected by the crisis, while services firms maintained their activity levels although slower growth is forecasted. The corporate sector exhibits falling levels of foreign currency debt. The financial situation of households continues facing growing challenges. Households continue increasing their debts, in a scenario where some deceleration of the earnings growth is expected, which could be reflected by an increasing burden of financial services.

In this scenario some of the credit risk assumed by banks is starting to materialize, a pattern that would probably continue to be seen in coming months. Non-performance ratio has risen to slightly more than 3% of credit to the private sector, after reaching a minimum (2.8%) last September. This trend is driven by the household consumption lines, and is budding in corporate loans. To face this situation banks have provision coverage that exceeds non-performing loans, which enables them to face greater levels of arrears without significantly affecting their solvency.

During recent years the banking exposure to the public sector has been reduced moderately, in line with the incentives established by the BCRA to enhance a process of crowding in the private sector. In terms of credit risk, the persistent fiscal surplus is noteworthy. The non-financial public sector (NFPS) performance is reflecting the domestic response to the deepening of the global crisis, maintaining sufficient funding sources for 2009.

Table 1

Main Indicators of the Financial System

	2001 Average	2004 December	2008 December
Liquidity			
.. Liquid assets / Total deposits (%)	21	30	28
.. (Liquid assets + Lebac and Nobac) / Total deposits (%)	21	40	40
Credit risks			
i. Public sector			
.. Financing / Total assets (%)	21	41	13
.. (Financing - Deposits) / Total assets (%)	17	26	-7
ii. Private sector			
.. Financing / Total assets (%)	40	20	39
Currency mismatching risk			
.. (Foreign currency assets - Foreign currency liabilities) / NW (%)	62	56	30
.. Foreign currency assets / Total Assets (%)	70	24	20
Liabilities			
.. Total deposits / Total liabilities (%)	60	62	77
.. Non-residents foreign currency funding[1] / Total liabilities (%)	12	10	4
.. Rediscounts / Total liabilities (%)	2	11	1
Solvency			
.. Non-performance (%)	16	19	3
.. Provisions / Non-performing portfolio (%)	66	104	132

[1] Corporate bonds, subordinated debt and foreign lines of credit

Source: BCRA

The smaller term mismatch faced by the financial system tends to cushion its interest rate risk exposure. This development was mainly driven by the reduction of the public sector exposure, in a framework in which the maturity of aggregate funding remains relatively stable. The mismatch of items adjusted by CER keeps contracting, leading to a less exposure to the real interest rate risk, a development that was boosted especially by the PGN ("Préstamos Garantizados Nacionales") swap carried out by the government in 2009.

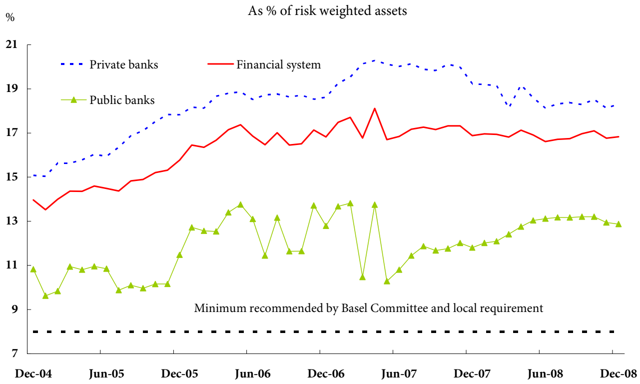
As a result of the financial policy the BCRA undertook, the currency risk faced by financial entities reduced significantly in recent years. In order to avoid harmful systemic mismatches, with impacts through a greater credit risk, the Central Bank decided that bank credit in foreign currency should only be available to firms with foreign currency revenues. The currency mismatch on the financial system balance sheet remains at historical minimums, while there is a small probability of fluctuations in the nominal peso-US$ exchange rate that could have a negative impact on the system's net worth.

On the other hand, the BCRA continues implementing regulatory changes in order to expand access to financial services. For this purpose the following measures were implemented: i) a special category was adopted for loans to micro-entrepreneurs, granting them a prudential treatment according to their characteristics; ii) granting loans through micro-credit institutions (IM) was made easier, including a special category for the banking credit they are granted (acting as "second floor banks") and exempting such lines from credit regulations; and iii) including in the supplementary banking activities the shareholdings in institutions that lend to microentrepreneurs. The BCRA also reduced the

Chart 3

Capital Compliance According to Regulation

As % of risk weighted assets



Source: BCRA

minimum cash reserves requirements in foreign currency, setting auctions for access to repo loans in foreign currency, while it expanded the purposes to which foreign currency deposits can be applied.

Seeking safer and more efficient payment transactions, the BCRA continued generating an adequate framework to develop the National Payment System. While the use of electronic means of payment is still being stimulated, check clearance also grows despite a slight increase of rejections. Looking ahead the aim is to achieve further standardization of the clearing documents in order to optimize verification, which added to implementing the Uniform Federal Clearing means that the costs and operating risks will be sharply reduced. Since October 2008 the BCRA and the Brazilian Central Bank operate a bilateral payment system in domestic currencies, which is mainly being used by small and medium enterprises (SME).

It is worth noting that the moderation of banking activity has not been an impediment for the financial system to complete its fourth consecutive year with book profits (mostly driven by the more stable revenue sources, net interest income and service income margin), which contributes to the soundness of the sector. Banking sector solvency has remained at adequate levels, even after valuating public sector assets portfolio at market prices (writing off profits of the past two years), a result of both the capitalizations that were received and the recovery of traditional sources of revenue and the limited risks that banks are facing.

The international crisis provides a number of lessons that must be considered in the global restructuring of both the banking business model and the way it is regulated and supervised during coming years. In this framework, the upgrading of the financial stability objective at the global level, together with implementing a broader macroprudential monitoring and regulatory focus (see Box 4) is subject to debate. The BCRA has already started to adopt this role in recent years, implementing measures that contribute to the financial system resilience to stress episodes, while including counter-cyclical measures, factors that enable it to provide the necessary conditions to sustain the financial stability framework.

I. Internacional Context

Summary

The international financial crisis continues to deepen, spreading its effects not only on developed economies but also on emerging economies, which until mid-2008 showed a distinct trend. By 2009, a contraction of the global GDP is expected after over fifty years of consecutive growth. Major developed economies entered a recession in 2008, while there are signs of further expected deterioration in the coming months. The transmission channels of global turbulences in emerging economies increased, with a significant drop in external demand and prices of raw materials, in a context of capital outflows. This scenario is driving a strong slowdown in emerging markets.

By the end of 2008, the deterioration of the global financial markets worsened with the bankruptcy of Lehman Brothers, the greatest uncertainty about the US and the European financial institutions and the emergence of new risks sources. In late 2008 there was a general unwinding of risky positions while seeking refuge on assets of higher relative quality. Credit markets remained weak, reflecting the lower levels of the economic activity, the uncertainty about the solvency of banks and the still unclear effectiveness of government measures.

In response to the unprecedented progress and uncommon depth of the crisis, the economic authorities of developed economies should act more strongly. The efforts were mounted on several fronts including a considerable easing of monetary policy, government guarantees for interbank markets and significant bank capitalization with public funds. Furthermore, the use of fiscal policy in order to try to reverse the crisis started to expand. The economic authorities of US changed its focus from a case-by-case intervention to a wider strategy. In addition to the channels of liquidity assistance were incorporated the direct market intervention ("credit easing," according to the Fed), the repurchase of long-term instruments, the establishment of swap lines with other central banks, the support to institutions and the implementation of a fiscal stimulus plan. Given the complexity of the factors involved, these strategies failed to reduce tensions.

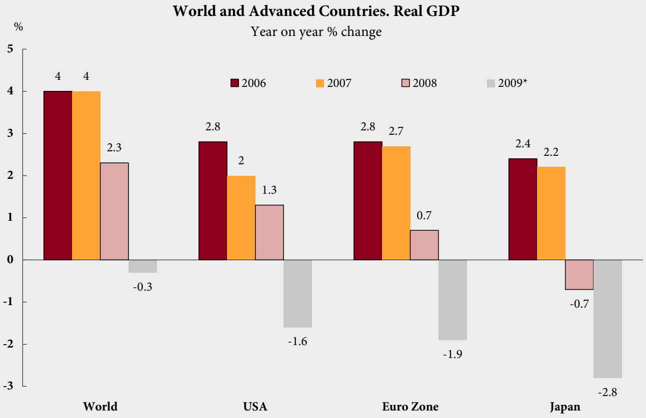
Global inflationary pressures decreased strongly given the erosion of the global economic activity and the significant decreased in prices of raw materials. The drop in prices of agricultural commodities, coupled with a context of high risk aversion, impacted the activity of emerging economies. This context prompted for more flexible monetary policies in these economies and the use, in some cases, of the fiscal policy as an anti-cyclical instrument. Stock markets of emerging economies and its risk spreads continue to reflect the worsening of the international crisis, exhibiting greater pressures over the most vulnerable regions in a context of lack of external financing.

Financial systems in Latin America face the crisis in a relatively stronger situation, maintaining liquidity and solvency levels above other regions and registering in the last months a gradual growth reduction in financial intermediation. The strength of those financial systems should allow the resumption of credit growth once there is a turnabout of the international crisis.

Chart I.1

World and Advanced Countries. Real GDP

Year on year % change



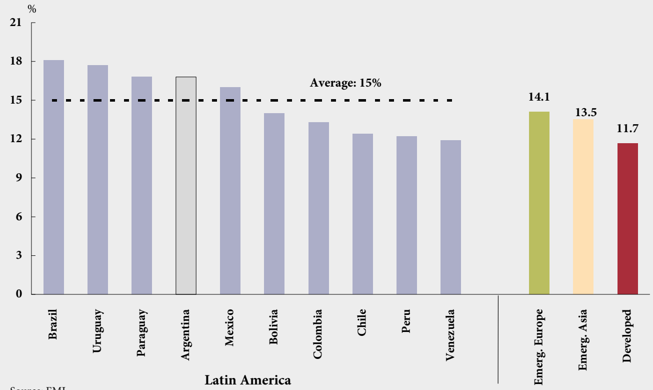
Source: FocusEconomics - March 2009

* projected

Chart I.2

Capital Compliance

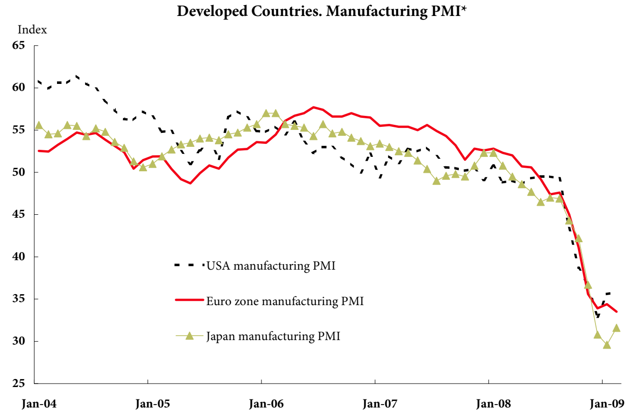
In % of risk weighted assets



Source: FMI

Chart I.3

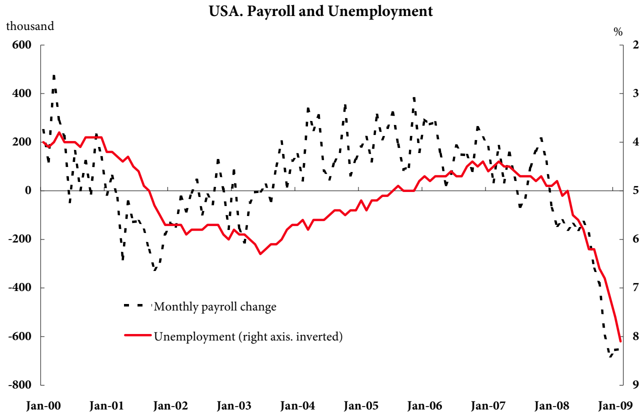
Developed Countries. Manufacturing PMI*



Source: Bloomberg *PMI: *Purchasing Managers Index*

Chart I.4

USA. Payroll and Unemployment

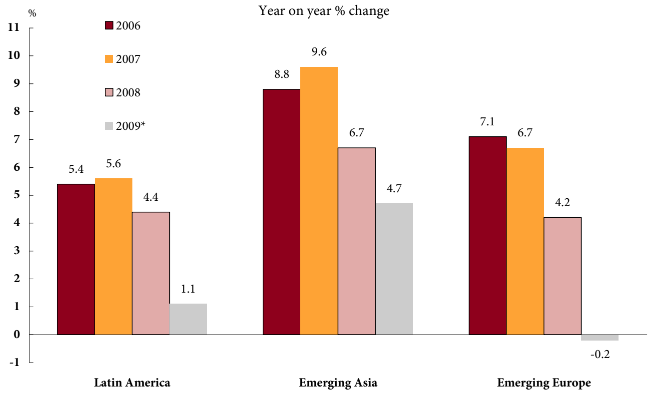


Source: BCRA from Bloomberg

Chart I.5

Emerging Regions. Real GDP

Year on year % change



Source: FocusEconomics - March 2009 *projected

I.1 International Condition

The international context showed a marked deterioration since the last months of 2008, still deepening since the beginning of 2009

After more than fifty years of sustained growth, the global economy faces the worst crisis in recent decades, being expected a narrowing of the GDP in 2009 (see Chart I.1). International trade volumes are also being severely affected by the collapse of the economic activity, being projected to decline throughout 2009 (for the first time in 25 years).

Major developed economies entered technical recession in the third quarter of 2008, while in some countries this started just at the end of last year. The estimated indicators of the economic activity continued to deteriorate in the first part of 2009, anticipating a further deepening of the contraction cycle in coming months (see Chart I.3). The job market decreased in the main economies, leading to high levels of unemployment (see Chart I.4).

Emerging economies began to record a sharp slowdown. The transmission channels of the international crisis aggravated recently with a strong fall in external demand and prices of primary products, and with the acceleration of capital outflows. However, the Southeast Asia countries are expected to continue to expand (4.7%), while growth would be most affected in emerging Europe (expected fall of 0.2%) and to a lesser extent, in Latin America (expected growth of 1.1%) (see Chart I.5).

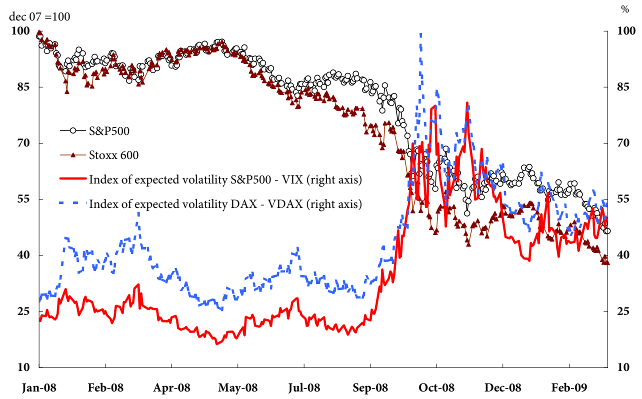
Tension in financial markets became critical since September last year. In 2009, financial markets remain down and with high volatility

The deterioration of the international financial markets escalated rapidly since late in the third quarter of 2008 (see Chart I.6). Ever since the bankruptcy of Lehman Brothers (September), the uncertainty surrounding the status of the financial institutions in US and Europe reached critical levels due to high chances of further declines and to the proliferation of risk sources, especially in North America (mortgage-related agencies GSE[1] - insurance, automotive, OTC derivatives markets). Market dynamics, expectations and economic performance came in a strongly negative spiral, forcing the authorities to review their strategies for intervention and assistance.

[1] Government Sponsored Enterprises (in particular, Fannie Mae and Freddie Mac).

Chart I.6

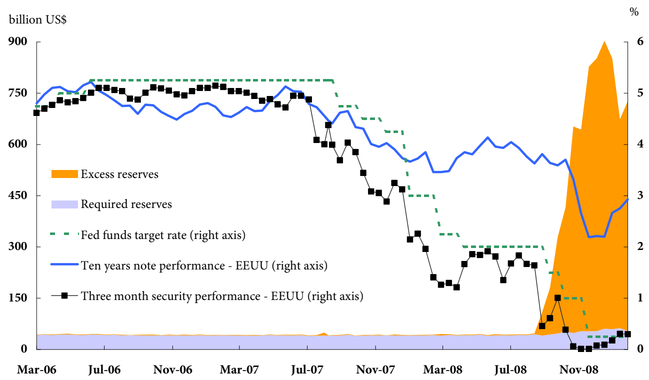
Stock Indices and Expected Volatility



Source: Bloomberg

Chart I.7

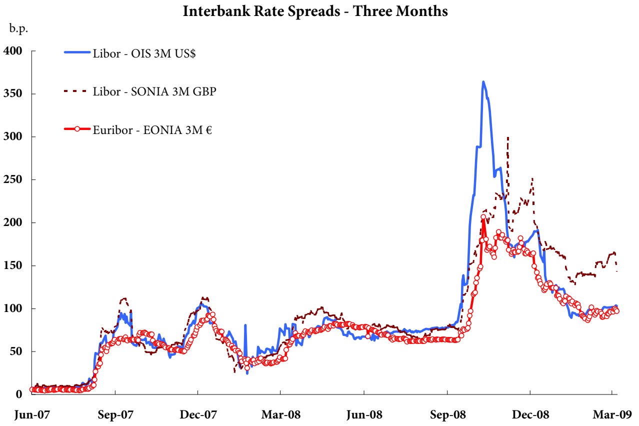
US Interest Rates, Treasuries and Bank Reserves



Source: Federal Reserve

Chart I.8

Interbank Rate Spreads - Three Months



Source: Bloomberg

Between September and November, took place an unprecedented peak of tension, with a marked and widespread unwinding of risky positions (deleveraged) and flight to quality. After a slight recover in early 2009, financial markets again weakened sharply, reflecting the erosion of the level of activity, the concerns about banks solvency and the uncertainty regarding the effectiveness of government measures.

US stock indexes lost nearly 40% over the pre-peak period of turbulence (pushed by the stocks of the financial entities), although in the last weeks of March they recovered due to economic signs something more encouraging and better perspectives for the financial sector. Strong turbulences are also reflected in the VIX index (expected volatility of S&P500), which after showing peaks between October to November (80%), remains at historically high levels. There was a considerable demand increment for Treasuries notes with yields that, for the shortest terms, became close to zero (see Chart I.7). Treasuries returns began to expand in 2009, in an environment marked by a growing fiscal deficit and with securities auctions for record amounts.

Peaks of turbulence were considerably evident in the interbank markets. A widespread distrust among financial institutions (given the uncertainty about the ultimate level of losses and its distribution among institutions) came together with a liquidity demand for precautionary reasons facing the risk of realization of contingent liabilities. In this context, LIBOR rates exhibited record spread levels against interest rates with very low implicit counterparty risk (see Chart I.8).

Given the benchmark role of these interest rates for the debt markets and facing the risk of a scenario with a widespread credit rationing, developed economies were forced to respond with strong measures. Therefore, the spreads reduced significantly in the early months of 2009 although they remain at historically high levels. This improvement in terms of spreads does not imply the complete normalization of the financing flows. Among US banks, is observed a strong expansion of the excess of reserves, with credit-granting standards that remain restrictive (see Chart I.9).

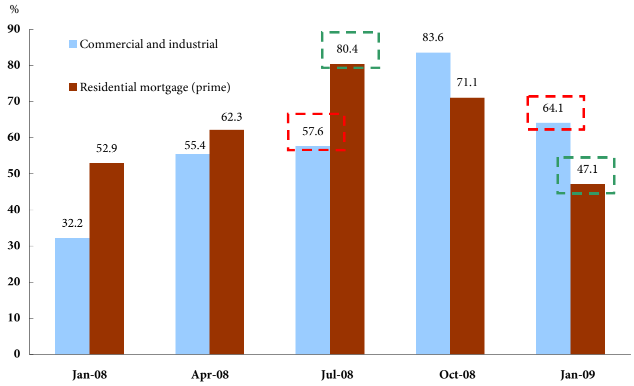
The scenario of strong financial turmoil forced the authorities of developed countries to implement a comprehensive package of measures

Faced with the severity of the crisis, the authorities of major countries had to act with flexibility and strength. An important part of the efforts were focused on easing monetary policy. Several central banks reduced their

Chart I.9

Lending Standards Survey - Federal Reserve - USA

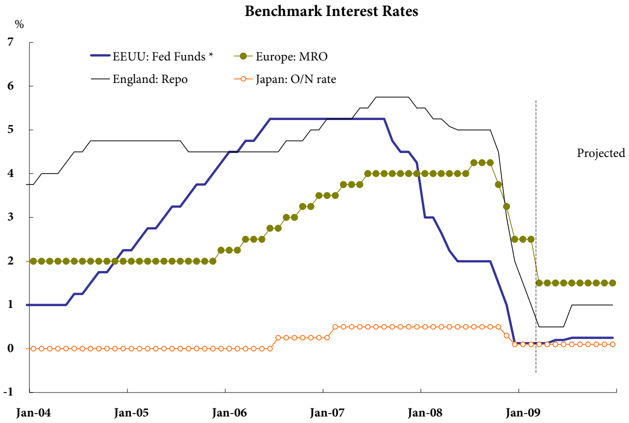
Percentage of banks that tightened considerably or somewhat their standads over the last three months



Source: Federal Reserve

Chart I.10

Benchmark Interest Rates



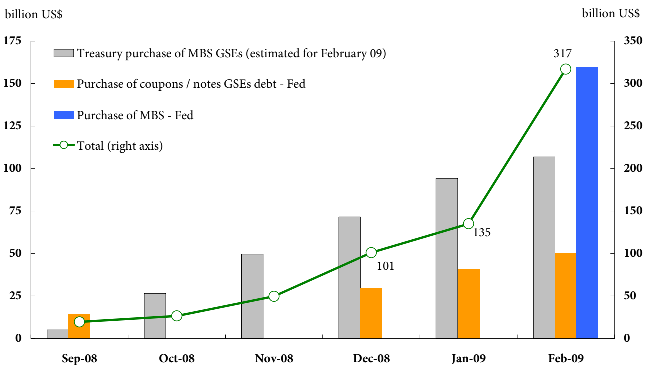
Source Bloomberg

* Since December 2008 refers to the midpoint between the reference bands

Chart I.11

Government Intervention: Repurchase of Assets in Mortgage Market

Accumulated since the beginning of programs



Source: New York Federal Reserve and US Treasury

benchmark[2] interest rates on many occasions; in some cases leading to historic lows and its nominal limit (see Chart I.10). Therefore, the scope of the monetary authorities decreased. The measures also included general guarantees for interbank markets and the capitalization of banks in trouble with public funds.

In the case of US, until the market collapsed with the bankruptcy of Lehman Brothers the approach was based in a case-by-case basis, changing since then to more comprehensive interventions. The Federal Reserve's action was based on five pillars: (1) liquidity assistance (reduction in the cost of money, extension of guarantees, etc.), (2) direct intervention in credit markets ("credit easing" according to the Fed), (3) repurchase of long-term[3] instruments (see Chart I.11), (4) provision of dollars to other central banks through swap lines, and (5) support to specific institutions[4].

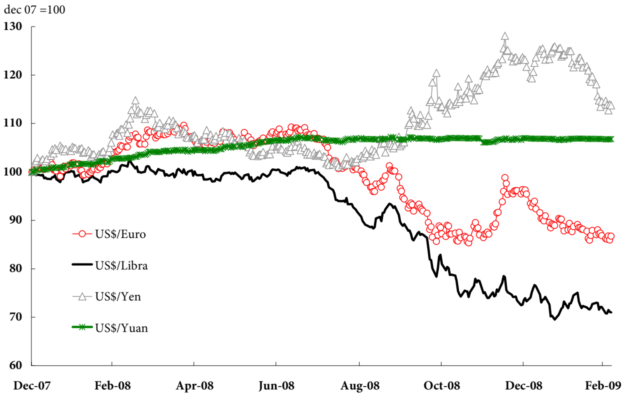
Given the deepening of the crisis and its impact on the level of aggregate expenditure, fiscal policy was added as another tool to boost demand. The latest US fiscal stimulus plan announced totals US$787 billion (5.4% of GDP) and adds to previous measures that include, among others, assistance to financial and automotive companies. Moreover, the implementation of TARP[5] (originally diagrammed for the repurchase of "toxic" assets by the banks) is finally transformed into a program of capital[6] injections. Under the new administration, in March, the US government outlined two broad initiatives: one designed to normalize the balance sheets of financial institutions from risky assets (through a mechanism that involves the joint action of the public and private sector) and another that seeks the stabilization of the mortgage market (through a system involving debtors and creditors). England, Japan and several countries in the Euro zone also implemented various fiscal measures.

Although the search for protection in Treasuries initially favored the dollar versus the euro and the pound (see Chart I.12), these relationships began to show fluctuations depending on the policies implemented in each region. The yen tends to appreciate steadily against the dollar in recent months (in March there is a

[2] Along with the Fed, the BOE replied clearly and assertively to the worsening of the crisis in terms of its monetary policy. The ECB and BOJ tended to show more lenient monetary policies, with a relatively more conservative bias.
[3] Assets linked to mortgages and debt of the GSE. Treasuries since March are included.
[4] Bear Stearns, AIG, Bank of America, Citigroup, etc, besides Fannie Mae and Freddie Mac.
[5] Troubled Assets Relief Program.
[6] The Treasury and the Federal Reserve also focused its efforts on alleviating the situation of specific sectors, through programs like TALF (Term Asset-Backed Securities Loan Facility) and the CPFF (Commercial Paper Funding Facility).

Chart I.12

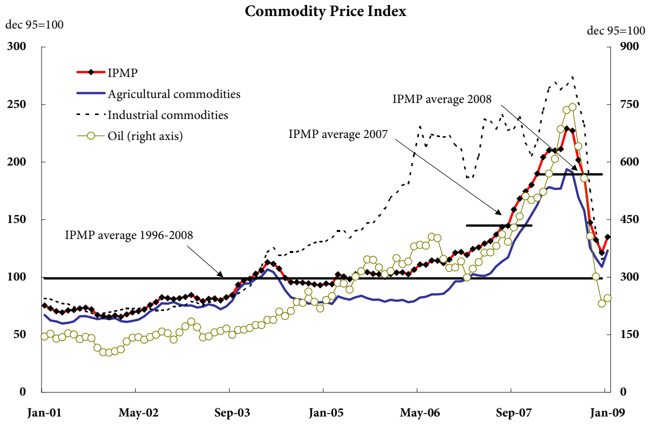
International Currencies



Source: Bloomberg

Chart I.13

Commodity Price Index

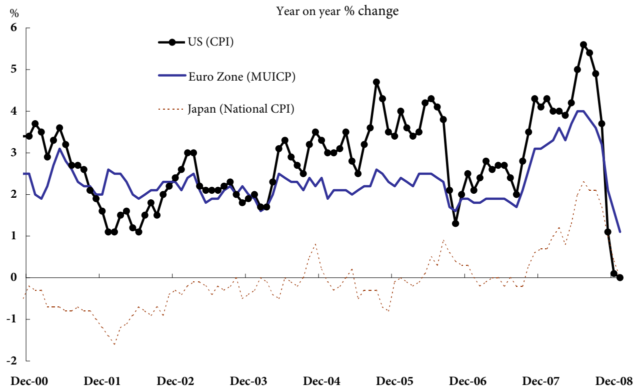


Source: BCRA from World Bank and INDEC data

Chart I.14

Consumer Price Index

Year on year % change



Source: Bloomberg

correction), in a context of strong risk aversion and unwinding of carry trade[7] positions.

Following the strong reduction of raw materials prices in the second half of 2008, prices stabilized

Raw material prices are showing some stability after the sharp fall in the second half of 2008 (which had been preceded by a significant increase), within a context of a weakening global economy. Stability in prices is mostly evident in agricultural products, while oil and metals continue to decrease. The price index of raw materials (IPMP) by BCRA, which reflects the price evolution of primary products in most Argentine exports, exhibited a recovery in early 2009 after several consecutive months of decline (see Chart I.13).

The global economic slowdown is expected to continue to push down prices of certain primary products, mainly oil and metals. Regarding agricultural prices, structural factors such as demand for food and development of biofuels, along with economic factors such as weather problems could continue to support prices. The crisis affecting the world trade as well as the prevailing volatility in the financial markets continues to limit a strong rebound in agricultural prices.

Global inflationary pressures were significantly reduced in recent months, responding to falling prices of raw materials and a strong global economic slowdown

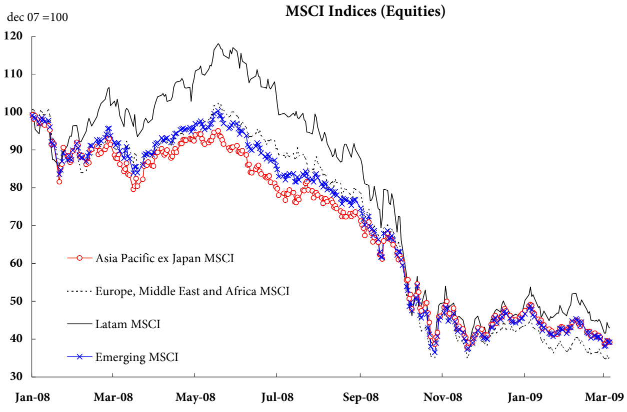
After an extensive period of international concern about the rise of retail prices, in recent months, marked reductions in inflation rates were observed as the result, among other factors, of the decline in commodities prices and the sharp world economic slowdown. In Japan and US, inflation reached levels close to zero in late 2008 (see Chart I.14), while in Europe it was located within the target of the ECB after historic highs reached in mid 2008. During the first months of 2009, prices of some developed economies showed negative variations while inflation is expected to slowdown with some deflationary recession risks. The price rates of emerging economies are declining, though structural factors of these economies slowdown the adjustment. Inflation is projected to remain positive in the remaining of 2009 but at more moderate levels.

The assets of emerging countries are being strongly affected by the crisis

[7] Strategy that, in its most common variant, is based on funding at low interest rate in a determined currency (for example, the Japanese yen) to invest in high yield assets denominated in another currency.

Chart I.15

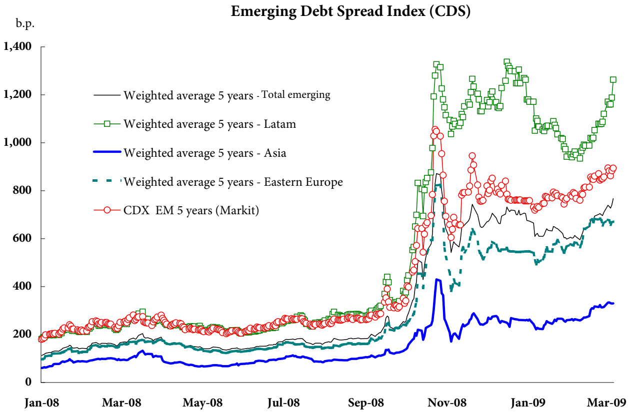
MSCI Indices (Equities)



Source: Bloomberg

Chart I.16

Emerging Debt Spread Index (CDS)



Source: BCRA from Bloomberg

The worsening of the crisis is especially noticeable in the asset prices of emerging economies, which until the first half of 2008 have been showing a relatively solid performance. In a context of strong uncertainty and extreme risk aversion, investors tended to unwind their positions massively, situation that worsen with the price decline of raw materials and the revised growth outlook of these economies. Thus, emerging assets began to follow the eroding patterns in the global markets, with general sell-offs in terms of instruments (showed in currencies) and regions (especially the most vulnerable to a lack of outside funding, such as EMEA[8]).

Stock markets of emerging economies are still deteriorating. The MSCI Emerging Market index (behavior of stock indices in dollars) for emerging economies fell 45% between September and November 2008, while it exhibits strong volatility since then (see Chart I.15). The lower appetite for risk is also evident in funds focused in stocks of emerging economies, which showed outflows of magnitude in recent months[9], after several years of sustained growth.

The spreads of the fixed income markets have been expanding strongly (see Chart I.16). This deterioration was reflected in the EM index EMBI+[10], whereas in the case of credit default swaps[11] (CDS) prices nearly tripled (CDX EM index to five years[12]). The prices of these contracts reflect the higher relative deterioration of the most vulnerable economies (see Chart I.17) with a shortage of external[13] financing (see Box 1).

The value of currencies of emerging countries is one of the main variables of adjustment since mid-2008. Since July, the average of emerging currencies accumulated a depreciation of 30% against the dollar (see Chart I.18). EMEA stands out due to a further deterioration (40%) on average, as opposed to countries in Emerging Asia (nearly 15% of depreciation[14]). The monetary authorities of several emerging countries intervened in currency markets because of the deterioration of their currencies, by injecting liquidity and assisting the sectors indebted in foreign currency.

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[8] Europe, Middle East and Africa.

[9] According to data compiled by the Emerging Portfolio Research Fund. Funds specializing in specific large countries began to register positive flows again in January .

[10] To over 850 b.p. in late October.

[11] The credit default swaps (CDS) are contracts in which a market participant makes disbursement (spread) to a counter part during a specific period of time in exchange of a contingent payment. This final disbursement will only take place if, during the contract, there is a credit default event.

[12] Index prepared by Markit.

[13] While countries with a current account deficit greater than 5% of GDP (group with strong presence of economies of EMEA) showed a broadening of spreads of 300 b.p 1,200 b.p between late August 2008 and late February 2009, for those countries with surpluses or deficits more narrowed spreads went from 200 b.p. 700 b.p.

[14] Particularities must be taken into account in terms of exchange rate regimes and restrictions on the mobility of capital.

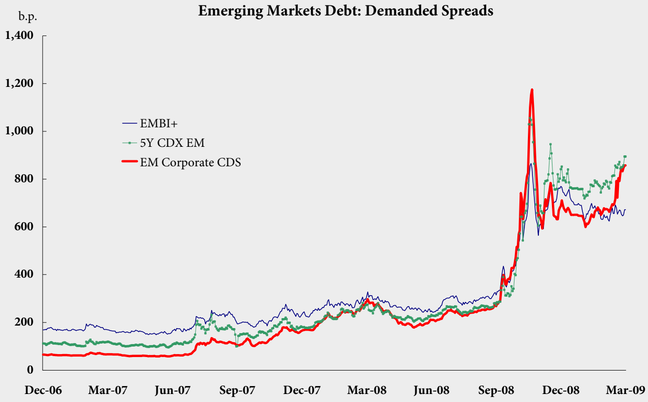
Box 1 / Financial Crisis and Financing Emerging Economies

Emerging markets are being affected by a high risk aversion, an abrupt change in capital flows and the cost of financing. Although the deterioration is widespread, the impact ends up being higher in countries with high-growth models financed externally (which is evident in several economies of Central and Eastern Europe). In this situation, the potential action of the international credit institutions becomes more important

Emerging countries are better prepared now than in the past to confront a difficult context, although the deterioration of the international crisis began to affect them. The effect associated with real factors (decline in international trade, lower prices of raw materials and adjustment in the expectations of growth) is enhanced by the negative influence of financial factors. With greater risk aversion and general unwinding in positions considered less secure in relative terms, severe contractions are noticeable in capital flows towards emerging countries (thus weakening their currencies) as well as tighter conditions for borrowing abroad.

Chart B.1.1

Emerging Markets Debt: Demanded Spreads



Source: Reuters and BCRA

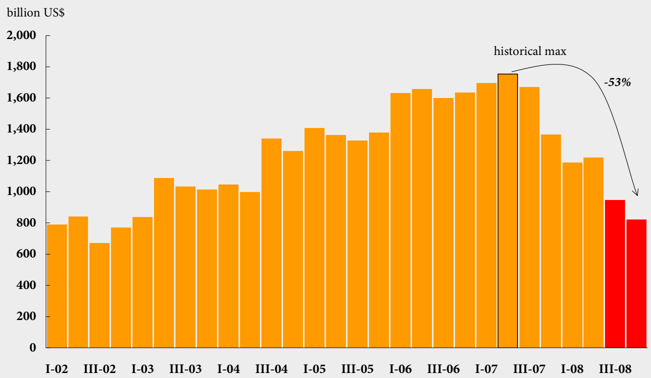
Flows (net) of private capital to emerging countries were cut almost in half between 2007 and 2008. In 2009, it is expected another sharp drop mainly explained by bank-funding. The countries of Emerging Europe explain much of the decline forecasted for this year.

Although the perceived risk increased across the board among emerging countries, the situation is not homogeneous. While the impact of an increased risk aversion and the unwinding of positions is reflected even in benchmark countries that so far have been showing a solid performance (such as Brazil), critical evidence showed the increased vulnerability of economies with heavy dependence on external financial support. This is particularly notable in Central and Eastern Europe (member of EMEA). This region is dominated by cases of countries with high current account deficit, associated with high-growth models financed with external debt. In general, these are countries where the private sector borrow financial support from Western banks, with a high proportion of credit in foreign currency given to players with revenues in local currency. Towards a more adverse scenario, the existence of such mismatches results in strong pressures on the corporate sector (which, in turn, involves the policy makers of these economies).

The availability of financial support in international debt markets became more restricted. During the second half of 2008, placements dropped dramatically[15]. In fact, in the fourth quarter the market was virtually closed.

Chart B.1.2

Traded Volume of EM Issued Debt



Source: EMTA

The cost of funding and the liquidity observed showed the deterioration of the context. The first of these factors is associated with a strong and widespread increase in the risk premiums demanded by the market (with direct effect on the pricing of new loans). Regarding the sovereign debt, this is clearly reflected in indices such as the EMBI + or MS CDX.EM 5Y (see Chart B.1.1). Since late August, the premiums demanded for emerging sovereign assets tripled, while for the corporate the

[15] Syndicated loans also fell significantly

deterioration observed was even stronger[16]. The lower emerging debt appetite was also evident in the liquidity of secondary markets. During the second half of 2008, the operated volume of emerging instruments (Eurobonds and local debt) fell by 40% over the same period last year[17], whereas in the last quarter of 2008 the amounts operated were less than half the peak in the second quarter of 2007 (see Chart B.1.2).

Table B.1.1

Emerging Countries: Sovereign Issues in International Markets

Since 4th Quarter of 2008

Issue date	Maturity	Country	Currency	Amount issued (in millions of original currency)
23-Dec-08	19-Mar-19	Mexico	Dollar	2.000
13-Jan-09	15-Jan-19	Brazil	Dollar	1.000
13-Jan-09	18-Mar-19	Colombia	Dollar	1.000
14-Jan-09	17-Jun-19	Philippines	Dollar	1.500
14-Jan-09	14-Jul-17	Turkey	Dollar	1.000
02-Feb-09	03-Feb-14	Poland	Euro	1.000
05-Feb-09	05-Feb-12	Slovenia	Euro	1.000
17-Feb-09	17-Feb-14	Mexico	Dollar	1.500
Total			Dollar	***10.563***

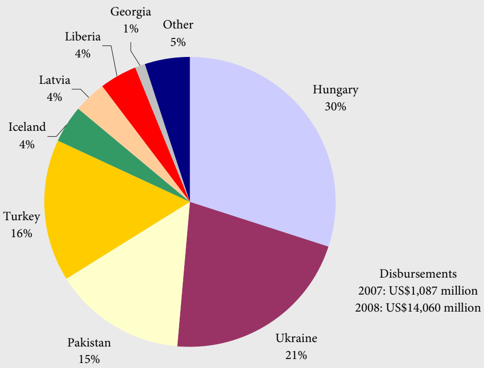
Source: Bloomberg

Since late December, several countries sought to exploit windows of opportunity[18] to enter the market (see Table B.1.1). Despite cost increases, the new funding would facilitate the financing of expansionary fiscal policies and the assistance to companies with the need to roll-over their external debt. By the end of February, there was a more difficult situation: the securities issuance of Mexico at 5 years showed a less-than-expected demand; therefore the initial plan to issue debt over 20 years was dropped.

The restrictions observed in the financial support of international markets set a framework for redefining the role of multilateral lending[19] institutions, after several years of steady decline in the net flows to emerging countries (in a context of increasing private flows to these regions, a phenomenon which was accompanied by a significant accumulation of international reserves). In fact, the IMF and the World Bank have been more active since the international crisis began, with the launching of new facilities[20] and implementation of financing programs.

Chart B.1.3

IMF Disbursements - 2008



Source: IMF

In 2008, the IMF began to show an increase in the balance of funding awarded, for the first time, in the last years, registering the countries in EMEA the bulk of disbursements (see Chart B.1.3). Based on these aids and together with the bilateral credits[21], Emerging Europe is the region that registered the higher increases in the flows of funds from government agencies in 2008, while they are expected to continue growing in 2009.

[16] Taking into account for the CDS, the average benchmark price contracts (those considered in Markit rates).

[17] According to the survey of EMTA (Emerging Markets Traders Association), which includes 50 firms operating in emerging debt (banks, asset management firms and hedge funds). It covers both corporate and sovereign debt.

[18] In a rebound context of emerging debt prices.

[19] There are currently proposals to expand the financing capacity of the IMF (under discussion is the possibility to double or even triple the rates of contribution the member countries). It Is also being discussed the possibility of modifying the conditions of access to new financing by the Fund in emerging countries.

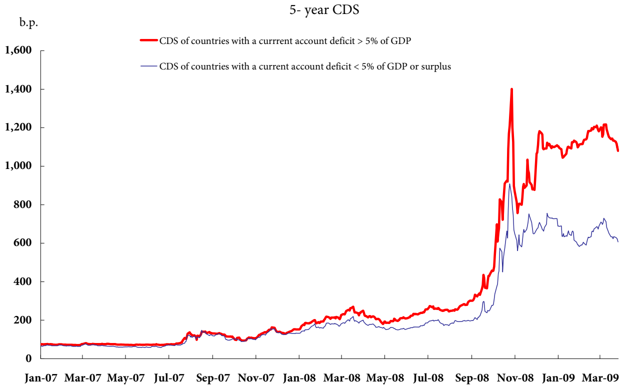
[20] As the short term facility from the IMF, which have not yet been used.

[21] For example, the European Union.

Chart I.17

Emerging Countries Credit Default Swaps (CDS) by Current Account Balance

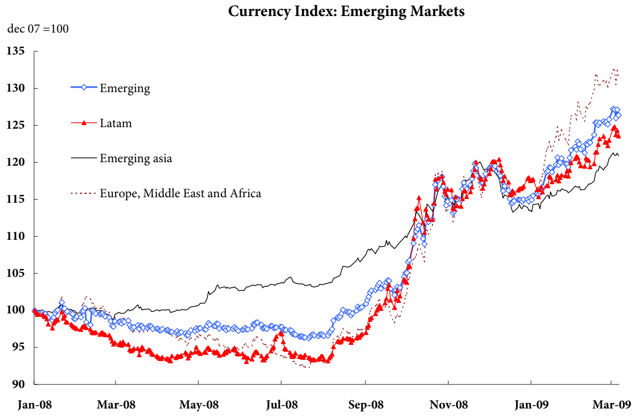
5- year CDS



Source: BCRA from Bloomberg data

Chart I.18

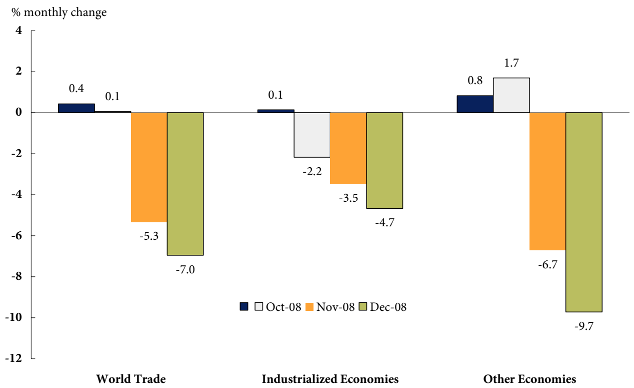
Currency Index: Emerging Markets



Soruce: BCRA from Bloomberg

Chart I.19

Foreign Trade Volumes Evolution



Source: BCRA form St. Louis Federal Reserve.

Emerging economies are also implementing fiscal measures like industrialized countries. Such is the case of Brazil that reduced consumption taxes and increased spending on social programs, or the case of Chile that stipulated the granting of social benefits, subsidies for SMEs and an increase in infrastructure investment[22]. Mexico, one of the Latin American countries most affected, also implemented various fiscal policies at the sectorial, social and commercial levels, China focused it fiscal policy on an increased spending in infrastructure and the funding of the rural sector.

The outlook remains negative and with high risks to the downside. The normalization of the markets in developed economies will be slow and gradual

Currently, a further deterioration of the financial markets is observed, although still not reaching the turbulence peaks of the second half of 2008. While considerable risks exist to a drop in the value of most of the financial assets, it is not clear how long and deep it would be the crisis. Exist fundamental issues yet to be defined to restore the confidence in the markets, including: the stabilization of the US housing sector, the restructuring of debts related to this sector, the dynamics of the process of deleveraging and, depending on the factors above, the situation of the financial sector of developed economies (see Box 2). Progress would necessarily happen gradually being expected that financial markets remain under pressure, with high levels of volatility and prevailing caution among investors.

Over the coming months, many countries could be tempted to implement protectionist policies to promote local production and reduce external deficit, preventing the positive impact of the policies being diverted to the exterior. This protectionism may even lead to a further contraction in world trade (see Chart I.19). Thus, the risks of protectionism and the fact that the measures taken by individual governments might not be sufficient, requiring a coordinated action by the nations seeking to enhance the impact of the policies and reduce their costs.

I.2 Latin American banking systems

Financial intermediation with the private sector is growing at a more moderate pace

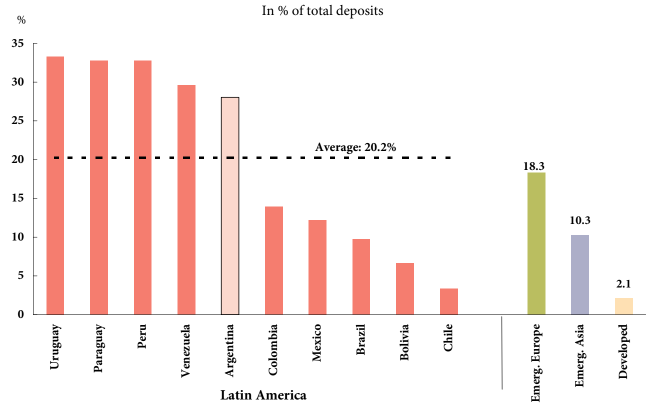
Unlike previous observed episodes of crisis, financial systems in Latin America face international turbulences in a relatively solid situation, while maintaining liquidity and solvency levels above those observed in other regions

[22] For a more detailed, see Box 2 of the Inflation Report - First quarter of 2009.

Chart I.20

Liquid Assets

In % of total deposits



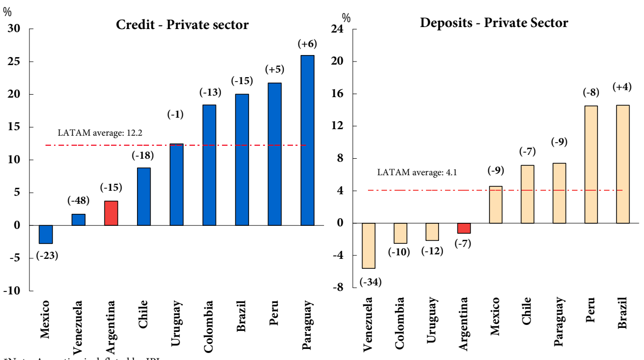
Source: FMI

Chart I.21

Financial Intermediation. LATAM

Y.o.y. % change. CPI deflated - Last date available

(Y.o.y. change in p.p.)



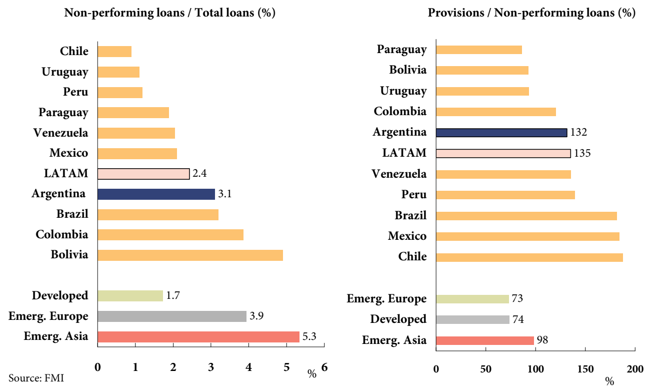
*Note: Argentina is deflated by IPI

Source: FMI

Chart I.22

Portfolio Quality and Provisions

Last available data



Source: FMI

(see Charts I.2 and I.20). This strength reflects the impact of a good macroeconomic performance in recent years and the measures taken by most of the regions economies over the last decade, among them: recapitalization of banks, strengthening prudential regulation, improvements in supervision, greater transparency and, above all, higher standards of precautionary liquidity.

While Latin American financial systems have a direct exposure, near zero, to subprime assets, the length and depth of the crisis is gradually affecting the markets of the regions. On the one hand, the international environment has a negative impact on the evolution of remittances that the regions receive generally, thus affecting the funding of some financial systems. The reduction, and in some cases the reversal of the credit granted by the subsidiaries of international banks also imposes a challenge. The *flight to quality* driven by the emerging risk aversion also affects the financial systems in Latin America, hindering the conditions for longer-term funding.

As a result of the more turbulent international scene financial intermediation with the private sector is gradually being affected. Loans and deposits of the private sector continue to show positive growth rates in most countries of the region, with more moderate rates than those observed in recent years (see Chart I.21). The evolution of the financial support of the private sector comes about in a context of limited credit risk, with reduced levels of non-performance from a historical perspective as compared to other emerging regions (see Chart I.22). Provision coverage outperform non-performance in most of the Latin American economies which combined with high levels of capitalization show evidence of the good financial position of the financial systems of the region.

In order to ensure financial stability, the Central Banks of the region are promoting a package of measures that would minimize the local impact of the global crisis, among which are additional alternatives for liquidity and lax monetary policies (see Box 3).

In a context of slower expected growth for the remainder of 2009, the Latin American financial systems kept their strength, while maintaining adequate levels of liquidity and solvency. In general, the international context of crisis is expected to increase the risks faced by the banks of the region. A drop in the level of economic activity could translate into a lower payment capacity of businesses and households, and consequently in an increment of the credit risk assumed by banks, affecting in some degree, the solvency of the financial systems.

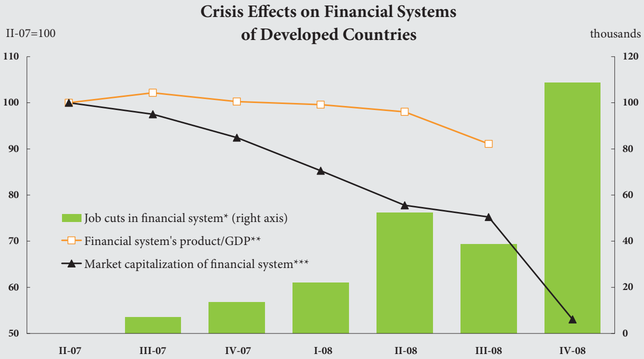
Box 2 / Crisis and Changes in the Financial Sector of Developed Economies

The current crisis is affecting both quickly and deeply the size and composition of the financial sector in developed economies. It is a process still underway, with a strong uncertainty in the short and medium term. In this way, although general trends are already identified (re-intermediation and revitalizing the role of universal banking, evolution in the consolidation process) it is still too early to determine how a post-crisis scenario would look like

Since the end of the seventies, a steady consolidation[23] process has been taking place in the financial sector of developed countries, in response to globalization, technological change, deregulation, a more competitive environment, the episodes of crisis, among other factors. The current crisis would accentuate this trend of consolidation: since 2008 deep changes are being observed in the size and composition of the financial sector, particularly in the US and in Europe, phenomenon linked to the strong value destruction associated with the crisis, to the sudden stop of the disintermediation that was observed and to the approaches to face financial institutions problems (with a private and public sector changing role).

Chart B.2.1

Crisis Effects on Financial Systems of Developed Countries



(*) America and Europe
(**) USA, UK, Canada, Italy, France and Germany. No available data for IV-08
(***) G7
Source: National Balances of respective countries, IMF and Bloomberg

Contrary to what happened in previous years, starting from 2008, the size of the financial sector (including banks and markets) began to shrink sharply. This phenomenon is reflected in the participation of the sector in the GDP, the aggregate market value of financial companies and the number of jobs involved in its operations (see Chart B.2.1). Although once the floor is reached, probably certain correction would be observed to the rise; rarely the post-crisis financial sector would show a size comparable to that observed in recent years.

Moreover, the current market volatility implies the failure of a model with a strong market role that had its peak in this decade. In the future it is expected, therefore, a strengthening of traditional brokerage. In turn, the financial sector in terms of quantity and type of entities would be affected by the dynamics of the crisis, with the disappearance of large institutions, intensive processes of restructuring[24], mergers and acquisitions, changes in business[25] patterns and greater involvement of the public sector (through capital injections or directly through the transitory nationalization of institutions).

Table B.2.1

Main Mergers and Acquisitions in the Banking System Since the Beginning of the Crisis

Announcement date	Target	Acquirer	Transaction value announced mill. us$	Government intervention
Sep-08	Merrill Lynch	Bank of America	44,300	No
Oct-08	RBS	HM Treasury	25,500	Yes
Sep-08	HBOS	Lloyds TSB	16,000	Yes
Oct-08	Wachovia	Wells Fargo	15,100	No
Oct-08	HBOS	HM Treasury	14,500	Yes
Aug-08	Dresdner	Commerzbank	14,400	Yes
Sep-08	Morgan Stanley	Mitsubishi UFJ	9,000	No
Oct-08	National City	PNC	4,500	Yes
Jan-08	Countrywide	Bank of America	4,100	No
Sep-08	Washington Mutual[1]	JPMorgan	1,900	Yes
Sep-08	Lehman Brothers[2]	Barclays	1,800	No
Mar-08	Bear Stearns	JPMorgan	1,700	Yes

(1) Banking operations
(2) North American Business Unit and other assets
Source: Reuters

The most important mergers and acquisitions (M&A) transactions carried out since the crisis started already surpassed US$150.000 million[26] (see Table B.2.1), standing out the purchase of Merrill Lynch by Bank of America. These changes so far involve an improvement in better capitalized entities that were operating with a more traditional business model and with a revenue

[23] Fewer financial institutions in the market as a result of mergers and acquisitions.

[24] Including sales of business units.

[25] It highlights the case of large investment banks in the US, which had to adopt a model of commercial banking.

[26] According to data from Dealogic total M&A transactions in the financial sector globally exceeded US$600,000 million in 2008 at a global level (19% of total global M&A in the year).

base less volatile and more diversified (typically linked to universal banking).

Despite this, financial institutions remain under pressure, while some concerns exist about its solvency. Credit losses[27] continue to increase (already surpassed US$1.2 trillion[28]) (see Chart B.2.2) and it is not clear their final loss. While there are various estimates[29], losses would depend on how severe are the second-round effects on the balance sheets of the financial institutions and how they implement the reorganization (restructuring of mortgage debts and other, restructuring and/or sale of toxic assets, etc.). This creates an environment of strong uncertainty and crisis of confidence that impacts on the share prices and the debt of financial institutions that have not yet found a floor (see Chart B.2.3). Smaller banks also have a difficult situation with increases in the number of entities in trouble according to the Federal Deposit Insurance Corporation (FDIC) in the USA.

Chart B.2.2

Writedowns and Credit Losses vs Capital Raised

Since the beginning of the crisis

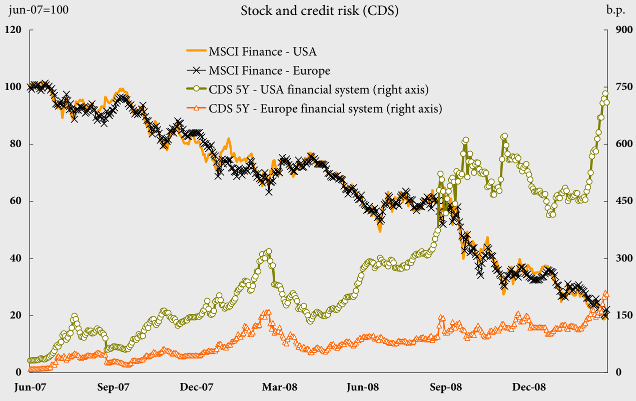
Source: Bloomberg

The remaining critical uncertainty limits the possibility that stronger institutions take the advantage of the opportunity to expand. Indeed, entities such as Bank of America and Wells Fargo in the US or Lloyds in Europe which have campaigned to strengthen their position in 2008 by buying entities in trouble, then exhibited a delicate situation. In this context, in the short term, private entities are expected to be more cautious and, in line with that observed in recent months, capital injections with public funds or the nationalization of banks are likely to prevail. Moreover, the nature of the interventions made by various governments is considered, in principle, temporary.

Chart B.2.3

Financial System in USA and Europe

Stock and credit risk (CDS)



Source: Bloomberg and Reuters

Depending on the nature of the factors involved, the output of the current situation would be slow and gradual. Only once the final amount of losses (and how they are distributed among different financial institutions) is clear, a more dynamic purification process would be feasible; showing those institutions best positioned in this post-crisis the progress. Indeed, with a less uncertain situation with regards to viable business models and with intervened entities returning to the private sector, strategic transactions would restart with more strength within the financial sector.

One of the factors that would clearly influence the set up of this new scenario is given by the changes in the regulatory and supervisory framework. This framework is expected to be strengthened to avoid the creation of imbalances similar to those that triggered the current crisis. With a stricter regulatory framework, the pressure to improve the profitability of traditional intermediation would increase by expanding the scale, becoming the consolidation process more dynamic. Consequently, this would involve significant challenges, including the need to prevent further formation of such large entities that create incentive problems (too big to fail) and of achieving greater coordination and integration as regards supervision.

[27] Charges made by banks and by mark-to-market.
[28] Includes banks, insurance agencies and sponsored by the U.S. government (GSE).
[29] Different estimates of expected losses range from US$2 trillion to more than US$3.5 trillion. These calculations are not directly comparable as a result of methodological differences involved in each estimate.

Box 3 / Response of Latin-American Central Banks to the International Crisis

The countries of the region faced the financial crisis originated in developed economies with stronger fundamentals than in the past, allowing them to develop counter cyclical policies. Once the crisis showed its depth and severity, initial hopes for a possible decoupling were lost, thus the monetary authorities injected liquidity into the financial systems by various means, reduced the benchmark interest rates and let their currencies depreciate

The financial crisis that began in US in mid 2007 and then spread to other developed economies had a varied impact in different Latin American countries according to their production structure, business ties and dependence on external financing. The economies most affected by the drop in external demand of tradable goods are those that are more open to trade and with a lower level of diversification of exports, as well as those that depend more on the US economic cycle (as Mexico), or whose principal trading partners are more sensitive to the crisis. The countries of the region must also address the impact channeled through the financial arena, being in a weaker position those with greater needs for external financing, with capital markets and local financial systems more vulnerable, with less fiscal solvency and/or lower *stock* of international reserves, among other factors.

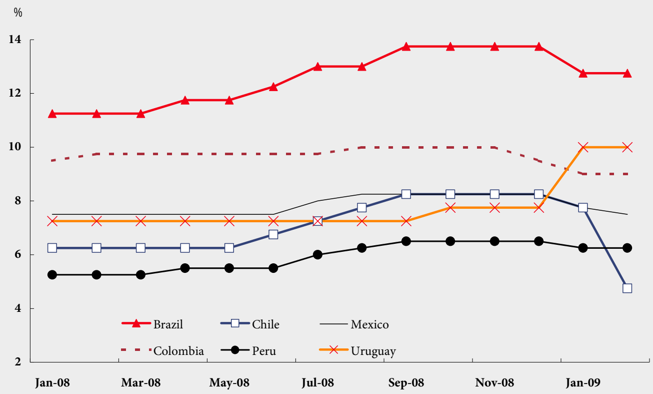
Beyond the effects that came about through the commercial and/or financial channels, the countries of the region now exhibit more solid economic indicators than in the past. Most of these economies have twin surpluses (fiscal and current account), a large *stock* of international reserves, flexible exchange rates and have reformed their financial systems by adopting regulations more robust and consistent, minimizing mismatches. It is noteworthy, the important role of the *stock* of reserves accumulated in the region over the past years which acted as an abstract insurance until the crisis and, thereafter, began to show concrete benefits to cushion the volatility of capital flows in local currency markets.

The international financial crisis led to an active participation and a greater international coordination of the Central Banks (CB). In Latin America, numerous measures in response to the international situation were implemented, forcing the majority of CB to take a sudden turn in the direction of their monetary policy due to the effects generated by the bankruptcy of Lehman Brothers of mid September 2008.

In order to analyze monetary policies in Latin America in recent months, it is useful to identify two periods characterized by different biases. During the first eight months of 2008, the concerns about an accelerating inflation caused by rising commodity prices remained a major factor behind monetary policy decisions. The main objective remained being price stability therefore the measures taken were characterized by a contractionary bias which in most cases consisted in reference interest- rates increases. (See Chart B.3.1).

Chart B.3.1

Latin American Countries Benchmark Interest Rates



Source: BCRA from Bloomberg and other data

Faced with the worsening of the international financial crisis and global economic slowdown, the second period, from September 2008 onwards, is characterized by the adoption of expansionary monetary policies (see Table B.3.1) aimed at addressing the conditions of *stress* of the interbank market, pressures on the exchange market for capital outflows and evident lower levels of economic activity. In general, the measures include cuts in benchmark interest rates, providing liquidity through open market operations, decrease and/or flexibilization of bank reserves and currency depreciation of the economies of the region.

Chile stands out among the economies that reduced their benchmark interest-rates, given the magnitude of the decline. In September 2008, Chile brought to an end its policy of rising interest rates, cutting 0.5 p.p. in

December, 3 p.p. in January and 2.5 p.p. in March 2009. However, Uruguay was the only country in the region that increased its benchmark interest rate for the purpose of defending the currency's peg, but since March it would appear to be reversing this policy.

Given the strong outflow of capital, several countries in the region allowed the loss of value of their currencies to stimulate foreign demand (see Chart B.3.2). However, they put a limit to the devaluation by selling international reserves, while acting in the futures market to avoid the adverse effects of an uncontrolled *overshooting*. Moreover, Brazil and Mexico obtained lines of liquidity in dollars through *swaps* with the US Federal Reserve (FED) as an additional reassurance.

Table B.3.1

Latin American Monetary Policies

Countries (*)	Monetary Policy Instruments			
	Benchmark interest rate reduction	Reduction / Flexibilization in banking cash requirements	Open Market Transactions	
			Liquidity provision in local currency	Liquidity provision in foreign currency
Brazil	X	X		X
Chile	X	X	X	X
Colombia	X	X	X	
Ecuador			X	
Guatemala		X	X	
Honduras		X		X
Mexico	X		X	X
Paraguay	X	X	X	
Peru	X	X		
Uruguay			X	X

(*) Selected countries

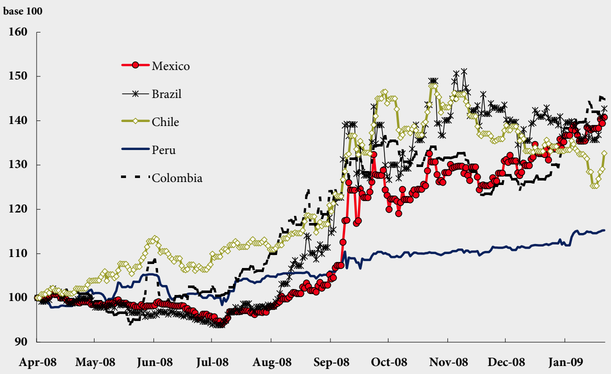
Source: Comisión Económica para América Latina y el Caribe (CEPAL) and Bloomberg

In addition to traditional measures of monetary policy, in Brazil, the Bank of Brazil and Caixa Econômica Federal (public entities) were authorized to purchase private financial institutions in distress, as well as insurance and social security companies. Brazil announced the creation of an investment bank to buy shares of real estate and construction, among others, who are experiencing severe financial difficulties. Moreover, with the reduction of the credit lines for exports, the CB of Brazil decided to use the international reserves with that purpose, while the maturity of external debt of Brazilian companies would also be financed with similar resources.

Chart B.3.2

Bi-Lateral Nominal Exchange Rate of Latam vs. USA

30/4/08 = 100 local currency per dollar



Source: Bloomberg

Argentina was not an exception among Latin American countries, the crisis also found it with strong fundamentals such as the twin surpluses, exchange rate flexibility, high levels of international reserves and robust financial system. These conditions and the timely action of the BCRA through an extensive variety of measures cushioned the possible impact of the crisis in the foreign exchange market and in the demand for local currency (see page 28).

The upturn of the financial markets would depend largely on the ability of the countries of the region to continue to take counter-cyclical measures to mitigate the impact of the international crisis on the local real economy. Falling prices of raw materials from the third quarter of 2008 eased inflationary pressures, leading to CB in Latin America to pursue a lax monetary policy. The existence of more solid key macroeconomic indicators than in previous decades acted in the same direction. The effectiveness of policies adopted by developed markets to prevent further deterioration of their economies would also play a central role in assessing the growth prospects of emerging economies and maintain the conditions for financial stability in Latin American economies.

II. Local Context

Summary

During the closing stages of 2008 and the early months of 2009 several sectors of the local economy adjusted their output, reflecting the smaller external and local demand. At the end of 2008 a slight quarterly fall of GDP was recorded (seasonally adjusted), following several years of sustained growth. Overall, a smaller growth of Gross Domestic Fixed Investment (GDFI) is seen together with a deceleration of private sector consumption, changes that were partly offset by a smaller negative contribution by net exports. Despite these developments, the Argentine economy still exhibitis solid fundamentals, which are reflected by maintaining twin surpluses on the current account and by the public sector.

The measures implemented by the BCRA over the past few month, continue contributing to cushion the local impact of the global crisis, proving its capacity to mitigate stress episodes like last October (a 4.8% monthly fall of private sector deposits in pesos) and to rapidly normalize deposit and interest rate developments. In this scenario, during 2008 total M2 remained within the range the Monetary Program (MP) had foreseen, while private sector M2 was beneath the range stipulated by the MP, due to the external shocks. The moderation of growth of domestic demand and the lower prices of commodities explain the deceleration of indicators that reflect the local price developments.

The international financial turbulences originated a volatile environment that drove the worsening of prices of most local financial assets and the contraction of trading volumes. The negative trend affected sovereign bonds in both dollars and pesos adjustable by the CER, with the yield of Argentine bonds rising against US Treasury bonds. The Central Bank securities were less affected, to reveal a readjustment of the bidding terms and a contraction of the outstanding stock. The turbulent scenario also impacted deeply on corporate debt issues and the volatility of the major local shares.

During the rest of 2009 the goods-producing sectors, and services to a lesser extent, are forecast to remain affected by the international crisis. The fall of consumer confidence due to the greater uncertainty would continue driving an adjustment of household spending. This scenario may continue generating new challenges for the financial sector, until there are signs that the global crisis is reverting.

Chart II.1

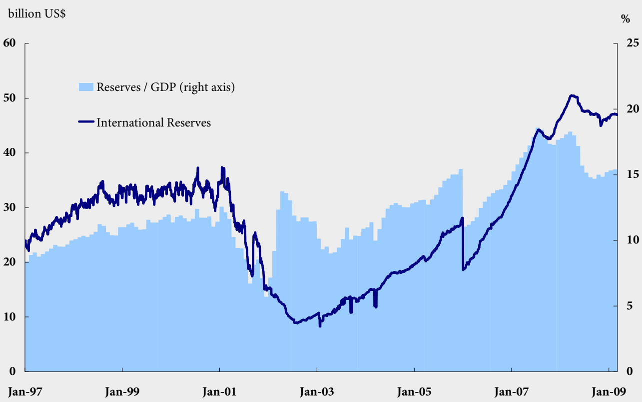
GDP

At 1993 prices

Source: INDEC

Chart II.2

International Reserves



Source: BCRA

Chart II.3

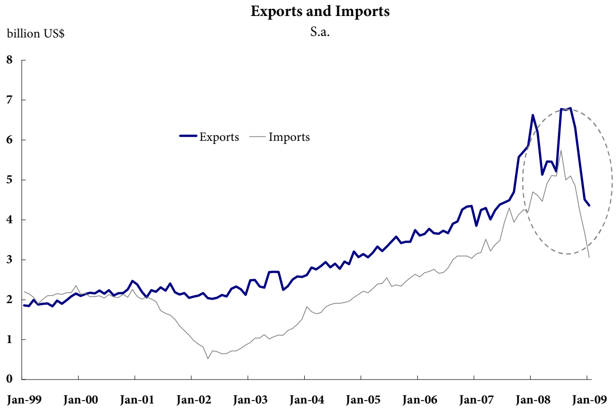
Contribution by Expenditure Component to GDP Growth

Source: INDEC

Chart II.4

Exports and Imports

S.a.

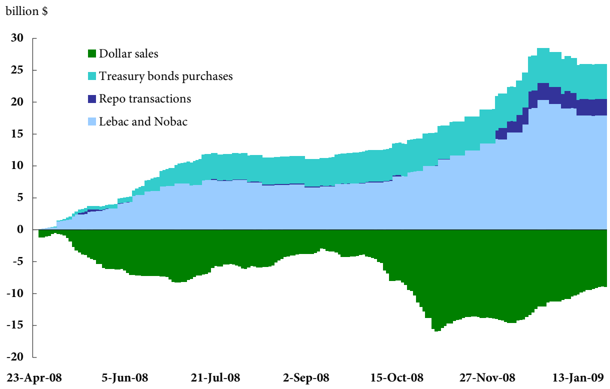


Source: INDEC

Chart II.5

Liquidity Provision Mechanisms and Dollar Sales

Accumulated daily flows



Source: BCRA

II.1 Macroeconomic context

In similar manner to other emerging countries, Argentina is being affected by the world crisis

The deepening of the international crisis continues affecting the Argentine economy, which ended 2008 with a slight quarterly contraction of its GDP (seasonally adjusted) for the first time in six years (see Chart II.1). After growing at a 8.2% year-on-year (y.o.y.) rate in the first half of 2008, during the second half the GDP thus expanded 5.9% y.o.y., a deceleration mainly explained by the slower growth of Gross Domestic Fixed Investment (GDFI) (see Chart II.3). Private sector consumption also showed slower growth, which was offset by the reduction of the negative contribution of net exports due to falling imports. The initial indicators of activity in 2009 still record a contraction of output, especially in goods, which reflects the smaller external demand.

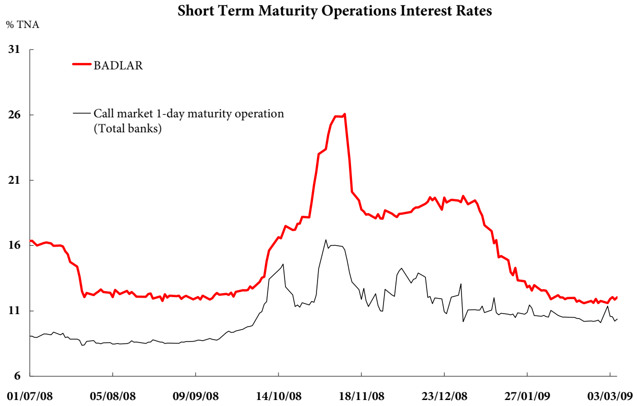
The performance of fiscal and external accounts is still a major pillar to ensure macroeconomic stability. Due to the contraction of world trade, worsening international prices and the decline of the local agriculture harvest, exports might show further falls during the year (see Chart II.4). Imports also exhibited a contraction as a result of a lower growth in domestic demand and the collapse of crude oil prices, helping to offset the fall of foreign sales and therefore limiting the fall of the trade balance in 2009, which should remain positive. The current account balance would post a surplus for the eighth consecutive year, at smaller values than previous years. The performance of public sector accounts shows some downwards correction in response to the deepening international crisis, although the primary result would remain in a surplus throughout the year.

The measures promoted by the BCRA help to cushion the impact of the international crisis

The Central Bank is using all the instruments it designed in recent years, and will develop further ones, in order to cushion the local impacts of the international turbulence. In that way, the BCRA continues to contribute to monetary and financial stability in a very unfavorable international scenario. Different mechanisms were used to face the expectations of a depreciation of the peso, stabilizing demand for money while providing liquidity to the financial system. On the foreign exchange front, the accumulation of international reserves, an instrument with potential benefits, has become one with concrete positive and tangible results (see Chart II.2), providing the BCRA a margin to operate on the spot foreign currency market.

Chart II.6

Short Term Maturity Operations Interest Rates



Source: BCRA

Table II.1

Monetary Program Targets - 2009

Stocks, in million		Mar-09	Jun-09	Sep-09	Dec-09
Total M2	Lower	165,603	171,633	175,950	188,190
	Upper	176,690	183,814	189,301	203,951
Private M2	Lower				157,075
	Upper				170,092

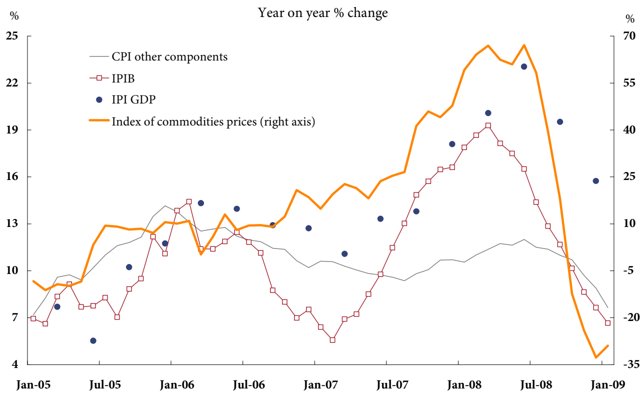
Y.o.y. % change		Mar-09	Jun-09	Sep-09	Dec-09
Total M2	Lower	10.5%	9.9%	8.1%	8.7%
	Upper	17.9%	17.7%	16.3%	17.8%
Private M2	Lower				9.8%
	Upper				18.9%

Source: BCRA

Chart II.7

Price Indexes

Year on year % change



Source: INDEC and BCRA

The BCRA also intervened actively on the futures market. Meanwhile it continues operates the repo loan line in dollars implemented in mid 2008.

Aiming to inject systemic liquidity, the BCRA adopted the repurchase and partial renewal of its bills (Lebac) and notes (Nobac). It also implemented a new channel for automatic repurchases of these securities on the secondary market to contribute towards providing liquidity, while it continued its purchases of government bonds through open market transactions (see Chart II.5).

In mid second half 2008 further measures were taken, like auctioning put options on BCRA bills and notes, reducing the minimum reserve requirement for foreign currency deposits, opening a window to prequalify collateral for the financial assistance regime, increasing the share of cash in bank vaults admissible for calculation of minimum reserves requirements, and increasing (from $3 billion to $10 billion) the maximum limit available for fixed rate repo loans. Should be noted the establishment of a liquidity window that allows banks to borrow funds with Guaranteed Loans and/or Bogar 2020 as collateral (as well as the instruments already available), deciding that these securities can also be used as collateral for inter-bank loans. A two-month period in October-November to calculate minimum cash reserves was also decided, in addition to the quarterly December-February period. Finally, a schedule was stipulated to auction options for access to foreign currency repos, limited to financial institutions who having increased their export finance, suffer falling foreign currency deposits.

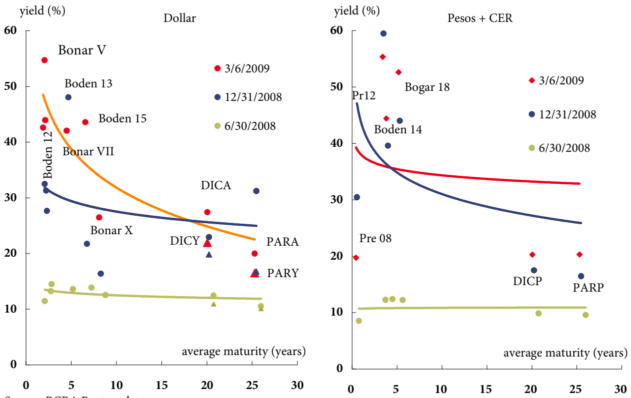
Total M2 ended 2008 aligned with the Monetary Program. A growth in the 8.7%-17.8% range is projected for 2009. Local prices started to show a deceleration

The BCRA continues to prove its capacity to moderate volatile episodes on the local markets. Following a stress period last October, both private sector deposits and interest rates (see Chart II.6) resumed their traditional development, as a result of the timely financial policy action implemented by this monetary institution.

In December the aggregate M2 average stock was within the range foreseen by the 2008 Monetary Program (MP), with $173 billion recorded, while private sector M2 was beneath the range set by the MP. The external shocks seen during the year determined the slower than expected growth of this monetary aggregate. During the rest of 2009 the BCRA aims to continue providing a

Chart II.8

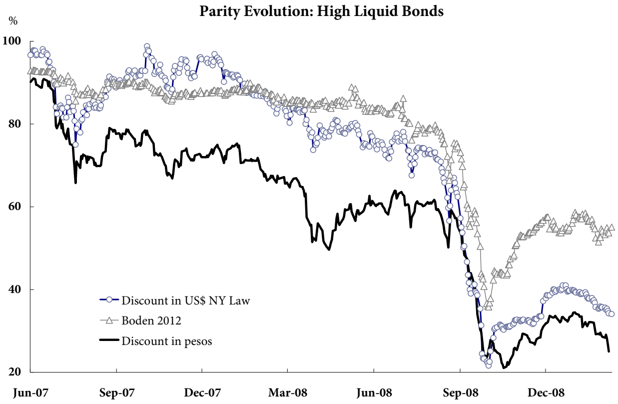
Argentina Yield Curves



Source: BCRA Reuters data

Chart II.9

Parity Evolution: High Liquid Bonds

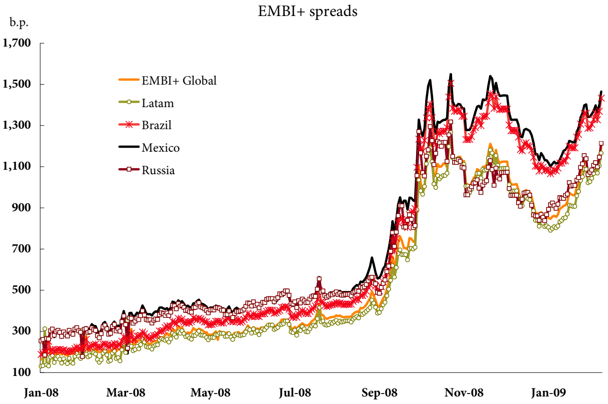


Source: BCRA from Reuters data

Chart II.10

Argentina vs. Emerging Countries Risk Spreads

EMBI+ spreads



Source: BCRA from Bloomberg data

predictable framework for the development of economic activity, by contributing towards monetary and financial stability. In addition to maintaining the already established target schedule, quarterly estimates of private sector M2 are added for both 2009 and at scenarios 12 months ahead that will be published at the end of each quarter. The MP 2009 targets foresee year-on-year growth for next December of the M2 aggregate in the 8.7%-17.8% range, and of 9.8% to 18.9% for private sector M2 (see Table II.1).

The different indicators available on local prices started to exhibit deceleration towards the end of 2008, as happened with the GDP Implicit Price Indicator (IPI) (see Chart II.7). The moderation of local demand added to the fall of commodity prices contribute to explain this development.

The fundamentals of the local economy would remain solid during 2009

Conditions on the international financial markets would remain rigorous during the rest of 2009. To face this scenario, upholding the positive results of Argentine fiscal and external accounts, throughout 2009, in addition to the preventive mechanisms the BCRA developed in recent years should limit fluctuations of the monetary and financial variables.

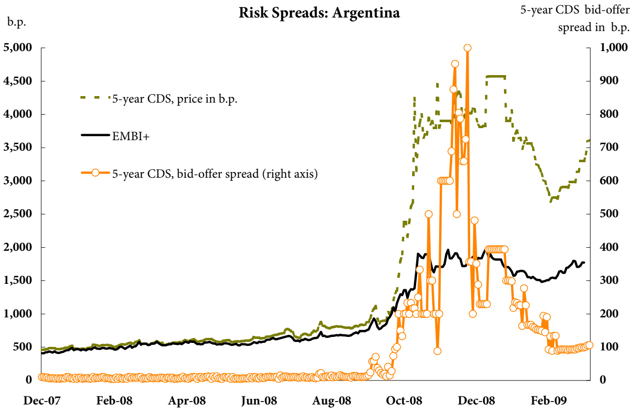
II.2. Capital markets

The international crisis, combined with factors of a local nature, makes up a very volatile environment with sharply worsening prices of the public sector fixed income securities

Due to the peaks of tension seen on the international markets, prices of the securities traded on the domestic markets accompanied the severe worsening observed in emerging country assets in general. As a result of the worsening international crisis, added to local factors, risk aversion, sharp price falls and the contraction of trading volumes prevailed on the local markets. For sovereign bonds, particularly, prices remained at distressed levels and were very volatile. The negative trend of government bond prices persisted for both dollar-denominated securities and those adjustable by CER, accelerating since September, while the yield curve slopes became more negative (see Chart II.8). The parities of the more liquid securities, after a partial rebound, resumed the weakening trend of recent months (see Chart II.9).

Chart II.11

Risk Spreads: Argentina

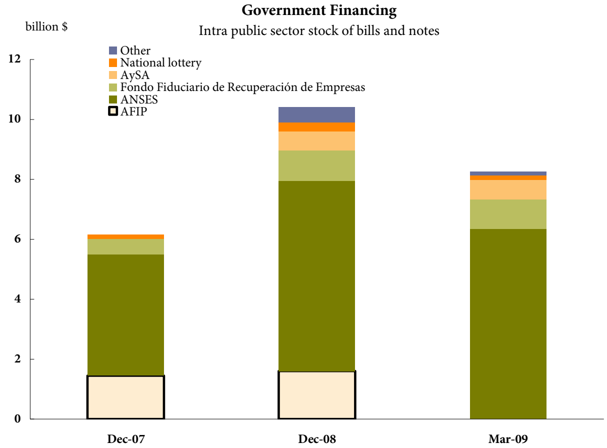


Source: Bloomberg

Chart II.12

Government Financing

Intra public sector stock of bills and notes

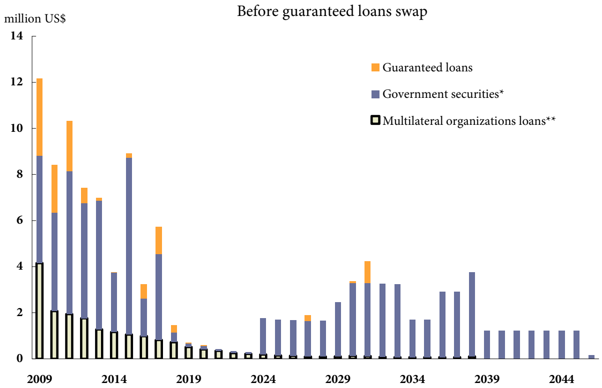


Source: BCRA from Ministry of Economy

Chart II.13

Amortization Profile of Sovereign Debt - December 2008

Before guaranteed loans swap



(*) Excludes Treasury Bills, Non-transferable BCRA Bills, includes Bogar, (**) Excludes BCRA Overdrafts and Bogar

Source: BCRA from MECON data

In a context of uncertainly and search for financial assets of relatively better credit quality, the risk spreads for Argentina measured by the EMBI+ approached 2,000 b.p. (see Chart II.10), while prices for the Credit Default Swap (CDS) hedging contracts reacted even more violently, amply exceeding the maximums they had reached during the first half of 2008[30]. For CDS the loss of liquidity was considerable (see Chart II.11), as their prices stopped providing relevant information

Facing a less favorable situation, financing the national government was mainly based on managing liquidity at public sector organizations. Therefore, the amount of outstanding intra-public sector securities is at present over $8.2 billion pesos. The main creditors of these securities are the ANSES, the "Fondo Fiduciario de recuperacion de Empresas" (Corporate Recovery Trust Fund), and AySA water and sanitation corporation, which are the outlet for over 90% of the issues (see Chart II.12).

During the early months of 2009 the government carried out a debt refinancing transaction in order to clear the concentration of maturities during the next three years (see Chart II.13). As the "Préstamos Garantizados Nacionales" (National Guaranteed Loans) accounted for approximately a quarter of the maturities during this period, a voluntary exchange of four of these issues for Bonar $ 2014[31] bonds was launched. The transaction was carried out in two tranches, domestic and international.

To cushion the impacts of the global crisis, the BCRA is carrying out a strategy of reducing outstanding stocks of Lebac and Nobac, shortening their maturities

In the framework of the BCRA measures that aim at mitigating the impact of the global turbulence on the local markets, the outstanding stock of Lebac and Nobac was reduced, with the floating rate securities gaining share to displace those at fixed rates (see Chart II.14). Concerning the composition by maturities, almost half the outstanding stock was in Lebac and Nobac maturing within one to six months, while securities with residual life spans of more a year were 11% of the total.

Successive Lebac issues saw rising interest rates, increasing about 400 b.p. when comparing more recent issues with those sold in mid 2008. The Nobac yields

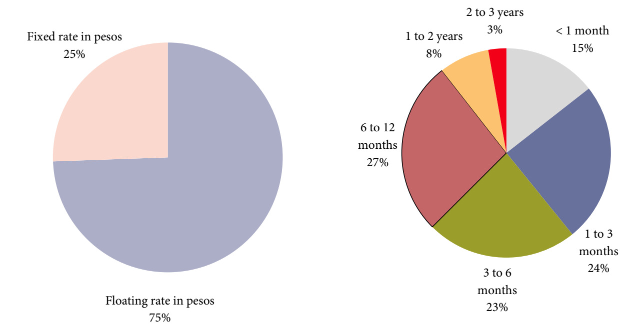
[30] In October 2008 Standard & Poor's reduced its rating for Argentina to "B-" (with a stable Outlook). In December Fitch Ratings also set its sovereign debt rating at "B-".

[31] The bond delivered in the exchange was the Bonar $ 2014 (choosing either a bond or a promissory note) amortizing on maturity, with a quarterly interest payment, with the coupon stipulated at fixed (15.4%) for the first year and at Badlar at private sector banks + 275 b.p. from the second to the fifth years.

Chart II.14

Outstanding Lebac and Nobac Stock Composition

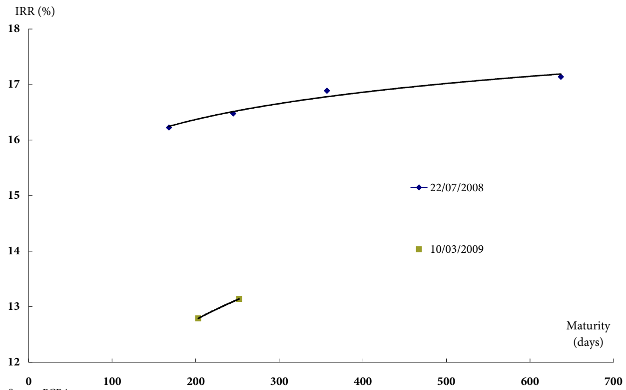
Outstanding stock by type of interest rate and maturity - Feb-09



Source: BCRA

Chart II.15

Yield Curve of Nobac Auctions

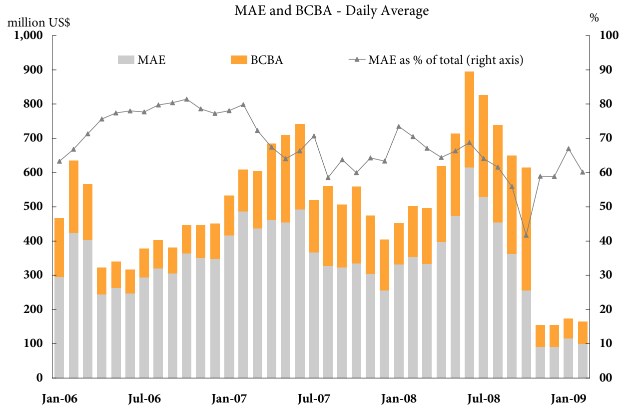


Source: BCRA

Chart II.16

Traded Volume of Government Bonds

MAE and BCBA - Daily Average



Source: BCRA from BCBA and MAE data

recorded an important contraction from the level they had reached in July (see Chart II.15), in line with the Badlar correction.

Lebac transactions on the secondary market (both local issues and those sold prior to October 2007) have been scarce during recent months, making it hard to define a yield curve. On the other hand, an improvement of Nobac prices from mid last year is observed, with yields contracting with the fall of the Badlar rate. Spreads over the Badlar rate remain positive, showing rising peaks in October and November (coinciding with the most turbulent period).

The volume of fixed income securities traded locally (including Lebac and Nobac) exhibited a persistent decline, a trend that accelerated since the end of 2008

The trading volume of fixed income securities on the domestic market reversed the rising trend seen during the first half of 2008 (according to MAE and BCBA data) after reaching, in june, a record hight in recent years. From this peak an uninterrupted fall of the trading volume began (consistent with the price weakness observed), a performance that accelerated at the end of 2008 (see Chart II.16). The volume of Central Bank Lebac and Nobac traded on the secondary market also fell during 2008, exhibiting a less marked decline.

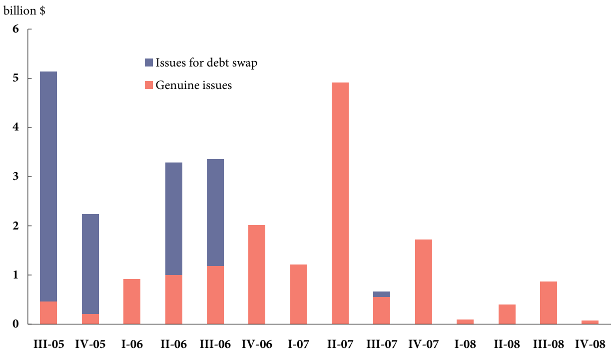
The volume of Argentine securities traded during 2008 fell 41% globally (according to EMTA survey data), accompanying the fall observed in emerging country instruments overall (36%). In perspective, both the prices of the fixed income securities and the amounts traded are expected to recover gradually in coming months, to the extent that the international financial market conditions start to show positive signs.

Sharp fall of the amounts of corporate debt issues

Funding with corporate bonds (ON) issues fell sharply in the second half of 2008 compared to the year before, with two sizeable issues seen at the beginning of 2009. Considering all corporate debt issues (ON, SME ON and short term paper –VCP-), financing obtained during the second half of 2008 was slightly more than $930 million (see Chart II.17). As a result of the uncertainty prevailing, several companies cancelled their debt issues once the subscription period had started, while others decided to postpone issues (already approved by the CNV) to await better market conditions. The issues that were made were highly concentrated in the energy, metal and financial sectors. Dominating the financial

Chart II.17

Issues of Corporate Bonds, Commercial Papers and SMEs Bonds

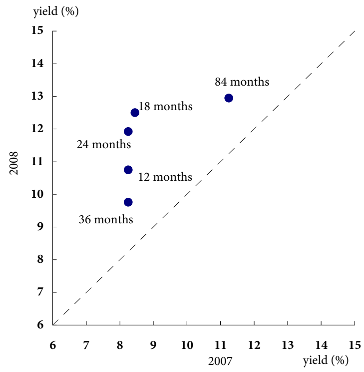


Source: BCRA from Fundación Capital, BCBA and CNV data

Chart II.18

Corporate Bonds Yield Curve

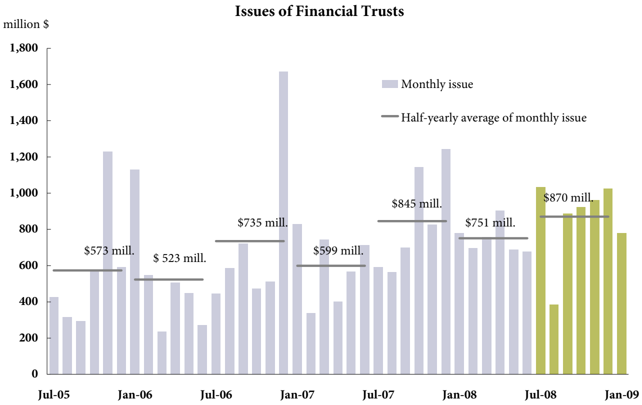
Median of issues by maturity



Source: BCRA from BCBA and CNV data

Chart II.19

Issues of Financial Trusts



Source: BCRA from CNV data

sector issues were finance companies that focus on consumer lending. During 2008 the banking sector only carried out three VCP issues.

The rise of financial costs for private sector debt issues was noticeable on the primary market (see Chart II.18). In 2008 increasing yields were ratified by issues of instruments with different maturities and irrespective of their credit rating. Meanwhile, issues recorded a shorter borrowing horizon, with only two issues at maturities longer than five years. The growth of corporate bond issues in coming periods would depend on whether there are improvements in the market scenario, to therefore reduce funding costs.

Consumer related financial trusts consolidated as the main instrument to finance the private sector through the markets

Financial trust issues were able to continue growing during recent monts (see Chart II.19). During 2008 financial trust issues totaled more than $9.7 billion (12% y.o.y. growth) with a total of 244 issues. New issues recorded a steep fall in August due to changes in their income tax treatment[32], to resume the pace of issues in the following months. This confirms the vigor of financial trusts as a financial choice and to apply savings, even in uncertain times. The impact of market volatility was reflected by the higher interest rates for these securities. Underlying assets linked with consumption – personal loans and credit cards- still have a greater weighting in securitizations (see Chart II.20).

Trading in deferred payment checks exhibits a recovery in volumes, after they fell during the first half of 2008. Although the volume traded is seen to be volatile, it remained at high levels, marking new maximums in recent months. The more adverse scenario is revealed by the rising discount rates that were seen, especially for sponsored checks.

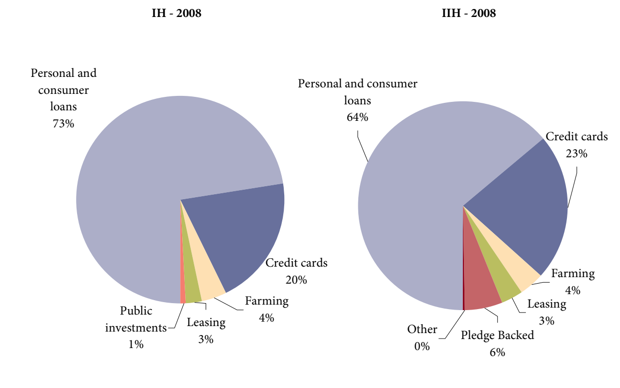
Developments in equity market accompanied the worsening scenario, with volatility increasing sharply

The Merval index recorded a sharp fall between September and November (measured in both pesos and dollars) due to the deepening crisis on the global markets. In recent months an extremely volatile performance has been seen (see Chart II.21).

[32] Income tax deductions were restricted on the distribution of profits generated by participation certificates in publicly traded financial trusts set up as from August 2008.

Chart II.20

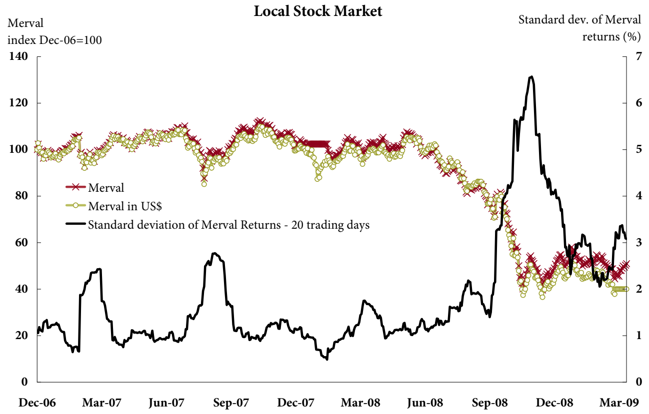
Issues of Financial Trust - Classified by Underlying Assets



Source: CNV

Chart II.21

Local Stock Market

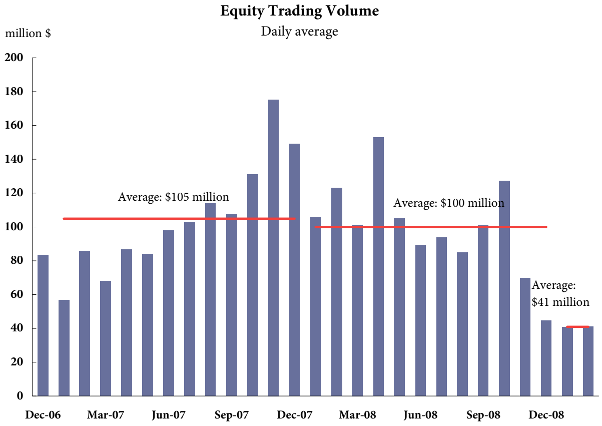


Source: BCBA and Bloomberg

Chart II.22

Equity Trading Volume

Daily average



Source: BCBA

The banking shares with most weighting on the Merval index worsened overall during the second half of 2008, to exhibit a more dissimilar performance in recent months. Shares of Tenaris and Petrobras (the companies with most weighting in the index) accompanied the falling crude oil prices.

During the second half of 2008 there were almost no share subscriptions (there was only one by an industrial firm). Therefore during the year equity subscriptions fell almost 60% from the value they reached in 2007. If the current uncertain conditions persist, share issues are expected be disregarded as a choice for financing.

In order to mitigate the impact of the financial crisis, while taking advantage of the sharp price falls, during recent months several local firms have carried out share repurchase programs, whether as direct market intervention or public repurchase tenders offer. A number of financial institutions implemented direct market repurchases, while firms like Molinos Río de la Plata, Pampa Energía and Edenor carried out both public repurchase tenders offer and direct repurchases.

In line with what was seen on the fixed income market, a contraction of turnover in equity markets was recorded (see Chart II.22).

The volume of foreign exchange futures contracts stabilized with longer maturities

During the second half of 2008 new traded maximums of exchange rate derivatives were reached as the international crisis became more acute. The amounts of derivative contracts traded recorded peaks in September and October (MAE and Rofex), partly in connection with the growing activity recorded on the spot market, as the scale of the crisis eroded the value of emerging country currencies. The growth of volumes was also associated with the BCRA participation in the futures markets in order to avoid abrupt changes in a scenario of increasing uncertainty about the futures markets.

Longer terms for open foreign exchange derivatives contracts are still seen, ranging from four to six months during 2008, considerably longer than the maturity of open contracts during 2007. To the extent that the global scenario reinforces the need to hedge exchange rate risk, the volume of the dollar futures market could remain at relatively high levels.

III. Debtors Performance

Summary

Local economic activity is recording the negative effects of contracting global growth, a consequence of the international financial crisis that is currently evolving and spreading at an unprecedented rate. In this new scenario, companies and households alike are experiencing growing uncertainty about the economic conditions that will prevail in coming months. Furthermore, the probability of some deterioration in their payment capacity being recorded has increased.

The economic and financial situation of companies maintains steady, although performance has differed according to the productive sector in which they operate. The global crisis has had greater impact on those segments manufacturing durable goods. The drop in international trade is affecting export shipments of vehicles and chemicals (as well as impacting on basic metals sectors). This situation has been made worse by lower domestic sales. In this scenario, the contraction in manufacturing activity expected for coming months would present certain challenges to the economic and financial position of firms in this sector, and would probably affect their payment capacity. The manufacturing sector shows lower levels of indebtedness, a trend driven in particular by the reduction in foreign liabilities.

Farm output is showing the negative impact of falling commodity prices and the major drought affecting the country in recent months that has reduced farm income. Harvest forecasts indicate declines, particularly in the case of cereal crops. Local and international conditions have also been reflected in livestock production, driving farmers in this sector to ship large numbers of animals to market. This led to some decline in domestic prices and economic losses on sales. Adverse conditions facing the primary sector could place stress on their payment capacity over the course of 2009, although the moderate indebtedness of companies in the sector helps limit these risks.

Service companies continue showing acceptable levels of activity, combined with rate adjustments and declining debt levels, contributing to the preservation of a sound financial position for the sector. Commercial businesses have seen a decline in their performance, reflecting lower consumer spending. Construction sector activity is deteriorating following several years of steady growth. Reduced borrowing levels will help this sector to maintain its sound financial position.

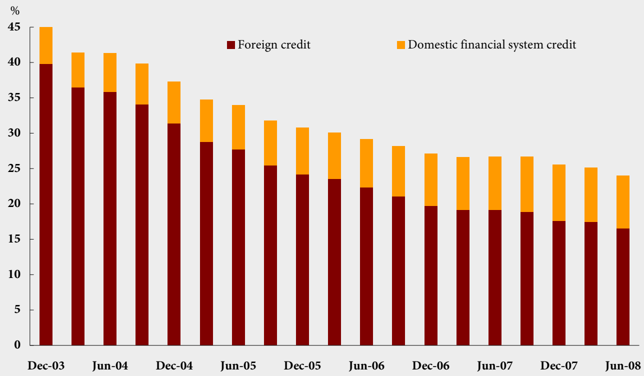
Households have been steadily increasing their levels of indebtedness and the relative burden of financial service costs. In the context of the lower growth expected for incomes over the rest of 2009, this sector's payment capacity could come under pressure, particularly in some population strata.

Lastly, the public sector continues to post surpluses, although its performance records the change in local context derived from the deepening international crisis. Adequate financing resources will be available for 2009.

Chart III.1

Corporate Debt

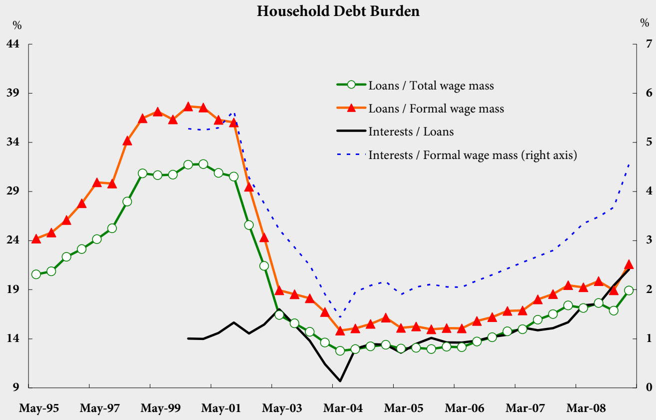
As % of GDP 4-quarter moving average



Source: INDEC and BCRA

Chart III.2

Household Debt Burden

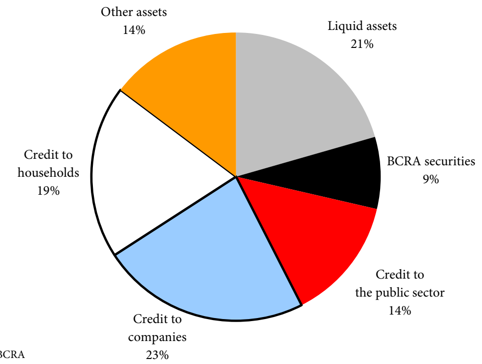


Source: INDEC and BCRA

Chart III.3

Financial System Asset Portfolio

As % of netted assets - December 2008

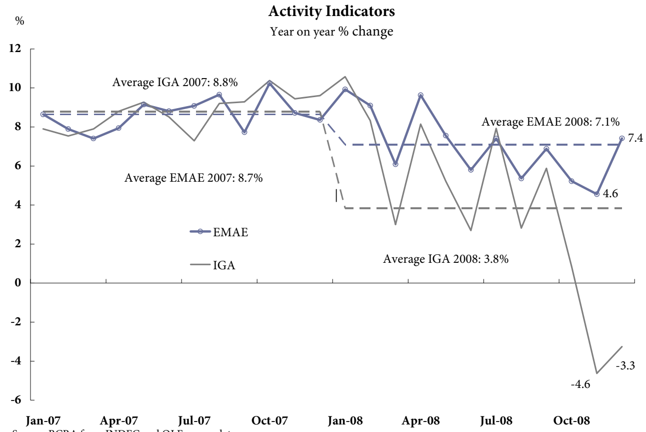


Source: BCRA

Chart III.4

Activity Indicators

Year on year % change

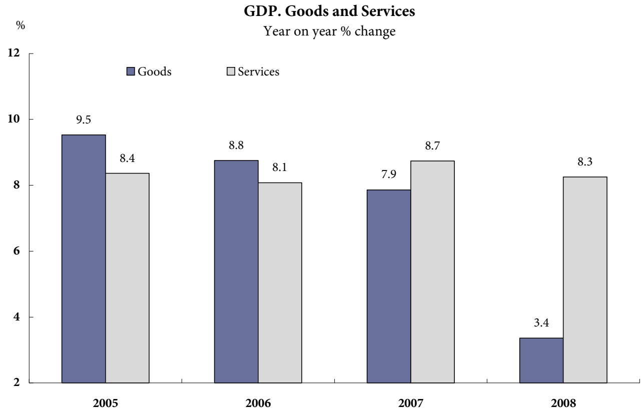


Source: BCRA from INDEC and OJ Ferreres data

Chart III.5

GDP. Goods and Services

Year on year % change



Source: INDEC

III. Financial system debtors

Private sector lending is increasing its share of bank assets, although this development would probably slow in coming months

The financial system continues to increase its lending to the private sector (see Chart III.3), although the growth rate has been slower in recent months. Banks continue to reduce their public sector exposure, in the context of higher liquidity levels. Growing uncertainty about the economic outlook for companies and households could moderate credit demand in coming months, at least until there start to be signs of some decline in global turbulences. In the event of any change in the conditions on global financial markets, the financial system has considerable resources to strongly increase credit to the private sector.

III.1 Corporate sector

Corporate financial positions have remained relatively stable, in a context of some deterioration in economic prospects and lower levels of total indebtedness

Local economic activity is beginning to be affected (see Chart III.4), reflected mainly in those sectors related to the production of durable goods, such as manufacturing and construction. Falling raw material prices and the severe drought that the country has suffered in recent months were responsible for a significant decline in agricultural activity. Service sector output continues to expand, although at a more moderate rate (see Chart III.5).

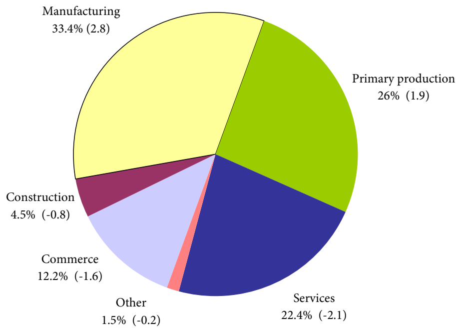
In recent months manufacturing and primary goods producers have been making greater relative use of bank credit (see Chart III.6), at a time when their own funding resources have been reduced. As a result, manufacturing and primary production have strengthened their position as the main productive sectors receiving credit from the financial system.

Total corporate sector indebtedness, including both domestic and foreign resources, has maintained the downward trend seen in recent years (see Chart III.1). Foreign liabilities have continued to decline in terms of GDP, although they still represent over two-thirds of total corporate financing. Loans in foreign currency from non-residents represent a potential source of vulnerability in the case of fluctuations in the currency exchange rate, in so far as the goods and services produced are not targeted at foreign trade. Local bank

Chart III.6

Composition of Corporate Loan Portfolio

December 2008 - HII-08 share change in p.p. between brackets

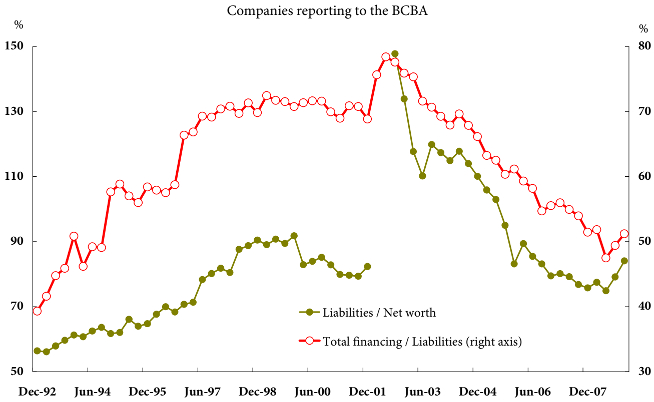


Source: BCRA

Chart III.7

Corporate Debt Burden

Companies reporting to the BCBA

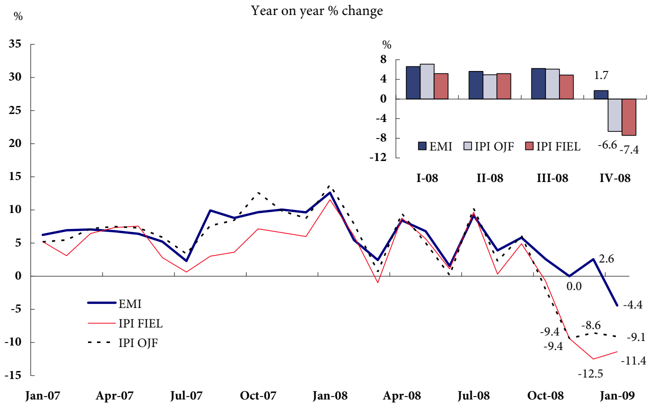


Source: BCRA from BCBA data

Chart III.8

Recent Industrial Evolution

Year on year % change



Source: INDEC, FIEL and OJ Ferreres

financing has shown a slight reduction in its share of corporate sector output.

The financial position of the large corporations listed on the local Stock Market has remained relatively steady, with some increase in leverage and a gradual growth in participation of financing in total liabilities (see Chart III.7). The financial situation of these firms could deteriorate mildly in coming months, in line with the lower local economic activity and declining activity in the main export destinations.

The moderate indebtedness levels for the aggregate of all companies, despite current business performance, ensure the corporate sector can maintain a satisfactory economic and financial position. Over the remainder of 2009 it is expected that there would be a slowing in the GDP growth, based on the weakness of international demand and the conditions affecting the agricultural sector, a situation that could be partly offset by the measures adopted by the National Government.

Productive sectors

Manufacturing activity has slowed generating incipient tension in payment capacity

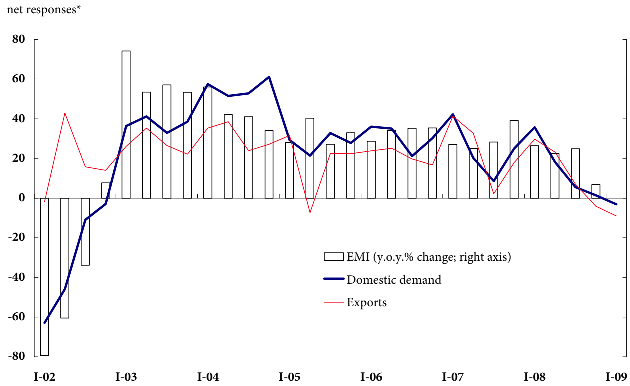
Manufacturing output registered a contraction (see Chart III.8), reflecting lower domestic and foreign demand. International economic deterioration is leading to a reduction in export shipments, particularly cars and chemical products. This situation, aggravated by lower domestic sales, is leading to a downward revision in production schedules for these industries and those that are linked to them (such as basic metal industries). Those manufacturing sectors showing the greatest dynamism in previous years have been most affected, and they are likely to show declines centered mainly on the first six months of 2009.

Use of installed capacity (UIC) remains relatively unchanged, in general showing a comfortable situation. Given expectations for domestic and external demand (see Chart III.9), there is not likely to be additional investment over the course of the year.

Manufacturing sector indebtedness levels have shown a slight reduction, driven by the behavior of foreign debt (approximately 43% of sector GDP, 23 p.p. less than at the end of 2003) (see Chart III.10). In this context, there is a greater use of local banking resources. The expected decline in manufacturing activity could be reflected in some deterioration in the financial position of the sector, which could eventually affect its payment capacity.

Chart III.9

Business Perspectives



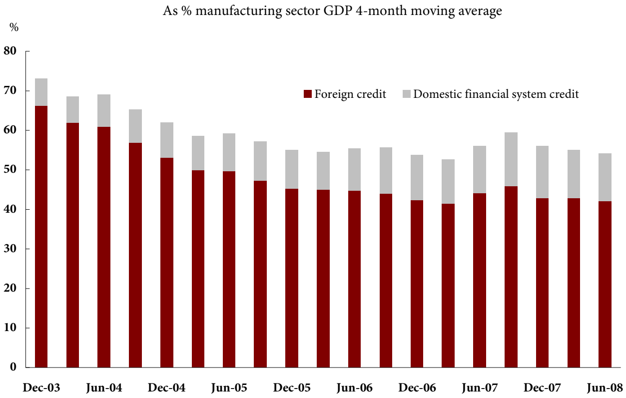
* current quarter perspectives respect to the same quarter of previous year

Source: INDEC.

Chart III.10

Manufacturing Sector Debt

As % manufacturing sector GDP 4-month moving average



Source: INDEC and BCRA

Table III.1

Grains and Cotton Production

	2006-07 thousand tns	2007-08 thousand tns	2008-09 february thousand tns	% Change of production	thousand tns change 2008-09 vs 2007-08	2008-09 october thousand tns	thousand tns. change february vs october
Cereals	**41,731**	**44,531**	**30,539**	**-31.4**	**-13,993**	**35,933**	**-5,395**
Corn	21,755	22,000	15,500	-29.5	-6,500	18,500	-3,000
Wheat	14,548	16,300	8,300	-49.1	-8,000	10,500	-2,200
Sorghum	2,795	2,937	3,119	6.2	182	3,266	-147
Others	2,633	3,294	3,620	9.9	326	3,667	-47
Oilseeds	**52,340**	**51,518**	**44,452**	**-13.7**	**-7,066**	**55,133**	**-10,681**
Soybean	47,461	46,200	41,000	-11.3	-5,200	50,500	-9,500
Sunflower	3,630	4,630	2,750	-40.6	-1,880	3,930	-1,180
Other	1,249	688	702	2.1	14	703	-1
Cotton	**545**	**494**	**3,815**	**672.8**	**3,321**	**506**	**3,309**
Total	**94,616**	**96,543**	**78,805**	**-18.4**	**-17,737**	**91,572**	**-12,767**

Source: BCRA from SAGPyA and USDA data

Primary sector activity has shown a sharp deterioration in recent months, a situation that could have a moderate impact on its ability to face maturing financial obligations

Upon the outbreak of the international crisis, prices of commodities produced by Argentina fell sharply (after having risen significantly until early 2008), reducing the income expected by local producers. Several drought episodes experienced in recent harvest seasons have led to a decline in areas planted and grain yields, as well as a scarcity of animal feed, further complicating farming sector balance sheets.

Forecasts for the 2008/09 harvest shrank sharply as a result of the major drought that harmed a large portion of the agricultural and livestock regions. In this context, it is expected that volumes obtained will be well below those of the previous season (see Table III.1). Prices of the main grains produced by the country steadied at the beginning of 2009, although at levels that are still below those that had been expected by farmers when they started their sowing activity.

Livestock farmers are also feeling the effects of declining international demand and the domestic drought. Lack of water led to increased animal mortality and shortage of feed, forcing farmers to increase the shipment of animals to market to avoid further losses. The consequent oversupply and lack of animal finishing caused a sharp drop in domestic prices, resulting in economic losses for farmers.

Primary sector moderate indebtedness levels (see Chart III.11) continue to represent a positive factor when it comes to determining the financial position of the sector. Nevertheless, if the deterioration in the economic conditions faced by the primary sector were to persist, it could face some pressure on its payment capacity in coming periods.

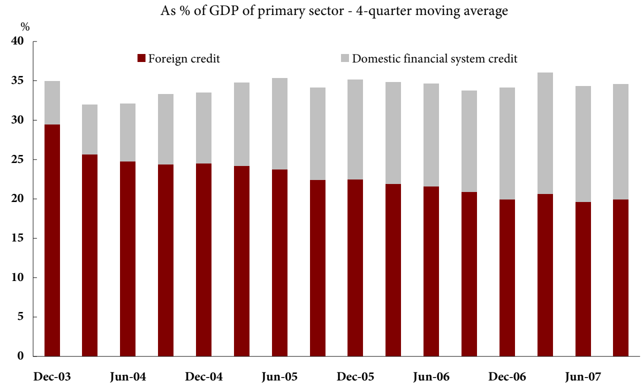
Sustained levels of activity in the service sector, added to tariff adjustments, contribute to ensuring that companies continue to show a relatively more favorable economic and financial position

Services companies record high activity levels (see Chart III.12), driven mainly by telecommunications (see Chart III.13). In coming months there is expected to be a lower sectorial growth, although expansion will still be higher than in manufacturing. It should be noted that the industrial slowdown could have a negative impact on energy demand, while at the same time lower

Chart III.11

Primary Sector Debt

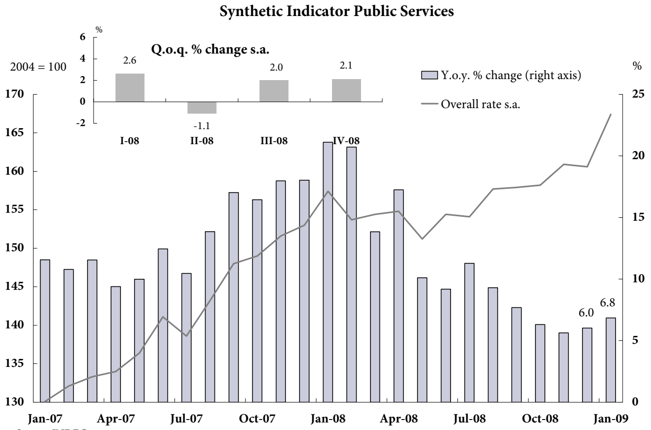
As % of GDP of primary sector - 4-quarter moving average



Source: INDEC and BCRA

Chart III.12

Synthetic Indicator Public Services

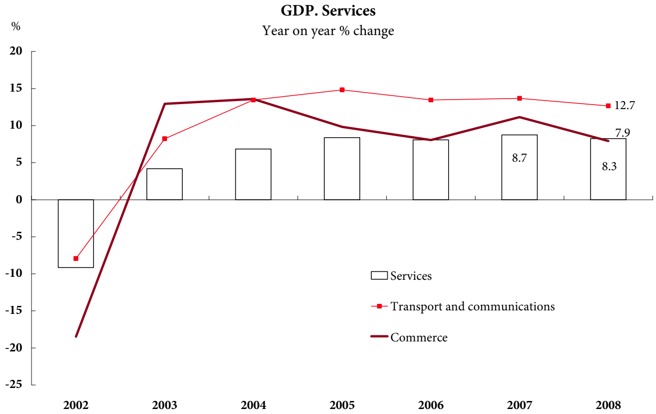


Source: INDEC

Chart III.13

GDP. Services

Year on year % change



Source: INDEC

production in the primary sector would have a repercussion on transport services.

Part of the companies in the sector will record an improvement in their financial situation given the authorized increase of various utilities rates (in the areas of electricity, gas and public transport). This scenario of higher income, combined with lower borrowing levels (almost 19% of sector GDP) and declining (led by the reduction in borrowing abroad), will help maintain the already sound economic and financial position of companies in the service sector.

Slowing activity levels for companies in the wholesale and retail sectors will persist in coming months, generating certain pressure on their financial position

Retail trade is facing an activity slowdown, with lower sales being recorded by both supermarkets and shopping malls (see Chart III.14). This decline in activity is widespread across all product segments, being particularly strong in the case of non-essential goods.

Car sales fell sharply towards the end of 2008, and no significant recovery is foreseen for coming months. Sales of other durable goods and household appliances have been less affected, in part because they have benefited from price promotions and credit terms introduced on the basis of Government measures. No new investment is planned for any increase in sales outlets for the sector in coming months, during a period in which consumer spending is projected to drop. Reduced activity levels for commercial firms could lead to some pressure on their financial position, with an eventual impact on their payment capacity.

Within the framework of low levels of indebtedness, construction companies have continued to record a sound economic and financial position

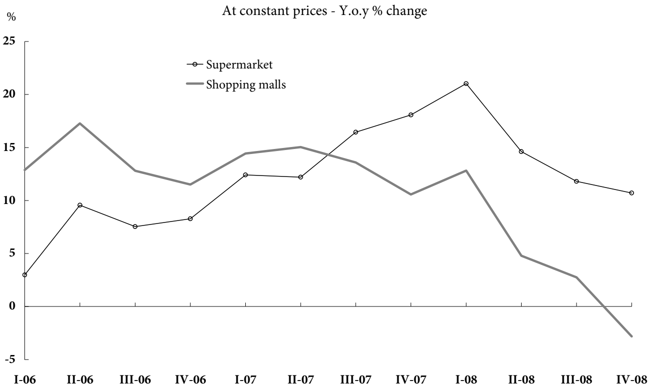
The slowdown in the construction sector deepened over 2008, after several years of strong growth (see Chart III.15). Uncertainty generated by the international crisis and lower demand for real state continued to have a negative impact on the sector.

Over the rest of 2009 it is expected that performance will differ between private construction and those linked to the public sector. Private sector construction would reduce its activity according to the behavior of cement shipments, building permits, and surveys of business opinion in the sector. Meanwhile, the implementation of

Chart III.14

Supermarket and Shoping Malls Centers

At constant prices - Y.o.y % change

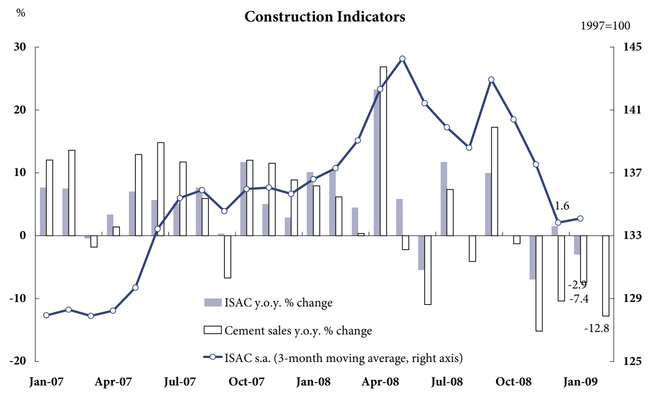


Source: INDEC

*Deflated by IPI of private consumption

Chart III.15

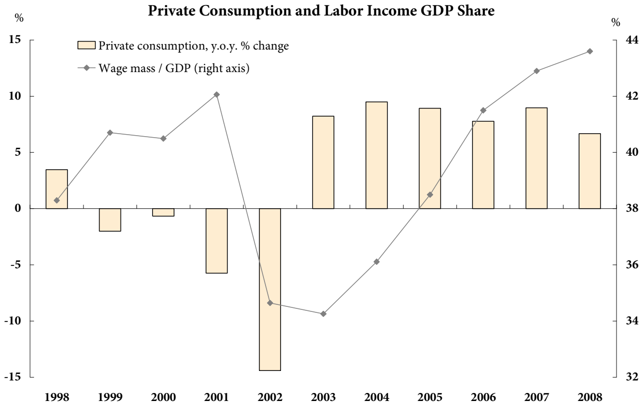
Construction Indicators



Source: INDEC and AFCP

Chart III.16

Private Consumption and Labor Income GDP Share



Source: INDEC

government infrastructure programs will increase the activity of companies in the business of constructing public works, which demonstrated lower dynamism in 2008. Last December the Government announced a program called "Plan de Obras para Todos los Argentinos" that includes investments in the fields of energy, mining, communications, transport and housing. Under this program, funds allocated to housing in 2009 will almost double those for 2008.

It should be noted that construction companies record low indebtedness levels (almost 12% of sectorial GDP), and this, together with the profits obtained from the activity in recent years, will enable them to continue evidencing a good economic and financial position, regardless of the impact of a possible further slowing of activity in coming months.

III.2 Households

As the economy slows, the labor market could show signs of weakness during next months, presenting a challenge to the capacity of households to face their liabilities

Falling consumer confidence in the face of rising uncertainty is being accompanied by tighter household expenditure as families are more precautions. Household consumption growth has slowed (see Chart III.16), at a time when the labor market has ceased to post improvement and wage increases are likely to be lower than in previous years.

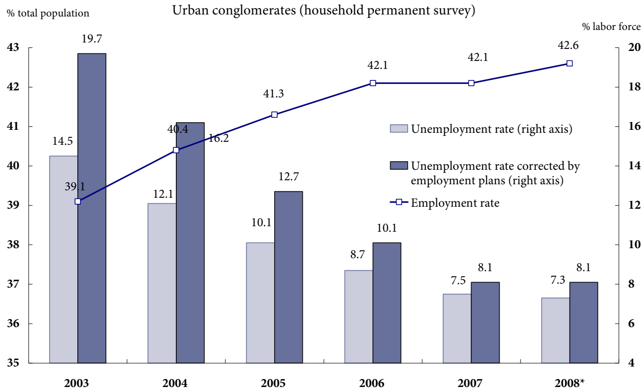
Companies in some sectors, that of manufacturing in particular, decided to bring forward vacations and suspend personnel to reduce production and lower their inventory levels. Despite these actions, unemployment continues to record a slightly downward trend (see Chart III.17). The labor market could display less relative strength in coming months, in line with the lower dynamism of the economy.

Nominal income has maintained a growth rate similar to that of 2007, with signs of a slight slowdown in coming months. Falling inflation levels are expected to lead to lower nominal increases in future wage negotiations. In terms of total income, this effect will be partly offset by lower taxes and increased transfers from the public sector. In particular, in recent months changes have been made to the way income tax is calculated favoring salary-earners, and increases have been announced in government welfare payments and other benefits. The first adjustment to social security benefits under the Law

Chart III.17

Employment and Unemployment Rate

Urban conglomerates (household permanent survey)



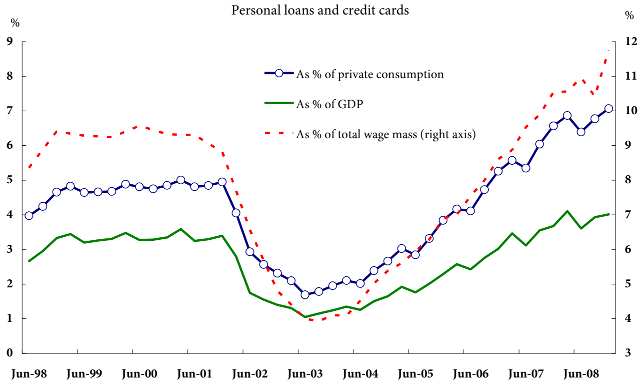
Source: INDEC

*unemployment rate updated by third quarter data

Chart III.18

Household Consumption Indebtedness

Personal loans and credit cards

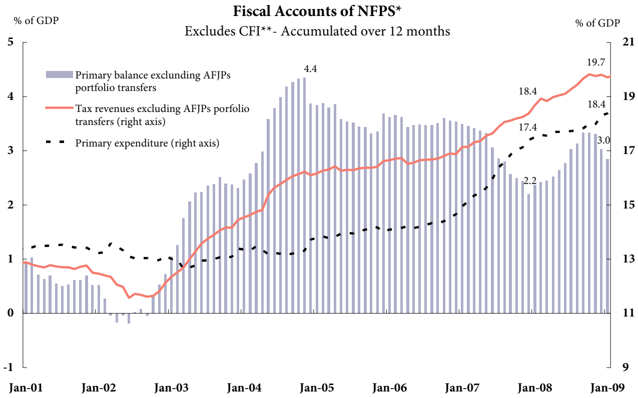


Source: BCRA

Chart III.19

Fiscal Accounts of NFPS*

Excludes CFI**- Accumulated over 12 months



* Non-financial National Public Sector, cash basis; ** Federal tax revenues sharing and special laws

Source: BCRA from Treasury Secretariat and INDEC data

on Social Security Payment Adjustments will take place in the first half of 2009.

As has been seen in recent years, households continue to increase their indebtedness levels and the burden of the service on debt at a faster rate than the growth in their income (see Chart III.2). This situation could eventually be reflected in their repayment capacity. This higher household borrowing is being driven by consumer credit lines (personal loans and credit cards) (see Chart III.18), which have at present received a weighting above that seen in the pre-crisis period in 2001-2002 in terms of GDP, total income and private sector consumption. This trend could alter in coming months as household consumption slows further.

III.3 Public sector

Public sector performance reflects the deepening of the international crisis and its impact on the domestic economy

In 2008 the primary surplus of the national non-financial public sector (NFPS) recorded an improvement on an annual basis (see Chart III.19), mainly because of the rise in tax revenues[33], a development that does not include the transfer of the asset portfolio derived from the social security reform. Nevertheless, towards the last quarter of 2008 federal tax revenues showed signs of slowing. The decline in the growth of revenues was due to the performance of export duties and value-added tax (VAT), and was partly offset by increased social security revenue (as from December, this includes contributions previously allocated to the private pension system). Revenue in real terms continued to post a reduction in its growth rate (see Chart III.20). The tax burden at federal level set a new record in 2008 of close to 26% (see Chart III.21).

Primary expenditure continued to increase, influenced by larger transfers to the private sector and higher social security benefits. As a result, primary spending set a new all-time record, representing approximately 24.7% of GDP (see Chart III.22).

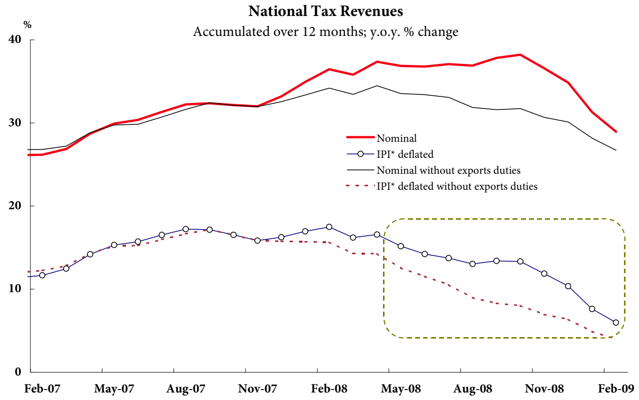
The primary surplus totaled approximately 3.1% of GDP in 2008. The financial result therefore recorded an increase to 1.4% of GDP, more than the rise in the payment of interest, mainly related to the payment of GDP-linked bond coupons.

[33] For a more detailed analysis of public sector income and expenditure, see the Inflation Reports for the fourth quarter of 2008 and the first quarter of 2009.

Chart III.20

National Tax Revenues

Accumulated over 12 months; y.o.y. % change

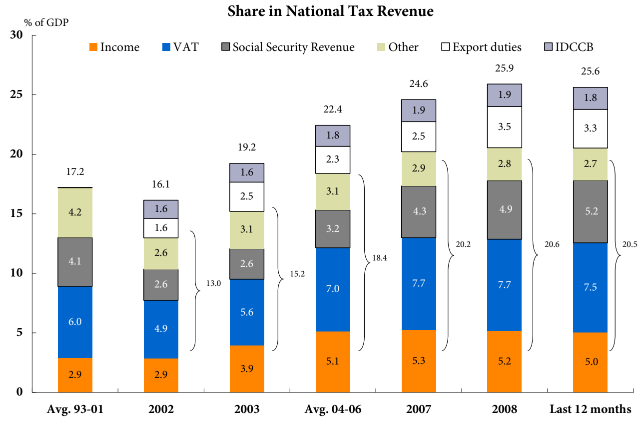


* Implicit Price Index of GDP

Source: BCRA from Treasury Secretariat and INDEC data

Chart III.21

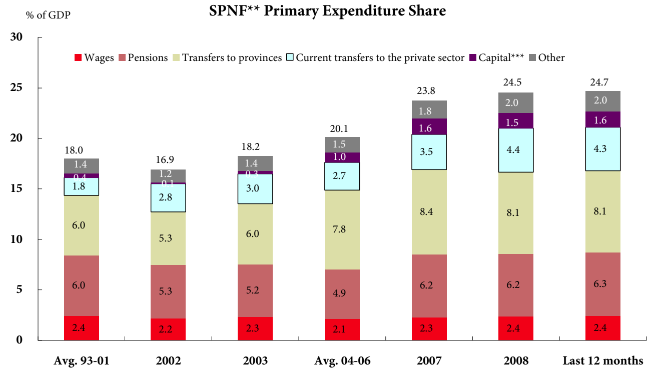
Share in National Tax Revenue



Source: BCRA from Treasury Secretariat and INDEC data

Chart III.22

SPNF Primary Expenditure Share**



*Includes automatical transfers to provinces; **Non-financial private sector; ***Excludes capital transfers to provinces

Source: BCRA from Treasury Secretariat and INDEC data

During 2009 revenue continued to represent a similar proportion of GDP, with a lower share of export duties and larger resources originated in the creation of the "Sistema Integrado Previsional Argentino" (Integrated Argentine Social Security System). Spending would be boosted by the adjustments due on social security benefits[34], the infrastructure program, and other fiscal measures announced by the National Government, in line with anti-cyclical policies adopted in the rest of the world.

In view of the expected performance by income and expenditure, the public sector will continue to record a primary surplus.

National public debt would continue to maintain its share in GDP over the course of 2009, after a fall in 2008

At September 2008 the national public debt (NDP) totaled US$145.7 billion, higher than at the end of 2007 as a result of CER adjustments and interest capitalization. These effects were partly offset by net debt amortization. As a result, NDP totaled approximately 46% of GDP, with a drop of around 10 p.p. compared with December 2007.

Domestic sources would be sufficient to meet NFPS borrowing requirements in 2009

During the first two months of 2009 the National Treasury carried out a swap of PGN ("Préstamos Garantizados Nacionales") for approximately $15.6 billion in the local segment and $3.4 billion in the international segment, involving securities maturing on the 2009-2011 period. To do so, bonds and promissory notes were issued with a 5-year bullet repayment. The result of these operations made it possible to reduce the maturity burden for the year by almost $6.5 billion, equivalent to over 10% of 2009 borrowing requirements.

The remaining public sector borrowing needs are concentrated mainly in the third and fourth quarters of 2009, and mostly consist of servicing and repayment of BODEN 12 bonds and the GDP-linked coupon. Even within the context of restricted access to international credit markets, domestic sources of funding and some liability management actions would be able to ensure debt maturities can be met.

[34] Law No. 26.417.

IV. Financial Sector

Summary

Financial intermediation with the private sector is growing at a moderate pace in a scenario of persistent worsening of the international financial markets which impacts on local economy. Institutional investors are reflecting the effects of a more uncertain environment, adjusting their portfolios to relatively more liquid securities. As from December the new Argentine Social Security System (SIPA) became applicable; it is of a solidarity and pay-as-you-go nature, and absorbed and substituted the individual capitalization scheme.

Financing to the private sector recorded a deceleration in their growth, with a relative larger share of public banks seen. The expansion of credit to households, especially the consumer-related loans (credit cards and personal loans) was still significant, while in corporate credit segment, manufacturing and the primary sector are increasing their shares. The growth rate of private sector deposits is slower (with a transitory fall recorded in October) maintaining their share in total funding of the financial entities (almost 55%).

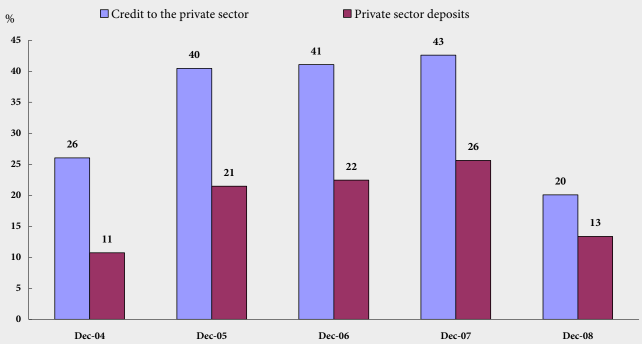
The financial system exhibited nominal book profits for the fourth consecutive year (ROA of 1.6% in 2008, at a similar level as the year before). Resources from the more stable origins, net interest income and service income margin, explains two thirds of bank earnings. Nevertheless, in the current scenario of high volatility on financial markets, if banks' public sector assets portfolio is value at market prices, the nominal accounting profits earned during the last two years would become negative.

Net worth of the financial system keeps growing, while qualitative improvements are observed. Banking system maintains a capital compliance ratio of 16.8% of risk-weighted assets, exceeding both international recommendations and local requirements. Financial system solvency remains at adequate levels even if the portfolio of public sector assets is valued at market prices. The fresh capital contributions received during recent years, as well as the recovery of the traditional revenue sources and the limited risks that the financial entities are facing, provide support for the sector's soundness. During coming months the solvency of the financial sector is expected to continue consolidating gradually, a process that might be somewhat affected by the slower growth of the volume of financial intermediation.

Chart IV.1

Financial Intermediation with the Private Sector

Stock balance % y.o.y change - Financial system



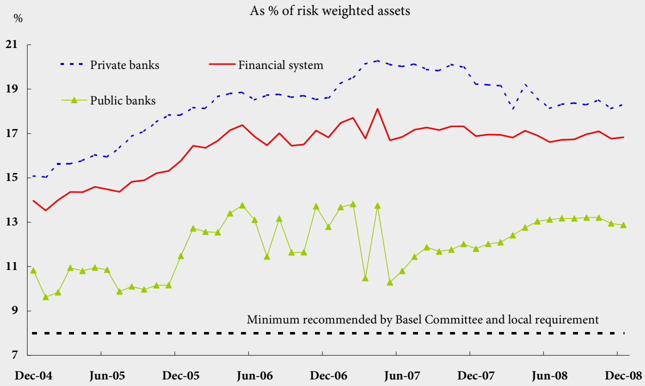
Note: Deposits stocks are adjusted by the transfer of AFJP accounts to the Anses.

Source: BCRA

Chart IV.2

Capital Compliance According to Regulation

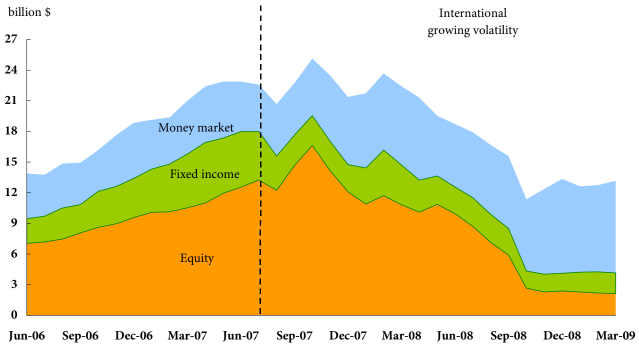
As % of risk weighted assets



Source: BCRA

Chart IV.3

Mutual Funds Net Worth Evolution



Note: Mixed funds are included in equity funds, time deposits are included in money market funds.
Source: BCRA from Cámara Argentina de FCI data.

Table IV.1

Balance Sheet

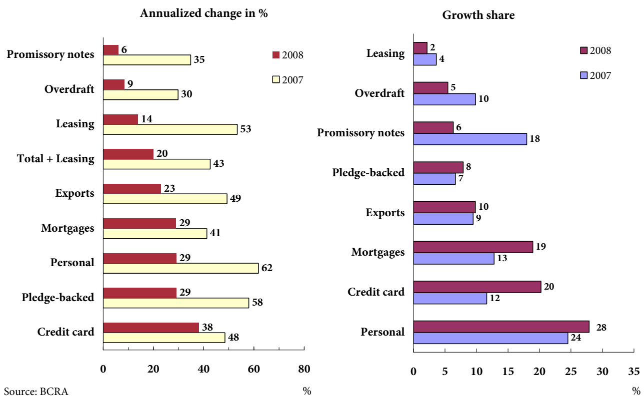
Financial System - As % of netted assets

	Dec-07	Jun-08	Dec-08	Change in p.p.		Stock change	
				HII - 08	2008	HII - 08 (%a.)	2008 (%)
Assets	100	100	100			11	15
Liquid assets	17	18	21	2	4	42	41
Lebac and Nobac	11	11	9	-2	-2	-28	-10
Credit to the private sector	41	42	43	1	2	16	20
Credit to the public sector	17	15	14	-1	-3	-8	-8
Other assets	14	14	14	0	0	17	15
Liabilities + Net Worth	100	100	100			11	15
Public sector deposits	17	20	18	-2	1	-6	20
Private sector deposits	56	54	55	1	-1	16	14
Liabilities with the BCRA (1)	1	1	1	0	0	-28	-20
ON, OS and foreing lines of credit	4	4	4	0	-1	-6	-1
Other liabilities	9	9	10	1	1	30	27
Net worth	13	13	13	0	0	14	12

(1) Includes marching schedule and other liabilities with the BCRA
Source: BCRA

Chart IV.4

Credit to the Private Sector by Type of Line



Source: BCRA

IV. Financial Intermediaries

Domestic financial intermediation performance reflects the impact of the global crisis

The financial intermediaries continue reflecting the impacts of the severe international crisis, a situation heightened by certain factors with a local origin (see Chapter II). Banks are seeing a deceleration of growth of intermediation of funds with households and companies, maintaining high solvency and liquidity levels. Mutual funds, on the other hand, recorded falls of their net assets, revealing a larger demand for the more liquid (money market) funds.

At the beginning of December 2008 Law N°. 26,425 was passed creating the Argentine Social Security System (SIPA), of a solidarity and pay-as-you-go nature, which absorbed and substituted the previous individual capitalization regime under Pension Fund Managers (AFJP) administration. Under this new regulatory framework the pension fund asset portfolios were transferred to the SIPA Sustainability Guarantee Fund of the Public Pay-as-you-go Regime (FGS), managed by the National Social Security Administration (ANSeS).

IV.1 Institutional investors

The volatile scenario affected institutional investor activities

The international scenario of rising volatility, more risk aversion and falling prices had a negative impact on the mutual funds (FCI). In a scenario of growing uncertainty, the appetite for variable income funds fell. On the other hand, weakening prices on both fixed income and variable income markets in a scenario of a sharp fall of trading volumes due to the changes in the social security regime, meant the demand for more liquid assets has strengthened (see Chart IV.3).

In this framework, the share of mutual fund (FCI) portfolios targeted at money markets (including time deposits) almost doubled during the second half of 2008, until it accounted for two thirds of the total portfolio, remaining at these levels at the beginning of 2009. The fixed income share also grew during this period, while the equity fund market share contracted (as they were those most affected by the crisis).

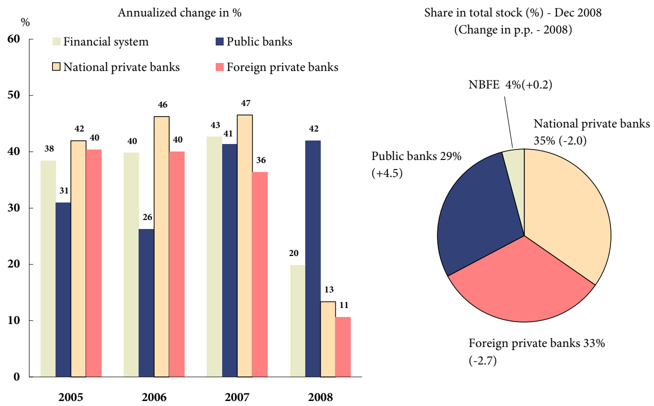
IV.2 Financial entities

Activity

Financial intermediation with the private sector is growing at a more moderate pace

Chart IV.5

Credit to the Private Sector by Group of Banks



Source: BCRA

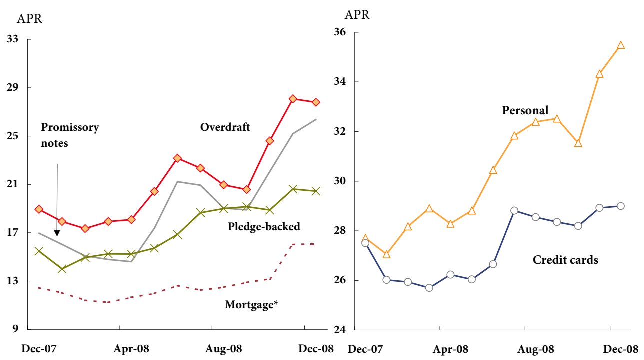
The expansion of financial intermediation of banks with the private sector is moderating gradually, in a scenario of persistent worsening of the international financial markets, which is reflected by less local econmic growth (see Page 28). Both credit to households and companies and private sector deposits reduced their rate of expansion, after recording four consecutive years of sustained and robust increases (see Chart IV.1).

The financial system remains on the trend of crowding-in the private sector, which to some extent offsets the persistent decline of its exposure to the public sector (see Table IV.1). This development is expected to weaken in coming months, to gain momentum again once a scenario of a degree of recovery of the international markets is seen.

Chart IV.6

Lending Interest Rates

Credit to the private sector - Financial system



* Mortgage interest rate include fixed interest rate and re-negotiate interest rate operations.

Source: SISCEN, BCRA

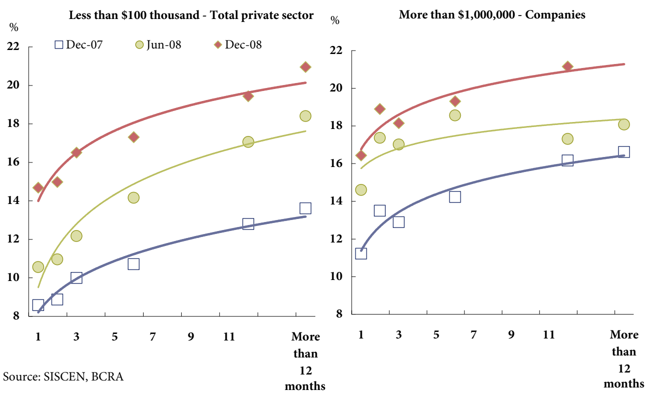
Banks continued raising their cautionary liquidity levels, taking into account the local impact of the worsening global financial conditions. Financial entities are expected to continue having high liquidity levels during the next few months, giving an additional reassurance, while providing them with a margin to rapidly increase their lending to the private sector in a reversal of the external conditions scenario.

The growth of private sector financing was 20% in 2008, 23 p.p. less than the year before, a performance widespread to all loan lines (see Chart IV.4). The expansion of commercial credit (overdrafts, promissory notes, leasing and export loans) decelerated more than consumption credit, in line with activity in the main productive sectors.

Chart IV.7

Private Sector Peso Time Deposits

Interest rate operations by contractual maturity - Financial system



Source: SISCEN, BCRA

Credit card finance and personal loans maintain a strong momentum, a trend that may probably soften in coming months when less household spending is expected (see Page 42). The loan with real collateral keep growing, gaining a larger share of the expansion of loans to the private sector.

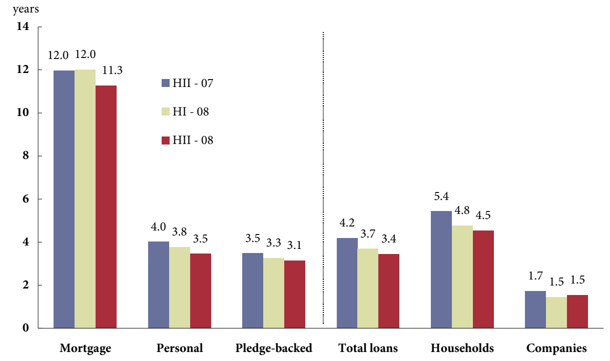
Public banks showed more relative momentum in granting loans during recent months, increasing their share to 29% of total financing (see Chart IV.5).

Changes in private sector credit happened in a scenario of gradually higher interest rates for loans (see Chart

Chart IV.8

Lending to the Private Sector

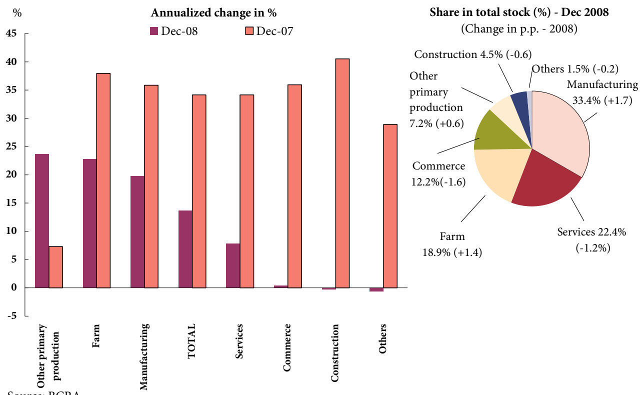
Average maturity weighted by amount - Financial system



NOTE: Excludes overdraft and credit cards.
Source: BCRA

Chart IV.9

Lending to Companies by Economic Sector

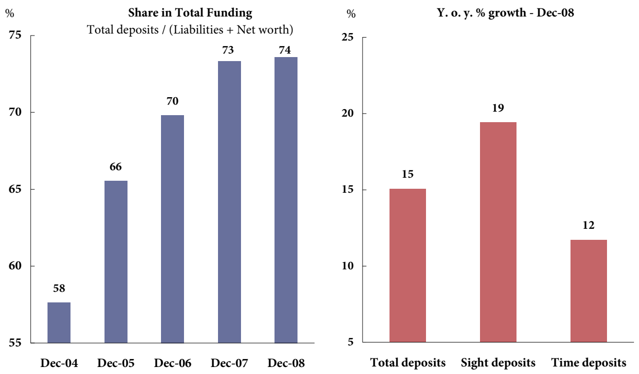


Source: BCRA

Chart IV.10

Total Deposits

Financial system



Source: BCRA

IV.6). The most significant rises were recorded by the commercial lines (overdrafts and promissory notes) and personal loans. The borrowing rates also showed some increase (see Chart IV.7). The liquidity measures that the BCRA implemented in recent months have been able to moderate this development in part. In this context the interest rate spreads negotiated are revealing a certain upwards trend in recent months.

Loans to households have driven the annual increase of credit to the private sector

Credit growth to the private sector is largely being driven by loans to households, which record a rate of expansion that is more than double that of the corporate lines[35]. The maturity of new household loans is experiencing a slight setback, which is reflected by the shorter average terms of the loans granted to the private sector (see Chart IV.8).

Financing of the corporate sector is seeing an overall deceleration for all economic sectors (see Chart IV.9), with the exception of the lines to the non-agricultural primary sector. In this scenario loans to manufacturing and primary production (agriculture sector and the other primary activities) are gradually gaining share in corporate finance, altogether being almost 60% of the total. To offset this, credit to commerce, construction and services are gradually losing their weighting.

Unless the international financial crisis worsens, during the rest of 2009 credit for the private sector is expected to grow moderately, with a larger contribution by the shorter term lines. In this framework the Government is implementing several credit stimulus plans. ANSeS funds are being auctioned so that the financial entities allocated these resources can apply them to grant loans to households, small and medium enterprises (SME) and the export sector[36], among other purposes.

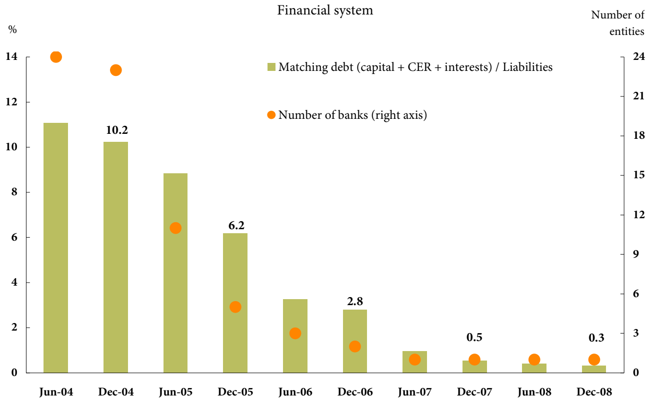
BCRA implemented regulatory changes aiming to increase access to banking services by the population and to stimulate loans for productive projects, especially for microcredit. For this purpose a special category was added to lend to microentrepreneurs that will be granted using the origination and monitoring techniques typical in this segment (mainly based on tightly monitoring customers), making operations more flexible by granting

[35] Loans to companies are considered to be those granted to legal persons and commercial credit to individuals while remaining lending to individuals is included under the households heading.
[36] The ANSeS is carrying out auctions of time deposits with Sustainability Guarantee Fund (FGS) resources. Initially, the funds were granted for loans in local currency for consumption, to purchase new cars and as funding for SMEs. Later the car parts industry was included among the beneficiaries, and auctions in foreign currency were also added that for export prefinance.

Chart IV.11

Liabilities with the BCRA - Matching Schedule

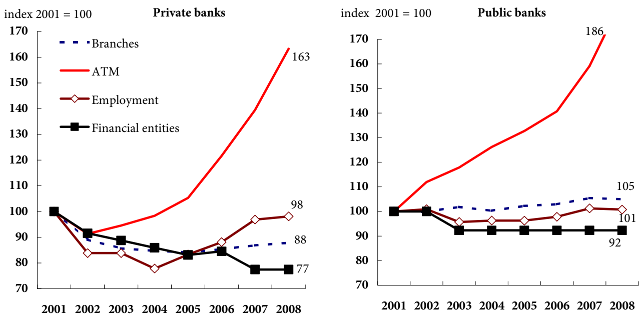
Financial system



Source: BCRA

Chart IV.12

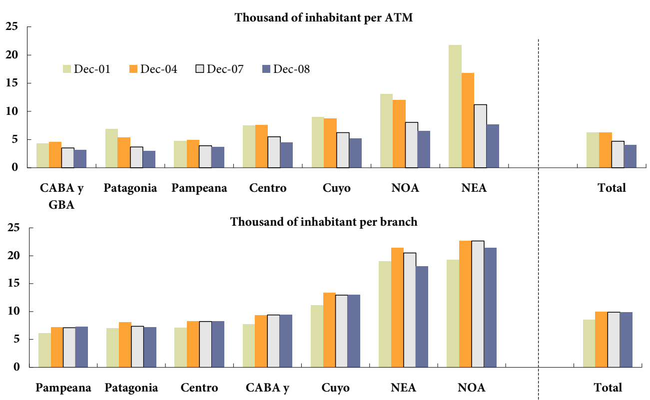
Financial System Structure by Type of Bank



Note 1: the number of branches includes those which are mobile and transitory; the amount of ATM includes self-service terminals.
Source: BCRA

Chart IV.13

Financial System Regional Coverage



Source: BCRA and Indec

a prudential treatment according to their characteristics. Generating credit by microcredit institutions (IM) was also made easier, adding a special category for bank loans granted to MI (acting as a "second floor bank"), and exempting these lines from the rules for grading loans. Finally, shareholdings in entities with the purpose of financing microentrepreneurs were included in the supplementary activities that financial entities can carry out, to stimulate the development of these activities. BCRA also reduced the minimum cash reserve requirements on foreign currency deposits, setting a schedule for auctions for access to repo loans in foreign currency for financial entities that increase their financing of foreign trade, in the measure this greater capacity of applying foreign currency deposits may be applied.

The slower rate of expansion of private sector deposits explains the annual deceleration of total deposits

During 2008 the aggregate stock of financial system deposits increased 15% y.o.y., slightly less than the year before. This smaller increase was explained by the performance of private sector deposits[37] (13.4% y.o.y.), because public sector deposits increased their rate of expansion during the year (19.9% y.o.y.). It should be noted that in October the private sector deposits had a transitory fall (4.8% of the deposits in pesos), not related to the fundamental variables of the financial system.

Total deposits were boosted by both time deposits and sight deposits, with the latter being more dynamic. Aggregate deposits therefore continued to gain share in total bank funding (netted out liabilities plus net worth) as they accounted for three quarters of funding, which was more than in previous years (see Chart IV.10). Private sector deposits, whose growth was mostly boosted by time deposits, maintained their share of total funding (almost 55%). During coming months deposits in the financial system should keep growing, probably reflecting more moderate growth rates, at least until the macroeconomic and financial scenario recovers.

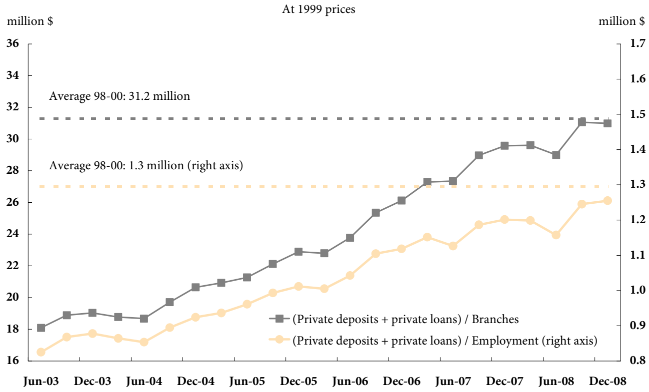
Consolidating the process of normalizing bank liabilities, the rediscounts for illiquidity granted by the BCRA during the 2001-2002 crisis kept falling, to be 0.3% of the financial system liabilities (see Chart IV.11). These debts are about to disappear from the banking system balance sheet, with only one financial entity remaining of 24 that initially owed debts under the matching funds scheme.

[37] In all cases, the stock balances are adjusted due to the transfer of funds managed by the AFJPs deposits (private sector) to the ANSeS (public sector), resulting from the reform of the pension regime.

Chart IV.14

Productivity

At 1999 prices

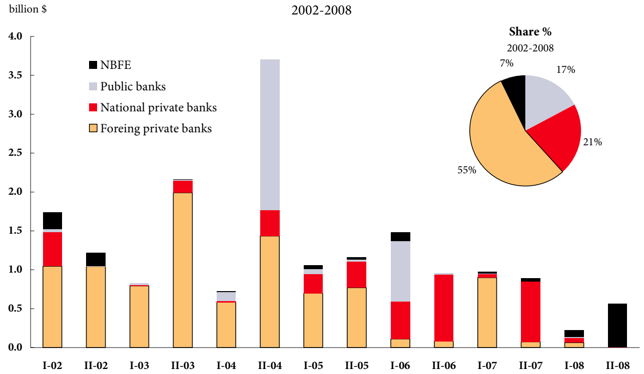


Source: BCRA

Chart IV.15

Financial Entities Capital Contribution

2002-2008

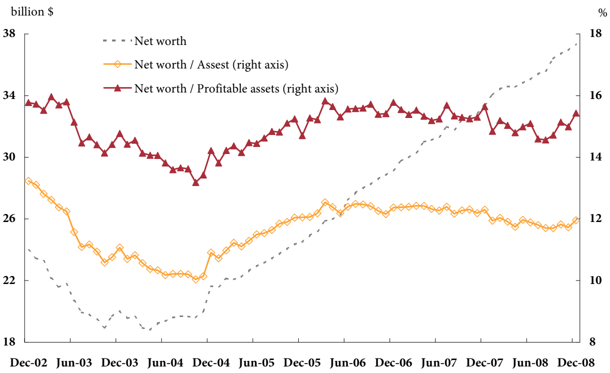


Source: BCRA

Chartt IV.16

Leverage

Consolidated financial system



Source: BCRA

The number of automatic teller machines and branches increased, in a more homogeneous regional distribution framework

The expansion of financial intermediation activity is reflected by the sector's operating structure. The number of branches keeps increasing, as does the number of automatic teller machines (ATM). The amount of ATMs is thus over two thirds more than the 2001 stock, a trend that is mainly explained by the private financial entities, while the public banks are relatively more dynamic (starting from lower levels).

During 2008 the financial system workforce increased 0.7% y.o.y, with growth mainly explained by the private banks and NBFE, while the public banks saw a slight fall. Both the public sector and private sector banks ended 2008 with a similar workforce to the end of 2001 (see Chart IV.12).

The more homogeneous distribution of the growing number of ATMs in recent years is leading to an improved regional access to financial services throughout Argentina. In 2008 the ratio of inhabitants to ATMs exhibited significant falls in the regions with least coverage (see Chart IV.13), reducing the gap between the regions with most and least coverage to 2.5 times (5.1 before the crisis). Likewise, a more uniform territorial distribution of branches is seen than at the end of 2001.

The changes in the operating structure of the financial system are accompanied by certain improvements in operating efficiency. Higher growth of loans and of private sector deposits than the expansion of productive factors is reflected by an improvement of the productivity indicators (see Chart IV.14).

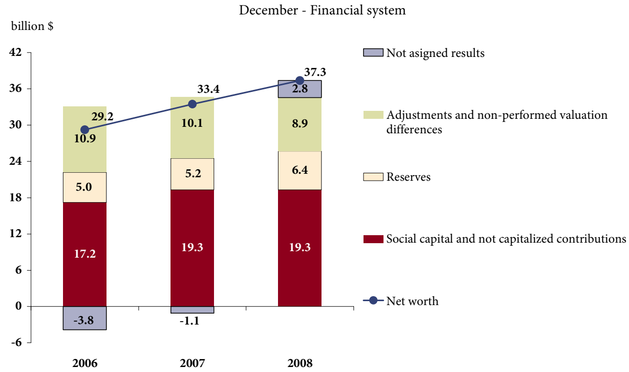
The degree of concentration of the financial system has been stable during recent years[38], while an increasing trend towards a more uniform distribution by bank group was also seen. In 2008 the national public sector banks increased their share of private sector deposits to 31%, at the expense of foreign private banks, although this group still exhibits the largest market share (36%). The national private banks retained their weighting.

[38] A Herfindahl Hirschman Index of approximately 660 (measured as the sum of deposits and loans to the private sector).

Chart IV.17

Net Worth Composition

December - Financial system

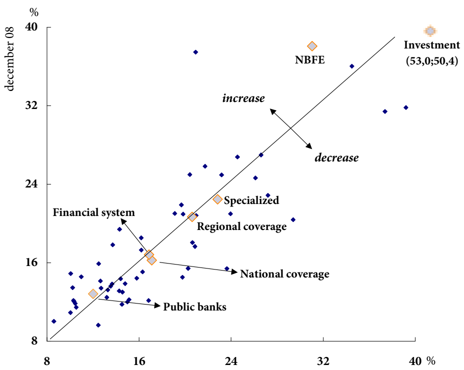


Source: BCRA

Chart IV.18

Capital Compliance

As % of risk-weighted assets

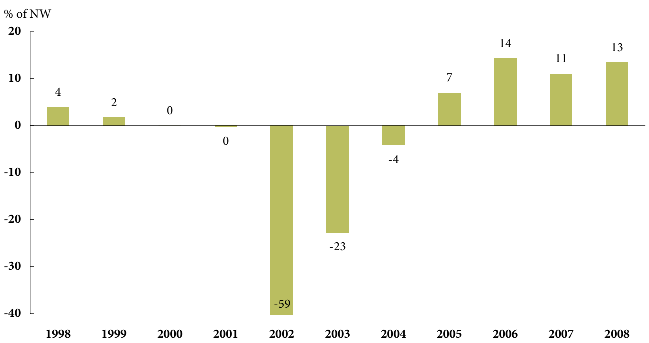


Source: BCRA

Chart IV.19

ROE

Financial system



Source: BCRA

Capital position

The financial system maintain its soundness

The financial system keeps strengthening its solvency, mainly boosted by earning book profits and the capital contributions that were received. The fresh injections of funding totaled approximately $800 million in 2008, which was mostly channelled to non-bank financial entities (see Chart IV.15). Since 2002 capitalizations have totalled almost $17.7 billion, with the foreign private banks receiving the largest amount.

The consolidated net worth of the financial system has been exhibiting increases of almost 12% y.o.y., with special momentum at the private sector banks, while the public sector banks showed some deceleration. Consolidated net worth fall down slightly when compared to assets (see Chart IV.16), in line with the sector'sgrowing activity.

Net worth composition shows some improvement

The growth of banks net worth is occurring together with a gradual improvement of its composition, absorbing the losses recorded in earlier periods (mainly during the 2001-2002 crisis) (see Chart IV.17), while social capital and reserves remain at high levels.

Exceeding the international recommendations and local requirements, capital compliance of the financial system was 16.8% of risk-weighted assets. The solvency of the financial system remains at adequate levels even if the value of the public sector assets portfolio is adjusted to market prices. All financial entity groups have capital compliance levels similar to the year before (see Chart IV.18), while the banking system exhibits ample excess capital compliance.

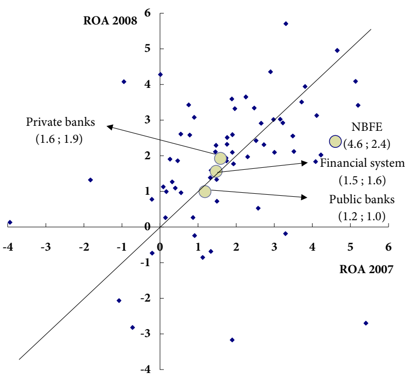
Revenues earned from financial intermediation activity with the private sector keep strengthening the soundness of the sector

In a framework of less growth in the volume of financial intermediation with companies and households (see Page 49), the financial system completed its fourth consecutive year with nominal accounting profits. Nevertheless, in the current scenario of high volatility of the financial markets, if the portfolio of public sector assets is valued at market prices the results of the past two years would become negative.

During 2008 bank profitability to assets rate was 1.6% and 13.4% on net worth (see Chart IV.19), in a

Chart IV.20

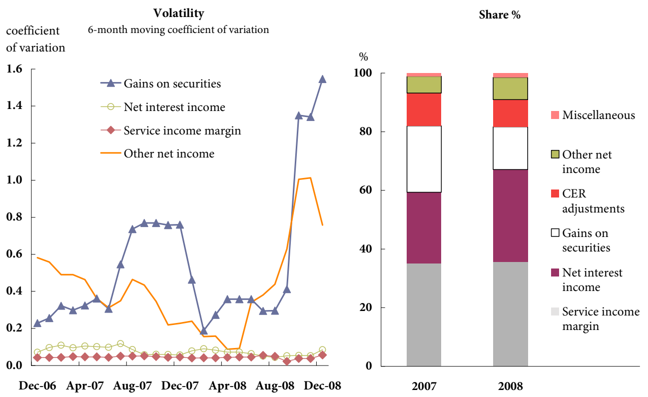
Profitability by Group of Banks



Source: BCRA

Chart IV.21

Main Sources of Income of Financial System

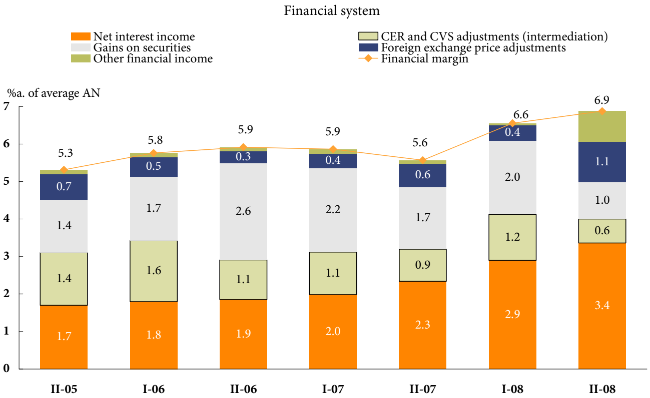


Source: BCRA

Chart IV.22

Financial Margin Composition

Financial system



Source: BCRA

performance widespread among banks: 70 of the 84 financial entities earned profits (accounting for almost all the sector's assets) (see Chart IV.20).

During 2008 the profitability of the banking system in terms of assets remained in line with its performance the year before, showing some changes in its mix: increases of the financial margin and of service income margin that were partly offset by higher management costs and loan loss provisions. During the second half of the year profits were 1.5%a. of assets, boosted by the growth of revenues from more stable sources, the net interest income and services income margin, that explain two thirds of the sector's earnings. Gains on securities are the most volatile heading of the financial system result statement (see Chart IV.21).

Financial margin reached a historical maximum resulting from the greater weighting of net interest income

The financial margin of the banking system increased to 6.9%a. of assets in the second half of the year (see Chart IV.22), reflecting the growth of net interest income and more accrual of foreign exchange price adjustments and other financial results, thus cushioning the smaller gains on securities. Financial margin therefore ended the year at a historically high rate of 6.7% on assets.

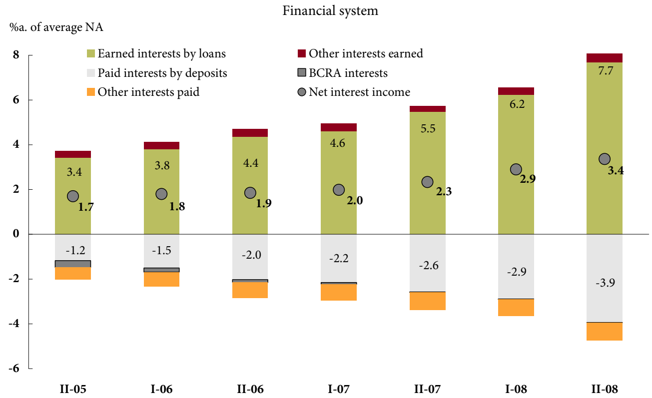
The larger increase of income from loans to the private sector compared to the deposit outflows, in a scenario of rising lending and borrowing rates, boosted the expansion of the interest results to 3.4%a. of assets (see Chart IV.23). Net interest income remain on the upwards trend that began after the 2001-2002 crisis, to become the factor with most weighting in the the financial margin of the banks. The adjustments accrued with CER are seen to be falling (see Table IV.2), reflecting both the gradually smaller mismatch of the adjustable accounting items on the bank balance sheets (see Page 74) and the slight drop in the rise of that index.

Results from holding and trading securities started to fall in mid 2008 to total 1%a. of assets during the second half of the year, partly reflecting the turbulence seen on the financial markets. It is worth noting that a number of alternative ways to value these assets are operative, which enables a reduced impact of short term market price oscillations on the financial entity balance sheets. In recent years a trend towards a smaller share of gains on securities in the financial margin is noticeable, partly because of a smaller exposure to the public sector by the financial system.

Chart IV.23

Net Interest Income

Financial system



Source: BCRA

Table IV.2

Profitability Structure: Financial System

In annualized terms - As % of average netted assets

	93-00	2005	2006	2007	2008	II-07	I-08	II-08
Financial margin	6.1	4.6	5.8	5.7	6.7	5.6	6.6	6.9
Net interest income	4.9	1.5	1.8	2.2	3.1	2.3	2.9	3.4
CER y CVS adjustments	0.0	1.5	1.3	1.0	0.9	0.9	1.2	0.6
Gains on securities	0.8	1.2	2.2	1.9	1.5	1.7	2.0	1.0
Foreign exchange price adjustments	0.0	0.4	0.4	0.5	0.8	0.6	0.4	1.1
Other financial income	0.3	0.1	0.1	0.1	0.4	0.1	0.0	0.8
Service income margin	3.5	2.3	2.7	3.1	3.6	3.3	3.4	3.7
Operating costs	-6.7	-4.6	-5.1	-5.5	-6.1	-5.8	-6.0	-6.3
Loan loss provisions	-2.2	-0.6	-0.5	-0.7	-0.9	-0.8	-0.8	-1.0
Adjustments to the valuation of gov. securities (*)	-	-0.2	-0.3	-0.3	-0.6	-0.6	-0.6	-0.6
Tax charges	-0.5	-0.4	-0.5	-0.6	-0.8	-0.6	-0.7	-0.8
Amortization payments for court-ordered releases	-	-0.9	-1.1	-0.7	-0.3	-0.7	-0.4	-0.3
Other	0.7	0.8	1.2	0.9	0.5	1.2	0.6	0.4
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.5	-0.4
ROA	**0.5**	**0.9**	**1.9**	**1.5**	**1.6**	**1.2**	**1.6**	**1.5**
ROE	3.4	7.0	14.3	11.0	13.4	9.3	13.6	13.2
Adjusted ROA (**)	-	**2.0**	**3.4**	**2.5**	**2.5**	**2.5**	**2.5**	**2.4**

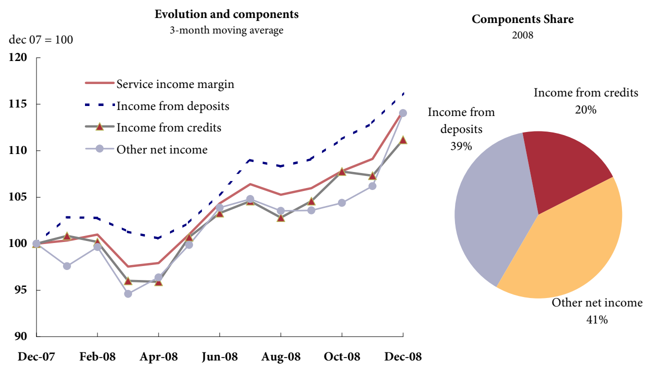
(*) Com. "A" 3911 and complementary communications.'(**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and complementary communications.

Source: BCRA

Chart IV.24

Service Income Margin

Financial system



Source: BCRA

In a scenario of a gradual rise of the nominal peso-U.S. dollar exchange rate, and due to the long position in foreign currency that the financial system has (see Page 73), foreign exchange price adjustments grew at the end of 2008. The effects of changes in the value of the U.S. currency also had a positive impact on some futures transactions that the financial entities had, reflected by an increase in other finacial results.

Service income margin have kept growing without a break since 2003, with a larger increase seen in recent months. The revenues associated with attracting deposits are still the most dynamic segment, maintaining the largest share of the service income margin components (see Chart IV.24). Services results are growing at both public and private sector financial entities.

Growth of the more stable revenues is higher than the operating cost expansion, which to some extent reveals an improved efficiency of the financial system

Management spending maintains the rising trend seen in recent years. The growth of operating costs has not impeded sector's efficiency improvements, consistent with covering these costs with operating revenues remaining above the pre-crisis average (see Chart IV.25).

Due to the current scenario of limited levels of credit risk, loan loss provisions maintain a moderate weighting in bank results (see Chart IV.26).

After two consecutive half-year periods with losses, the investment banks were able to recover and earn book profits

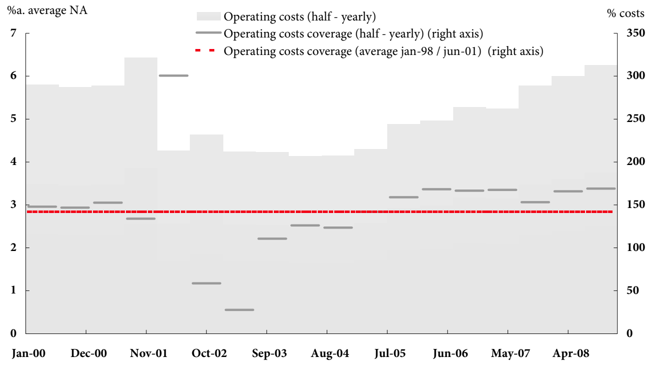
Private banks exhibited accounting profits of 2%a. on assets during the second half of 2008. Like the systemic level, drivers of this performance were the more stable revenues and profits associated with some futures transactions, as well as smaller outlays accrued on the headings that recognize the impact of the 2001-2002 crisis.

The private investment banks recorded book profits (see Table IV.3), due to larger foreign exchange price adjustments and other financial results, offset by the losses on securities. The profitability of retail banks is still in line with what had been recorded in the first half of 2008, with changes at financial entities with a regional scope standing out, as they secured an increase in their profit rate to 3.2%a. of assets. The bank sub-group with

Chart IV.25

Operating Costs and Efficiency

Financial system

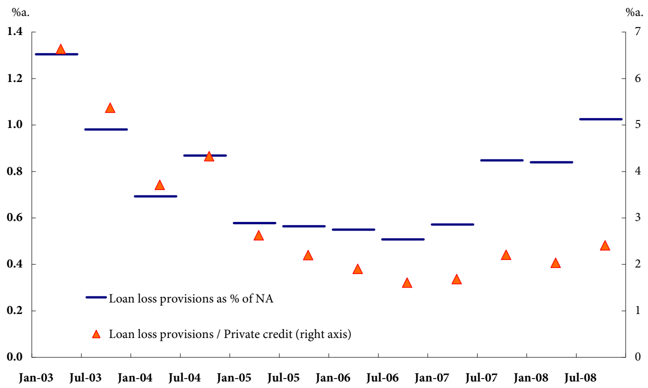


Source: BCRA

Chart IV.26

Loan Loss Provisions

Annualized half yearly - Financial system



Source: BCRA

Table IV.3

Profitability Structure by Type of Bank

In annualized terms - As % of average netted assets

	Public	Private					
			Retail				
		Total	Total	National coverage	Regional coverage	Specialized	Investment
Financial margin	5.4	7.7	7.4	6.7	10.6	15.0	12.2
Net interest income	1.1	4.7	4.8	4.4	6.0	12.1	3.5
CER y CVS adjustments	1.2	0.2	0.3	0.3	0.2	0.0	-0.1
Gains on securities	2.0	0.3	0.5	0.1	2.2	0.6	-3.6
Foreign exchange price adjustments	1.1	1.0	0.8	0.7	0.9	2.9	6.1
Other financial income	0.0	1.4	1.2	1.2	1.4	-0.6	6.2
Service income margin	2.4	4.5	4.6	4.6	4.2	10.0	2.5
Operating costs	-4.7	-7.2	-7.1	-6.9	-7.7	-15.1	-8.1
Loan loss provisions	-0.6	-1.1	-1.2	-1.2	-0.8	-6.9	-0.2
Adjustments to the valuation of gov. securities (*)	-1.3	-0.1	-0.2	-0.1	-0.4	0.0	-0.1
Tax charges	-0.5	-1.1	-1.0	-1.1	-0.9	-1.2	-1.4
Amortization payments of court-ordered releases	-0.2	-0.4	-0.3	-0.4	-0.1	-0.1	-0.8
Other	0.1	0.6	0.6	0.8	0.0	0.4	-1.2
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	0.1	-0.8	-0.8	-0.6	-1.6	-0.7	-0.8
ROA	**0.8**	**2.0**	**2.0**	**1.8**	**3.2**	**1.4**	**2.1**
ROE	8.2	16.0	17.3	16.0	24.0	7.3	6.7
Adjusted ROA (**)	**2.3**	**2.5**	**2.5**	**2.3**	**3.7**	**1.5**	**2.9**
Weight in total assets (%)	40.2	57.6	54.9	45.1	8.9	0.9	2.7

(*) Com. "A" 3911 and complementary communications.'(**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and complementary communications.
(***) Excluding an investment bank (by I-07 merged and by book adjustments during II-07).
Source: BCRA

the largest share of assets, the national private banks, maintained their profitability with almost no significant changes. The public financial entities continue exhibiting book profits, with gradual improvements in their net interest income and service income margin.

With a slower growth rate, the more stable sources of revenue are expected to continue leading banking results in coming months

The deceleration in the growth of loans to the private sector will probably lead to a slower rate of expansion of bank net interest income. A scenario with somewhat stable gains on securities may be expected, because of the different accounting values that the Central Bank has allowed the banks. Net service income will continue being driven by private sector deposits. On the other hand, slight increases in loan loss provisions may be expected, an outlook that could be moderated due to the excess provisioning levels that the financial entities have on their books.

The financial system is expected to continue consolidating its solvency moderately until the end of 2009, in line with the trend seen in recent periods. Facing a scenario of deepening international financial turbulence, with an impact on the local economic framework, the financial system still maintains a situation that, together with the battery of measures that the BCRA has adopted, will enable it to provide the conditions needed to maintain its traditional intermediation activity.

V. Financial System Risks

Summary

While still backed by appropriate solvency levels, the financial system as a whole is facing an increase in the risks to which it is exposed, although risk levels continue to be low. This trend can be explained by the worsening conditions within which the system operates.

Financial entities as a whole continue to maintain adequate liquidity levels, complemented by the placing at their disposal by the Central Bank of new instruments designed to minimize the impact of an increasingly volatile environment. These elements, together with the BCRA's role as a lender of last resort, reinforced by the development of anti-cyclical policies from previous years, enable the financial system to maintain a sound position in the face of the liquidity risk.

In the context of lower dynamism in the labor market and slowing growth in certain productive sectors, the financial system continues to increase its exposure to the private sector, although at a slower rate than in previous periods. Increased uncertainty as to economic conditions leads to forecasts of certain materialization of bank exposure to private sector credit risk, although the increase will be from levels still considered to be low. Non-performance appears to have found its floor, concluding 2008 at 3.1% of private sector lending, showing a slight increase in the last quarter. This movement is mainly explained by consumer loans, and to a lesser extent by corporate lending. Banks hold high coverage of non-performing loans by means of provisions.

It is expected that the financial system will continue to record limited exposure to the risk of lending to the Government, in line with the regulatory incentives introduced by the BCRA, at a time when national public accounts are forecasted to remain in surplus.

As a result of the financial policy implemented by the Central Bank, the currency mismatching faced by the financial system is now significantly lower than it was four years ago. In recent months there has been a moderate increase in this mismatching, although it remains low in historical terms, and it is estimated that there is a low probability of a negative impact in financial system net worth from any exchange rate fluctuation.

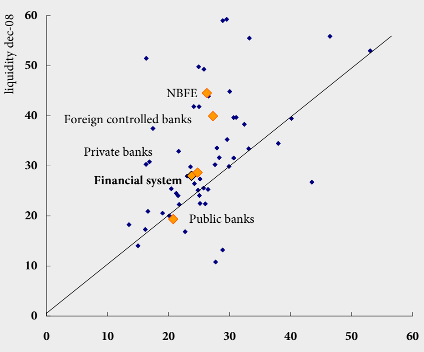
The financial system has shown a slight improvement in terms of the exposure to interest rate risk, as a result of the shortening of asset terms to maturity and the preservation of the residual term funding structure. The mismatching of CER-adjusted items continues to decline, in part because of the Guaranteed Loan (PGN) swap at the beginning of the year, and this reduces bank exposure to real interest rate risk. Nevertheless, the deterioration in international financial conditions could result in some materialization of the interest rate risk faced by banks.

The lower economic growth that is expected, as well as the sustained volatility of the current context, present risk management challenges that must be faced by financial entities in coming months. In this situation, it should be noted that the financial system has developed a sound position, which translates into increased strength to confront adverse environments.

Chart V.1

Liquidity Change

Liquid assets / Non-financial sector deposits (%)

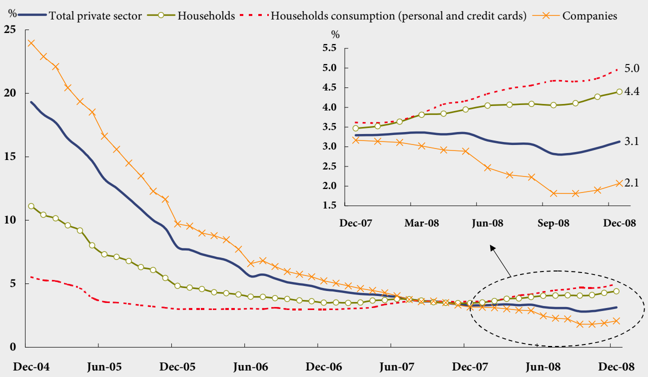


Source: BCRA

Chart V.2

Non-Performing Credit to the Private Sector

Non-performing loans / Total loans

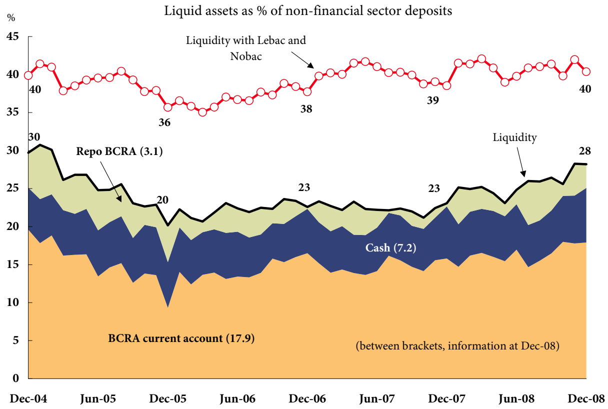


Source: BCRA

Chart V.3

Liquidity Risk Coverage

Liquid assets as % of non-financial sector deposits

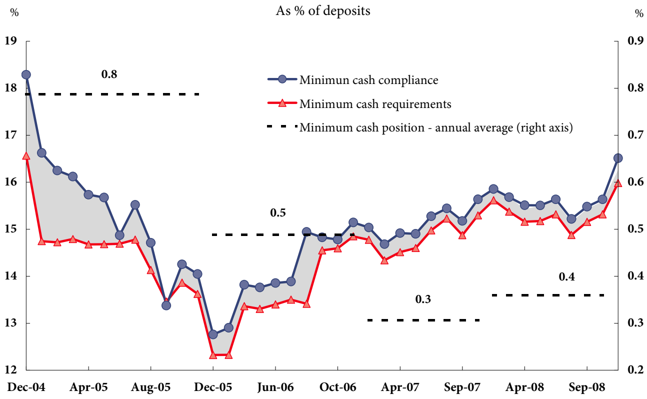


Source: BCRA

Chart V.4

Liquidity in Pesos

As % of deposits



Source: BCRA

V.1 Liquidity risk

The financial system maintains robust coverage in the face of liquidity risk

As it experiences a period of growing international volatility, the rate of growth of banking intermediation with the private sector has slowed. Nevertheless, banks continue to record sound levels of liquid assets, as well as being able to count on new tools created by the BCRA. As a result, banks consolidate their position in the face of liquidity risk.

In 2008 the financial system faced two separate episodes of money demand mismatches leading to temporary reductions in private sector deposits in May and October. Those events were not linked to any perception of intrinsic weakness in the financial system, which was able to recover the upward trend in such deposits (see page 51). The increase in private sector deposits is being driven by time deposits, and to a lesser extent by sight accounts. Private sector deposit totals remain highly atomized among depositors, with deposits for less than $1 million accounting for over two-thirds of the total (a similar situation to that seen in recent years).

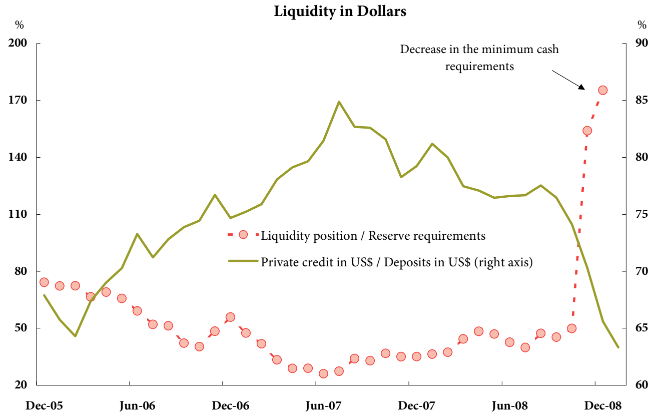
The Central Bank continue to develop instruments to help meet financial entities liquidity needs. To inject further liquidity into the system, a gradual reduction in the outstanding stock of Lebac and Nobac bills and notes is being promoted, in addition to mechanisms for the purchase of Government securities on the secondary market.

As well as these measures, new liquidity windows have been made available, so that banks can borrow funds with Guaranteed Loans and/or Bogar 2020 as collateral (bonds that can be used as collateral of interbank loans). In addition, a trading session has been instituted for the automatic repurchase of Lebac and Nobac bills and notes with a residual term of under 6 months, discounted at the reference BADLAR rate for private banks plus a spread. A mechanism has furthermore been established for the tendering of bills and notes to be sold to the BCRA. Liquidity assistance requirements have been restructured with the development of a pre-qualifying mechanism for assets intended to be used as collateral in the case of any eventual need for BCRA assistance.

Complementing these measures, new facilities are being introduced in the repo market: the line of reverse repo for the BCRA at fixed interest rate has been reactivated, and repos at variable interest rates have also begun to be

Chart V.5

Liquidity in Dollars

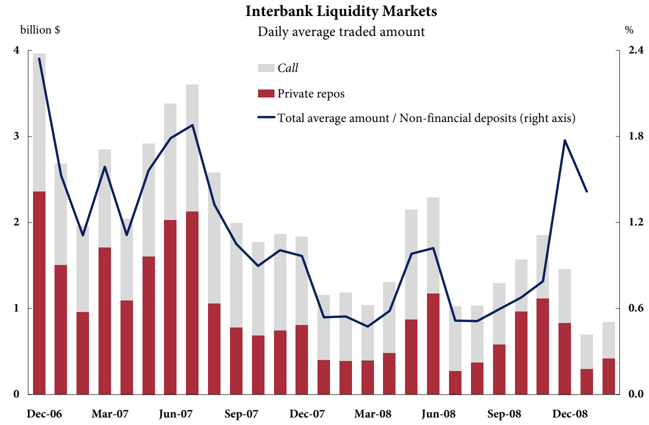


Source: BCRA

Chart V.6

Interbank Liquidity Markets

Daily average traded amount



Source: BCRA

offered (at a fixed margin over private bank BADLAR). The maximum term for entering into of reverse repos for the Central Bank has been extended to 90 days (at the BADLAR interest rate for private banks plus a spread).

In addition, adjustments have been made to bank liquidity requirements: two bi-monthly periods were established for the calculation of minimum cash requirements (June/July and October/November), as well as a quarterly period (December/January/February). On a temporary basis, as from December 2008 banks have been allowed to include in their liquidity compliance calculations all their cash holdings, cash in transit and cash at value carriers.

Partly as a consequence of the measures implemented by the BCRA, banks have continued to reinforce their position in the face of liquidity risk. Financial system liquid assets (cash, current accounts at the Central Bank and net repos with that Institution) total 28% of deposits, a higher level than in previous years (see Chart V.3). The broad liquidity measure (which includes holdings of Lebac and Nobac not linked to repo transactions) amounts to 40% of total deposits, a similar level to that of recent periods.

These increased liquidity levels have been widespread across all local financial entities (see Chart V.1), as they face what they expect to be a period of increased uncertainty. The maintaining of good systemic liquidity levels is a common feature of other economies in the region (see page 20), in the context of deteriorating global economic conditions.

Banks liquidity levels continue to exceed the Central Bank requirements (see Chart V.4). The rise in the excess compliance level at the end of 2008 is explained by the increase in the proportion of cash held at banks that can be calculated for compliance purposes. There has also been a rise in excess compliance in the foreign currency segment (see Chart V.5). This is a result of the fact that the annual rate of growth by foreign currency deposits has been higher than that of loans in foreign currency, and reserve requirements have been lowered with the aim of encouraging banks to offer foreign trade credit lines.

Financial turbulence continues to affect interbank liquidity markets

Box 4 / Reinforcing Financial Stability Objectives and Consolidation of Macro-Prudential Mechanisms

The international crisis unleashed in mid-2007 has brought to light a series of lessons and challenges that must be considered by policy-makers with the intention of reducing the magnitude and frequency of future episodes of a similar nature. At the same time as government authorities are working on moderating the effects of the crisis, discussion and planning have begun to be carried out on the introduction of instruments that will enable future systemic crises to be identified, and the providing of tools to prevent the development of imbalances. In this context, there is clearly a need for global reinforcement of the financial stability objectives of central banks, which must be equipped with regulatory tools with a broader scope than those that have traditionally been use

Until the last decade the traditional approach to monetary policy assumed that the principal role of monetary regimes was to ensure price stability. Any financial stress events that might take place (such as market bubbles[39]) should not have any significant effect on monetary policy design, while the stability of the financial system was dealt with micro-prudential regulation. Central banks (CBs) tended to limit their actions to subsequent stages, once the turbulence had already been unleashed[40].

Recently an improved vision that broadens the range of the main CB objectives has begun to gain ground internationally. This trend is basically explained by the greater frequency of excessive credit growth episodes and mismatches in asset markets that have developed in contexts of low and stable inflation. According to this view, apparently sustainable monetary policies give rise to the development of imbalances and bubbles. This phenomenon was evident in the case of the sub-prime crisis, which led CBs to take extreme measures, in many cases abandoning price stability objectives. As a result, a growing consensus is building up regarding the need for CBs to balance and assign the same relevance to financial stability (FS) as they do to price stability.

[39] Increases in the price of a given asset not related to market fundamentals.
[40] For example, the liquidity policies introduced in the Greenspan era after the LTCM crisis (1998) and that of the dotcoms.

The international spread of FS as an economic policy objective with its own weight presents various challenges. On the one hand, although FS is generally understood as a situation in which the financial services sector is able to efficiently act as an intermediary using the savings of economic agents, there is no single, uniform definition for it at global level. There is also no internationally-accepted operational definition of FS (unlike the case of price stability), in part as a result of the subordinate role that had traditionally been played by this policy objective. This means that at present there are only a limited number of tools and instruments available to evaluate FS in practice, and those that exist are still in the process of development, calibration and implementation.

The increased status that needs to be given to an FS target should be matched by the implementation of a macro-prudential approach to financial system supervision and regulation. Macro-prudential monitoring would make it possible to evaluate current risks with a broad vision covering all agents (banks, insurance companies, hedge funds and other unregulated markets) and their interrelationship with domestic and foreign economic conditions, as factors that could be sources of systemic risks. The ultimate intention is to increase the soundness of financial systems, limiting the development of economic and financial imbalances, thus preventing new crisis episodes.

This macro-prudential focus constitutes a different and complementary dimension from the traditional micro-prudential view of regulation (see Table B.4.1). The micro approach aims to limit stress episodes in individual banks, without considering the impact on the remaining entities or the economy as a whole, whereas the macro view has as its objective the limitation of imbalances with a system-wide impact. In addition, micro regulation tends to focus on protection of the financial services consumer (depositors and investors), while the macro approach seeks to avoid costs in terms of the economy's GDP. From the standpoint of prudential controls, micro controls analyze individual banks to then converge on the system (a bottom-up approach), while macro controls view the aggregate to then seek out individual risks (top-down). In short, the macro-prudential vision is global in outlook, and although it complements the analysis of individual financial entities, it does not necessarily arrive at the same conclusions.

Table B.4.1

Micro vs Macro Prudential Perspectives

	Microprudential	Macroprudential
Proximate objective	Limit distress of individual institutions	Limit financial system-wide distress
Ultimate objective	Consumer (investor/depositor) protection	Avoid output (GDP) costs
Correlations and common exposures across institutions	Irrelevant	Important
Calibration	Bottom-up	Top-down

Source: Borio 2003, BIS

Analyzing and mitigating the pro-cyclical nature of financial systems is another of the principal objectives of the macro-prudential focus. At times of economic growth, financial asset and property prices rise. Banks and private agents tend to increase their leverage and therefore their vulnerability to changes in the variables affecting their risks. In times of economic slowdown, this process is reversed, and banks contract in a sharper manner, while households and companies encounter greater difficulty in meeting their obligations. The macro vision would help to moderate the economic growth stage while softening the impact of the recession stage.

Macro stress testing -MST- and early warning systems -EWS- constitute the pillars on which macro-prudential monitoring currently rests[41]. While stress-testing techniques have been used at bank level since the early 90s, MST is much more recent, and has only been put into practice in a few countries. MST techniques pay special attention to the correlation between banks, the main risks faced, and the interaction with monetary policy, from a temporal viewpoint to capture second round effects. All these factors must be calibrated according to the characteristics of each economy. EWS models aim to estimate the probability of crisis events, detecting symptoms of potential imbalances that place market stability at risk. They generally include factors such as the development of credit and asset markets and the exposure of the system to the different types of risk.

EWS and MST tools must be used together, the first to estimate the probability of adverse shocks and the second to evaluate the type and degree of vulnerability of the system. At present these mechanisms present analytical challenges that range from the timely detection of vulnerabilities, the availability of the necessary statistics for their proper calibration, through to the capture of the existing interrelationships among the various participating agents (banks, other entities, monetary policy and the macroeconomic conditions, among others).

Adequate future development of macro-prudential monitoring tools will contribute to the design of more effective macro-prudential regulation policies. Nevertheless, the design of macro-prudential policies also presents challenges in institutional terms. Policy-makers generally have limited room to maneuver when they have to take measures to confront developing imbalances.

It would therefore be possible for the authorities to make discretionary use of measures such as the implementation of caps on leverage, requirements for additional liquidity and/or capital buffers depending on the stage of the economic cycle, limits on credit growth and concentration in certain sectors, the possibility of making changes to credit conditions (installment/income and loan/asset value ratios) and in capital compliance weightings, the setting up of counter-cyclical provisions, as well as other more sophisticated tools. Monetary policy must be a second line of defense to prevent the development of imbalances that put FS at risk, although there may be some trade-off in terms of inflation or GDP growth.

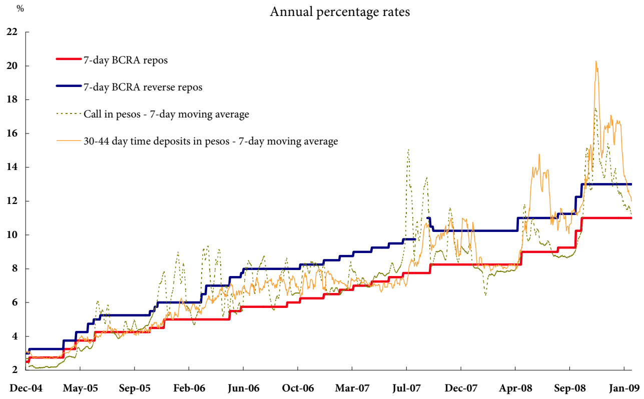
Crises contexts such as that currently being experienced represent a good opportunity to promote the efforts needed to institutionalize the FS objective, forming the necessary framework for the implementation of macro-prudential regulation methodology. The restoration of benign economic conditions should not discourage the implementation of a macro-prudential approach, as it would make it possible to ensure future conditions of financial stability.

[41] Sorge, M (2004), "Stress-testing financial systems: an overview of current methodologies", BIS Working Papers, No. 165, December.

Chart V.7

Interest Rates

Annual percentage rates

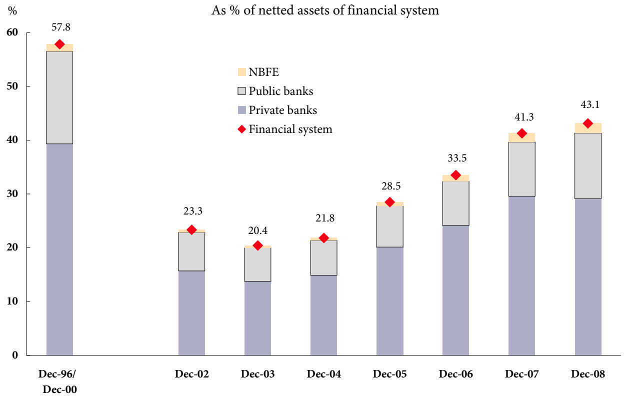


Source: BCRA

Chart V.8

Financing to the Non-Financial Private Sector

As % of netted assets of financial system



Source: BCRA

There has been a gradual decline in trading volumes on the call market and in the interbank repos (see Chart V.6) in view of the existing bank liquidity levels, in a context of greater financial market volatility. The lower participation of official banks as lenders of resources on the call market since the middle of last year has presented a challenge to those financial entities that are normally borrowers of such lines. The environment of growing turbulence has also been reflected in leading interest rates (see Chart V.7), although this volatility has been partly moderated by the measures implemented by the BCRA.

Good systemic liquidity levels, combined with the new tools developed by the Central Bank, provide better protection for financial entities when confronted by a more uncertain environment

Greater uncertainty regarding financial and economic conditions could potentially generate a greater liquidity risk for banks. However, the financial system presents a sound position face to this risk, mainly as a result of a combination of three elements. First, systemic liquidity levels are robust, and act as a containment wall in the event of shocks. In addition, timely action by the BCRA has created new tools that respond to bank requirements for managing the liquidity risk being faced. Last, in recent years anti-cyclical policies have been developed that help consolidate the role of the BCRA as a lender of last resort in extreme situations.

V.2 Credit risk

V.2.1 Private sector

The financial system is increasing its exposure to the private sector at a slower rate than in recent years

The financial system continues to increase its exposure to households and companies, recording a growth rate below that of previous years. Although levels are still low, there are some indications of materialization of the risk from private sector lending. This performance is taking place at a time of lower dynamism in the labor market and some slowdown in activity levels in productive sectors, a development that is due in part to worsening conditions on international financial markets.

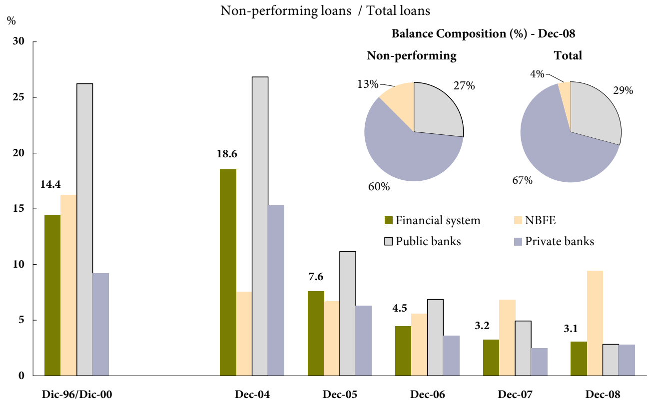
Balance sheet totals[42] loans to companies and households stand at 43.1% of netted assets (see Chart

[42] Includes loans to residents abroad.

Chart V.9

Non-Performing Credit to the Private Sector

Non-performing loans / Total loans

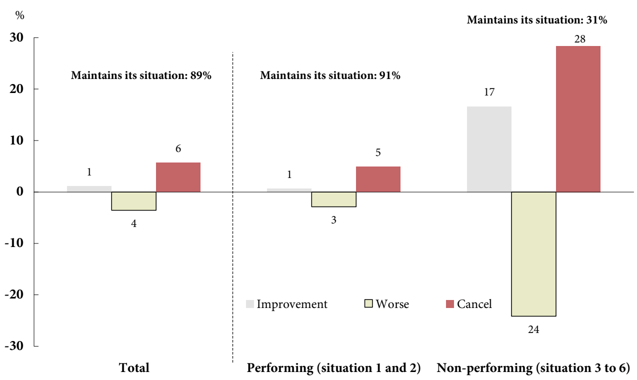


Source: BCRA

Chart V.10

Loans to Private Sector Evolution

Status at December 2008 of outstanding loans at June 2008 - As % of total

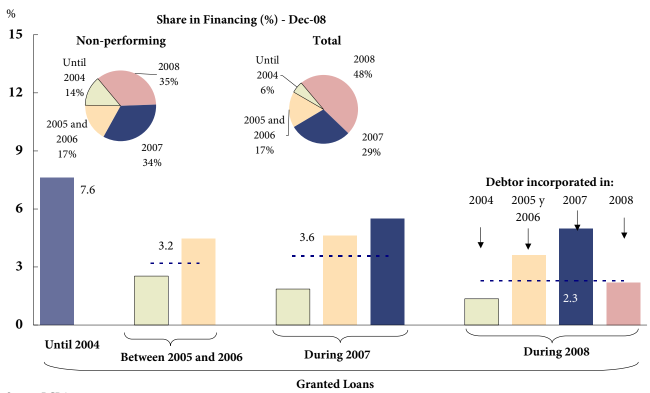


Source: BCRA

Chart V.11

Lending to the Private Sector by Granted Period

Non-performing loans / Total loans (%)



Source: BCRA

V.8), showing a drop in their annual growth rate explained mainly by the performance of private banks.

Private sector loan non-performance rates appear to have found their floor

The non-performance rate for loans to the private sector totals 3.1% of the portfolio (see Chart V.9), having shown an incipient increase in recent months. There was still a slight reduction in non-performing over the course of 2008, led by public banks, while both non-bank financial entities and private banks reported a deterioration in the credit quality of their loans to the private sector.

Loans to companies[43] are starting to show a slight worsening in their performance, although non-performance remains at a historically low level: only 2.1% of loans to companies are rated as non-performing. The quality of loans to households continues to show some signs of deterioration (see Chart V.2). Credit lines to households record a delinquency rate of 4.4%, an increase from the level of 3.5% in December 2006. This deterioration in the quality of loans to households is being driven by consumer credit lines (personal loans and credit cards), which have seen considerable growth in recent years. Lower economic expansion forecasted for 2009 would probably encourage a slight deterioration in payment capacity of households and companies, although this effect is not expected to be pronounced.

Outstanding loans to the private sector in mid-2008 recorded a slight deterioration in their credit quality over the second half of the year. Close to 4% saw a worsening of their position during the period, while only 1% posted an improvement (see Chart V.10).

There has been a deterioration in the credit quality of recent loans granted specially to those new debtors (see Chart V.11), a trend mainly led by household consumption loans.

Coverage of non-performing loans by provisions remains at a high level

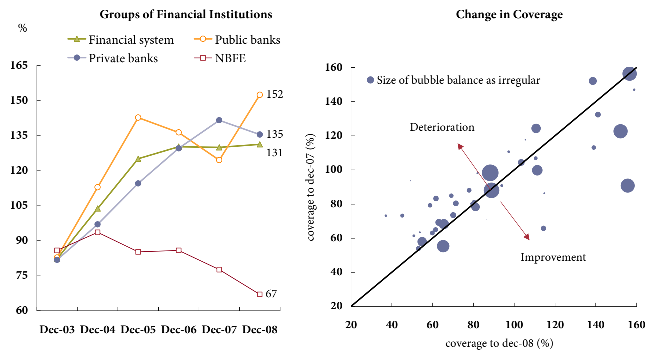
Banks maintain sound coverage in the face of expected debtor non-compliance, and this allows them to soften the impact on their balance sheets in the event of any materialization of credit risk. Financial system provisions are almost one third higher than non-performing private sector loan totals (see Chart V.12), a level similar to that of previous years. Both private and

[43] Loans to companies are taken to be those granted to legal persons and commercial loans granted to individuals; the remaining loans to individuals are included within loans to households.

Chart V.12

Non-Performing Provision Coverage

Credit to the private sector

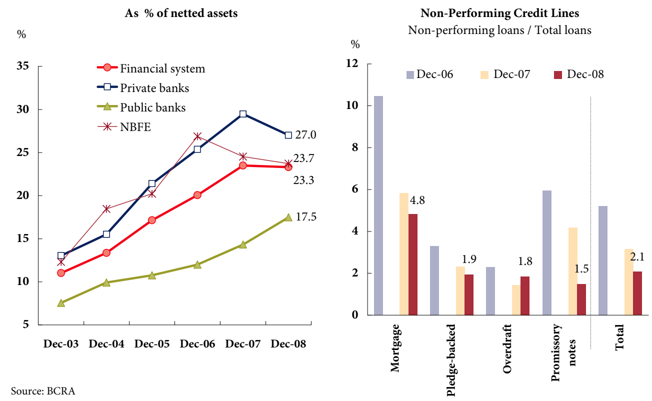


Source: BCRA

Chart V.13

Corporations

Fundings to companies

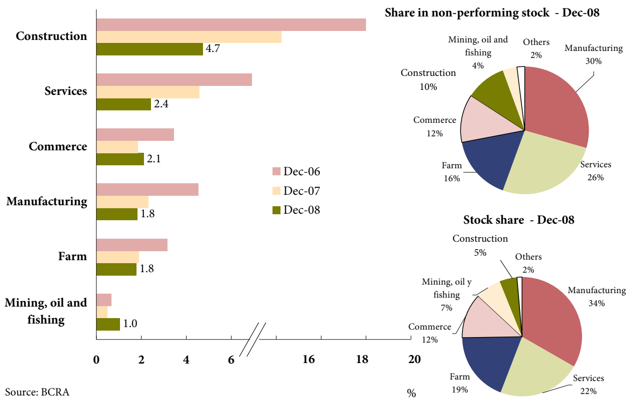


Source: BCRA

Chart V.14

Non-Performing Loans by Economic Sector

Non-performing loans / Total loans (%) - Financial system



Source: BCRA

public financial entities record high provision levels, with non-bank financial entities showing the lowest coverage levels. Only a small group of financial entities records a coverage ratio lower than the total balance of their non-performing loans to the private sector, with signs of a slight reduction over the last year.

On the basis of lower projected levels of local economic growth, it is expected that financial entities as a whole will continue to record some degree of materialization of their exposure to private sector credit risk

Increased uncertainty regarding the external macroeconomic situation and its local impact is leading companies to postpone certain investment projects and predict a reduction in agents real income growth rate. Greater international financial turbulence is beginning to have an effect on the volatility of lending interest rates, which have risen gradually over the course of 2008 (see page 49), and this could eventually have an impact on the payment capacity of certain debtors. This situation will continue to generate a materialization of the credit risk faced by the financial system, although starting from levels that are still low.

Corporations

There has been a slight drop in the share of banks financial assets accounted for by loans to companies, in the context of delinquency levels that are beginning to rise from a low base

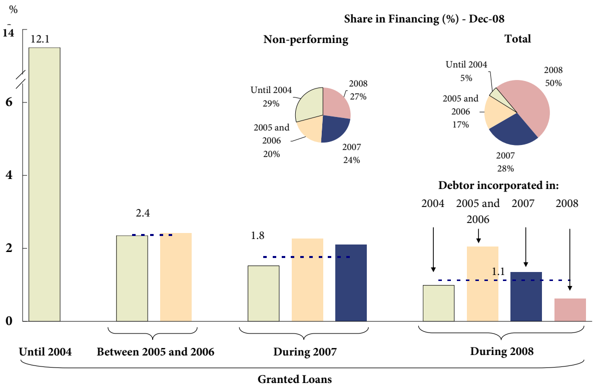
For the first time since the start of the expansive credit cycle, the financial system has slightly reduced its exposure to the corporate sector (see Chart V.13), a result of the slowing rate of growth recorded by this loan portfolio. Loans to companies total 23.3% of netted assets, lower than the previous year's figure, mainly because of the reduction recorded in private banks and non-bank financial entities.

At a time when some pressure is being placed on corporate payment capacity (see page 28), the financial system is beginning to show some signs of the materialization of credit risk in this debtor segment, although levels remain low. Corporate loan non-performance has started to show an incipient increase in recent months, although over the course of 2008 it accumulated a reduction to record low levels (2.1% of loans). All productive sectors continue to show reduced levels of non-performance (see Chart V.14). In line with their greater share of borrowing, companies in the manufacturing and service sectors record the most

Chart V.15

Lending to Companies by Granted Period

Non-performing loans / Total loans (%)

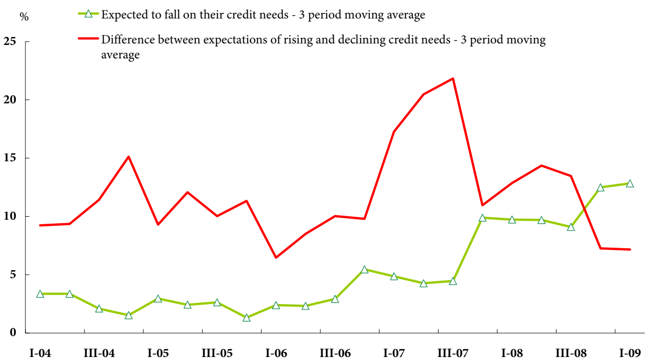


Source: BCRA

Chart V.16

Credit Needs Expectations

Variation compared to same quarter last year

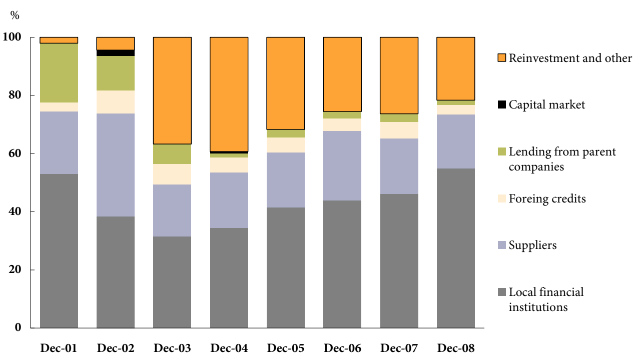


Source: EMI - Qualitative information - INDEC

Chart V.17

Expected Sources of Funds for Manufacturing Sector

Outlook for the first quarter of 2009



Source: EMI - Qualitative information - INDEC

significant weighting in the total for non-performing credit lines.

In view of the forecasts for the development of the economy during the global financial crisis, which will have a greater relative impact on certain sectors of the economy such as construction, manufacturing industry and farming (see Chapter III.1), it is expected that there will continue to be some signs of materialization of the risk of lending to corporations being faced by the financial system.

It has been estimated that those corporate lines with the greatest relative non-performance levels are those that were granted four years or more ago, whereas those loans granted since then record a better performance (see Chart IV.15).

Taking off from historical lows, some materialization of corporate credit risk is anticipated for coming months

The corporate sector is expected to continue to increase its use of bank credit at a slower rate, in line with the forecasts for a drop in economic growth. A growing number of firms in the manufacturing sector (which accounts for the largest share of bank lending to corporations) predict a reduction in their borrowing requirements (see Chart V.16), which will be mainly met by financial system resources, and to a lesser extent, out of own funds and supplier credit (see Chart V.17). In such a situation, there could be greater materialization of the risk to banks from corporate lending, although it will remain at a low level. The increase in rejected documents at the end of the year (see page 74) is another indication of certain deterioration in companies payment capacity.

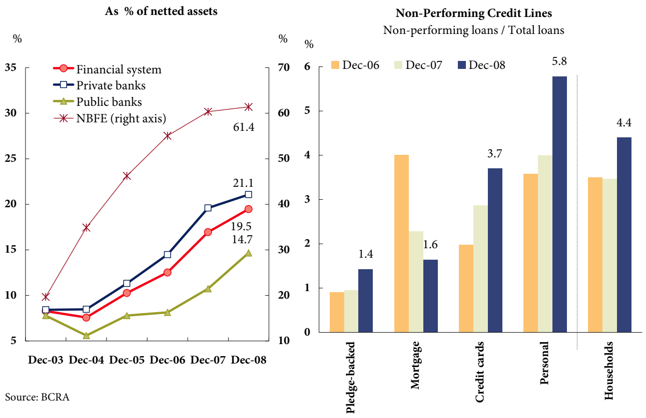
Households

Financial system exposure to households shows a moderate rise, while there has been some increase in non-performance in this segment

The financial system continues to augment its exposure to households, with a gradual slowing in the increase rate. Loans to households represent 19.5% of financial system netted assets, more than in 2007.

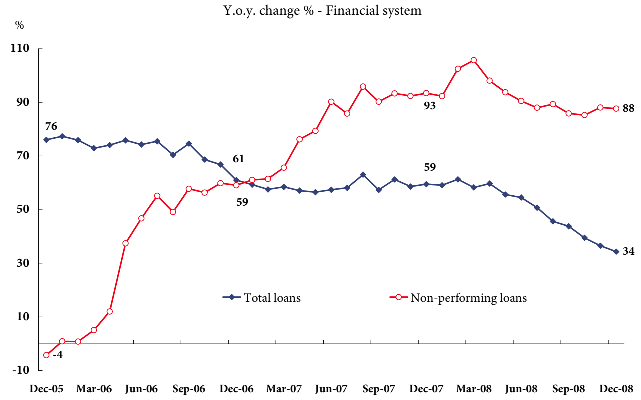
Some signs can be seen of increased materialization of household credit risk faced by the financial system, although it still remains at a relatively low level. In recent periods a slight increase has been recorded in the non-performance ratio for loans to households, led by

Chart V.18
Households



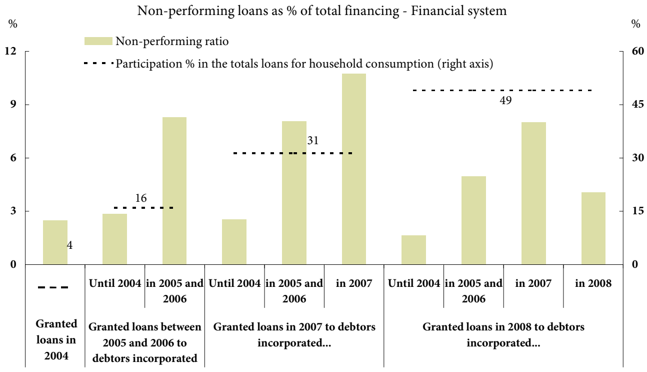
Source: BCRA

Chart V.19
Performing and Non-Performing Loans - Consumer Loans
Y.o.y. change % - Financial system



Source: BCRA

Chart V.20
Estimation of the Non-Performing Credit to Households Consumption
Non-performing loans as % of total financing - Financial system



Source: BCRA

consumer credit lines (personal loans and credit cards), and to a lesser extent, by pledge-backed, while mortgage loans continue to post an improvement in their performance (see Chart V.18).

The rise in the non-performance ratio for household consumer loans is taking place in the context of a slowing rate of increase in the balance sheet stock for such loans and a steady rise in the non-performing credit lines (see Chart V.19), trends which are expected to persist, given the outlook for the sector (see Chapter III.2).

It is estimated that non-performance in household consumer lines is relatively higher, and is deteriorating faster, in the case of loans granted in recent years to borrowers who have more recently begun to participate in the financial system (see Chart V.20).

Banks would probably see greater materialization of household lending credit risk in coming periods, although it will still remain at a low level

The financial system is expected to continue to increase its exposure to households, showing a slightly lower growth rate because of the decline in consumer confidence at a time when the segment is expected to record marginal deterioration in its payment capacity.

V.2.2 Public sector

The financial system is in a sound position to face public sector credit risk

Exposure to the public sector is declining gradually across all groups of financial entities (see Chart V.21). Loans to the Government dropped to a level of 12.7% of assets, for a total fall of 28 p.p. since the end of 2004. Gradual amortization and the sale of government securities, as well as growth in financial system assets, explain this recent reduction in exposure to the Government, which currently represents one third of that corresponding to the private sector.

Timely measures by the Central Bank helped to ensure a reversal of the crowding-out that the private sector had faced four years ago. In addition to pro-credit policies designed to encourage lending to companies and households, attention should be drawn to the unifying of capital requirements for lending to the private and public sectors, the global limit on exposure to the Government of 35% of bank assets as from mid-2007, and caps based on bank capital levels and the

Box 5 / Credit Risk Stress Tests for the Argentine Financial System

Over the course of recent years, some local financial entities have begun to perform stress tests with the aim of evaluating their exposure to credit risk of lending to corporations and households. The Central Bank has also developed models for the diagnosis of bank vulnerability to private sector credit risk, and these are currently one of the available tools when carrying out regular supervision of the sector. In coming periods these methodologies will continue to be developed so that they can become part of a growing number of tools that can be used to evaluate the soundness of individual banks and that of the financial system as a whole

Globally, financial entities have at their disposal the necessary tools to measure various risks inherent to the financial intermediation business. Normally, models based on the Gaussian value at risk (VaR) concept are used to quantify market risk, and credit scoring and rating systems respectively are used for individual and corporate credit risk. These statistical and mathematical models used in "routine" risk management are constructed using information from stable periods, during which risk exposure increases and financial system vulnerabilities begins to develop. Furthermore, the underlying assumptions mean that in general they are only suitable for use in conditions of normality, so that they are unable to detect new risks or measure losses with probabilistic distributions that are not observed in normal periods, and they are therefore not very reliable when it comes to measuring losses during stress periods.

In an attempt to overcome these limitations, a series of techniques and methods have been grouped under the heading of "stress tests" with the aim of evaluating the impact on financial entities of the occurrence of exceptional, although possible, situations that might negatively affect their economic and financial position.

Methodologies employed

Stress tests in general, and those for credit risk in particular, are increasingly being adopted by the banking industry, supervisors and even multilateral credit agencies. Both internationally and locally market and liquidity stress tests predominate, followed by credit risk tests[44]. Their results are usually employed to understand the bank's credit risk and communicate it to the Board, for limits to be set, to design contingency plans, and the allocation of capital to business units or sub-portfolios on the basis of their risks and profitability levels. They are not generally used to forecast future capital requirements.

Credit risk stress tests can be carried out on marked-to-market instruments in the trading portfolio or on bank loan portfolios. The former are relatively simple and are more widespread, consisting of applying stress to market spreads on market instruments: asset and credit default swaps and corporate bonds. Tests on loan portfolios are more complex, as the loans recorded on the banking book do not in general have a market value that can be subjected to stress. In these cases conventional practice is to perform an economic valuation of the loans in an adverse situation. The stress test could require estimates of the risk measurement for each loan, and even a review of the correlation of the credit quality between loans[45]. In general, banks do not explicitly model the channel whereby the macroeconomic situation is transmitted to bank risk, instead using a subjective estimate of risk factor behavior in adverse scenarios.

Credit risk stress tests can be made using a top-down approach (of a global nature), in which the same scenario is applied to all the segments of the portfolio (sub-portfolios), or using a bottom-up approach that is more sensitive to the particular features of each type of loan. These types of test include those that are portfolio specific (by type of portfolio), and name-by-name analysis for those debtors that are more significant.

A Central Bank survey on stress tests used in the financial system[46] shows that the approaches employed display the following features:

i. Models are not generally used, analysis being based on the sound judgment of the analysts, and there is no system for linking the macro deterioration of the scenario to the performance of the portfolio;

ii. One or two adverse scenarios are defined (sometimes these are moderate scenarios);

[44] Committee on Global Finance System, "Stress testing at major financial institutions: survey results and practice", January 2005.

[45] Asset correlation demonstrates how closely the credit quality of a debtor depends on what happens in the economy.

[46] Gerencia de Análisis del Sistema, Gerencia de Coordinación de Supervisión y Gerencia de Investigación y Planificación Normativa, "Pruebas de Tensión. Relevamiento en el Sistema Financiero", BCRA, September 2008.

iii. Loan portfolios are "valued" in each scenario using a methodology that differs depending on whether corporate debtors are involved or whether the rest of the portfolio is being analyzed. In the first case, banks use a rating system and each borrower is evaluated in the adverse scenario, with a review of the rating assigned. Retail (small) debtors are analyzed by segment, making a subjective forecast of the performance of arrears for each portfolio. The results of these analyses indicate how much the financial institution stands to lose in each scenario being analyzed.

Role of international standards

The use of stress tests is a requirement present in international benchmark credit risk management and appraisal standards. The new standard on regulatory capital measurement[47] ("Basel II") requires the use of stress tests in the direct calculation of credit risk capital requirements ("Pillar I") and in the Internal Capital Adequacy Assessment Process (i.e. the capital that banks must hold to confront significant risks - ICAAP[48]).

In response to the global financial crisis, at the beginning of 2009 the Basel Committee on Banking Supervision published a series of principles with the aim of reinforcing the stress tests performed by financial entities and their evaluation by supervisors[49]. These principles cover the purpose of the tests, their design and implementation, as well as aspects linked to specific risks and financial products, such as the efficacy of risk mitigation techniques and the risks associated with securitization holdings and their structuring.

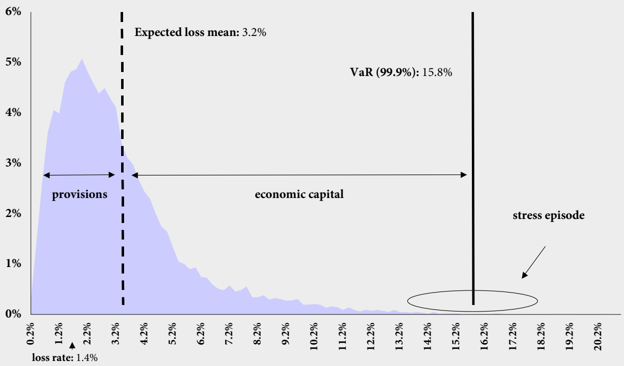
Methodological tools at the BCRA

As part of its process of financial system supervision, the Central Bank performs stress tests on the various risks affecting banks, including credit risk.

On the one hand structured methodology is made on a process known as *bootstrapping*[50] that makes it possible to reconstruct credit risk loss distribution for each entity and type of debtor[51]. Distribution enables comparison of the current portfolio quality with its potential deterioration (with a given confidence level) and to contrast it with the implicit loss absorption potential of the bank's results and capital. As an example, Chart B.5.1. shows the loss distribution for a commercial debtor portfolio constructed assuming a very conservative scenario in which only 50% of the segment covered by preferred guarantees is recovered. To build it, use was made of data from the period between 1999 and the end of 2007.

Chart B.5.1

Credit Risk Loss Distribution - Bootstrapping



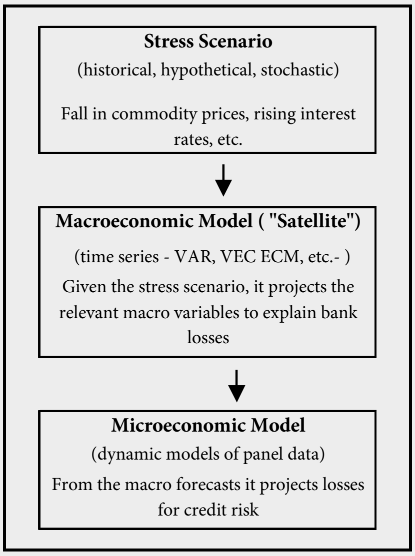
Source: BCRA

The dotted line shows the average or expected loss (3.2% of the portfolio) that is covered by provisions and is included in the valuation of the loan, and the second line indicates the Value at Risk[52] (VaR) corresponding to a confidence level of 99.9% (15.8% of the portfolio). The difference between the VaR and the expected loss indicates the capital needed to cover unexpected losses on this type of portfolio at the bank under analysis: 12.6% of loans. Also shown is the annual loss rate[53] at June 2008 (1.4%) that is significantly below the expected loss rate, indicating that the bank would easily be able to absorb the losses from its profit flows without having to resort to its capital. The problem with this methodology is that it does not identify the event that could generate a level of losses corresponding to the distribution tail.

[47] Basel Committee on Banking Supervision, "Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework", BIS, June 2006.
[48] Internal Capital Adequacy Assessment Process.
[49] Basel Committee on Banking Supervision, "Principles for sound stress testing practices and supervision", BIS, January 2009.
[50] Using an observed dataset, the bootstrap method involves taking a high number of random samples (resampling) with replacement. The statistical measure under analysis is calculated for each resampling (in this case, the loss rate).
[51] For a description of the methodology, see Gutierrez Girault, M., "Non – Parametric Estimation of Conditional and Unconditional Loan Portfolio Loss Distributions with Public Credit Registry Data", BCRA, June 2007.
[52] Statistically VaR is a percentile of the loss distribution for the asset or portfolio of assets under analysis.
[53] In the example, the loss rate is obtained from the default rate recorded between June 2007 and June 2008, combined with assumptions regarding recovery and information on preferred guarantees on the transactions in the portfolio under analysis.

Chart B.5.2

Stages of a Conventional Scenario Analysis



The second approach adopted by the Central Bank enables the modeling of losses that would be observed in specific scenarios, whether historical or hypothetical, which among other things makes them easier to understand. This approach does not lead to a loss distribution, but on the basis of the scenario defined it estimates the corresponding losses from credit risk, structured in three stages: i. first, the selection or construction of a stress scenario (historical, hypothetical, or generated stochastically via Monte Carlo simulations); ii. second, the modeling of the macroeconomic context for the stress test (using econometric time series models such as autoregressive vectors (VAR)) and, iii. The modeling of the microeconomic mechanism that translates the macroeconomic scenario into bank losses from credit risk, using data panel techniques[54]. Lastly, the resulting losses are compared with the loss absorption capacity of each financial entity. The structure of this second approach has been schematized in Chart B.5.2.

Outlook

The magnitude and depth of the international crisis has underlined the importance of being able to count on adequate systems of risk management in general and stress tests in particular. The crisis has also brought to light the fact that in many cases the stress test exercises carried out by banks were inadequate. When reviewing the tests prior to the crisis, the Basel Committee on Banking Supervision identified various weaknesses: problems in the use and integration of their results with risk management itself (for example, stress tests performed by the risk areas without participation by business areas), defects in the methodologies employed, insufficiently severe scenarios (moderate short-duration shocks that underestimated correlation between positions, types of risk, markets and shock feedback) and inadequate treatment of new products and risks.

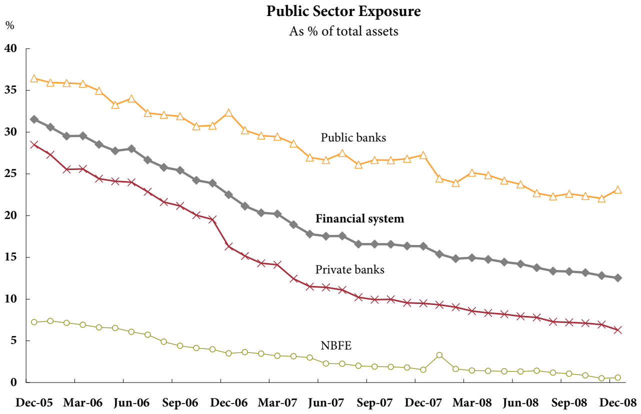
Given the losses experienced by the international financial system, it is to be hoped that banks will make significant changes to their risk management policies (for example, by performing their tests in line with the principles published by the Committee in 2009) to help ensure avoidance of any repetition of events of this magnitude. These changes should come from both the institutions themselves and regulators and supervisors, who will be placing greater emphasis on these aspects. Furthermore, the global financial crisis has shown the need for a systemic approach to the evaluation of financial institution vulnerability, complementing micro-prudential views and tools with a broader macro-prudential approach.

[54] For a description of the methodology see Gutierrez Girault, M., “Modeling Extreme but Plausible Losses for Credit Risk. A Stress Testing Framework for the Argentine Financial System”, BCRA, 2008.

Chart V.21

Public Sector Exposure

As % of total assets

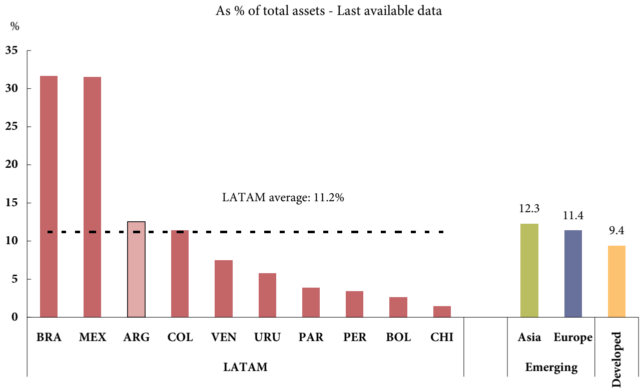


Source: BCRA

Chart V.22

Public Sector Exposure

As % of total assets - Last available data

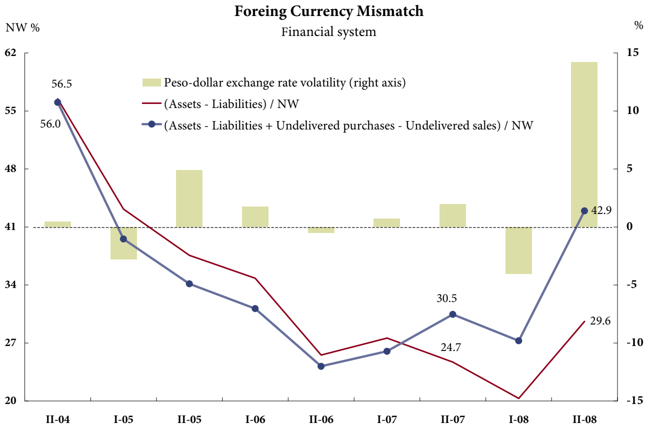


Source: BCRA from Central Bank, Superintendencies and IMF data.

Chart V.23

Foreing Currency Mismatch

Financial system



Source: BCRA

jurisdictions within which they operate. As a result, the level of exposure to the public sector by the local financial system is in line with that of other countries in the region (see Chart V.22).

National public accounts continue to post primary surpluses (see Chapter III.3), strengthening the position of the financial system in the face of credit risk from this sector.

V.3 Currency risk

Within the context of a moderate increase in currency mismatching, the financial system records low exposure to this risk

The financial system records only a limited exposure to foreign currency risk, within the context of greater volatility in the nominal peso-dollar exchange rate and a slight rise in currency mismatching in US dollars.

The broad foreign currency position[55] for the financial system stands at almost 43% of net worth (see Chart V.23), with an increase for the year as a result of a greater rise in foreign currency assets, complemented by a rise in net future purchases of foreign currency. Growth in liquid assets, and to a lesser extent in the financing of foreign trade, has been behind the rise in financial system foreign currency assets. Deposits from the private and public sectors explain the increase in this currency liabilities, a movement that has been partly offset by corporate bond settlements by some banks. All financial entity groups record a slight rise in their foreign currency mismatching.

Financial entities as a whole present an activation position in foreign currency items, being exposed to appreciations of local currency, in a situation of limited foreign currency risk.

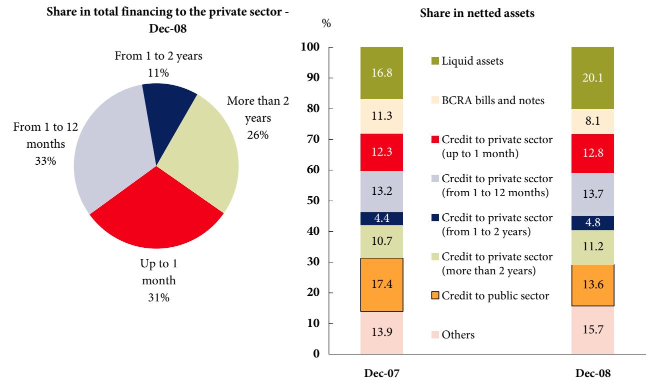
In addition, there is a slight credit risk from possible fluctuations in the exchange rate. In a context in which the stock of foreign currency loans to the private sector is relatively low (16%, down from two-thirds at the beginning of 2001), Central Bank regulations restrict the granting of bank credit in foreign currency only to those companies that generate incomes in hard currency.

[55] Includes foreign currency assets, liabilities and forward purchases of foreign currency in memorandum accounts.

Chart V.24

Lending to the Private Sector by Time to Maturity

Financial system

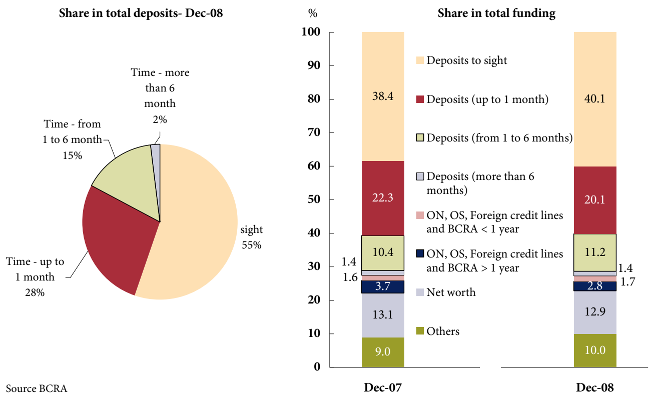


Source: BCRA

Chart V.25

Total Deposits by Time to Maturity

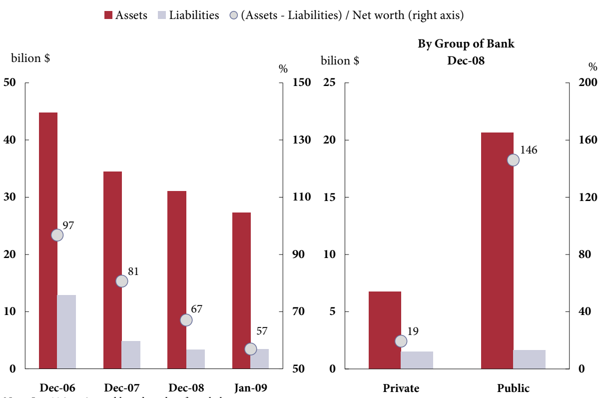
Financial system



Source BCRA

Chart V.26

CER Mismatching



Note: Jan-09 is estimated based on data from balance

Source: BCRA

V.4 Interest rate risk

The position of the financial system in the face of interest rate risk has improved slightly

Banking system records a slight reduction in its exposure to interest rate risk, mainly as a result of the shortening of the estimated residual term of assets and the preservation of the maturity structure of funding.

The gradual reduction in exposure to the public sector[56] (see Chart V.24) generates some shortening in the maturity of financial system assets. This trend has been partly offset by the increased weighting of loans to the private sector with a greater relative duration (although part of this increase is in the form of loans with adjustable interest rates on rollover). In the case of funding, the estimated residual term for total deposits has not shown significant change (see Chart V.25), while those resources with a longer term to maturity (ON, OS and foreign lines of credit) have slightly reduced their share of the total, in line with the worsening international conditions that have led to a postponement of new issues of such instruments. These developments have taken place in the context of greater deposit rate volatility.

The financial system continues to record a reduction in its exposure to real interest rate risk. The reduction in the balance-sheet stocks for some CER-adjusted public sector assets exceeds the decline in those time deposits adjusted in a similar manner, so that the mismatching of adjustable items has fallen in absolute values and in terms of financial system net worth (see Chart V.26). Private banks have led this reduction, while public financial entities record a relatively higher mismatching.

As a result of the swap of Guaranteed Loans that took place at the beginning of 2009, balance-sheet stocks for CER-adjusted assets dropped for financial entities as a whole, and particularly in the case of public sector banks. In this manner, in the case of the financial system aggregate, the mismatching of CER-adjusted items totals a level of close to half its net worth.

Deteriorating international financial conditions could lead to some materialization of the interest rate risk faced by the financial system

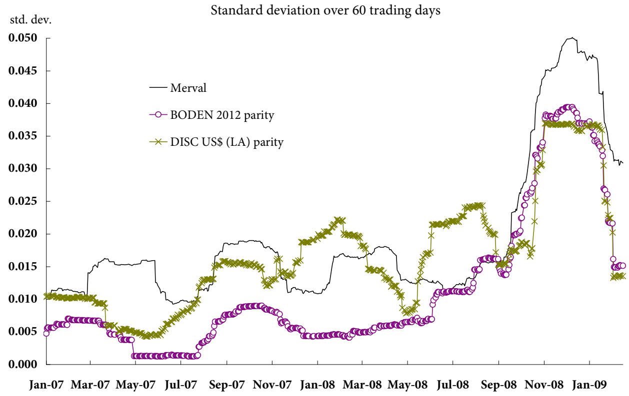
At a time of improvements in terms of both the balance sheet structure and the mismatching to which bank systems are habitually exposed, financial turbulence is

[56] Mainly long-term assets at fixed interest rates.

Chart V.27

Fixed Income and Equity Markets Volatility

Standard deviation over 60 trading days

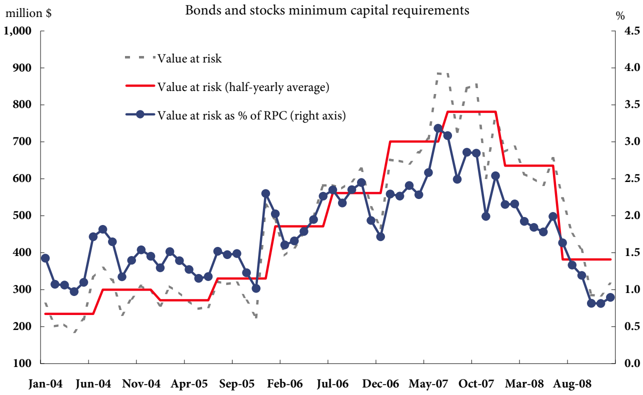


Source: BCBA

Chart V.28

Market Risk Exposure and Coverage

Bonds and stocks minimum capital requirements



Source: BCRA

causing increased volatility in local interest rates, presenting new challenges in terms of interest rate risk management for financial entities in coming periods.

V.5 Market risk[57]

Alternative valuation methods for securities made available to financial entities by the Central Bank help to mitigate the impact of short-term fluctuations

At a time of high financial market volatility, valuation alternatives for BCRA securities have moderated the effect of excessive short-term fluctuations in bank net worth (see Chart V.27). Since the end of 2008 the Central Bank has widened the range of securities[58] that can be recorded in investment accounts and special investment accounts, as long as they are to be held to maturity, additionally granting the possibility of valuing such items as held for sale.

Government securities and holdings of Lebac and Nobac not linked to repo transactions are recording a declining share of financial entities assets, at the same time as there is an increase in the proportion of securities with no regular market listing, so that the value exposed to market risk in terms of regulatory financial system capital is continuing to drop (see Chart V.28).

V.6 Risk balance

The financial system is in a sound position, experiencing a period in which there has been some increase in the risks faced

In this scenario of international crisis and its local impact, the financial system as a whole is facing a gradual increase in the materialization of the risks assumed, although the Central Bank is closely monitoring the development of the situation.

The financial system holds adequate levels of liquid assets and can count on new instruments created by the BCRA to assist in managing this risk.

There are beginning to be signs of the materialization of the risk of lending to the private sector assumed by the financial system, although at present it remains limited. From the historically low levels that had been reached, there has been some increase in the non-performance of loans to households, particularly in the consumer loan segment, and an incipient rise can be detected in the case

[57] This section includes the balance sheet impact of price volatility in relation to both bonds and shares.

[58] To include government securities and monetary regulation instruments on the volatility list published by the Central Bank for the calculation of market risk capital requirements.

of companies. Greater uncertainty with regard to economic conditions makes it likely that there will be greater pressure on private sector payment capacity in coming periods.

Balance sheet mismatching recorded by the financial system is much lower than it was four years ago, and is an indication of the relative improvement that has taken place in the banking sector. Mismatching of CER-adjusted items (in the face of exposure to the real rate of interest) has dropped, mainly because of the Guaranteed Loan swap carried out by the Government at the beginning of 2009. At a time of a slight increase in the foreign currency mismatching of the financial system, the probability of any negative impact on the net worth of the sector in the event of movements in the nominal peso-dollar exchange rate is low.

Bank strength in the face of the risks assumed has been reinforced by the process of balance sheet normalization that has taken place and the consolidation of the solvency recorded in recent years, at the same time as the Central Bank has continued to implement measures that contribute to promote conditions for financial stability.

Box 6 / Developed Financial Systems with Greater Relative Strengths: Canada and Spain

Since mid-2007, many of the financial systems in developed economies began to show signs of significant weakness, evidencing a growing need for reformulation of their business models and the standards followed for their regulation and supervision. Despite these widespread weaknesses, the financial sectors of economies such as those of Canada and Spain demonstrated that they were relatively better prepared to face the effects of global first round shocks. More conservative business strategies and less complex financial products, better and more restrictive state regulatory and supervisory practices, as well as the particularities of those markets, provided them with additional defense mechanisms. Some of these characteristics are being considered as part of the task of redesigning financial systems at global level. Although the financial systems of Canada and Spain were relatively better prepared to confront the impact of the first two years of the international crisis, any deepening of the turbulence could eventually affect their performance

The current crisis placed in evidence significant faults with regard to the way the financial institutions of the main developed economies (the USA and Europe) were handled. In effect, factors such as the proliferation of regulatory arbitrage (generating the so-called shadow banking in the USA) with a shortfall in risk transfer[59], the sharp distortion in incentives linked to the way in which the business model known as "originate-to-distribute" was applied, the holding of considerable positions in financial products that are complicated to value and inadequate banking supervision systems and solutions to critical situations, constitute the principal weaknesses associated with the crisis. The complex scenario that eventually evolved forced governments to generate many different approaches to avoid the disruption of lending to the private sector (which would have clearly adverse effects on economic development).

Policy responses were two-fold in nature. On the one hand, measures were taken to try to reverse the financial crisis in the short term, including new forms of liquidity injection, the providing of state guarantees for interbank transactions, the acquiring of troubled assets and the rescue of financial entities (even resorting to total or partial nationalization). In addition to these crisis management measures, thought is beginning to be given to a future redesign of global financial regulation. This debate within the G-20 has seen some agreement on the need to place greater emphasis on the use of a systemic view to face the risks inherent to financial activities.
(see Box 4).

In this context, it is useful to analyze the experience of those banking systems in industrialized countries that have not required the introduction of extreme measures to prevent their collapse, where government action took place mainly in response to competitive imbalances generated in relation to other systems that did indeed receive state support. Such systems include those of Canada and Spain, which recorded a relatively good performance during the first stage of the crisis, without the need to resort to the rescue or nationalization of major financial entities. Indeed, in a context of sustained global uncertainty, both systems have to some extent been able to maintain their traditional banking business steady, showing both profitability and adequate capitalization levels[60].

Canada

The Canadian financial system was endowed with certain features that helped it to be better prepared to confront the crisis, which included:

i. High returns on traditional banking financial intermediation activity. Retail business returns contributed to prevent banks in Canada from assuming excessive risk (with the aim of boosting profits) such as incursions into the US subprime market or the deepening of any similar domestic market[61]. This situation is partly explained by the level of concentration in the Canadian market (the five main banks together hold over 85% of total bank assets), a situation that has contributed to their profitability.

[59] This enabled banks to avoid capital requirements, at the same time as commitments persisted that eventually resulted in the materialization of liabilities.

[60] This situation has become evident in the relative positioning achieved by Canada and Spain in the banking system ranking according to the World Economic Forum, where they were in first and twentieth position respectively, better than Germany (39th), USA (40th) and UK (44th).

[61] The Canadian subprime market is relatively small: 5% of total mortgages, significantly lower than in the US case. Source: Financial System Review (12/08) Bank of Canada

ii. Financial innovation in relation to mortgages in recent years has not prevented products from continuing to show conventional characteristics. Canadian mortgages do not include the elements that contributed to the increase in non-performance in the US market (more permissive amortization terms, borrower income requirements, etc.).

iii. Investment companies were subject to a higher level of supervision and regulation than they were in the United States. During the 80s the Canadian authorities allowed the consolidation of commercial banks and investment companies within a single financial group, placing the latter within the orbit of the more restrictive regulation in force for commercial banks.

iv. Canadian banks adopted more prudent business practices, with a greater proportion of loans remaining on their balance sheets. Mortgage securitization is not a significant practice in Canada (affecting only one fifth of the total), a trend that in part reflects the regulatory requirements introduced: mortgages with loan to property value ratios of over 80% require private insurance, a situation that results in a lower risk weighting in terms of regulatory capital requirement. This reduces the incentive for banks to securitize portfolio, encouraging them to follow prudent origination practices and thus avoid seeing their profitability eroded by increased delinquency. In fact, such insurance became into a widespread practice that was adopted voluntarily.

v. Tougher capital requirements than in other countries. The Canadian regulatory framework requires banks not to exceed a ratio of total assets[62] to capital in excess of 20 (leverage level), and also makes a requirement for minimum capital of 10% of risk-weighted assets, higher than Basel recommendations and those set by other developed economies.

Spain

The case of Spain also shows strengths that should be analyzed when redesigning the global system:

i. A business model that mainly targets the retail segment. Profits from the traditional retail market, arising out of close customer links, helped avoid the generation of incentives for the taking on of complex structured products, reducing the possibility of generating a high-risk mortgage segment.

ii. The banking sector is mainly made up of commercial banks, with relatively small investment bank divisions. Core commercial bank business led banks to follow prudent practice in credit generation.

iii. Securitized loans show good credit quality. Securitization is based on very fragmented portfolios (small, diversified loans), and, in general, loans to property value ratios are moderate (approximately 70%). Securitization structures employed have been very simple, with a high degree of transparency, unlike the models in other developed countries. This was assisted by the concept of securitization as an additional source of funding rather than a business in its own right, so that much of the risk of the underlying assets has been kept on bank balance sheets, therefore avoiding any relaxation of credit origination criteria.

iv. The Central Bank set specific requirements for off-balance-sheet vehicles, consolidating them with banks for regulatory and accounting purposes.

v. Implementation of counter-cyclical provisions contributed to the financial system being able to remain sound, smoothing fluctuations in profitability over the course of the economic cycle. The existence of these provision buffers enabled Spanish banks to maintain adequate profitability and solvency levels.

The experience of Canada and Spain reveals certain elements to be taken into account when redesigning the financial systems of other developed economies. Closer relationship with retail customers provides a key incentive for more prudent business strategies, and any such system needs to be complemented by increased, improved, state regulation, particularly with the aim of avoiding the development of excessive risk with potential systemic effects that could once again threaten financial stability, and thus sustainable economic development.

[62] Without risk-weighting.

VI. Payments System

Summary

The National Payments System (NPS) continues to offer a variety of schemes to conduct transactions in an efficient, flexible and safely manner, providing an appropriate framework to foster a deeper use of the electronic means of payments in the economy.

Cash in circulation available to the public continues to represent the most accepted means of payment, but gradually the use of cards is expanding as an alternative to perform transactions, a trend driven in part by the commercial strategies of banks. Furthermore, both households and companies show a greater use of automatic debits to cancel frequent obligations.

Check clearing is still expanding, in line with the evolution of the last years, in a less favorable macroeconomic context. The number of rejected documents shows a slight increase, driven in part by lack of funds, the latter being more noticeable in the group of banks of regional reach. The use of the electronic means of payments (MEP) which records high-value transactions, continues to show an expansive behavior.

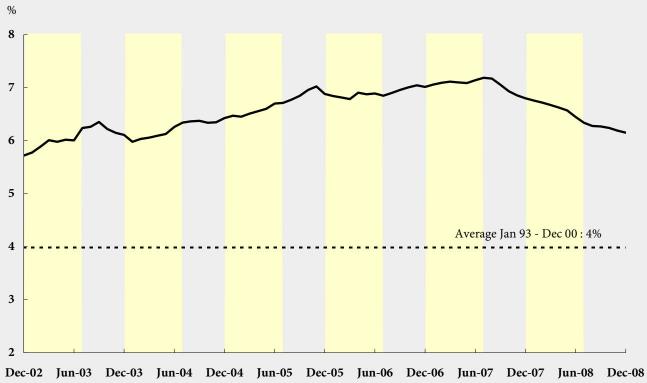
The Central Bank keeps on working on a number of projects in order to evolve in the development of the Payments Systems in general and in the compensation of values in particular. In recent years, the Uniform Federal Clearing (CFU) was implemented in order to reduce the operational risk and the operational costs, method that is currently complemented with the objective of standardizing all clearing documents. This would allow the harmonization of designs and safety measures in order to give banks better tools for verification and control. Moreover, within the framework of the Interbank Commission for Payments Means (CIMPRA), the creation of a reservoir where available images of all cleared documents are available for verification by the financial entities has been analyzed.

Due to the extensive evolution of the payments systems in recent years and to the development of the financial systems, it is of supreme importance to preserve its stability and protect them from risks. In this context, the financial authorities in several countries have raised the need to count, at global level, with the necessary legislation to ensure that the clearing and settlement of transfer orders issued through the payments systems are final and irrevocable. Consistent with this, the BCRA continues to foster the development of a law that strengthens its role of monitoring the payments system, while establishing the irreversibility of the transfer of funds and securities.

The BCRA and the BCB (Central Bank of Brazil) developed a bilateral system of payments in local currencies, method that streamlines transactions by reducing transfers in foreign currencies.

Chart VI.1

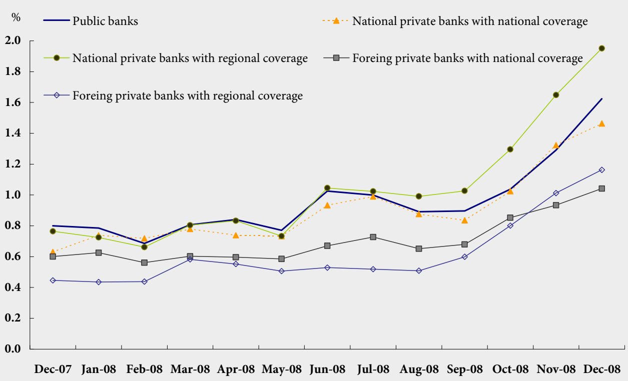
Currency Held by Public
As % of GDP



Source: BCRA

Chart VI.2

Documents Rejected by Group of Banks
Documents rejected by lack of funds / Documents compensated - Quantity



Source: BCRA

VI.1 National Payments System

The use of payments instruments is gradually diversifying, achieving greater efficiency in the transactions

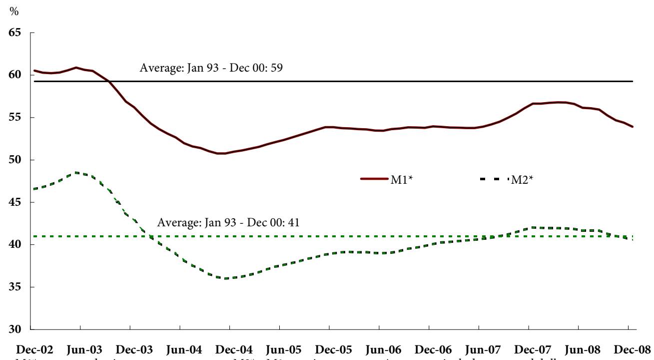
According to the needs of households and companies, the National Payments System (NPS) provides different schemes to conduct transactions, gradually pushing the electronic options that provide greater security to customers and are more efficient, while promoting a higher penetration of the banking services in the economy.

Throughout 2008, the cash in circulation held by the public grew more moderately than in previous years, verifying a slight setback in terms of monetary aggregates (see Chart VI.3). The cash holdings totaled $70,900 million at the end of the year, representing 6.1% of GDP, thus supporting the downward trend evidenced in recent periods (see Chart VI.1).

Chart VI.3

Currency Held by Public

As % of monetary aggregates - 6 month moving average



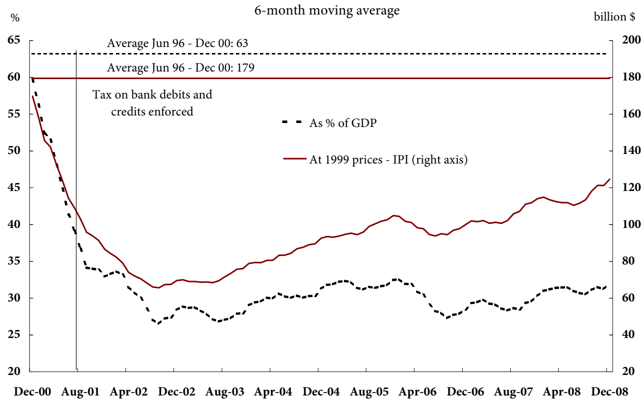
M1*= notes and coins + current accounts. M2*= M1 + saving accounts. Aggregates include pesos and dollars.
Source: BCRA

Debit transactions in current accounts continue to rise, showing in 2008 the largest annual expansion since 2002. Debits in current account also gradually increased its participation in GDP, exhibiting a high potential for further development (see Chart VI.4).

Chart VI.4

Current Account Debits

6-month moving average

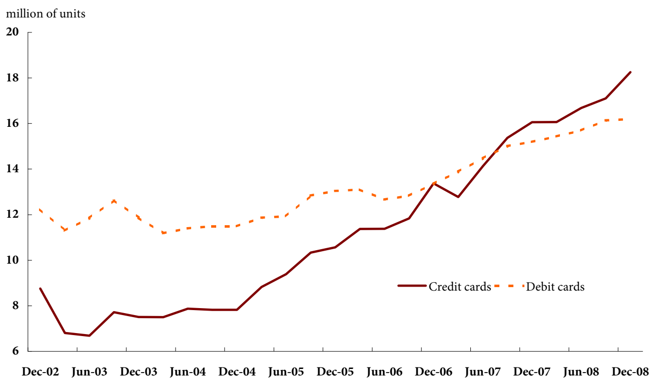


Source: BCRA, SISCEN

Progressively, the availability and use of debit and credit cards in the economy continue to broaden, trend mainly driven by the latter (see Chart VI.5). In order to expand its use, banks offer a number of benefits ranging from discounts on the prices of goods and services purchased, financing facilities, incentives and bonuses to total or partial administrative costs and renewal of cards.

Chart VI.5

Credit and Debit Cards



Source: BCRA

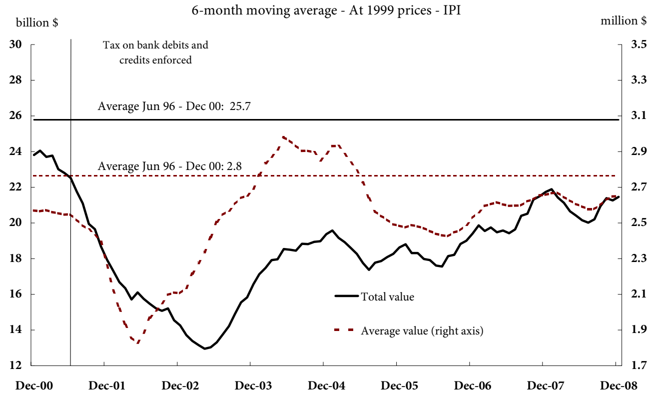
In the second part of 2008, approximately 48.5 billion checks were processed for a value of $343 billion, growing slightly in relation to the first part of the year (see Chart VI.6). In terms of GDP, cleared document were 5.1%, slightly lower than the value of the first half of the year. The monthly average of truncated checks, which do not require the sending of the image to the drawer bank (with amounts up to $5,000), registered 82% of the total cleared.

The number of checks rejected by all reasons reached 3% of all the documents submitted for clearing in the second half of 2008, showing a small increase in recent months (see Chart VI.7). The checks rejected for insufficient funds are showing a growing trend, which is more pronounced in the banks with a wider provincial network (see Chart VI.2). As a result, the number of checks rejected for lack of funds reached 1% of the total

Chart VI.6

Documents Cleared

6-month moving average - At 1999 prices - IPI

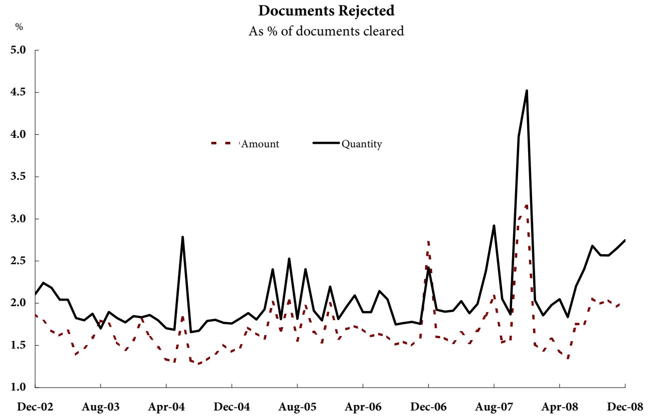


Source: BCRA

Chart VI.7

Documents Rejected

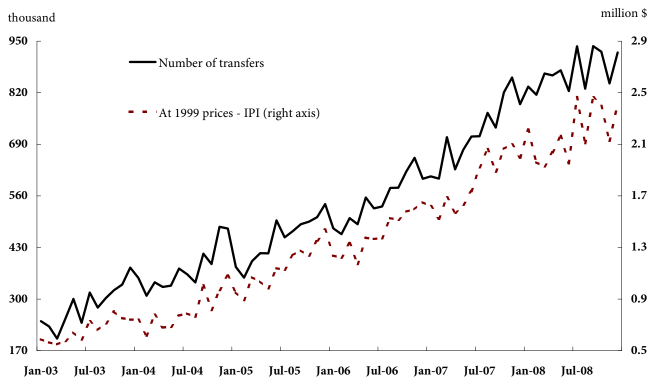
As % of documents cleared



Source: BCRA

Chart VI.8

Retail Transfers



Source: BCRA

amount of cleared checks in the financial system during the second half of 2008, over that reported at the end of last year.

A total of 5.4 million of retail transfers transactions were reported in the second half, emphasizing the growing trend of the last 6 years (see Chart VI.8). The increasing number of transactions goes hand in hand with higher values of transactions, representing a 3.3% in terms of GDP.

Direct debit use to cancel recurring billing of regular transactions -energy, gas, credit cards, among others- continues to rise (see Chart VI.9), in line with the behavior changes registered by consumers and with the marketing campaigns and incentives generated by the financial entities. In the second part of 2008, the trading volume totaled 15.3 million. The growth rate of the amounts run through this scheme is increasing steadily, especially since mid-2007 after the AFIP was included in the debits system.

The use of the Electronic Means of Payments (MEP)- payment system of high-value- continues to exhibit an expansive reach (see Chart VI.10), with 718 thousand transactions processed that represented $1,665 billion in the second half of 2008.

VI.2. Modernization of the payments system

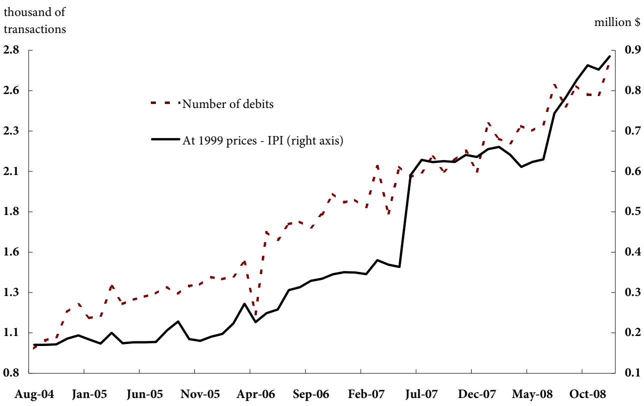
The BCRA continues to generate financial rules that provide greater security and stability to the National Payments System

The Central Bank continues to work on a number of projects in order to evolve in the development of the National Payments System in general and in the clearing in particular.

The final stage of the Uniform Federal Clearing (CFU) which was in late 2006 that essentially is about transmitting images of checks and other cleared documents, has allowed the complete elimination of the physical movement of the documents. The CFU generates a significant reduction in operational risks and operational costs, enabling the simultaneous interconnection of all places of the country in a one single daily video session, as well as the accreditation of the funds in a single term to all the customers of the system, regardless of the place the documents were deposited and the amount.

Chart VI.9

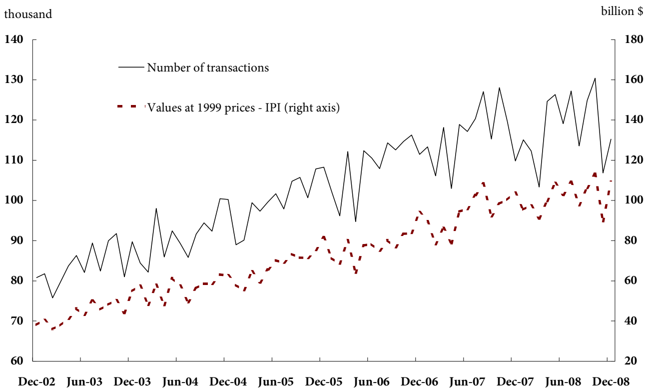
Direct Debits



Source: BCRA

Chart VI.10

Electronic Means of Payments - Peso Transactions Cleared



Source: BCRA

Since the beginning of the CFU the need to standardize all the documents compensable has arisen. This standardization that began with checks and that is also currently being implemented with bills of exchange and money orders, allows to unify designs and safety measures in order to provide depository banks better tools for the verification and control of documents. It is still pending the standardization of nominatives certificates of deposit: the assessment undertaken by the Interbank Committee for Payments Means (CIMPRA) is currently in the final stage prior to implementation, while changes are being made to existing regulations regarding the mandatory inclusion of certain information in the body of the document.

As an additional safety measure, the establishment of a reservoir containing the available images of all documents for consultation by financial entities is being analyzed. The next implementation of this service is estimated to incorporate a user-friendly access for financial entities, allowing to streamline subsequent tasks originated in the management of transactions of checks, while promoting the development of the CFU.

As a way of protection from various risks, financial authorities from several countries and the World Bank have raised the need, at global level, of regulations to ensure that the clearing and settlement of transfer orders issued through the payments systems are final and irrevocable. In this regard, the BCRA continues to provide support to the development of a Payments System Act, enabling it to assume an explicit role of monitoring, establishing the irrevocability of the transfer of funds and securities accepted in the payment systems, so that, they are firm, irrevocable and enforceable against third parties.

Within the scope of cross-border payments, the BCRA and the Central Bank of Brazil (BCB) in 2008 implemented a bilateral system of payments in local currencies, thereby reducing transfers in foreign currencies (US dollars) and the procedures corresponding to the involved export operations. Through this system are offset the daily unilateral stocks recorded in the accounts of each Central Bank, resulting from the payments of transactions between individuals or legal residents, being transferred to the creditor central bank the net result of the settlement.

Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1- Liquidity	22.3	26.1	23.1	25.0	23.4	19.6	22.8	29.1	29.6	20.1	22.5	23.0	28.0
2- Lending to the public sector	16.9	16.2	16.2	18.0	17.3	23.0	48.5	47.0	40.9	31.5	22.5	16.3	12.7
3- Lending to the private sector	50.8	47.7	48.4	44.9	39.9	42.7	20.8	18.1	19.6	25.8	31.0	38.2	39.4
4- Private non-performing loans	16.2	13.8	12.2	14.0	16.0	19.1	38.6	33.5	18.6	7.6	4.5	3.2	3.1
5- Net worth exposure to private sector	24.9	22.5	20.6	24.7	26.2	21.9	17.3	12.4	-1.0	-4.1	-3.3	-3.0	-3.3
6- ROA	0.6	1.0	0.5	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.9	1.5	1.6
7- ROE	4.1	6.3	3.9	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	14.3	11.0	13.4
8- Eficiency	142	136	138	142	147	143	189	69	125	151	167	160	168
9- Capital compliance	23.8	20.8	20.3	21.0	20.1	21.4	-	14.5	14.0	15.3	16.8	16.9	16.8
10- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	134	93	90

Source: BCRA

Chart 2 | Balance Sheet

In millions of current pesos	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Jun 08	Dec 08	Change (%)	
											Half-yearly	Inter annual
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**221,962**	**258,384**	**297,963**	**327,833**	**347,148**	**5.9**	**16.5**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	20,819	37,991	46,320	51,492	58,989	14.6	27.4
Public bonds	10,474	3,694	31,418	45,062	55,382	66,733	64,592	62,678	65,980	65,321	-1.0	4.2
Lebac/Nobac	0	0	-	-	17,755	28,340	29,289	36,022	40,712	37,158	-8.7	3.2
Portfolio	0	0	-	-	11,803	21,067	25,767	31,598	33,499	25,711	-23.2	-18.6
Repo	0	0	-	-	5,953	7,273	3,521	4,424	7,213	11,447	58.7	158.7
Private bonds	633	543	332	198	387	389	813	382	753	203	-73.1	-47.0
Loans	83,277	77,351	84,792	68,042	73,617	84,171	103,668	132,157	145,987	154,727	6.0	17.1
Public sector	15,164	22,694	44,337	33,228	30,866	25,836	20,874	16,772	17,092	17,097	0.0	1.9
Private sector	64,464	52,039	38,470	33,398	41,054	55,885	77,832	110,355	123,095	132,837	7.9	20.4
Financial sector	3,649	2,617	1,985	1,417	1,697	2,450	4,962	5,030	5,800	4,793	-17.4	-4.7
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-4,930	-3,728	-4,089	-4,262	-4,738	11.2	15.9
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	26,721	26,039	29,712	37,003	38,194	3.2	28.5
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	873	773	606	688	912	32.6	50.6
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,883	4,881	5,023	5,654	5,723	1.2	13.9
Compensation receivable	0	0	17,111	14,937	15,467	5,841	763	377	314	357	13.8	-5.4
Other	39,514	18,669	13,572	6,392	12,924	16,124	19,622	23,706	30,347	31,202	2.8	31.6
Leasing	786	771	567	397	611	1,384	2,262	3,469	3,936	3,935	0.0	13.4
Shares in other companies	2,645	2,688	4,653	4,591	3,871	4,532	6,392	6,430	6,735	7,175	6.5	11.6
Fixed assets and miscellaneous	4,939	4,804	8,636	8,164	7,782	7,546	7,619	7,643	7,699	7,905	2.7	3.4
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,647	2,782	2,912	2,869	3,154	9.9	8.3
Other assets	3,950	5,334	9,338	12,043	13,180	10,950	9,953	10,347	9,641	12,283	27.4	18.7
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**195,044**	**225,369**	**261,143**	**289,166**	**305,762**	**5.7**	**17.1**
Deposits	86,506	66,458	75,001	94,635	116,655	136,492	170,898	205,550	225,505	236,482	4.9	15.0
Public sector[2]	7,204	950	8,381	16,040	31,649	34,019	45,410	48,340	59,911	67,421	12.5	39.5
Private sector[2]	78,397	43,270	59,698	74,951	83,000	100,809	123,431	155,048	163,036	166,373	2.0	7.3
Current account	6,438	7,158	11,462	15,071	18,219	23,487	26,900	35,245	36,702	39,619	7.9	12.4
Savings account	13,008	14,757	10,523	16,809	23,866	29,078	36,442	47,109	48,699	51,016	4.8	8.3
Time deposit	53,915	18,012	19,080	33,285	34,944	42,822	54,338	65,952	70,048	69,484	-0.8	5.4
CEDRO	0	0	12,328	3,217	1,046	17	13	0	0	0	-	-
Other netted liabilities due to financial intermediation	55,297	36,019	75,737	61,690	64,928	52,072	46,037	46,225	54,050	57,714	6.8	24.9
Interbanking obligations	3,545	2,550	1,649	1,317	1,461	2,164	4,578	4,310	5,071	3,895	-23.2	-9.6
BCRA lines	102	4,470	27,837	27,491	27,726	17,005	7,686	2,362	2,223	1,884	-15.2	-20.2
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,548	6,603	6,938	6,376	5,984	-6.1	-13.7
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	4,684	4,240	3,864	4,681	4,541	-3.0	17.5
Other	37,883	17,295	11,955	11,012	18,934	21,671	22,930	28,752	35,699	41,408	16.0	44.0
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,381	1,642	1,672	1,589	1,763	11.0	5.5
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,099	6,792	7,695	8,021	9,803	22.2	27.4
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**26,918**	**33,014**	**36,819**	**38,667**	**41,386**	**7.0**	**12.4**
Memo												
Netted assets	129,815	110,275	185,356	184,371	202,447	208,275	244,791	280,336	304,505	321,460	5.6	14.7
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	203,286	235,845	271,652	294,918	312,403	5.9	15.0

(1) Includes margin accounts with the BCRA; (2) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 1)

1.- (Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total non-performing loans - Provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.**- (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Financial System (cont.)

Chart 3 | Profitability Structure

	Annual										Half-year			Change (%)	
In millions of current pesos	1999	2000	2001	2002[1]	2003	2004	2005	2006	2007	2008	II-07	I-08	II-08	II-08 / I-08	II-08 / II-07
Financial margin	6,967	7,291	6,943	13,991	1,965	6,075	9,475	13,262	15,134	20,513	7,624	9,700	10,813	11	42
Net interest income	5,396	5,106	4,625	-3,624	-943	1,753	3,069	4,150	5,744	9,574	3,199	4,287	5,287	23	65
CER and CVS adjustments	0	0	0	8,298	2,315	1,944	3,051	3,012	2,624	2,822	1,175	1,814	1,007	-44	-14
Foreign exchange rate adjustments	227	185	268	5,977	-890	866	751	944	1,357	2,306	858	621	1,685	171	96
Gains on securities	1,112	1,481	1,490	3,639	1,962	1,887	2,371	4,923	5,144	4,449	2,272	2,908	1,541	-47	-32
Other financial income	232	519	559	-299	-480	-375	233	235	264	1,363	120	70	1,293	1,757	976
Service income margin	3,623	3,582	3,604	4,011	3,415	3,904	4,781	6,243	8,248	10,869	4,496	5,033	5,836	16	30
Loan loss provisions	-2,565	-3,056	-3,096	-10,007	-2,089	-1,511	-1,173	-1,198	-1,894	-2,854	-1,161	-1,242	-1,611	30	39
Operating costs	-7,432	-7,375	-7,362	-9,520	-7,760	-7,998	-9,437	-11,655	-14,634	-18,731	-7,912	-8,884	-9,847	11	24
Tax charges	-497	-528	-571	-691	-473	-584	-737	-1,090	-1,537	-2,313	-856	-1,011	-1,302	29	52
Income tax	-421	-446	-262	-509	-305	-275	-581	-595	-1,032	-1,345	-413	-670	-675	1	63
Adjustments to the valuation of government securities[2]	0	0	0	0	-701	-320	-410	-752	-837	-1,823	-788	-884	-939	6	19
Amortization payments for court-ordered releases	0	0	0	0	-1,124	-1,686	-1,867	-2,573	-1,922	-994	-947	-521	-473	-9	-50
Other	617	535	702	-3,880	1,738	1,497	1,729	2,664	2,380	1,444	1,644	841	603	-28	-63
Monetary results	0	0	0	-12,558	69	0	0	0	0	0	0	0	0	0	0
Total results	**291**	**3**	**-42**	**-19,162**	**-5,265**	**-898**	**1,780**	**4,306**	**3,905**	**4,766**	**1,685**	**2,361**	**2,405**	**2**	**43**
Adjusted results[3]	-	-	-	-	-3,440	1,337	4,057	7,631	6,665	7,583	3,421	3,766	3,817	1	12
Annualized indicators - As % of netted assets														*change in p.p.*	
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	4.6	5.8	5.7	6.7	6.0	7.2	7.4	0.3	1.4
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	1.5	1.8	2.2	3.1	2.5	3.2	3.6	0.5	1.1
CER and CVS adjustments	0.0	0.0	0.0	3.9	1.3	1.0	1.5	1.3	1.0	0.9	0.9	1.3	0.7	-0.6	-0.2
Foreign exchange rate adjustments	0.2	0.1	0.2	2.8	-0.5	0.4	0.4	0.4	0.5	0.8	0.7	0.5	1.2	0.7	0.5
Gains on securities	0.9	1.2	1.2	1.7	1.1	1.0	1.2	2.2	1.9	1.5	1.8	2.1	1.1	-1.1	-0.7
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.4	0.1	0.1	0.9	0.8	0.8
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.3	2.7	3.1	3.6	3.6	3.7	4.0	0.3	0.4
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.5	-0.7	-0.9	-0.9	-0.9	-1.1	-0.2	-0.2
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-5.1	-5.5	-6.1	-6.3	-6.5	-6.8	-0.2	-0.5
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.8	-0.7	-0.7	-0.9	-0.1	-0.2
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.4	-0.3	-0.5	-0.5	0.0	-0.1
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.3	-0.3	-0.6	-0.6	-0.7	-0.6	0.0	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.6	-0.9	-0.9	-1.1	-0.7	-0.3	-0.7	-0.4	-0.3	0.1	0.4
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.8	1.2	0.9	0.5	1.3	0.6	0.4	-0.2	-0.9
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**1.9**	**1.5**	**1.6**	**1.3**	**1.7**	**1.6**	**-0.1**	**0.3**
ROA adjusted[3]	-	-	-	-	-1.9	0.7	2.0	3.4	2.5	2.5	2.7	2.8	2.6	-0.2	-0.1
ROE	*1.7*	*0.0*	*-0.2*	*-59.2*	*-22.7*	*-4.2*	*7.0*	*14.3*	*11.0*	*13.4*	*9.8*	*13.1*	*13.8*	*0.6*	*3.9*

(1) Information in currency of december 2002. (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains on securities" heading.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 4 | Porfolio Quality

As percentage	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	3.4	2.7	2.7
Non-performing loans to the non-financial private sector	**16.0**	**19.1**	**38.6**	**33.5**	**18.6**	**7.6**	**4.5**	**3.2**	**3.1**
Provisions / Non-performing loans	61.1	66.4	73.8	79.2	102.9	124.5	129.9	129.6	131.4
(Total non-perfoming - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.0	-0.8	-0.8
(Total non-perfoming - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-3.3	-3.0	-3.3

(*) Include commercial loans treated as consumer loans for classification purposes.
Source: BCRA

Statistics Annex – Private Banks

Chart 5 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1- Liquidity	23.6	26.9	22.8	24.3	24.1	23.6	24.8	27.6	29.2	21.5	23.7	25.7	34.1
2- Lending to the public sector	13.5	13.7	13.6	16.1	14.7	20.8	49.4	47.7	41.6	28.5	16.3	9.5	6.3
3- Lending to the private sector	51.0	46.7	47.6	44.6	38.4	45.4	22.4	19.9	22.5	31.1	37.9	46.6	44.0
4- Private non-performing loans	11.1	8.5	7.7	8.9	9.8	14.0	37.4	30.4	15.3	6.3	3.6	2.5	2.8
5- Net worth exposure to private sector	21.6	14.3	13.2	11.5	13.4	11.4	18.6	11.2	1.9	-2.2	-3.0	-3.6	-3.4
6- ROA	0.6	0.7	0.5	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	2.2	1.6	1.9
7- ROE	4.1	6.3	4.3	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	15.3	10.9	15.1
8- Eficiency	144	135	139	146	152	151	168	93	115	136	158	152	166
9- Capital compliance	15.9	15.4	14.6	18.9	18.0	17.6	-	14.0	15.1	17.8	18.6	19.2	18.3
10- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	116	87	87

Source: BCRA

Chart 6 | Balance Sheet

In millions of current pesos	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Jun 08	Dec 08	Change (%)	
											Half-yearly	Inter annual
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**129,680**	**152,414**	**175,509**	**188,766**	**208,865**	10.6	19.0
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	14,074	22,226	29,418	30,542	37,044	21.3	25.9
Public bonds	7,583	1,627	19,751	22,260	24,817	29,966	27,663	24,444	21,974	29,551	34.5	20.9
Lebac/Nobac	0	0	-	-	8,359	15,227	15,952	17,684	15,626	23,457	50.1	32.6
Portfolio	0	0	-	-	5,611	12,899	14,220	15,639	12,596	12,853	2.0	-17.8
Repo	0	0	-	-	2,749	2,328	1,732	2,045	3,030	10,603	249.9	418.6
Private bonds	563	451	273	172	333	307	683	310	578	127	-78.1	-59.1
Loans	56,035	52,319	51,774	47,017	50,741	56,565	69,294	88,898	96,583	98,529	2.0	10.8
Public sector	8,172	13,803	25,056	23,571	21,420	15,954	10,036	6,413	6,186	6,249	1.0	-2.6
Private sector	45,103	36,636	26,074	22,816	28,213	39,031	55,632	78,587	85,943	88,426	2.9	12.5
Financial sector	2,760	1,880	644	630	1,107	1,580	3,626	3,898	4,454	3,854	-13.5	-1.1
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,482	-2,227	-2,365	-2,626	-2,869	9.2	21.3
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	16,873	18,387	17,084	22,963	25,249	10.0	47.8
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	675	618	430	506	699	38.2	62.6
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,444	2,982	3,456	4,105	3,870	-5.7	12.0
Compensation receivable	0	0	15,971	13,812	14,657	5,575	760	377	314	357	13.8	-5.3
Other	34,267	10,735	3,523	3,370	7,905	8,179	14,027	12,822	18,038	20,323	12.7	58.5
Leasing	776	752	553	387	592	1,356	2,126	3,149	3,519	3,451	-1.9	9.6
Shares in other companies	1,651	1,703	3,123	2,791	1,892	2,416	4,042	3,762	4,129	4,529	9.7	20.4
Fixed assets and miscellaneous	3,225	3,150	5,198	4,902	4,678	4,575	4,677	4,685	4,750	4,927	3.7	5.2
Foreign branches	75	112	-109	-136	-53	-148	-139	-154	-152	-178	17.3	15.9
Other assets	2,190	2,574	7,549	7,816	7,137	6,178	5,682	6,277	6,506	8,505	30.7	35.5
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**112,600**	**131,476**	**152,153**	**164,084**	**182,585**	**11.3**	**20.0**
Deposits	57,833	44,863	44,445	52,625	62,685	75,668	94,095	116,719	122,751	135,711	10.6	16.3
Public sector[2]	1,276	950	1,636	3,077	6,039	6,946	7,029	7,564	9,450	19,600	107.4	159.1
Private sector[2]	55,917	43,270	38,289	47,097	55,384	67,859	85,714	107,671	111,642	114,176	2.3	6.0
Current account	4,960	7,158	8,905	11,588	13,966	17,946	20,604	27,132	27,875	30,188	8.3	11.3
Savings account	9,409	14,757	6,309	10,547	14,842	18,362	23,165	30,169	29,850	32,778	9.8	8.6
Time deposit	39,030	18,012	11,083	18,710	22,729	27,736	38,043	45,770	48,802	46,990	-3.7	2.7
CEDRO	0	0	9,016	2,409	798	3	1	0	0	0	-	-
Other netted liabilities due to financial intermediation	46,271	22,629	49,341	42,367	45,083	32,349	31,750	29,323	35,123	39,298	11.9	34.0
Interbanking obligations	2,293	1,514	836	726	1,070	1,488	3,383	1,979	2,135	1,160	-45.7	-41.3
BCRA lines	83	1,758	16,624	17,030	17,768	10,088	3,689	675	711	649	-8.8	-3.9
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,548	6,413	6,686	6,129	5,672	-7.5	-15.2
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	2,696	2,249	1,833	2,706	2,261	-16.4	23.4
Other	33,466	11,010	7,374	7,939	12,878	11,530	16,015	18,150	23,441	29,555	26.1	62.8
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,319	1,642	1,668	1,585	1,759	11.0	5.5
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,264	3,989	4,443	4,625	5,817	25.8	30.9
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**17,080**	**20,938**	**23,356**	**24,682**	**26,280**	**6.5**	**12.5**
Memo												
Netted assets	88,501	73,796	117,928	115,091	121,889	123,271	143,807	166,231	174,957	192,051	9.8	15.5

(1) Includes margin accounts with the BCRA; (2) Does not include accrual on interest or CER.

Source: BCRA

Methodological note (chart 5)

1.- (Cash compliance according to BCRA + Other cash holdings + Central Bank repos) / Total deposits; **2.-** (Public bonds position (without LEBAC and NOBAC) + Loans to the public sector + Compensation receivable) / Total assets; **3.-** (Loans to the private sector + Leases) / Total assets; **4.-** Non-performing loans to the non-financial private sector / Loans to the non-financial private sector; **5.-** (Total non-performing loans - Provisions) / Net worth. The non-performing loans includes loans classified in situation 3,4,5 and 6; **6.-** Accumulated annual results / Average monthly netted assets - % Annualized; **7.-** Accumulated annual results / Average monthly net worth - % Annualized; **8.-** (Financial margin (Net interest income + CER and CVS adjustments + Gains on securities + Foreign exchange price adjustments + Other financial income) + Service income margin) / Operating costs; **9.-** Capital compliance (Responsabilidad Patrimonial Computable) / Risk - adjusted assets according to the regulation of BCRA about Minimum Capital Compliance; **10.**- (Capital compliance minus requirements, included forbearances) / Capital requirements.

Statistics Annex – Private Banks (cont.)

Chart 7 | Profitability Structure

	Annual										Half-year			Change (%)	
In millions of current pesos	**1999**	**2000**	**2001**	**2002[1]**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**II-07**	**I-08**	**II-08**	**II-08 / I-08**	**II-08 / II-07**
Financial margin	5,176	5,441	5,282	10,628	2,575	3,415	5,253	7,778	8,960	12,947	4,553	6,006	6,941	16	52
Net interest income	3,819	3,598	3,519	-304	107	1,214	2,069	2,826	4,191	7,727	2,449	3,463	4,264	23	74
CER and CVS adjustments	0	0	0	1,476	1,082	900	1,215	858	662	651	261	429	222	-48	-15
Foreign exchange rate adjustments	213	160	256	6,189	-312	666	576	740	990	1,620	602	694	926	34	54
Gains on securities	908	1,232	962	3,464	1,892	959	1,259	3,154	2,888	1,620	1,141	1,374	246	-82	-78
Other financial income	236	450	546	-197	-195	-322	134	199	229	1,329	98	47	1,282	2,650	1,208
Service income margin	2,598	2,554	2,598	2,782	2,341	2,774	3,350	4,459	5,881	7,632	3,168	3,549	4,083	15	29
Loan loss provisions	-1,872	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-737	-1,174	-1,861	-656	-820	-1,041	27	59
Operating costs	-5,326	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-7,741	-9,735	-12,389	-5,260	-5,877	-6,511	11	24
Tax charges	-368	-379	-418	-512	-366	-393	-509	-769	-1,105	-1,713	-619	-754	-959	27	55
Income tax	-386	-393	-216	-337	-295	-202	-217	-365	-380	-1,170	-188	-461	-709	54	277
Adjustments to the valuation of government securities[2]	0	0	0	0	-665	-51	-201	-170	-100	-267	-120	-132	-135	2	12
Amortization payments for court-ordered releases	0	0	0	0	-791	-1,147	-1,168	-1,182	-1,466	-688	-684	-356	-332	-7	-51
Other	447	307	615	-4,164	1,178	846	1,156	1,641	1,576	908	910	404	504	25	-45
Monetary results	0	0	0	-10,531	-20	0	0	0	0	0	0	0	0	0	0
Total results	**269**	**93**	**174**	**-15,784**	**-2,813**	**-1,176**	**648**	**2,915**	**2,457**	**3,399**	**1,104**	**1,559**	**1,841**	**18**	**67**
Adjusted results[3]	-	-	-	-	-1,357	252	2,016	4,267	4,023	4,355	1,908	2,047	2,308	13	21
Annualized indicators - As % of netted assets														*cambio en p.p.*	
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	4.3	5.9	5.8	7.3	6.2	7.6	8.1	0.5	1.9
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.7	2.1	2.7	4.4	3.3	4.4	5.0	0.6	1.7
CER and CVS adjustments	0.0	0.0	0.0	1.1	0.9	0.8	1.0	0.6	0.4	0.4	0.4	0.5	0.3	-0.3	-0.1
Foreign exchange rate adjustments	0.3	0.2	0.3	4.4	-0.3	0.6	0.5	0.6	0.6	0.9	0.8	0.9	1.1	0.2	0.3
Gains on securities	1.1	1.4	1.2	2.5	1.7	0.8	1.0	2.4	1.9	0.9	1.6	1.7	0.3	-1.4	-1.3
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.2	0.1	0.8	0.1	0.1	1.5	1.4	1.4
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.7	3.4	3.8	4.3	4.3	4.5	4.8	0.3	0.5
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.8	-1.1	-0.9	-1.0	-1.2	-0.2	-0.3
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.9	-6.3	-7.0	-7.2	-7.4	-7.6	-0.2	-0.5
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6	-0.7	-1.0	-0.8	-1.0	-1.1	-0.2	-0.3
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.7	-0.3	-0.6	-0.8	-0.2	-0.6
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	0.0	0.0
Amortization payments for court-ordered releases	0.0	0.0	0.0	0.0	-0.7	-1.0	-1.0	-0.9	-0.9	-0.4	-0.9	-0.4	-0.4	0.1	0.5
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.9	1.2	1.0	0.5	1.2	0.5	0.6	0.1	-0.6
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**2.2**	**1.6**	**1.9**	**1.5**	**2.0**	**2.2**	**0.2**	**0.7**
ROA adjusted[3]	-	-	-	-	-1.2	0.2	1.6	3.2	2.6	2.5	2.6	2.6	2.7	0.1	0.1
ROE	*2.3*	*0.8*	*1.4*	*-79.0*	*-19.1*	*-8.1*	*4.1*	*15.3*	*10.9*	*15.1*	*10.2*	*13.6*	*16.6*	*3.0*	*6.4*

(1) Information in currency of december 2002. (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains on securities" heading.
(3) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.
Source: BCRA

Chart 8 | Porfolio Quality

As percentage	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	4.4	2.9	2.2	2.5
Non-performing loans to the non-financial private sector	**9.8**	**14.0**	**37.4**	**30.4**	**15.3**	**6.3**	**3.6**	**2.5**	**2.8**
Provisions / Non-performing loans	67.7	75.7	73.4	79.0	97.0	114.3	129.3	141.3	134.1
(Total non-perfoming - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	-0.6	-0.9	-0.9	-0.9
(Total non-perfoming - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-2.2	-3.0	-3.6	-3.4

(*) Include commercial loans treated as consumer loans for classification purposes.
Source: BCRA

Abbreviations and Acronyms

AEIRR: Annual Effective Internal Rate of Return

AFJP: *Administradora de Fondos de Jubilaciones y Pensiones.*

ANSES: *Administración Nacional de Seguridad Social.* National Social Security Administration.

APE: *Acuerdos Preventivos Extra-judiciales.* Preliminary out-of-court agreements.

APR: Annual Percentage Rate.

b.p.: basis points.

BADLAR: Interest rate for time deposits over one million pesos between 30 and 35 days for the average of financial entities.

BCBA: *Bolsa de Comercio de Buenos Aires.* Buenos Aires Stock Exchange.

BCRA: *Banco Central de la República Argentina.* Central Bank of Argentina.

BIS: Bank of International Settlements.

BM: Monetary Base. Defined as money in circulation plus current account deposits in pesos by financial entities in the BCRA.

Boden: *Bonos del Estado Nacional.*Federal Bonds.

Bogar: *Bonos Garantizados.* Guaranteed Bonds.

BoJ: Bank of Japan.

Bonar: *Bonos de la Nación Argentina.* Argentine National Bonds.

BOVESPA: São Paulo Stock Exchange.

CAMEL: Capital, Assets, Management, Earnings and Liquidity.

Cdad. de Bs. As.: *Ciudad de Buenos Aires. Buenos Aires City.*

CDS: Credit Default Swaps

CEC: *Cámaras Electrónicas de Compensación.* Electronic Clearing Houses.

CEDEM: *Centro de Estudios para el Desarrollo Económico Metropolitano.* Study Center for Metropolitan Economic Development.

CEDRO: *Certificado de Depósito Reprogramado.* Rescheduled Deposit Certificate.

CER: *Coeficiente de Estabilización de Referencia.* Reference Stabilization Coefficient.

CIMPRA: *Comisión Interbancaria para Medios de Pago de la República Argentina.*

CNV: *Comisión Nacional de Valores.* National Securities Commission

CPI: Consumer Price Index.

CPI Others: *CPI excluidos los bienes y servicios con alta estacionalidad, volatilidad o los sujetos a regulación o alto componente impositivo*. CPI excluded goods and services with high seasonal and irregular components, regulated prices or high tax components

Credit to the public sector: includes the position in government securities (excluding LEBAC and NOBAC), loans to the public sector and compensation receivable.

CVS: *Coeficiente de Variación Salarial.* Wage variation coefficient.

DGF: Deposit Guarantee Fund.

Disc: Discount bond.

EB: Executive Branch.

ECB: European Central Bank.

EMBI: Emerging Markets Bond Index.

EMI: *Estimador Mensual Industrial.* Monthly Industrial Indicator

EPH: *Encuesta Permanente de Hogares.* Permanent Household Survey.

Fed: Federal Reserve of US.

FOMC: Federal Open Market Committee (US).

FS: Financial Stability.

FSR: Financial Stability Report.

FT: Financial trust.

FUCO: *Fondo Unificado de Cuentas Corrientes Oficiales.* Unified Official Current Account Fund.

FV: Face value.

GDP: Gross Domestic Product.

HHI: Herfindahl-Hirschman Index.

IADB: Inter-American Development Bank.

IAMC: *Instituto Argentino de Mercado de Capitales.*

ICs: Insurance Companies.

IDCCB: *Impuesto a los Débitos y Créditos en Cuentas Bancarias.* Tax on Current Account Debits and Credits.

IFI: International Financial Institutions: IMF, IADB and WB.

IFS: International Financial Statistics.

IMF: International Monetary Fund.

INDEC: *Instituto Nacional de Estadísticas y Censos.* National Institute of Statistics and Censuses.

IndeR: *Instituto Nacional de Reaseguros.* National Institute of Reinsurance.

IPMP: *Índice de Precios de las Materias Primas.* Central Bank Commodities Price Index.

IPSA: *Índice de Precios Selectivo de Acciones.* Chile Stock Exchange Index.

IRR: Internal Rate of Return.

ISAC: *Índice Sintético de Actividad de la Construcción.* Construction Activity Index.

ISDA: International Swaps and Derivates Association.

ISSP: *Índice Sintético de Servicios Públicos.* Synthetic Indicator of Public Services.

Lebac: *Letras del Banco Central de la República Argentina.* BCRA bills.

LIBOR: London Interbank Offered Rate.

m.a.: Moving average.

M2: Currency held by public + quasi-monies + $ saving and current accounts.

M3: Currency held by public + quasi-monies + $ total deposits.

MAE: *Mercado Abierto Electrónico*. Electronic over-the-counter market.

MAS: Mutual Assurance Societes.

MC: Minimum cash.

MEC: Electronic Open Market.

MECON: Ministerio de Economía y Producción. Ministry of Economy and Production.

MEP: *Medio Electrónico de Pagos*. Electronic Means of Payment.

MERCOSUR*: Mercado Común del Sur***.** Southern Common Market.

MERVAL: *Mercado de Valores de Buenos Aires.* Executes, settles and guarantees security trades at the BCBA.

MEXBOL: *Índice de la Bolsa Mexicana de Valores.* México Stock Exchange Index.

MF: Mutual Funds.

MIPyME: *Micro, Pequeñas y Medianas Empresas.* Micro, Small and Medium Sized Enterprises.

MOA: *Manufacturas de Origen Agropecuario.* Manufactures of Agricultural Origin.

MOI: *Manufacturas de Origen Industrial.* Manufactures of Industrial Origin.

MP: Monetary Program.

MR: Market rate.

MRO: *Main refinancing operations.*

MSCI: Morgan Stanley Capital International.

NA: Netted assets.

NACHA: National Automated Clearinghouse Association.

NBFE: Non-Bank Financial Entities (under Central Bank scope)

NBFI : Non-Bank Financial Intermediaries (out of Central Bank scope)

NDP: National public debt.

NFPS: Non-financial national public sector's.

Nobac: *Notas del Banco Central*. BCRA notes.

NPS: National Payments System.

NW: Net worth.

O/N: Overnight rate.

OCT : *Operaciones Compensadas a Término***.** Futures Settlement Round.

OECD: Organization for Economic Co-operation and Development.

ON: *Obligaciones Negociables*. Corporate bonds.

ONCCA: *Oficina Nacional de Control Comercial Agropecuario*

OS: *Obligaciones Subordinadas*. Subordinated debt.

P / BV: Price over book value.

p.p.: Percentage point.

Par: Par bond.

PGN: *Préstamos Garantizados Nacionales.* National Guaranteed Loans.

PF: Pension Funds.

PPP: Purchasing power parity.

PPS: Provincial public sector.

PS: Price Stability.

PV: Par Value.

q.o.q: quarter-on-quarter % change.

REM: BCRA Market expectation survey.

ROA: Return on Assets.

ROE: Return on Equity.

Rofex: Rosario Futures Exchange.

RPC: *Responsabilidad Patrimonial Computable*. Adjusted stockholder's equity, calculated towards meeting capital regulations.

RTGS: Real-Time Gross Settlement.

s.a.: Seasonally adjusted.

SAFJP: *Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones*. Superintendency of Retirement and Pension Funds Administrations.

SAGPyA: *Secretaría de Agricultura, Ganadería, Pesca y Alimentos.* Secretariat for agriculture, livestock, fisheries, and food.

SEDESA: *Seguro de Depósitos Sociedad Anónima.*

SEFyC: Superintendence of Financial and Exchange Institutions.

SIOPEL: *Sistema de Operaciones Electrónicas.* Trading software used on the over-the-counter market.

SME: Small and Medium Enterprises.

SSN: *Superintendencia de Seguros de la Nación.*

TA: *Adelantos transitorios del BCRA al Tesoro*. Temporary advances.

TD: Time Deposits.

TFC: Total financial cost.

TGN: *Tesorería General de la Nación.* National Treasury

UFC: Uniform Federal Clearing.

UIC: Use of Installed Capacity.

UK: United Kingdom.

US$: United States dollar.

US: United States of America.

UTDT: Universidad Torcuato Di Tella.

VaR: Value at Risk.

VAT: Value added Tax.

WB: World Bank.

WPI: Wholesale Price Index.

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