



Financial Stability Report

First Half 2010



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Reconquista 266
(C1003ABF) Ciudad Autónoma de Buenos Aires
República Argentina
Phone | (54 11) 4348-3500
Fax | (54 11) 4000-1256
Web site | www.bcra.gov.ar

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For questions or comments please contact: analisis.financiero@bcra.gov.ar

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, 2010, on the Central Bank website.

Buenos Aires, April 12, 2010

Contents

Pag. 7 | Central Bank Outlook

Pag. 11 | I. International Context

Pag. 17 | Box 1 / Peripheral Economies of the Euro Area, Sovereign Risk and International Market Situation

Pag. 19 | II. Local Context

Pag. 27 | Box 2 / Interest Rate Risk Hedging Markets in Argentina

Pag. 29 | III. Debtors Performance

Pag. 37 | IV. Financial Sector

Pag. 40 | Box 3 / Household Financing through Credit Cards issued outside the Financial System

Pag. 47 | Box 4 / Performance of the Financial Trust Market in Argentina

Pag. 49 | V. Financial System Risk

Pag. 51 | Box 5 / Progress by Basel Committee on Re-shaping International Recommendations on Financial Regulation

Pag. 61 | Box 6 / Mechanisms for the Early Detection of Financial Crises: Development and Current Status

Pag. 63 | VI. Payments System

Pag. 67 | Statistics Annex

Pag. 71 | Abbreviations and Acronyms

Pag. 73 | Index of Charts and Tables

Central Bank Outlook

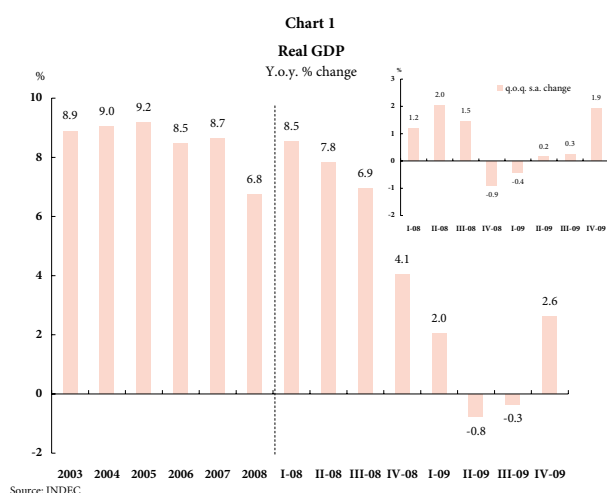
Global economic activity continues to recover, although risk factors remain and they could affect the sustainability of this trend in the medium term. International economic dynamism is being driven by emerging countries while advanced economies would also recover, particularly in the case of the US, and to a lesser extent, the Euro Area. Despite the reduction in uncertainty, further sudden changes in risk aversion or new market turbulence events cannot be ruled out, as was made clear from the financial problems of Dubai World state holding and the recent events in Greece (see Box 1).

The still incomplete normalization of the financial systems functioning in the main developed economies remains one of the latent risks in the global scenario. Furthermore, the performance of developed economies is beginning to be conditioned by the evolution of public finance due to the stimulus measures adopted, as well as by high unemployment levels. In the case of emerging countries, the main challenges are the possibility of a sudden reversal in capital flows, and in some cases, the existence of tensions in prices evolution.

It is expected that developed countries will maintain some of the stimulus policies they have been applying to face the crisis, at least until the improvement in economic activity has consolidated. Nevertheless, there have already been the first cancellations of some of the exceptional programs designed by leading central banks to ensure liquidity, with plans for potential changes in the monetary policy pattern given the reduced market tension and some balance sheet improvement of the financial sector. Some emerging countries have also begun to reverse certain measures taken to face the global crisis.

The local economy continues to recover its strong dynamism, and this would be consolidated over the course of the year as a result of increased household consumption and growing activity of firms. The Central Bank continues to meet the quarterly targets set in the Monetary Program, reaffirming its commitment to the generation of conditions that promote the development of a horizon of certainty in relation to monetary and financial variables.

In this context, in recent months the activity levels in the Argentine financial system have been recording a faster growth rate, although when viewed in perspective, the financial system depth remains limited (lending to the private sector is equivalent to almost 12% of GDP).



Based on this horizon, the Central Bank boosts the deepening of the credit market to companies and households using different tools.

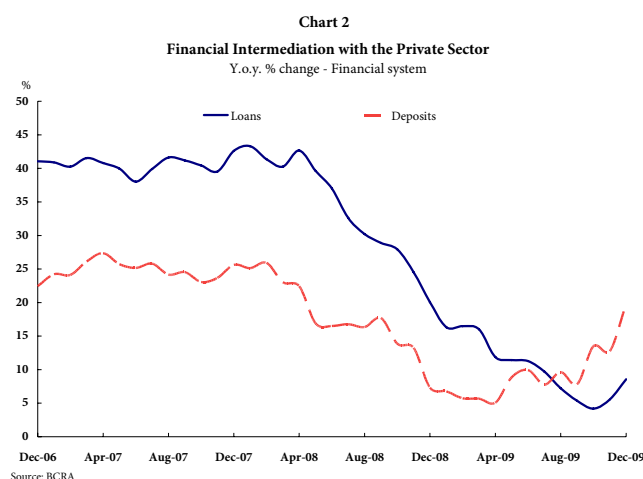
Financial entities continue to register improvement in the composition of their balance sheets, both in the case of assets, with the strengthening of lending to the private sector and liquidity, and in the case of liabilities, with an increase in the share of deposits in total funding. Furthermore, the last bank which had debts for rediscounts granted by the Central Bank during the crisis in 2001-2002 cancelled the full amount of its liabilities at the end of 2009.

Risk assumed by banks in their regular financial intermediation activity remains moderate, with solvency indicators (nearly 19% of risk-weighted assets) that would help them soften the impact of any materialization of such risks. In the last two years the consolidation of the sector's solvency has been grounded in accrued profits derived mainly from its lending activity.

Banks keep a robust position in the face of liquidity risk, holding liquid asset levels steady within a context of lower interest rate volatility. This performance has been reinforced by the consolidation of private sector deposits as the main source of funds for the sector, and the gradual increase in volumes traded on inter-bank markets. Furthermore, the Central Bank is able to act as the lender of last resort in domestic currency in the event of any shock generating systemic risks, strengthening the position of banks in the face of liquidity risk.

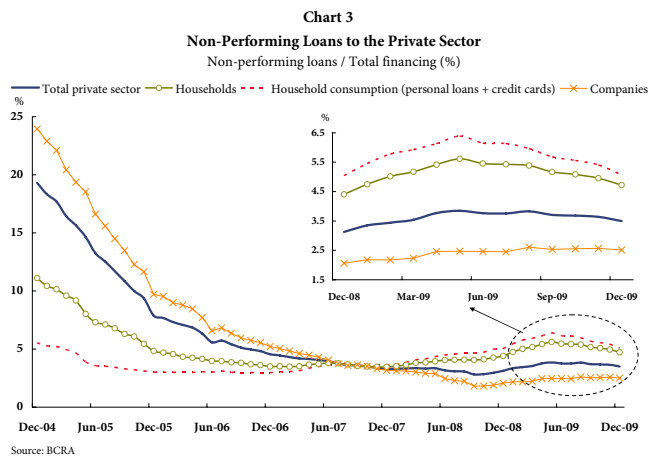
The risk of lending to the private sector assumed by banks has fallen in recent months. The performance of local economy, together with moderate levels of company indebtedness, has benefitted their payment capacity and is reflected in the low level of corporate loan delinquency. The positive outlooks for the labor market and the recovery of wage levels have contributed to shore up household payment capacity. Rising levels of household consumer loan delinquency began to revert in the middle of 2009. Banks continue to maintain considerable coverage of non-performing lending portfolios by provisions. For the rest of 2010 it is expected that both companies and households will increase their demand for bank borrowing, maintaining their payment capacity within a context of moderate levels of indebtedness.

Bank exposure to the public sector remains within bounds, even when taking into account the increase in



recent months. The public sector continues to be a net creditor of the financial system, as the level of government deposits in banks exceeds loans to the sector and holdings of government securities. The public sector would continue to record a sound payment capacity in coming periods, reflecting the impact of increased economic activity and the dynamism of foreign trade on tax revenues. Progress on the restructuring of eligible debt that did not participate in the 2005 debt swap will have a similar effect, enabling increased access in improved terms to international debt markets.

As a result of the lower exchange rate volatility and the reduction in foreign currency mismatching, banks have reduced their exposure to currency risk. Moreover, the low proportion of loans to the private sector denominated in foreign currency, channeled to tradable sectors of the economy, enables to keep the credit risk from potential fluctuations in the nominal exchange rate under control. The drop of the level and volatility of leading interest rates has made it possible for the financial system to maintain its position in relation to the interest rate risk. Mismatching of CER-adjusted items has continued to decline, mainly because of the debt swaps carried out by the Government over the course of 2009, further reducing the exposure to this risk.



The Central Bank provided an impulse to the interest rate futures market, participating in the market since last September through the so called “*función giro*”, recently incorporating the same practice for interest rate swaps. These initiatives should contribute to the creation of a reference for the term structure of interest rates in local currency in the medium and long run, encouraging the granting of loans at fixed interest rates for longer terms.

In line with the growth in intermediation activity, some progress has been recorded in geographical coverage in terms of the infrastructure for the providing of banking services, particularly in terms of the distribution of automatic teller machines (ATMs). Nevertheless, the Central Bank considers that there is still a broad margin for achieving an effective coverage by banking services both regionally and in socio-economic terms.

Tools available for making payments in the economy are gradually being diversified, with growth in the participation of electronic means that offer greater transaction efficiency. Check clearing has increased, with a reduction in the number of bounced checks by nonsufficient funds in terms of total cleared. The Central Bank is making progress on the Uniform Federal

Clearing (UFC) with the aim of standardizing all documents subject to clearing.

The positive economic expectations for the next few months lead to forecast that the financial system risk map will not show significant changes, within a context of increasing dynamism of intermediation with companies and households. In such scenario, the Central Bank will continue to act to safeguard the conditions required for systemic stability, while encouraging greater credit depth and the extension of access to financial services to a broader range of companies and households.

Table 1
Soundness Indicators of the Financial System

In %	2001 Average	2008 December	2009 June	2009 December
Liquidity				
.. (Liquid assets + Central Bank securities) / Total deposits	21	40	41	41
Private sector credit risk				
.. Loans / Total assets	40	39	39	38
.. Non-performing loans	15.7	3.1	3.7	3.5
.. Provisions / Non-performing loans	66	132	118	126
Currency risk				
.. (Foreign currency assets - Foreign currency liabilities + Forward net purchases of foreign currency in memorandum accounts) / Net worth	66	48	54	38
Liabilities				
.. Total deposits / Liabilities	60	77	77	80
.. Outstanding bonds, subordinated debt and foreign lines of credit / Liabilities	12	4	3	3
.. Rediscounts / Total Liabilities	2	1	1	0
Leverage and Solvency				
.. Assets / Net worth	8.7	8.4	8.2	8.0
.. Capital Compliance / risk weighted assets	21.1	16.8	16.8	18.6

Source: BCRA

I. International Context

Summary

The global economic activity continues to recover. Global growth would be around 3.4% in the year, driven by emerging countries, while within developed economies the US would be more dynamic than the Euro Area. However, risks remain associated with the still high unemployment level and the deteriorating public finances in developed countries, deepened by the counter-cyclical measures taken in the framework of the crisis.

Although with less intensity, developed economies are expected to continue with some of the stimulus policies until the economic recovery process consolidates. Meanwhile, some emerging economies began to reverse some of these measures in response to the improvement of the economic activity and to a lesser extent, to some inflationary pressures.

The prices of commodities show a slight upward movement in the year. Throughout 2010 some acceleration of inflation is expected globally affecting emerging economies more in relative terms, while in the advanced economies it would remain within the bounds considered acceptable by the authorities.

Supported by monetary and fiscal stimulus measures implemented by developed countries, international financial markets maintain the improvements achieved since early 2009.

Interbank lending spreads recovered the levels prior to the crisis but traded volumes were still reduced.

Major central banks began to evaluate possible changes in monetary policy bias as part of the discussions on exit strategies from measures adopted due to the crisis. However, this scenario is not exempt from some vulnerability, as evidenced from the credit episode of the public company Dubai World and the fiscal problems in Greece.

The consolidation of the recovery revived the appetite for riskier assets, restarting the inflow of capital to emerging economies. Ample liquidity and lower funding costs helped to boost the issuance of sovereign and corporate debt.

In a context of improved economic performance, financial systems in Latin America show a moderate activity compared to previous years, although it is expected that financial intermediation would gain momentum, due to the high levels of liquidity and solvency, while maintaining lower risk levels.

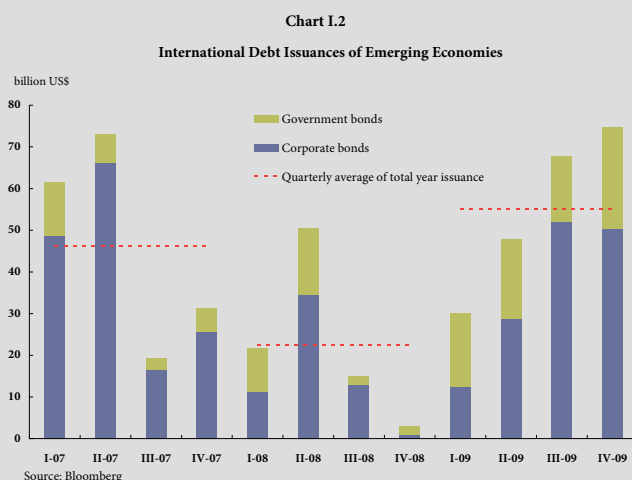
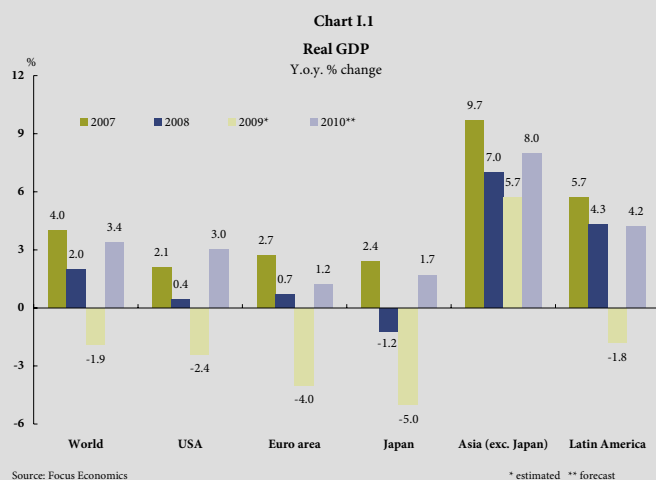


Chart I.3

Unemployment Rate. Selected Countries

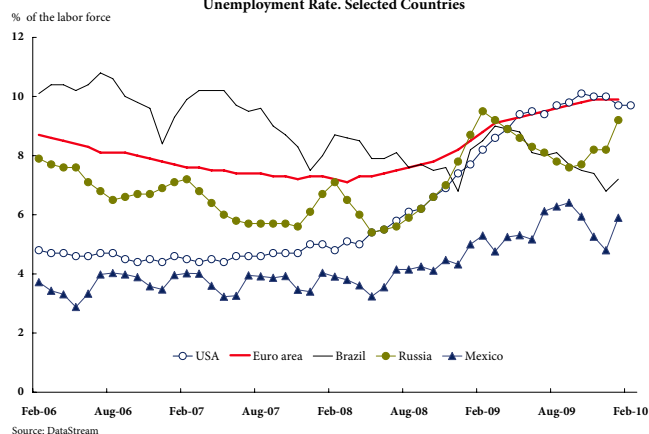


Chart I.4

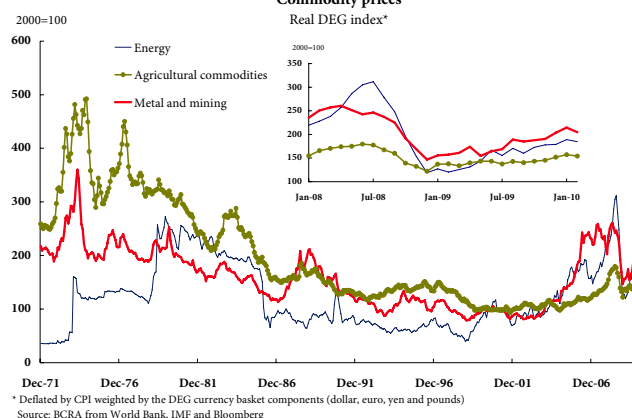
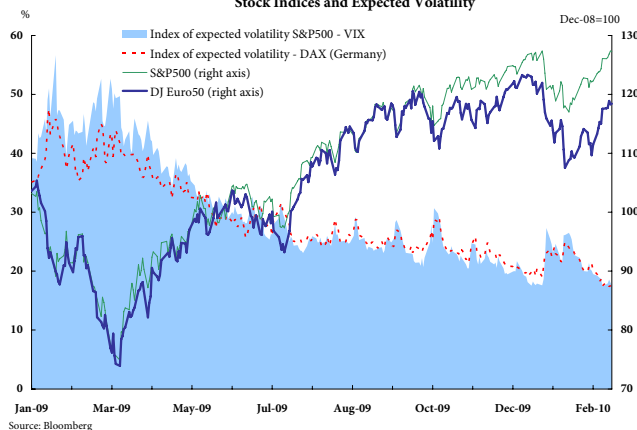
Commodity prices
Real DEG index*

Chart I.5

Stock Indices and Expected Volatility



I.1 International condition

The global economic activity continued to recover, although downward risks persist

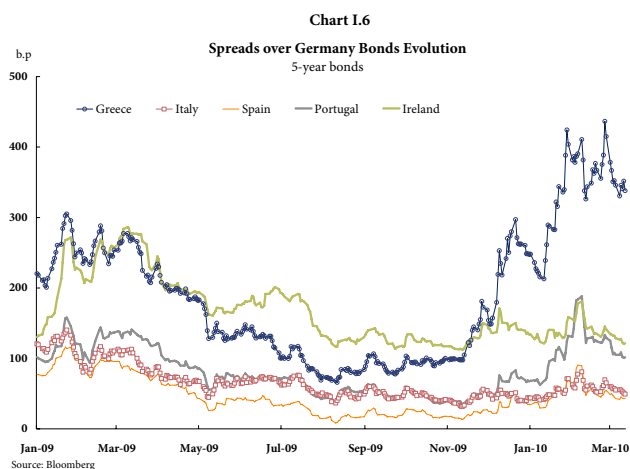
During the last months of 2009 and in early this year, the global economic activity continued to expand driven by the emerging countries, mainly China and India. In 2009 the global GDP would have contracted around 1.9% while a 3.4% expansion is forecasted for 2010. After a fall of nearly 3.4% in the GDP of the advanced countries during the past year, a 2.1% grow is expected in 2010. Emerging economies would grow about 6%, almost 4.3 p.p. more than in 2009 (see Chart I.1)

Some risks still remain for the global economic growth due to high unemployment levels in developed countries (see Chart I.3), lack of full normalization of the international financial system, and the recent deterioration of the public finances of some developed economies. These conditions, combined with some uncertainty about the sustainability of the recovery, led to greater volatility in the financial markets in the first quarter of 2010.

After the strong recovery in commodity prices in early 2009, prices showed a slight upward trend. The Commodities Price Index (IPMP), which measures the price evolution of the primary products most relevant to the Argentine exports increased 26.2% year-on-year (y.o.y.) in 2009, accumulating a slight decrease so far in 2010 (see Charts I.4 and II.7). Commodity prices are expected to continue increasing if the global economy enters into a recovery path.

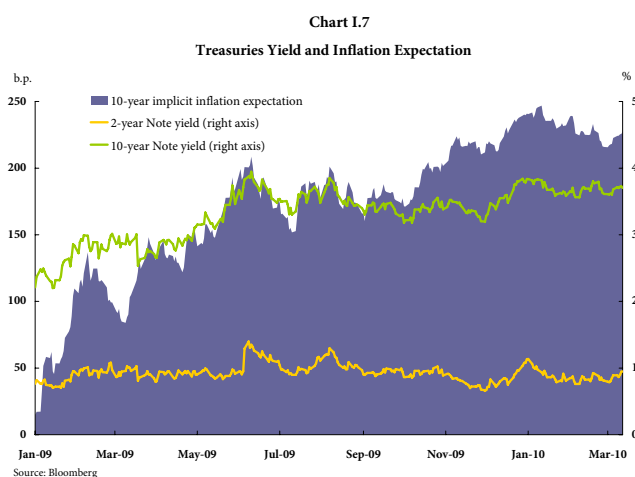
While in the second half of 2009 global inflation was higher than in the first half, the year closed below 2008 levels. During 2010 the global average price increase is expected to be around 2.5%. Emerging economies would face greater inflationary pressures due to the evolution of both commodity prices and the aggregate demand. Advanced economies would also record some acceleration in inflation, but would remain within the levels considered acceptable by its authorities.

Advanced and emerging economies continued to apply monetary and fiscal stimulus policies. However, some emerging economies recently started to reverse some of the counter-cyclical measures, as a result of improved economic performance and certain inflationary pressures. Although advanced economies have also started this process, the authorities are expected to maintain most of the expansionary measures while the recovery consolidates.



The use of fiscal incentives to some extent affected the result of the public finances of some economies in the Euro Area, giving rise to fears about default risks and possible contagion effects (which, in turn, affected the euro) in this countries.

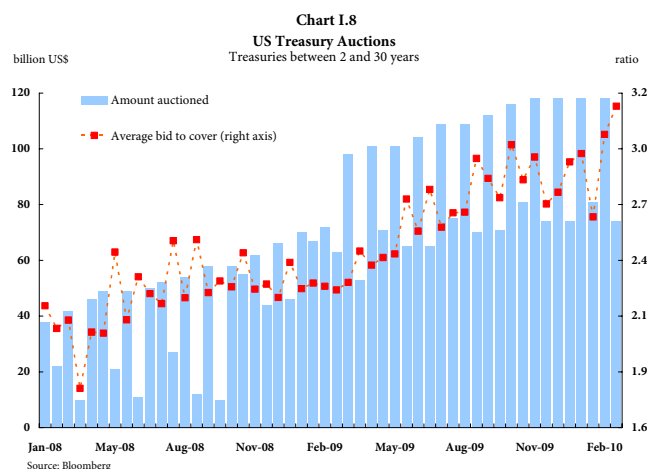
Moreover, the countries that generated greater concern at the beginning of this year were Greece, Portugal, Spain, Italy and Ireland (see Box 1). At present is being discussed whether these economies will continue to be financed through the financial market or if they would require financial support from the European Union or from international organizations (in this sense, progress in negotiations for specific cases such as Greece is being made).



International financial markets show important improvements compared to the peak of the crisis, although volatility have risen at the beginning of 2010

International financial markets continue with the recovery process initiated in early 2009. Risky asset prices recorded significant progress with respect to the lower bound of 2008-2009, supported by the stimulus measures that achieved full effect in the second half of 2009 and the normalization of expectations (see Chart I.5).

By the end of 2009, prices continued to improve and volatility kept falling in developed markets. Nevertheless, this development was not free of uncertainty, as the one originated in the Chinese stock market indexes price correction and in the credit episode of the state holding Dubai World. The greatest uncertainty about the timing and the manner of exit from the stimulus policies, coupled with the formal proposals for regulatory changes in the US, led to an increase in volatility and a slowdown in the upward trend in prices in the first quarter of 2010. This was accompanied by the concern about the fiscal deficit and the financing needs in peripheral economies in the Euro Area (see Charts I.6 and B.I.1).



Stock price indices of developed countries slowed their pace of increase while trading volumes decreased, after showing some improvement. The expected volatility in those markets declined until December, and jumped at the beginning of 2010. While the evolution of the indexes in the second half of 2009 had been uneven between regions, the reversal from January to February was stronger for the European markets.

Chart I.9
Main Currencies Evolution

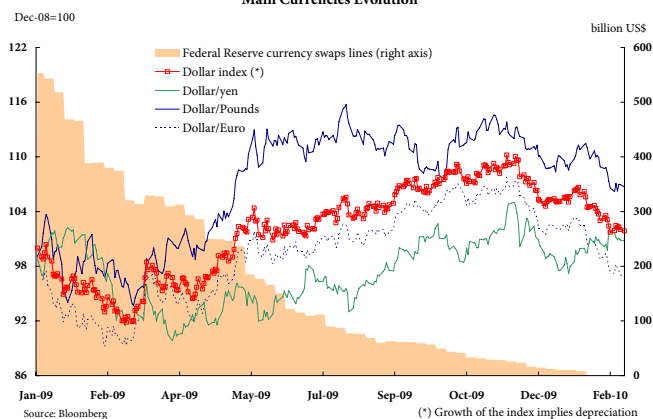


Chart I.10
MSCI Indices (Equities)

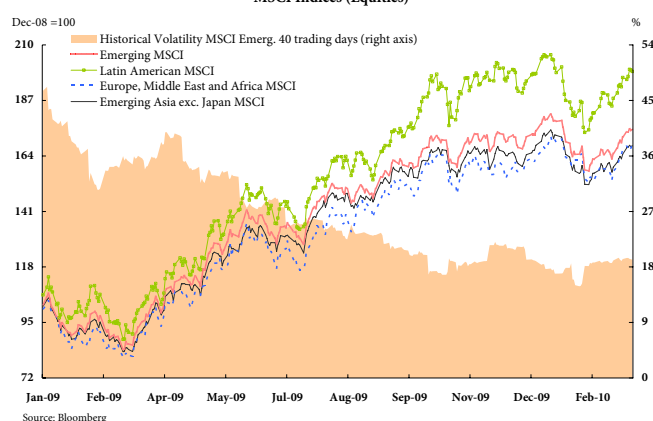
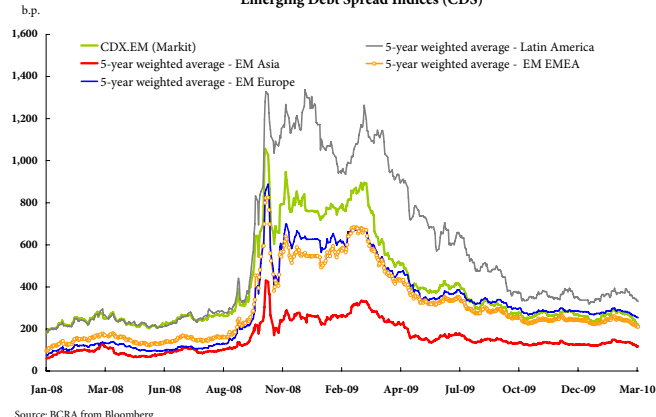


Chart I.11
Emerging Debt Spread Indices (CDS)



Benchmark interest rates remained at historically low levels, supporting the scenario of broad liquidity

Yields of US Treasury securities tended to increase by the end of 2009 (see Chart I.7) due to doubts about the ability to sustain the pace of a strong and growing placement in the future, if the path of deficit continues (see Chart I.8).

Major central banks slowed and then began to withdraw their outstanding liquidity provision programs (while financial institutions continued cancelling their debts) determining future possible changes in monetary policy. Improvements in market conditions and in financial institutions favor the discussions about exit strategies. The Fed finished most of its liquidity facilities and began to schedule the completion of its asset purchase schemes, as well as in late February increased the interest rate of its discount window. The ECB ended its exceptional line of unlimited supply of liquidity to one year, while the BoE kept on hold its quantitative expansion objectives.

The dollar held a depreciation path compared to other major currencies during great part of 2009, as it lost strength the demand due to currency mismatches, while the prospect of ample liquidity remained stable and market risk aversion weakened (see Chart I.9). The dollar declining trend began to change towards the end of 2009, when the episodes of Dubai and Greece intensified (which may have driven the unwinding of the carry trade operations).

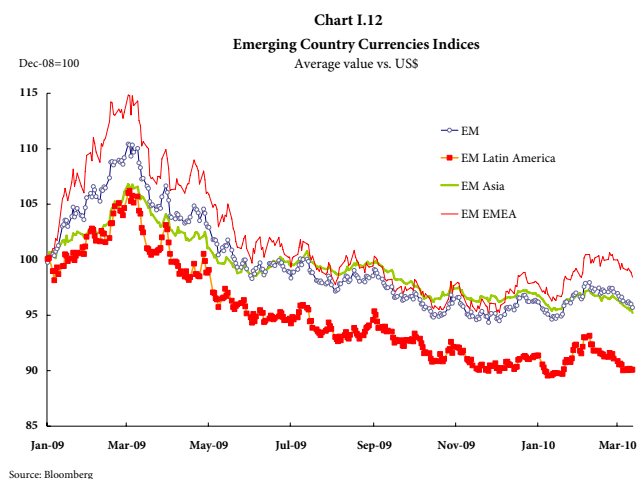
Interbank lending normalizes in developed economies

Interbank lending developed in a context of spreads¹ the US and Europe, these declines occurred as the positive effects of government programs strengthened and the perception of new disruptions of important systemic financial institutions declined. Trading volumes in interbank markets remain depressed, about 40% below the levels exhibited prior to the crisis of Lehman Brothers.

Financial institutions in developed countries continued achieving improvements in its capital positions, making them gradually dispense of the government assistance. Large US financial institutions continued cancelling obligations under the TARP², while in Europe several entities in problems were restructured (using the scheme

¹ Spreads between 3 month USD Libor rates and swaps for the same period. For Europe, 3 month Euribor and a 3 month Libor in pounds.

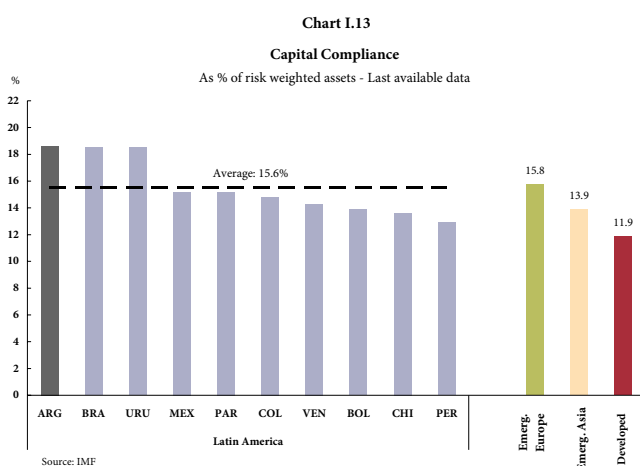
² Troubled Asset Relief Program.



of bad/good bank). The evolution of US retail credit still has a negative bias, due to the uncertainty created by the deteriorating credit quality, in a context where unemployment remains high and more restrictive standards for bank credit granting are being faced. It is noticeable that some uncertainty still persists about the performance of the financial systems in developed economies when facing possible changes in monetary policy (interest rate risk) as well as to the progress in reshaping regulatory frameworks.

The resurgence of appetite for emerging assets encouraged the placement of sovereign and corporate debt

The consolidation of the recovery also reached the assets of emerging economies. An appreciation of the stock market of around 30% was observed in the second half of last year, although at the beginning of 2010 the uncertainty led to some price deterioration (see Chart I.10). The resurgence of capital flows, in a context of weaker search for refuge in developed economies, contributed to an improvement in stock prices and debt markets. In this framework, the emerging sovereign debt spreads continued to decline (see Chart I.11). The improvement in liquidity and the lower funding costs helped both companies and governments boost debt³ issuance (see Chart I.2). It is not clear whether the recent natural disasters in the countries of the region and the efforts by the multilateral agencies to finance the reconstruction of infrastructure, could displace financing and force some governments to increase its funding through markets.



Emerging countries currencies appreciated against the dollar during the second half of 2009 in line with the return of capital flows and greater appetite for risk (see Chart I.12). At the beginning of 2010 this trend was interrupted (mainly because of doubts about the foundations of prices and by turbulences in Europe, see Box 1) although since February the appreciation resumed.

I.2 Latin American banking systems

Latin American financial systems continue to show a position of relative strength

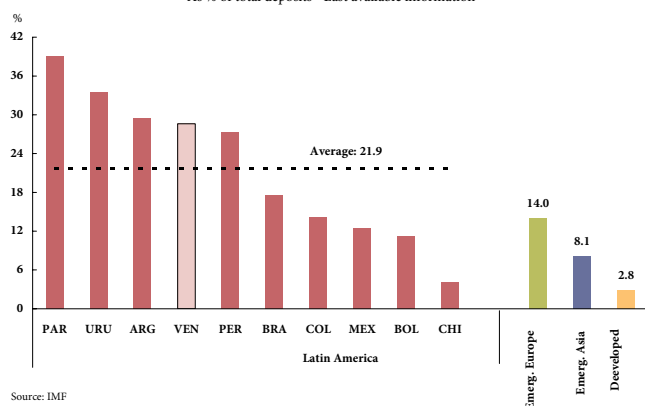
The Latin American financial systems continue to exhibit a strong position in a context in which the economies of the region recover from the effects of the international crisis at a faster pace than other regions. Good macroeconomic performance in recent years

³ With a strong presence of Latin American operations, total issuance reached more than US\$ 200 billion in 2009.

Chart I.14

Liquid Assets

As % of total deposits - Last available information



coupled with the timely financial measures taken by most countries of the region, contribute to maintain adequate liquidity and solvency levels (see Charts I.13 and I.14).

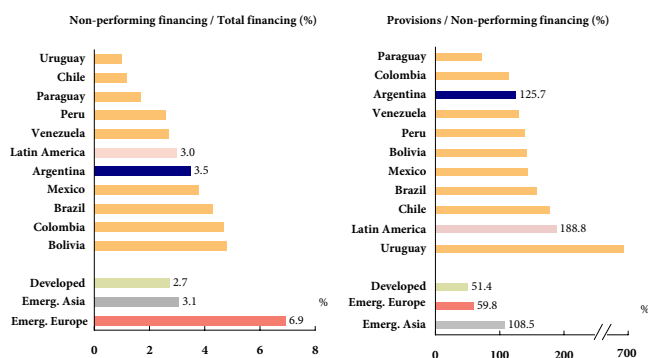
Latin American countries began to receive a substantial flow of capital that helped increase market liquidity and improve, to some extent, getting funding. This movement was explained by the renewed appetite for emerging market risk, coupled with a better performance in relation to other regions. Yet there is not a marked recovery of transnational credit granted by global banks or by international banks branches.

The performance of the financial intermediation with the private sector continues to grow at a moderate pace compared to previous periods, in a context in which the credit risk is limited (see Chart I.15). Risks faced by banks of the region are expected to decrease gradually, to the extent that the increased level of activity translates into a greater private sector payment capacity. Banks position's facing credit risk is reflected in high ratios of coverage of non-performing credits loans with provisions in the region.

The strength of the fundamentals of the Latin American financial systems, coupled with the economic recovery of the region, forecast an increase in the dynamism of financial intermediation, although the weakness of the advanced economies remains a source of potential vulnerability.

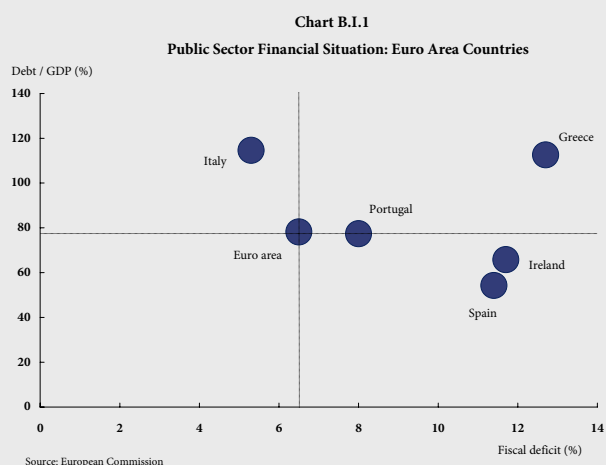
Chart I.15
Non-Performing Loans and Provisions

Last available data



Box 1 / Peripheral Economies of the Euro Area, Sovereign Risk and International Market Situation

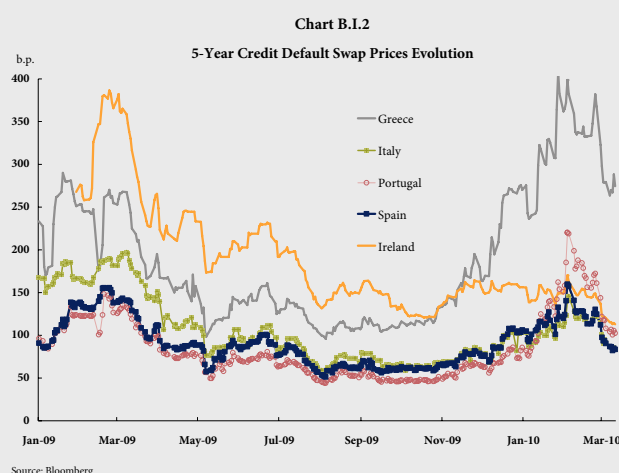
In recent months, a climate of growing uncertainty developed with regard to the situation of certain economies of the euro area with high fiscal deficits and potential problems in financing. The case of Greece is the most emblematic, although prices of debt instruments of economies such as Spain, Portugal and Italy were also eroded. This ended generating a resurgence of volatility in international markets and generating pressure on the euro. While there were positive signs, the announcement of an eventual support from the European Community to Greece and successful debt placements of countries with compromised state, markets are expected to be more selective, with a focus on the development of sovereign risk (employment, activity) and the possibility of a generalized increment in risk aversion



The episode of payment difficulties of the Dubai World consortium (in late 2009) created an atmosphere of caution at global level, with investors tending to a more selective strategy. In this context, the confidence with regard to economies more committed to fiscal matters and financing needs to be covered in the international markets was eroded. Particular emphasis was placed on various cases of the Euro area (with Greece as a prime example, created doubts with regards to countries with greater weight such as Spain, with major problems of consideration in unemployment). This contributed to a resurgence of volatility in the markets at the beginning of 2010 (although still far from the peaks of tension in 2008-

2009) and some deterioration in prices of higher-risk assets.

The concern focused on the situation in Greece, a country with a substantial⁴ fiscal deficit, high debt ratios and strong financing needs in the short term⁵ (with local banks in a weaker position to finance the government). In a context of low growth and with restrictions regarding its monetary policy and exchange rate⁶, fears about the possibility that it becomes difficult to repay existing debts arose. In a movement of contagion by association, distrust ended affecting other economies in the Euro Area (Portugal, Spain and to a lesser extent, Ireland and Italy), with fiscal and debt indicators located below the Euro Area average (see Chart B.I.1).



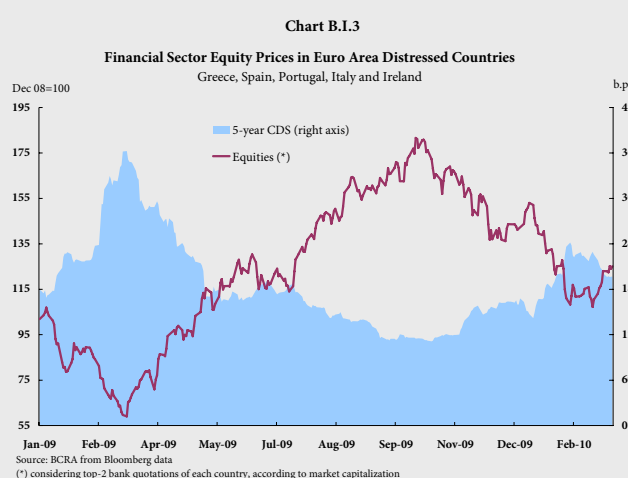
The growing doubts were reflected in a sharp increase in the debt spreads of more exposed economies. This includes both bond spreads of lower perceived risk (such as German government bonds) and the spreads on credit default swap contracts (CDS). Thus, the 5-year CDS on Greek debt rose from almost 100 basis points (b.p.) late in the third quarter of 2009 to about 400 b.p. in late January (see Chart B.I.2). For other economies affected by the uncertainty surrounding the sustainability of the fiscal situation (Portugal, Spain and Italy), spreads widened between 1-3.5 times in the same period (although they still remain below 250 b.p.).

⁴ In November, estimates of fiscal deficit for the year 2009 were adjusted to almost 13% of GDP (the estimates were between 6% -8%).

⁵ The Greek government must issue debt for more than €50 billion in 2010. Of this amount, to confront maturities it must get financing for about €20 billion in April-May.

⁶ The situation of peripheral economies in the euro area demonstrates the problems associated with the existence of rigidity in monetary policy.

Stock quotes of leading banks of these economies also deteriorated (see Chart B.1.3), with a decline of almost 20% between late December and late February⁷ (when the Euro Stoxx 600 contracted by 3%). The factors that explained the price reversal were the public sector exposure, the possibility of debt⁸ ratings cuts and the less optimistic prospect about the evolution of the economies (with a potential impact on the repayment capacity of the banking debtors). Moreover, not all European banks have the same exposure (although, in general, limited⁹) to the sovereign debt of countries in the Euro Area in a more vulnerable situation.



With concerns about the peripheral economies of the Euro Area, the euro exhibited some pressure and depreciated almost 10% against the dollar from late November to late February. On the one hand, the rising volatility revived the search for refuge in US Treasury assets. On the other hand, doubts about the position that would adopt the European Union authorities created uncertainty (with respect to the effects this may have, in terms of moral hazard and credibility of the arrangements of the Euro Area). Moreover, to the extent that various economies tend to move towards greater fiscal austerity this could lead to keep an environment of low interest rates in the Euro Area for a longer period of time.

⁷ Stock quotes of smaller institutions have further deteriorated. Then there was an improvement.

⁸ The feasibility of further downgrades for the Greek debt rating (with an impact on banks that use these assets as collateral) created uncertainty in late February. The long-term debt of Greece is rated BBB+ (S&P) and A2 (Moody's). At the end of March the ECB made clear that the minimum credit level (BBB-) required for the collateral under its lines of liquidity would remain in 2011.

⁹ According to the BIS Quarterly Review, the financial systems with greater exposure to the weaker economies of the Euro area are France, Netherlands and Germany.

Tension in the markets tended to weaken toward the end of February and early March. The Euro area authorities announced they would support Greece, while progress was made in the negotiations around the eventual support¹⁰ (which would have a complementary participation of the IMF). Moreover, Greece unveiled new measures to reduce its deficit, paving the way for the implementation of a package of assistance. In addition Greece, Portugal and Spain succeeded in placing debt¹¹ with good conditions.

Despite these relative improvements, the debt of several countries in the Euro area remains under pressure and it is unclear what will be the motivation of the markets when facing the timetable for the coming months. At the same time, some concern remains about the fiscal sustainability in developed countries (affected by temporary factors such as stimulus packages to confront the crisis, and structural issues such as the problems associated with the social security). This would have a potential impact on debt yields of long-term and, therefore, on the situation of the financial institutions. Fears are particularly important in a context marked by ample liquidity (that generates incentives for funding in the short term and invest in longer-term assets and performance) but with prospects of interest rates of monetary policy gradually rising in the future. The trend towards increasing selectiveness by investors is expected to continue and new episodes of adjustment cannot be ruled out in prices of sovereign bonds and a rapid increase in risk aversion globally.

¹⁰ For €30 billion, at a rate of 5% (below market cost).

¹¹ The major placements in February and March were for €5 billion at 10 years and €5 billion at 7 years (Greece), €3 billion at 10 years (Portugal) and €5 billion over 15 years (Spain).

II. Local Context

Summary

With the worst of the international crisis now in the past, local economic activity began to recover in the second half of 2009. This trend is expected to gain strength during the current year, mainly driven by household consumption. Growth in activity would make it possible to return to an upward dynamism in the level of employment. The trade surplus will remain high, at similar levels to those of 2009.

At the end of last year and the beginning of the current year, the economic recovery and increased food prices at international and local level established a new framework for the behavior of domestic prices. Within the Monetary Program targets, a gradual remonetization process of the economy began in recent months, with reductions in the BADLAR and in the inter-bank call money market interest rates.

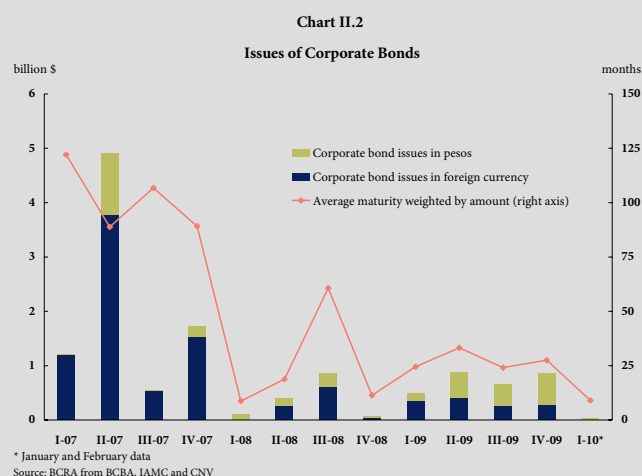
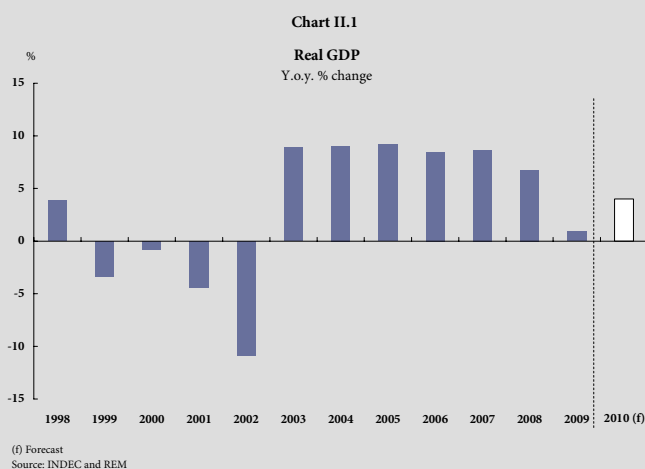
In a scenario of increased appetite for emerging market risk, domestic bond prices recovered, in a still volatile environment. Sovereign risk spreads improved compared with the first half of 2009, although they recorded a temporary rise in the first two months of 2010.

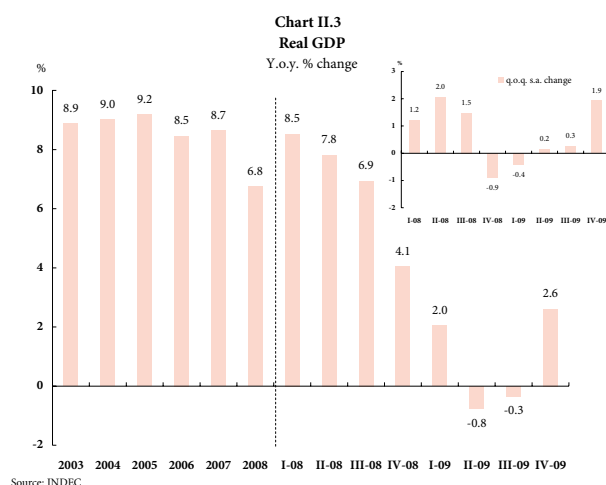
Government bond trading volumes were higher in year-on-year terms. In the short run, investors' interest will focus on the progress made with the restructuring of the

eligible debt that did not participate in the 2005 Government debt swap, after the preliminary steps for the launch of the offering that were completed in recent days.

Private sector borrowing cost declined in line with the international climate and investors' preference for private bonds in local currency. Lower costs were also registered in financial trusts, which continue to be a significant source of private sector financing on capital markets. Corporate bond issuance recovered in the second half of 2009 and a lengthening of terms was noted. Financing via the deferred payment check market continues to increase, gaining strength as a source of financial resources for small and medium-sized companies. In the last part of 2009 there was a significant surge in the volume of forward exchange contracts traded.

Over the rest of 2010 the Central Bank will continue to develop a monetary policy based on the building of liquidity networks and the control of the expansion of monetary aggregates by sterilizing the peso supply which exceeds the demand.

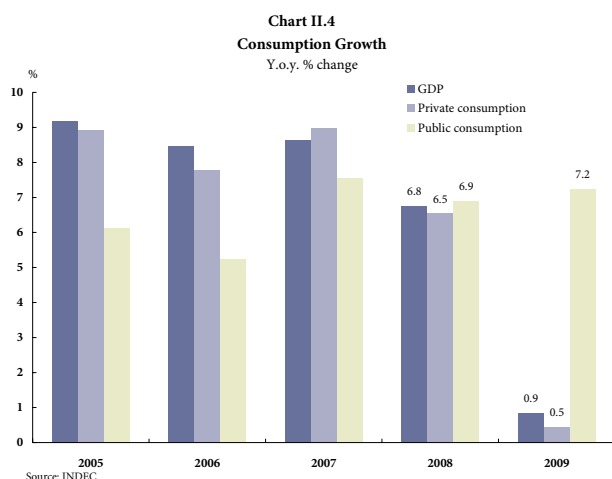




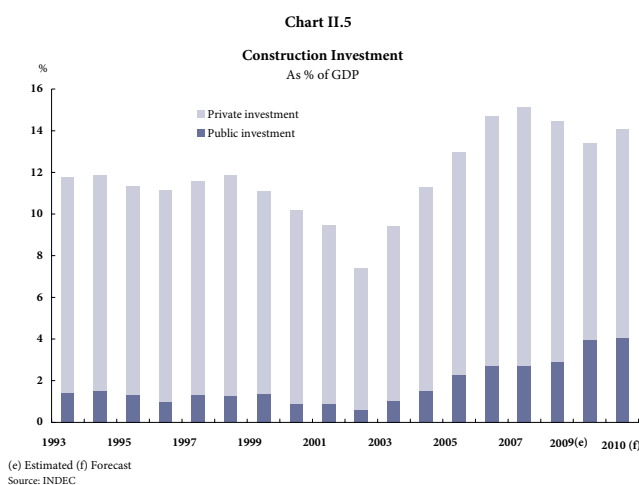
II.1 Macroeconomic context

During the second half of 2009 there were concrete signs of economic recovery, a process that is expected to gain strength over the rest of the year

With the worst of the international crisis now in the past, local economic activity consolidates the recovery which began in the second half of 2009 (see Charts II.1 and II.3). An improvement can be seen in household consumption that is likely to be maintained over the course of the year, and would give the main contribution to GDP growth. The recovery of domestic consumption and external demand following the growth of the main trading partners would continue to benefit the industry. Better weather conditions will result in a harvest bigger than that of the 2008/2009 season. The recovery in consumption, farm and industrial supply would boost related activities such as wholesale and retail trade and transport, consolidating recent growth (see Chart II.4).



As a result of the decline in uncertainty regarding the impact of the international crisis on employment and domestic economic activity, households began to reduce their precautionary savings, making use of such surpluses for consumption purposes. This trend has also been driven by a gradual increase in household borrowing, together with greater government transfers in the form of pensions and family allowances, as well as the new Universal Child Allowance for Social Protection that began to be granted at the end of 2009. Public sector consumption continues to contribute to the output growth.

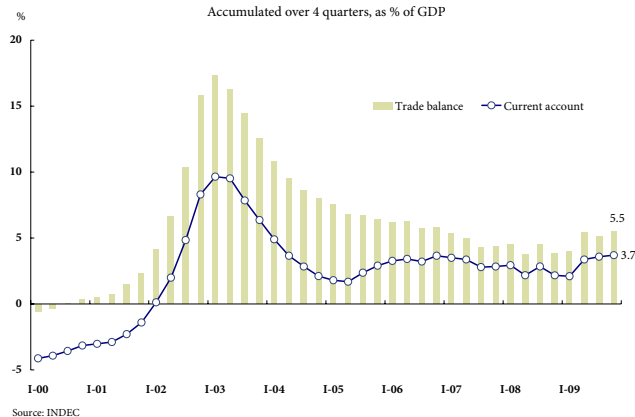


Investment in machinery and equipment fell in 2009, steadying in the second half of the year. Spending on capital goods is expected to recover gradually in 2010, as idle capacity is used-up in several capital-intensive sectors that were affected by the international crisis. Progress with smaller private projects and rising public sector investment will lead to increased levels of investment in construction (see Chart II.5). In 2009 net exports made a positive contribution to GDP growth, as goods and services imports fell at a faster rate than exports.

Although goods exports declined in 2009 because of the general contraction in world trade and lower shipments and prices of grains, imports recorded an even greater drop. As a result, in absolute terms the trade balance set a new record, contributing to a current account surplus of 3.7% of GDP (see Chart II.6). A recovery is expected for exports in 2010, driven by higher exports of primary and manufactured agricultural goods, as well as of

Chart II.6

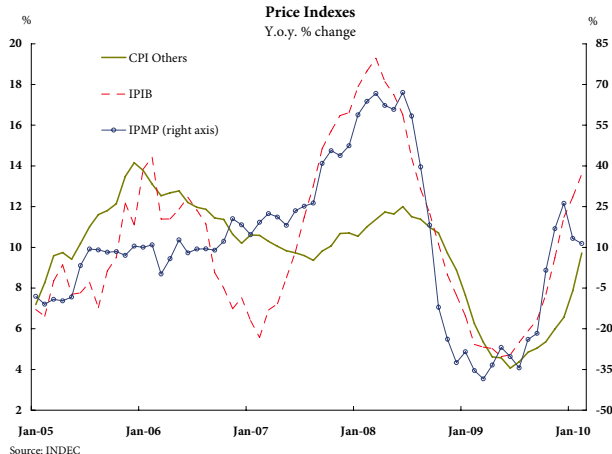
Current Account Balance Evolution
Accumulated over 4 quarters, as % of GDP



Source: INDEC

Chart II.7

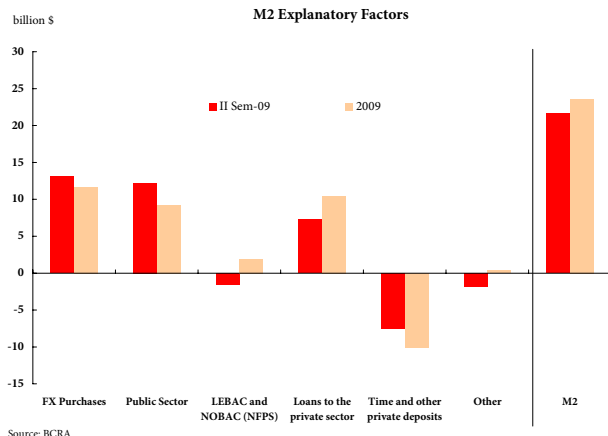
Price Indexes
Y.o.y. % change



Source: INDEC

Chart II.8

M2 Explanatory Factors



Source: BCRA

industrial goods. Imports would rise by more than the expansion in exports, mainly from purchases of consumer goods, industrial input and energy. The trade balance of goods will continue to drive current account performance, which this year would record its ninth consecutive period of positive growth, an unprecedented fact in the history of our country.

The job market outlook begins to appear more positive, with a rising demand for labor expected over the course of the year that would reverse the slight increase in unemployment recorded in the third quarter of 2009.

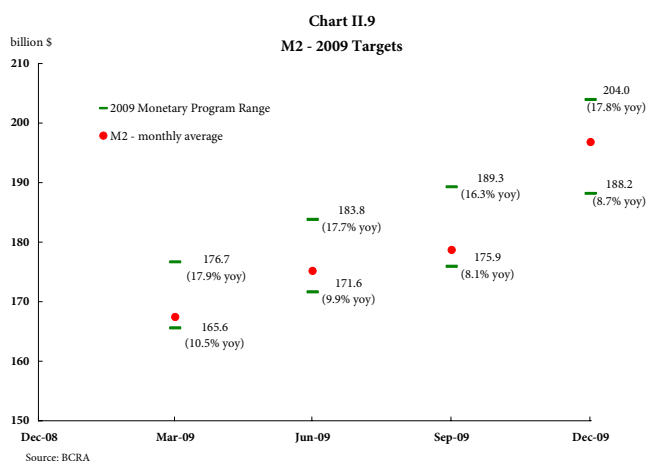
Towards the end of 2009 and at the beginning of 2010 the economic recovery and increased food prices at international and domestic level established a new framework for the behavior of domestic prices (see Chart II.7).

Over the course of the second half of 2009 the economy began to record a gradual remonetization process

In the second half of 2009 private means of payment rose by \$20.1 billion (13.8%), forming the bulk of the half-yearly increase for the M2 of \$21.7 billion (12.4%). The main factors explaining M2 expansion included Central Bank market purchases of foreign currency (see Chart II.8), in view of the non-financial private sector that became a net seller of foreign currency since August. Another factor contributing to the means of payment growth was the increase in loans to the private sector (see Chapter IV).

An increase in private sector time deposits contributed to a lower M2 growth in the second half of 2009. Since July, private sector time deposits in domestic currency began to register increased dynamism in both the retail and wholesale segments, reflecting the gradual recovery in domestic currency demand. The half-yearly increase in private sector deposits and public holdings of cash explained almost all of the increase in the broader monetary aggregate in pesos (M3), as the public sector deposits recorded a slight half-yearly reduction. As a result, M3 posted a rise of 9.9% in the second half of 2009, with a total increase of 11.3% for 2009.

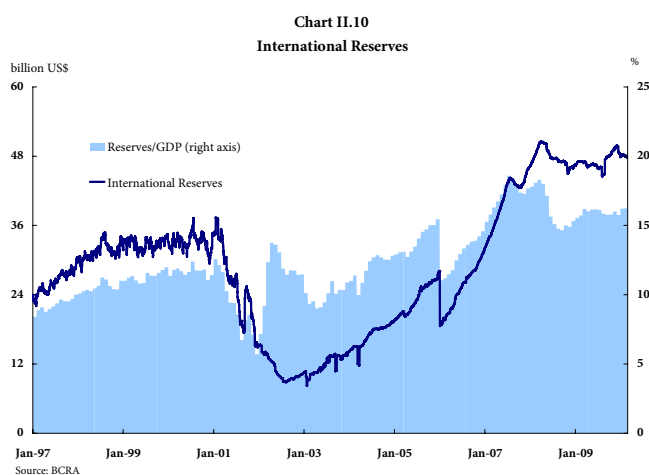
During the second half of 2009 the Central Bank cut the interest rate on repos and reverse repos by 1.5 p.p. and discontinued the transactions for 14, 21 and 28 days that had been temporarily introduced in 2008 at the time of the deepening of the international crisis. The main short-term interest rates adjusted to the new band established by the Central Bank: both the private bank



interest rate on the interbank market and the BADLAR rate declined in recent months (see Chart V.7).

As in previous periods, Monetary Program (MP) targets continued to be met in the last two quarters of 2009 (see Chart II.9). In December, total means of payment (M2) averaged \$196.89 billion (13.7% y.o.y.), while private payment means (private M2) recorded an average balance of \$165.75 billion (15.9% y.o.y.) in December, also within the range set in the MP 2009 (9.8% y.o.y. – 18.9% y.o.y.).

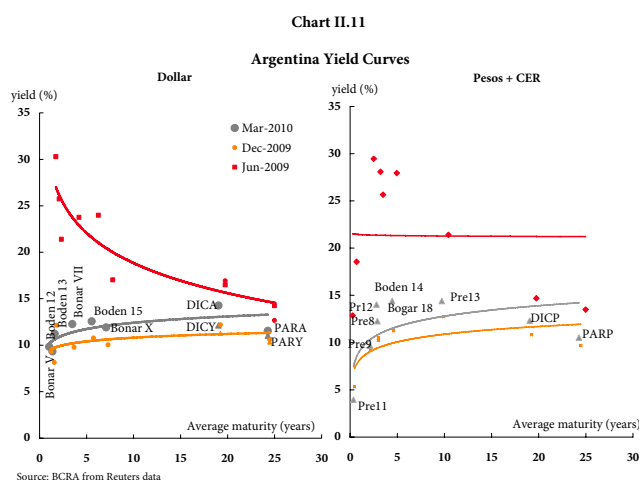
The Central Bank continues to provide a broad horizon of certainty in relation to monetary and financial variables



For the rest of 2010 the Central Bank will pursue a monetary policy based on the building of liquidity networks in both foreign and local currency (see Chart II.10), and in the control of monetary aggregate expansion by means of the sterilization of peso supply in excess of demand. The MP 2010 maintains the mechanism adopted in the previous year, with **quarterly targets** for the M2 monetary aggregate (and an annual target for private M2), and **quarterly estimates** for private M2. The MP 2010 targets foresees an annual growth for the M2 aggregate within the range of 11.9%-18.9%, and an annual rate of growth for private M2 between 12.1% and 19.1%.

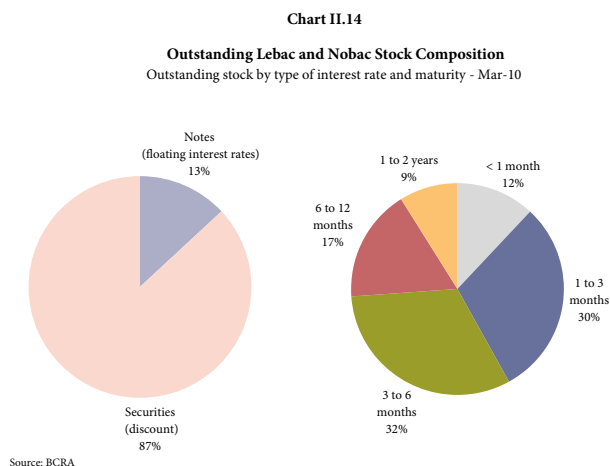
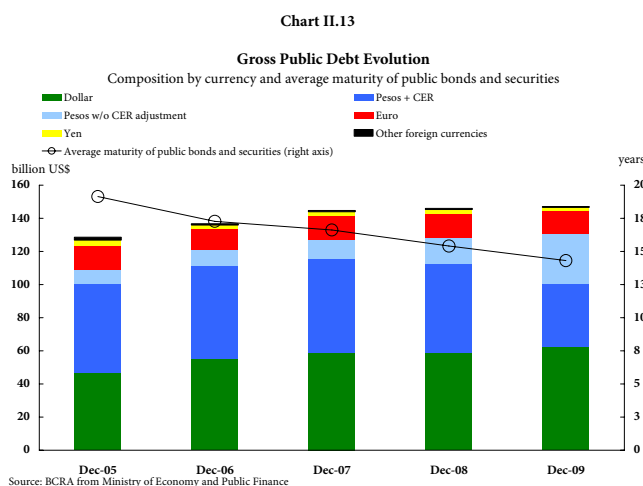
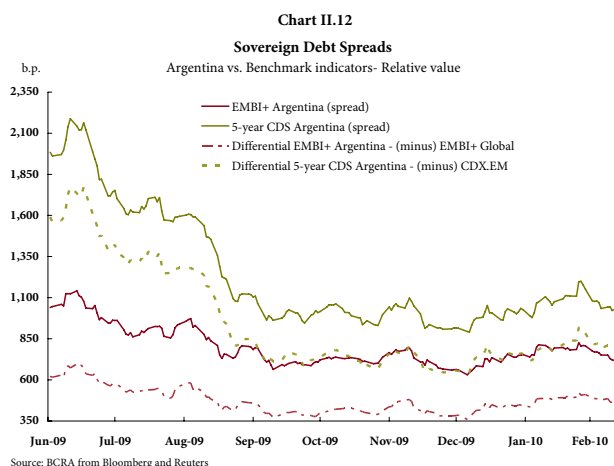
II.2 Capital markets

Government security prices have recorded gains from the lows reached in 2009, with a relative improvement in trading volume



Following the slight correction at the beginning of 2010, Argentine Government bond prices maintain the recovery achieved in the second half of 2009, up from the low point reached in March of that year, in the context of a gradual recovery in the appetite for emerging market risk. Yield curves are significantly lower than they were in mid-2009 for both dollar-denominated bonds and those CER-adjusted. In addition to the cutback in bond yields (over 850 b.p. on average for bonds in dollars, and almost 1,100 b.p. for peso CER-adjusted bonds), yield curve slopes became positive again (see Chart II.11). This improvement also includes bonds in nominal pesos¹².

¹² There are few transactions in this segment, except for those involving Bonar 14 and Bonar V (the Bonar 14 bond was issued in September 2009). Bonar V yields declined by more than 2,000 b.p. since mid-2009.



Sovereign risk spreads improved compared with the values of the first half of 2009, although the spread increased in recent months. Argentina's EMBI+ spread and the price of the 5-year credit default swap (CDS) have fallen to levels equal to between half and one third respectively of the average in the first half of 2009. The drop in dollar bond yields implied lower differential in relation to the benchmark indexes for the emerging country aggregate (see Chart II.12).

Over the course of 2009 the Government borrowing has based on transactions within the public sector, by means of the issuance of short-term bills and direct bond placement. The stock of bills at the end of 2009 totaled approximately \$10.5 billion, 25.5% less than at December 2008¹³. One third of the bills issued and outstanding are dollar-denominated. The main creditors under this heading are the Guarantee and Sustainability Fund (FGS) with 47% of the total stock, the PAMI pensioner's institute (27%) and the Trust Fund for the Reconstruction of Companies (14%). Bond placements in the last months of 2009 were directly subscribed by the FGS and totaled nearly \$9.5 billion.

The gross public debt total at December 2009 amounted to US\$147.1 billion, with a lower weighting for CER-adjusted peso liabilities and a gradual decline in the average term. By means of the debt management transactions carried out during 2009¹⁴ the proportion of CER-adjusted debt in pesos was reduced by 11 p.p. to 25% of the total, with an increase in the share of debt in domestic currency at floating interest rates (see Chart II.13). Average duration for aggregate debt is 11.1 years (14.3 years if only government securities and bills are considered).

In the case of government securities, over the short term investors' interest will be centered on the progress made on the restructuring of eligible debt that did not enter in the 2005 debt swap. In the last few days preliminary steps have been taken for the launch of the offer. There is consequently margin for improvement in bond prices in the medium term, even more if the improvements on international markets are maintained and the debt exchange operation is completed.

Growing weighting of Lebac in Central Bank placements

Sustained interest has been noted at Central Bank bond auctions for bills at a discount, to the detriment of

¹³ It should be noted that in 2009 there was a swap of short-term bills held by the ANSeS. These bills were refinanced by the issue of seven-year Bonar 16 for approximately \$8 billion.

¹⁴ These included Government swaps of Domestic Secured Loans and Bocon bonds.

Chart II.15
Yield Curves of Lebac Auctions

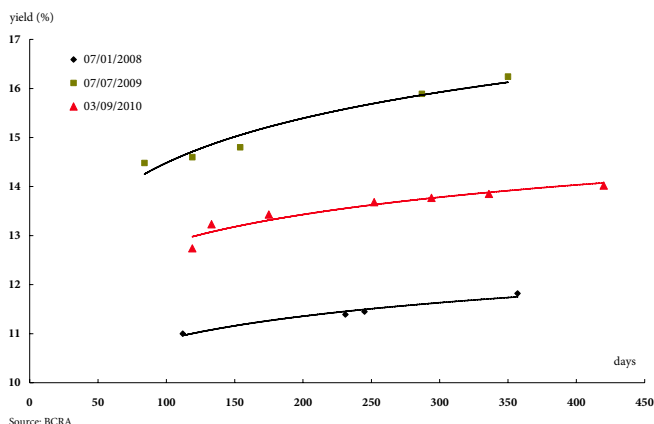


Chart II.16
Lebac Secondary Market

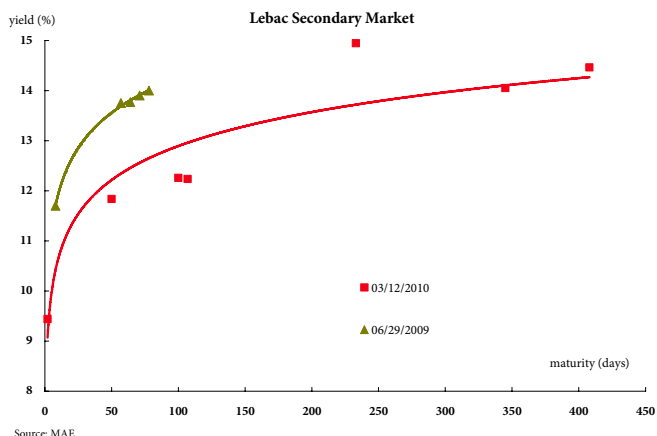
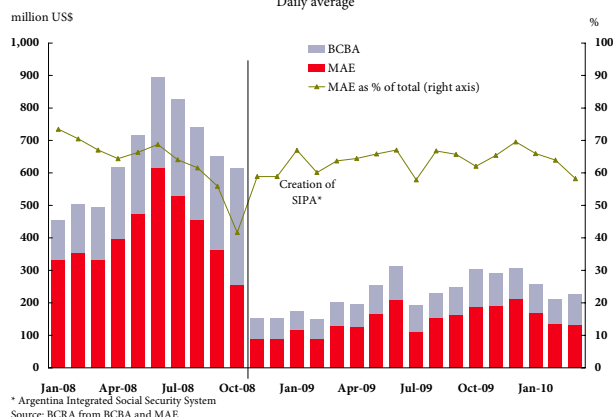


Chart II.17
Traded Volume of Government Bonds (MAE + BCBA)
Daily average



Nobac notes. In mid-March the total stock of outstanding Central Bank papers amounted to approximately \$48.7 billion. This greater boost for Lebac in the last year reversed the participation of instruments at floating interest rates in total stock: Nobac notes currently account for 13% of the total, after most floating rate maturities were renewed by means of bill placements¹⁵ (see Chart II.14).

Tender cut-off rates declined in the case of bills (dropping by a range of between 145 b.p. – 231 b.p. compared with mid-2009 for terms of 3 to 12 months), with a downward trend almost parallel in the yield curve¹⁶ (see Chart II.15). Secondary market Lebac transactions showed greater dynamism than those with notes, accompanying the change in trend in the primary market (see Chart II.16).

Fixed-income trading in the domestic market has remained limited

Compared with one year earlier, in the first few months of 2010 trading volumes of fixed income instruments (government securities and Central Bank instruments) on local markets (BCBA and MAE) recovered. Nevertheless, volumes were below those recorded in the final months of 2009 (see Chart II.17). Fixed-income instruments trading volumes on the domestic market are expected to continue to post a gradual improvement.

The cost of private sector financing by means of capital market instruments tends to decline

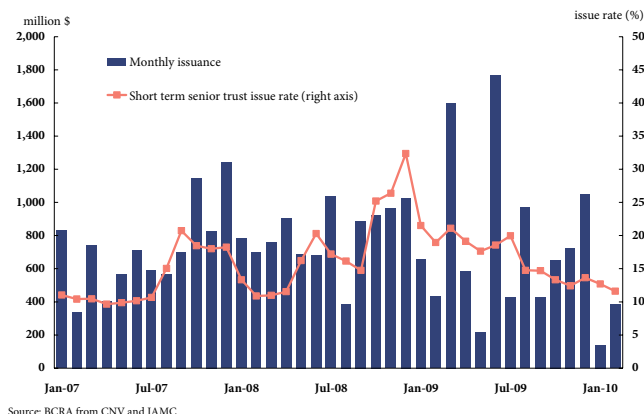
Financing obtained by means of financial trusts was down in the final months of 2009 compared with previous six-month periods, during a time when borrowing costs have been declining (see Chart II.18 and Box 4). The reduction in amounts reflects the fact that issues have been for smaller amounts, rather than any significant drop in their number. Financial trusts continue to be a source of capital market financing for the private sector.

The improved climate on international financial markets and greater preference for investments in domestic currency led to a significant decline in the cost associated with the placement of securities with a higher credit quality (mainly financial trusts). This fall has been around 500 b.p. compared with the levels in mid-2009.

¹⁵ In March 2009 the stock was made up by approximately 75% in Nobac and 25% in Lebac.

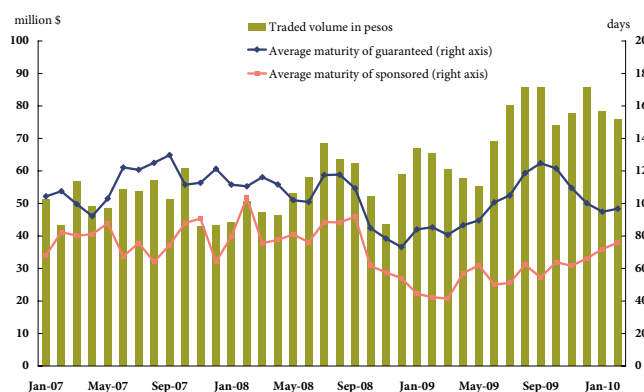
¹⁶ In the case of Nobac, there has also been a drop in the cut-off rates, although the limited number of issues hinders a more detailed comparison. It should be noted that the reference rate (Private Bank Badlar) has recorded a drop of around 350 b.p. when compared with the level observed in mid-2009.

Chart II.18
Issuance of Financial Trusts



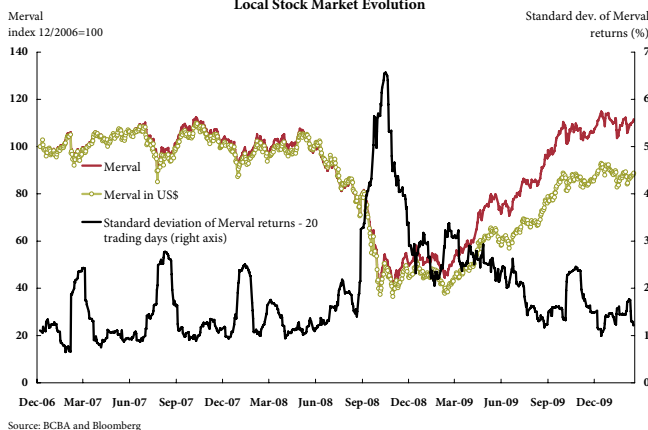
Source: BCRA from CNV and IAMC

Chart II.19
Trading of Differed Payment Checks



Source: BCRA from IAMC data

Chart II.20
Local Stock Market Evolution



Source: BCBA and Bloomberg

During the second half of 2009 financing by means of corporate bonds (ON) was well up compared with the previous year, and the duration of such issues was lengthened. Counting all the different debt issues (ON, SME ON and short-term notes –VCP–), financing obtained in the second half of 2009 amounted to over \$1.5 billion, more than the \$930 million of one year earlier¹⁷ (see Chart II.2). The number of issues denominated in local currency is remarkable (almost two thirds of the total), particularly by large corporations. Financing obtained by smaller companies continued to be mostly denominated in foreign currency. The cost of borrowing by means of ON also dropped for both peso and dollar-denominated issues. Compared with the first half of 2009, this cost fell by between 200 b.p. and 300 b.p. for short and medium-term securities respectively.

Financing by means of the trading of deferred-payment checks increased (see Chart II.19), with lower costs. In the case of guaranteed checks, the cost agreed at the end of 2009 was, on average, 300 b.p. below that recorded at mid-year and nearly 1,100 b.p. lower than that of December 2008. There was also some recovery in the term to maturity of such instruments.

Stock market recovery strengthens in line with the gradual improvement on foreign stock markets

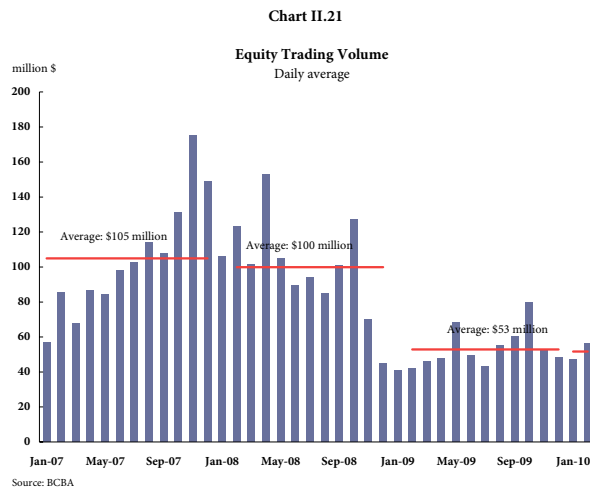
The level of the Merval index doubled over the course of 2009, with a rise of 115% measured in pesos and 95% in dollars, within the context of widespread increases on global and regional stock exchanges. In addition, in early 2010 the domestic index expressed in pesos set a new historical maximum (see Chart II.20) with trading volumes showing a slight recovery (see Chart II.21). The amount of primary subscription in pesos during 2009 remained at levels similar to those of the previous year, with a notable offering by Aluar for over \$1.2 billion.

During 2009 domestic bank stock market capitalization rose 126%, falling back slightly in the first few months of 2010. Share repurchase programs which had begun in 2008 by certain banks (Macro and Patagonia), continued during part of 2009, and were then discontinued. Such transactions totaled around \$70 million last year.

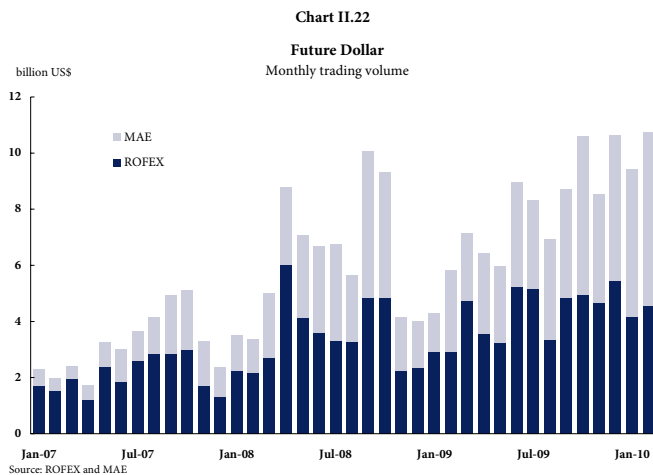
Future performance of stock market prices will continue to reflect trends on international markets, improvement in the financial relations of the National Government and the development of the local economy.

¹⁷ Nevertheless, financing in the second half of 2009 was below the level recorded in the first half of 2007.

Trade volume of forward exchange contracts increases



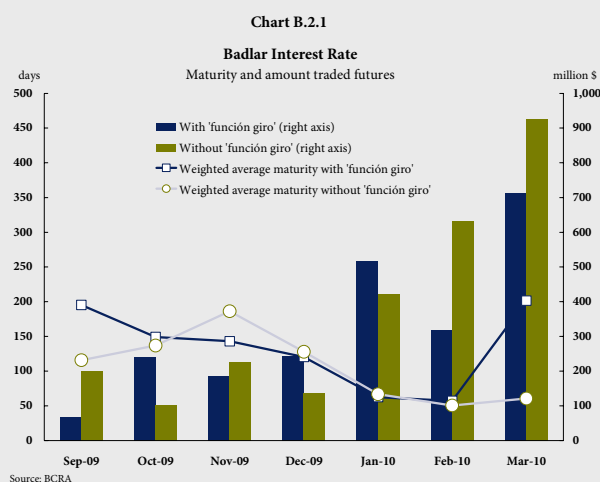
In the second half of last year there was an increase in the trading volume of exchange rate derivatives (see Chart II.22). At the end of 2009 derivative contract trades reached record levels, together with a growing transformation into pesos of portfolios. In recent months there has been some progress in the case of interest rate derivatives (see Box 2).



Box 2 / Interest Rate Risk Hedging Markets in Argentina

With the aim of providing financial institutions with improved risk management tools and adding dynamism to lending to companies and households, in 2009 the Central Bank began to promote the development of an interest rate hedge market. Specifically, the so-called “*función giro*” was introduced to encourage the development of the Private Banks Badlar futures market, and interest rate swap auctions began to be held. As a result, since September last year over \$4.9 billion has been traded in the Badlar futures market on the MAE, almost half of this amount being related to the “*función giro*”. Although interest rate futures have focused on short-term maturities, the volume of medium-term transactions has steadily increased

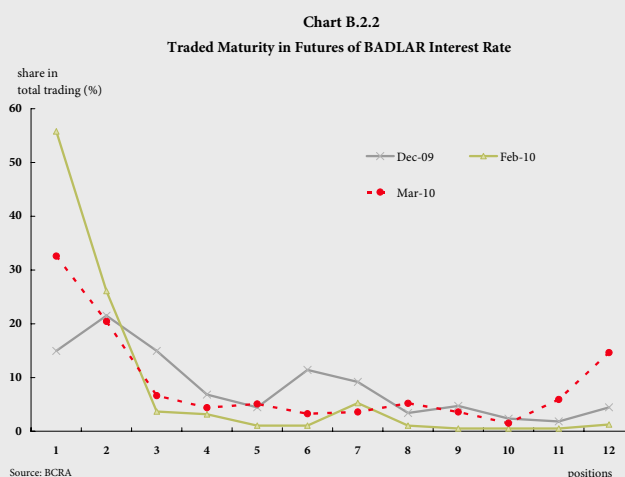
Derivatives markets have shown strong growth in recent decades at global level, accounting for a considerable proportion of the financial transactions on developed markets. This dynamism has largely been due to the fact that this type of instrument makes it possible to manage more efficiently the risks inherent to the construction of portfolios (mitigating the impact of any possible shock).



For example, interest rate forwards and futures can reduce the exposure to interest rate fluctuations that could have adverse balance sheet impacts. As long as such instruments imply improved interest rate risk management by financial institutions, the creation and deepening of their market might contribute to the boost of a longer-term credit market.

With the aim of stimulating the development of the Argentine credit market, as from September last year the Central Bank and the MAE have provided the interest

rate futures market with an added impulse¹⁸. To grant the instrument greater dynamism the Central Bank introduced the so-called “*función giro*” that consists of joining positions with identical terms on opposite sides of the trade (a buyer and a seller) by taking each of these positions with a neutral impact for the Central Bank.



Since their launch in September 2009, nearly \$4.9 billion in Private Banks Badlar interest rate futures have been traded on the MAE¹⁹. The market has been showing growing dynamism, with rising trading volumes in the first few months of 2010. Indeed, whereas between September and December 2009 the average monthly trading volume was in the order of \$350 million, in the first three months of this year the monthly trading average has been close to \$1.2 billion.

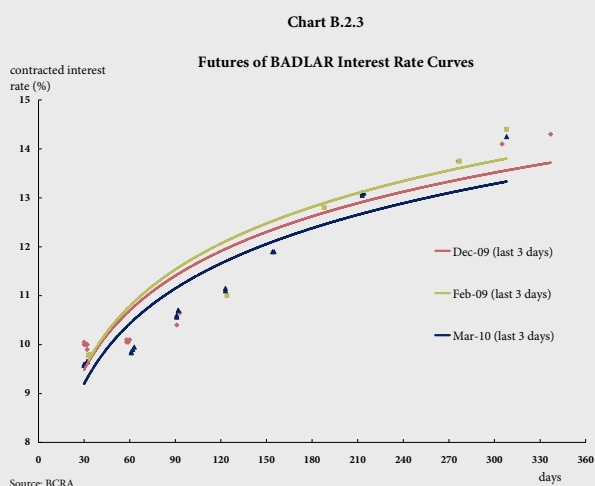
By matching supply and demand positions, the Central Bank enabled the trading of close to \$2.3 billion since the launch of this instrument (see Chart B.2.1). This means that half the amounts traded to date correspond to transactions making use of the “*función giro*”, although this proportion has tended to decline in recent months. Whereas in December almost two-thirds of the volume traded was based on the credit facility for the counterparts granted by the “*función giro*”, the current proportion is 44%.

Trading in Private Banks Badlar futures is centered on shorter-term contracts (see Chart B.2.2). For example, 70% of the volume traded in the first quarter of the year corresponded to transactions maturing within the

¹⁸ The possibility of trading in interest rate futures had existed in Argentina previously, with a limited volume of transactions.

¹⁹ Net of the duplication of volume in “*función giro*” transactions.

following three months²⁰. There were also several transactions for longer terms. The Central Bank increased from one to two years the maximum term to maturity for contracts to be traded with the possibility of closing purchase and sale transactions. In this context, in February and March various transactions were carried out for terms of longer than one year using the “*función giro*”.



Transactions performed using the “*función giro*” initially involved longer terms than those between private counterparts in which the Central Bank was not a participant. Although this trend was less defined in the first two months of 2010, in March transactions under the “*función giro*” system again began to systematically be carried out for longer periods. This mechanism was adopted for transaction for average terms in excess of 200 days, reaching the longest terms for “*función giro*” transactions since the system was launched.

Accompanying the downward trend in the Private Banks Badlar interest rate in the last quarter of 2009, Badlar futures have tended to register a decline in their price (see Chart B.2.3), with a downward trend in the curve estimated according to the rates agreed for the various negotiating periods. Despite the increase in interest rates at the beginning of the year, they declined once again in March, and spreads narrowed.

Another derivative available on the local market to mitigate interest rate risk is the Private Banks Badlar rate swap against the peso fixed interest rate. Although Private Banks Badlar interest rate swaps have been traded on the MAE since 2007, transactions had been very

limited²¹. This is a shallow market, with sporadic deals between commercial banks. Recent transactions recorded include interest rate flow swaps for terms of one and two years for amounts of \$5 million on average. In addition, since April last year the Central Bank has held a series of swap auctions. Although in this case amounts are also not significant, deals were entered into for terms of up to five years.

As a result, greater dynamism can now be seen in the domestic interest rate risk coverage market in relation to both trading volumes and instruments available. The impulse is expected to be maintained, with this incipient market set to record growth in terms of both amounts and length of the terms traded, enabling financial institutions to mitigate risks and improve their credit offering.

²⁰ 40% of the amount involved covered transactions maturing in the same month.

²¹ Recently the Central Bank approved the “*función giro*” for this type of contract, although by the end of March no transactions had been carried out using such a system.

III. Debtors Performance

Summary

Services and, to a lesser extent, the primary production of goods, gained share in the finance portfolio of financial entities during 2009. Loans granted to households have kept their share in entities' assets in a context where the local economic activity continues consolidating the recovery process started by mid-2009.

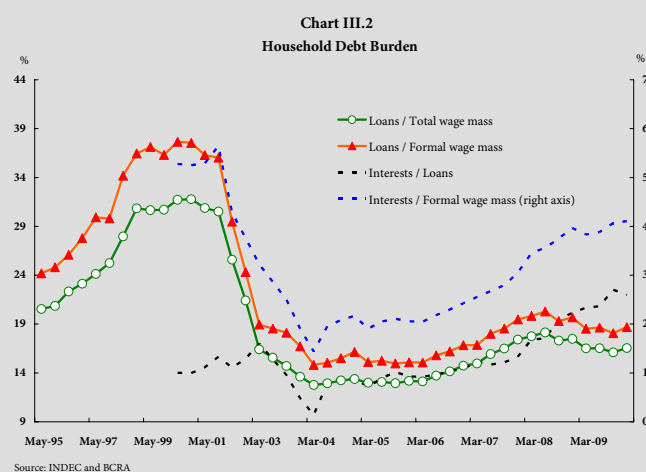
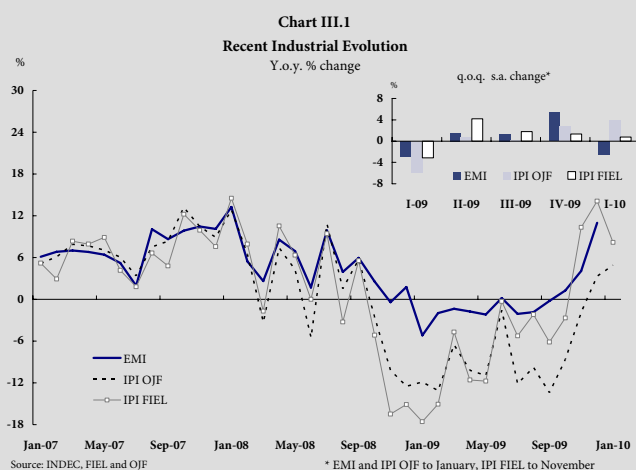
The production of goods, one of the most affected sectors by the local impact derived from the global crisis, continues recovering. Blocks producing durable consumption goods are currently sustaining the growth in manufacturing production. Indebtedness levels of industrial companies are decreasing slightly with a lesser weighting of external resources; this scenario would allow them to improve their payment capacity over the coming months.

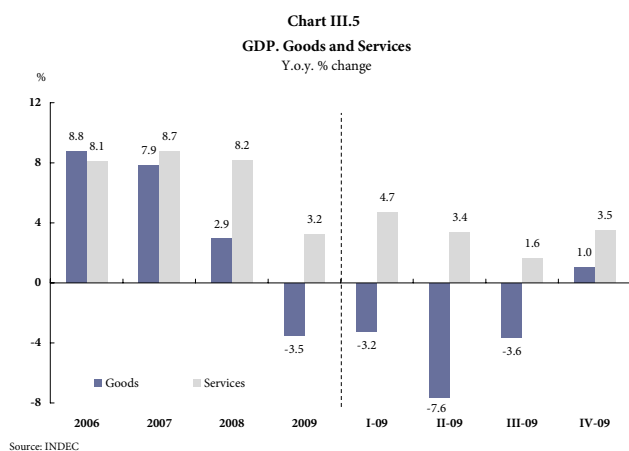
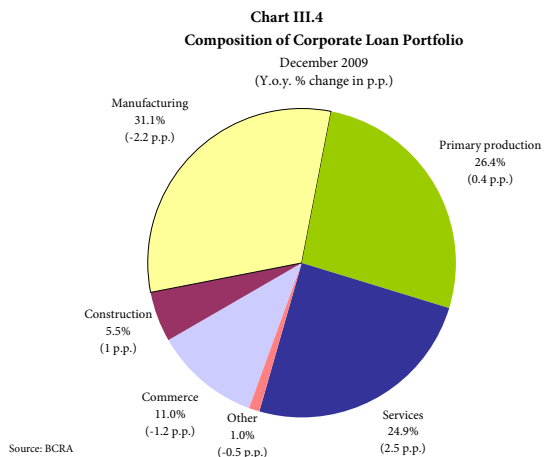
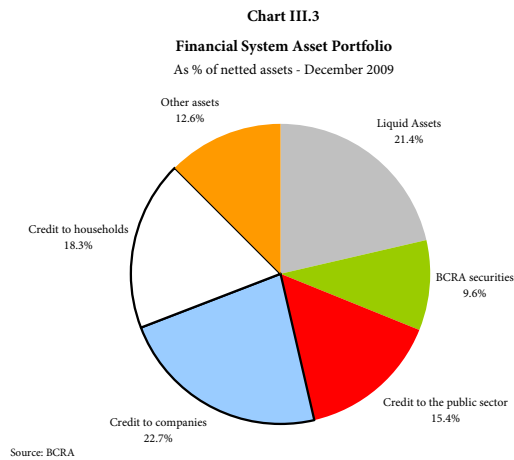
The improvement of climate conditions and the maintenance of commodity prices at high levels allow forecasting a sharp increase in farming production during 2010. Estimates regarding grain production of the 2009/10 harvest season were revised upwards and this situation would lead to a recovery of companies' financial position following losses generated by the drought recorded in previous periods. The indebtedness of the primary sector rose during 2009 together with a slight decline in its activity and greater local and foreign financing. However, the sector's favorable perspectives for the rest of 2010 would contribute to sustaining its payment capacity.

The activity recorded by service companies remains exhibiting an upward trend led by the growth of consumption, trade and greater production of goods. This framework, together with these companies' still low indebtedness levels, allows sustaining their financial position. Commercial companies keep evidencing a favorable trend regarding their payment capacity, partly boosted by more households' consumption in a context of growing demand for durable consumption goods and decreasing indebtedness levels of these companies.

The improvement of employment expectations for the coming periods combined with the stabilization of households' indebtedness levels, contribute to maintain their payment capacity. Households are gradually starting to reduce their precautionary savings and to reactivate their demand for credit. The labor market is showing signs of an incipient improvement that is reflected in a reduction of layoffs and dismissals.

The revenue and spending of the Public Sector rose over the last months of 2009 with a primary surplus of almost 1.5% of GDP. The public debt is around 50% of GDP and is expected to stay at similar values during the coming periods.





III.1 Financial System Debtors

Banks financing to households recovers momentum as corporate credit sustains its gradual expansion

Companies and households continue being the main debtors of the domestic financial system, accounting as a whole for almost 41% of its netted asset (see Chart III.3). Manufacturing and primary production of goods are the economic sectors with the greatest weighting in bank financing to the corporate sector while services are gradually gaining share (see Chart III.4). Credit lines for consumption raise their weighting in bank resources channeled to households.

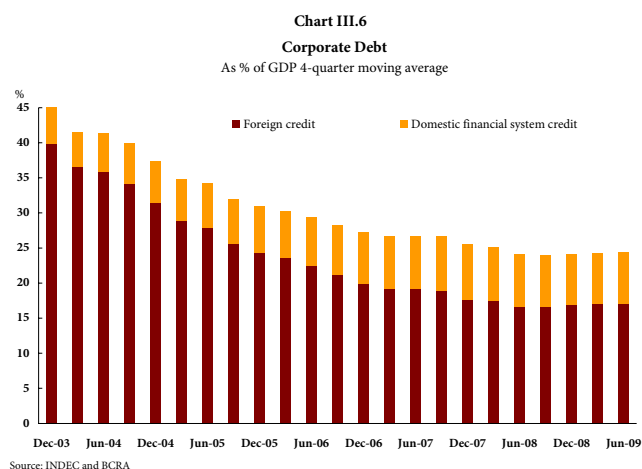
During 2009, the growth evidenced by the financial intermediation activity with the private sector reflected the impact of the international financial crisis, recovering over the last months in line with the renewed momentum of financing especially to households. Since the beginning of the international crisis banks have sustained a more precautionary attitude regarding an international scenario of greater volatility, building additional liquidity cushions. As this context normalizes, these resources would gradually be channeled towards the consolidation of financial intermediation, strengthening the economic recovery scenario expected for the rest of 2010.

III.2 Corporate sector

Corporations are consolidating their financial position in line with the recovery of the economy

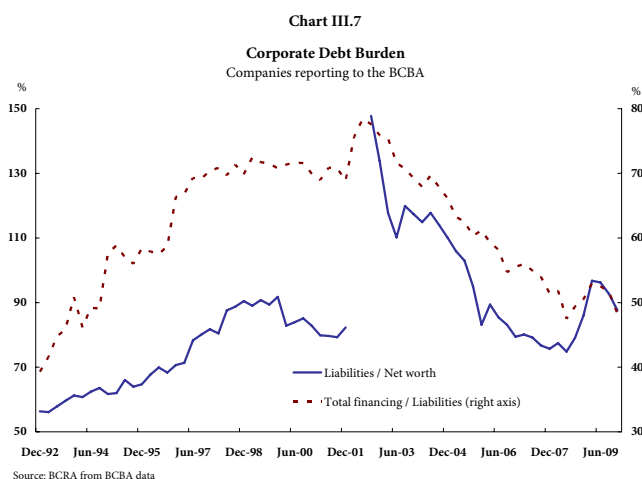
The level of the domestic activity is consolidating the recovery that started by mid-2009 driven by an increase in domestic spending and an international improvement. The production of goods, which was most affected by the global crisis in 2009, continues advancing driven by the manufacturing sector. The improvement of climate conditions favors the increase in the farming supply while construction is recording a lag regarding the recovery process. Services remain exhibiting an upward trend benefited by the growth of consumption, trade and greater production of goods (see Chart III.5).

Aggregate supply is expected to consolidate its rise during the rest of 2010. Goods production would continue recording an upward trend, with an increase in manufacturing output and greater harvest while the service sector would keep its growth.



The indebtedness level of the local corporate sector began to show some expansion reaching almost 24.4% of the sector GDP (see Chart III.6). Foreign resources reached slightly more than two thirds of the total, increasing moderately as a result of the rise of the nominal exchange rate recorded in part of 2009. The corporate sector as a whole keeps a suitable financial position and this would permit sustaining its payment capacity. However, the situation of every economic sector may be different.

The financial position of large companies listed in the local Stock Market would continue recovering reducing its leverage levels gradually (see Chart III.7). Indeed, profits of the main non-financial local companies rose during the second part of 2009 according to the information included in the balance sheets submitted to the Stock Exchange.

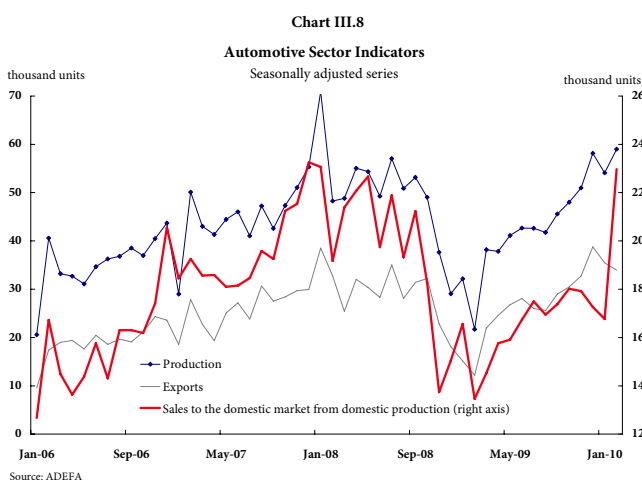


The growth expected in the economic activity for the rest of 2010, combined with the yet moderate indebtedness levels of the sector, would contribute to maintaining companies' financial and economic position, minimizing any tension in their payment capacity.

Productive sectors

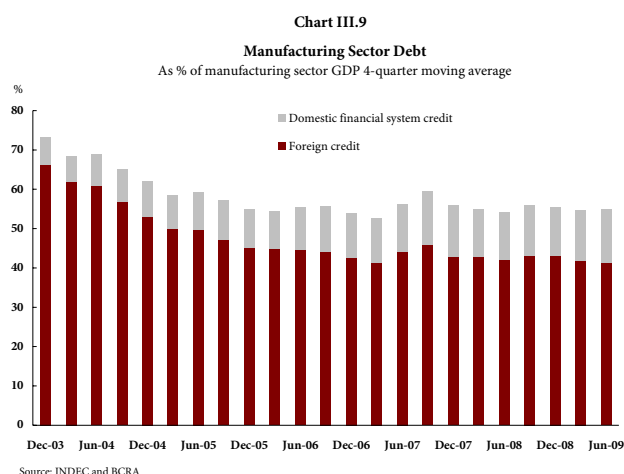
The manufacturing activity continues to recover contributing to improving companies' payment capacity

Manufacturing activity continued to grow at the beginning of 2010, deepening the recovery process that started at the end of 2009 (see Chart III.1). Sectors producing durable consumption goods that recorded the sharpest falls resulting from the international crisis are the ones that boosted the recovery and currently hold the manufacturing output.



The automotive industry has accumulated four consecutive quarters of increase and is reaching productive levels close to the record values registered prior to the crisis (see Chart III.8), driven by exports mainly to Brazil. The recovery of foreign demand favors chemicals, plastic, iron and steel sectors.

The use of installed capacity rose at an aggregate level but still remains at levels below those of previous years. In any case, there exists some heterogeneity among the different manufacturing sectors. In this regard, it is necessary, in some areas, to invest in plants and equipment so that the production of non-durable consumption goods can face the forecasted demand



increase without problems, which could potentially be translated into higher demand for banks financing.

The manufacturing sector debt level (domestic and foreign) has remained relatively stable (see Chart III.9) with less weighting of finance from abroad. This, combined with a better performance by the sector, would allow manufacturing companies to continue rebuilding their financial position and payment capacity.

The primary sector could start improving its financial situation considering the recovery of the activity and of international prices

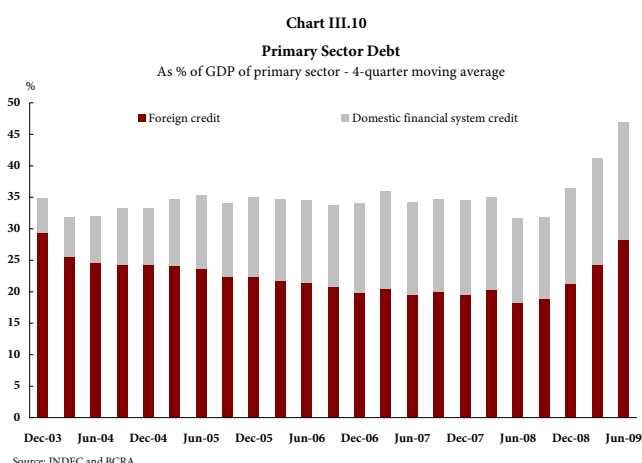
A sharp increase in farming production has been forecasted for 2010 taking into account the improvement of climate conditions and the maintenance of high prices of commodities in world markets. Forecasts about grain production from the 2009/10 campaign were revised upwards over the last months (see Table III.1). This growth would be boosted mainly by oil seeds and a new historical record has been anticipated for soy output. This scenario would allow rebuilding income and, consequently, the financial position of farming companies following the losses generated by the drought of the 2008/09 harvest season.

Table III.1
Grain and Oilseed Production

	2007-08 thousand tns	2008-09 thousand tns	2009-10 thousand tns (estimation)	% change of 2009-10 production vs 2008-09	Diff. in thousand of tns 2009-10 vs 2008-09
Cereals	44,739	26,699	34,371	28.7	7,672
Corn	22,017	13,080	20,200	54.4	7,120
Wheat	16,348	8,373	7,480	-10.7	-893
Sorghum	2,937	1,752	3,500	99.8	1,748
Other	3,438	3,494	3,191	-8.7	-303
Oilseeds	51,557	34,206	55,823	63.2	21,617
Soybean	46,238	31,000	53,000	71.0	22,000
Sunflower	4,630	2,440	2,211	-9.4	-229
Other	689	766	612	-20.1	-154
Cotton	494	389	626	61.0	237
Total	96,791	61,293	90,820	48.2	29,527

Source: BCRA from MAGyP and USDA data

The livestock activity would continue being affected over the course of this year, partly by the effects derived from the 2009 drought that led to an increase in the number of animals sent to slaughterhouses to avoid greater losses, and thereby resulting in a lesser productive capacity for the sector.



The indebtedness level of companies in the primary sector rose over the last year resulting from the decline in the activity and from the greater use of local and foreign funds amounting to approximately 47% of the GDP (slightly more than 60% through foreign resources; see Chart III.10). The recovery expected for the economic activity of the primary sector during the coming months, within a context of greater export volume and better international prices, could reduce pressures generated in its financial position and, thus, improve its payment capacity.

Based on a low indebtedness level, the upward trend recorded by the demand for utilities and services will allow companies in the sector to continue with their sound financial position

Consumption of public services and utilities has displayed an improvement over the last months after remaining stagnant during the first part of 2009 (see

Chart III.11
Synthetic Indicator of Public Services

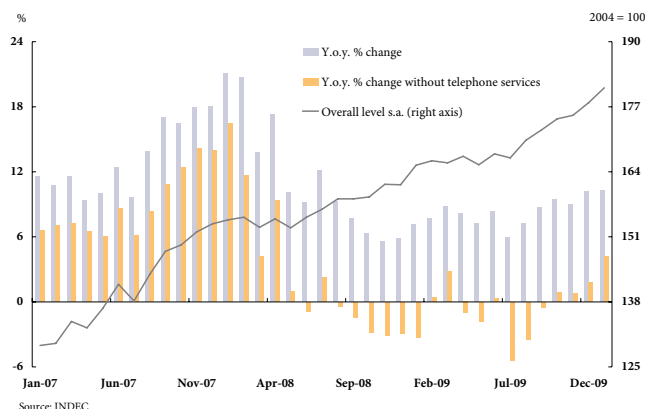


Chart III.12
Service Sector Debt
As % of GDP of the service sector - 4-quarter moving average

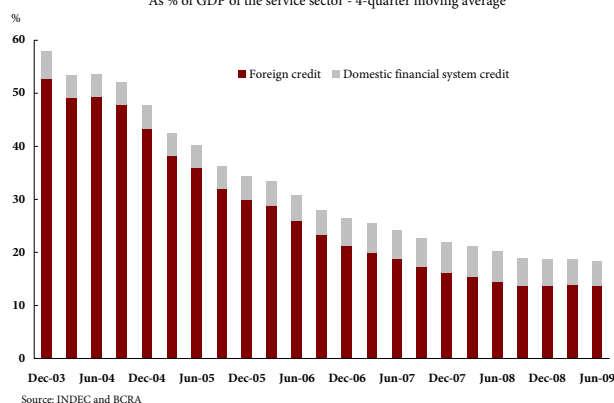


Chart III.13
Supermarket and Shopping Malls Centers*
Y.o.y. % change

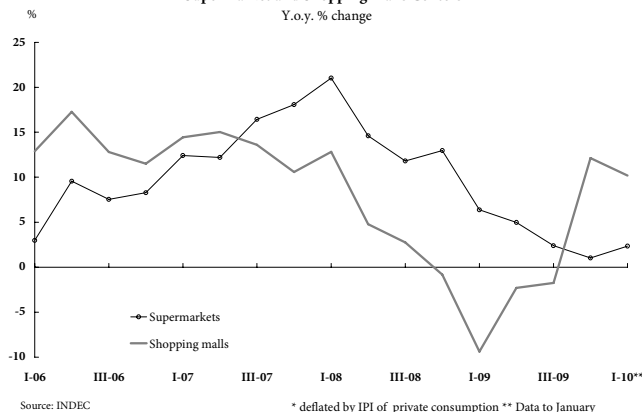


Chart III.11) being reflected in the sector's activity. Utilities and service companies continue exhibiting low indebtedness levels (slightly more than 18% of its GDP, with a considerable share of resources from abroad; see Chart III.12), and these are factors that, from a financial standpoint, would allow them to maintain a sound position.

Telephony has been the main driver of the sector's advance over recent months, resulting primarily from the sustained increase in the use of mobile services. The remaining public services have also recorded an upward trend favored by the rise of consumption and production of goods. The use of tolls and freight transportation improved accompanying the hike recorded by commerce, the manufacturing reactivation and the recovery of the farming sector. The demand for electricity, gas and water is exhibiting a moderate growth. The transport of passengers is also rising resulting from the recovery of employment and tourism (the latter would be recording a recovery over 2010 from both foreign and domestic factors).

Commerce continues recording a favorable trend thereby consolidating their financial situation

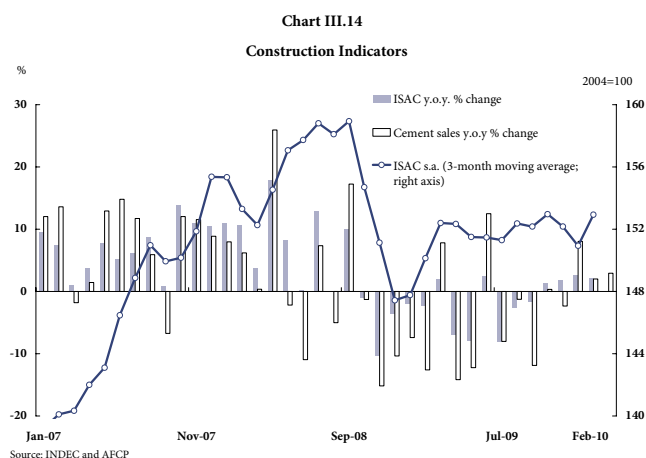
The evolution of retail trade accompanied the greater consumption level by households, exhibiting a different performance between essential and sumptuary goods (see Chart III.13). Supermarket sales have remained slowing down over the last months while sales at shopping malls are recovering favored, among other factors, by campaigns conducted by commercial firms together with financial entities.

Demand for durable consumption goods is increasing accompanying the fall of uncertainty and the recovery of consumers' confidence. This includes car and appliances sales, rebuilding the financial situation of distribution chains.

Commercial firms continue recording lower indebtedness levels in terms of their GDP (almost 17%); this situation, coupled with the moderate expansion evidenced by the sector activity, would allow continuing improving their financial situation and would contribute to their payment capacity.

The low indebtedness level would favor to sustain the financial position of construction companies despite the lower level of activity

The construction sector is, to some extent, outside the aggregate economic recovery, exhibiting a slight decline



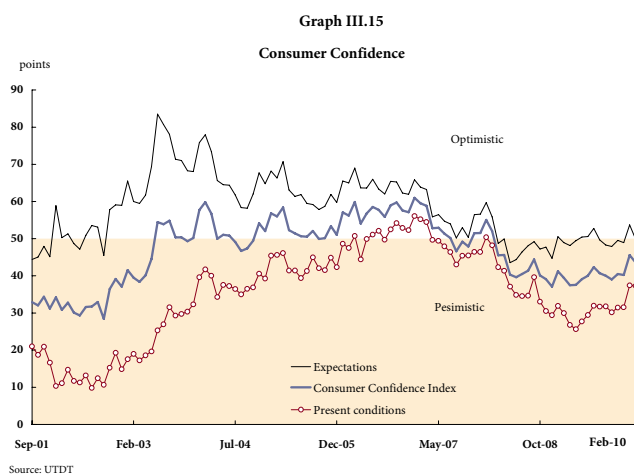
in its activity over the last months (see Chart III.14) even though it is recording some increase in year-on-year terms. The sector remains evidencing a low and decreasing indebtedness level (slightly more than 12% of its GDP) and this situation would contribute to sustaining its payment capacity.

Most works related to the private and public sector have showed an unfavorable performance recently. Infrastructure works was reduced marginally while road works fell during the second half of 2009. Housing works decreased while works with a commercial or industrial purpose were sustained by the higher activity level recorded in those sectors.

III.3 Households

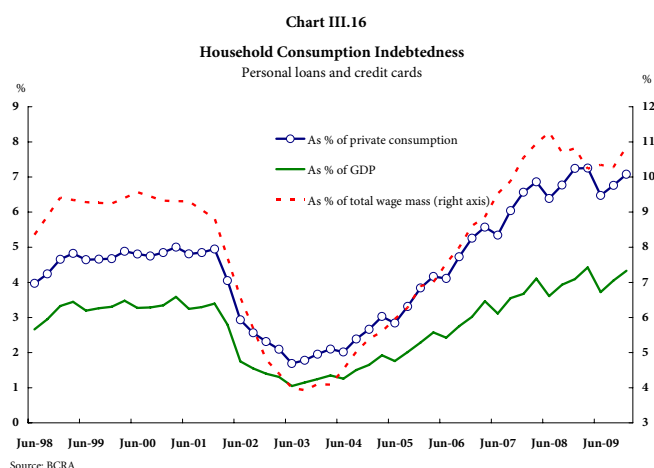
The improvement regarding employment expectations over the coming periods, in a context of stabilization of households' indebtedness, would contribute to sustaining the sector's payment capacity

The decline of uncertainty regarding the local impact derived from the international crisis and the increase of consumers' confidence (see Chart III.15) led households to reduce their precautionary savings and to reactivate their consumption in a context of greater demand for bank credit. Within the framework of a slight recovery of the demand for resources, the labor market is showing signs of an incipient improvement recording a reduction of layoffs and suspensions.



Households' possibilities to increase their consumption through government transfers rose. By late 2009, family allowances increased resulting from the creation of the program known as Universal Child Allowance for Social Protection and from the adjustment of pensions for retired people and pensioners within the framework of the Social Security Adjustment Law.

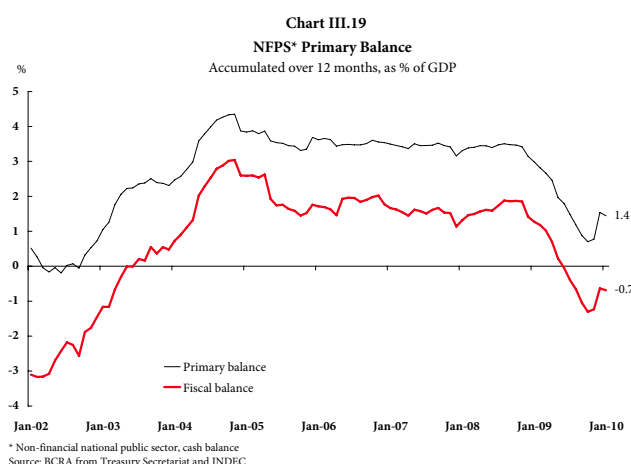
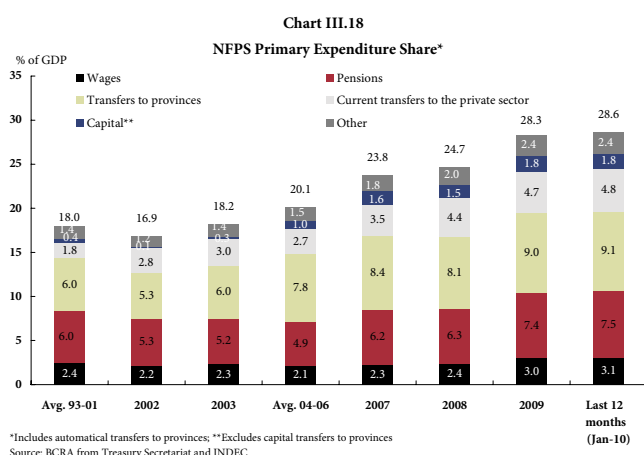
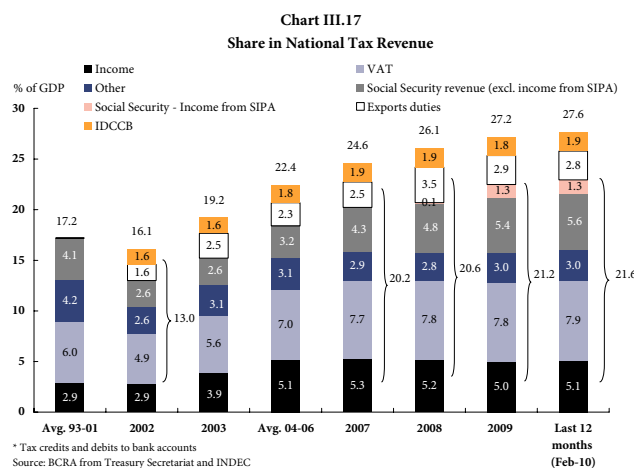
Households keep their relative indebtedness levels with the banking sector (see Chart III.2), in a context where consumption credit lines are gradually gaining momentum once again (see Chart III.16). Signs of a slow recovery of labor market and the consolidation of the economic activity would allow households to sustain their payment capacity, giving rise to an increase in their indebtedness levels in the coming periods, especially in lines that allow to enhance their investment in housing.



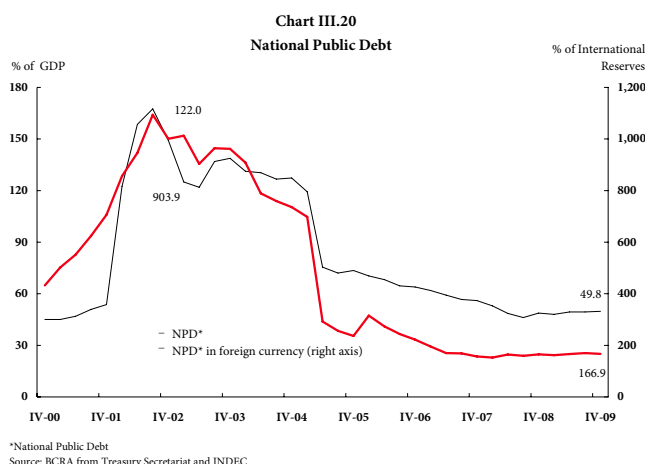
III.4 Public sector

Tax revenue accelerated its increase during the second half of 2009, meanwhile primary spending kept growing. Primary surplus during the year amounted to almost \$17.3 billion (1.5% of the GDP)

National tax revenue accelerated its increase during the last months of 2009, partly resulting from the low year-on-year comparison basis generated by the effect of the international crisis on public revenue²². Social Security and the Value Added Tax (VAT) were the items that contributed the most to the increase of tax revenue. In 2009, the nominal growth rate of tax resources was 13% y.o.y. (8% y.o.y. if incomes related to the creation of the Argentine Social Security System –SIPA– are discounted) reaching a new historical record in relation to the GDP of 27% (considering automatic transfers of resources to provinces – federal tax revenue sharing, special laws and others –; see Chart III.17).



²² For a more detailed analysis of the Public Sector's revenue and spending, see the Inflation Report Fourth quarter of 2009 and First quarter of 2010.



altogether, would account for expenditures of slightly over 1% of the GDP.

Progress has been made on the proposal of restructuring of the debt that did not participate in the 2005 swap

The National Government continued working to normalize the relationship with the international financial community by taking the necessary measures related to the restructuring of the debt that did not participate in the 2005 swap. Law N°26,547 interrupted the validity of sections 2, 3, and 4 of the so called “Lock-up Law” (N° 26,017). Decree 1,953/09 empowered the Ministry of Economy and Public Finance to take part in the process to issue sovereign bonds in international financial markets and their subsequent administration. Preliminary steps were taken over the last weeks to launch the offer (approval of Argentina’s prospectus by the SEC in the US).

A new CER-adjusted debt swap was carried out in September issuing, in exchange, BONAR and Promissory Notes in pesos 2014 and 2015 at rates that consider the Private Banks BADLAR. Taking advantage of the low interest rates in international markets, the government conducted a swap of floating interest rates for fixed interest rates with the World Bank and the IDB which involved approximately 40% of the debt stock with these institutions.

Like in the first half of the year, during the second half of 2009, the National Treasury met its borrowing requirements through intra-public sector funds: temporary advances from the BCRA, *Banco de la Nación Argentina* loans and surpluses from the remaining agencies of the NFPS, to which about US\$2.5 billion were added corresponding to the use of the allocation of SDRs from the IMF.

At the end of 2009, the National Public Debt (NPD) amounted to US\$147.1 billion with a 0.8% increase against 2008, mainly resulting from net financing transactions that were partially offset by valuation adjustments. The NPD accounted for almost 50% of the GDP, recording a similar ratio against December 2008 (see Chart III.20), and it is expected to keep this proportion along 2010.

IV. Financial Sector

Summary

The local financial system continued to strengthen its solvency levels, in a context in which there is still some volatility in local and international markets. The financial intermediation of banks with the private sector renewed its dynamism by year-end, although it exhibited a more moderate pace of expansion than in previous periods. Institutional investors revalued their portfolios, reflecting the effects of the price appreciation in recent months.

The increase in financing to the private sector was driven mainly by local capital private banks and public entities. This performance was verified together with a slight shortening of the average maturity in most credit lines. The annual growth of loans to construction, services and agriculture companies was noticeable. Moreover, in recent months the impulse of credits to the household segment was significant.

Private sector deposits grew at a nominal rate higher than the previous year, increasing its share in the total funding of financial entities. However, both the levels of credit to the private sector and the deposits of

corporations and households in terms of GDP are still low, posing a considerable growth potential for years to come.

The consolidated net worth of the financial system increased at a rate close to 21%, higher than that observed in recent years. The accrued benefits and the fresh capital contributions received explained the net worth expansion. Moreover, the financial system capital compliance ratio continued to increase gradually to reach 18.6% of the risk weighted assets, a situation that is widespread among banks.

The financial system continued to accrue accounting benefits for the fifth consecutive year. Book financial results of government securities accumulated in the period 2007-2009 would be similar to those that would be obtained when valuing the securities at market prices. However, this last alternative would have exhibit greater volatility.

Chart IV.1

Loans to the Private Sector by Type of Debtor
Share % in total - Financial system

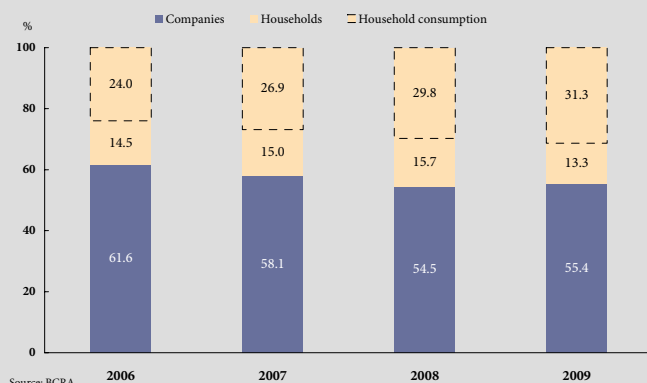
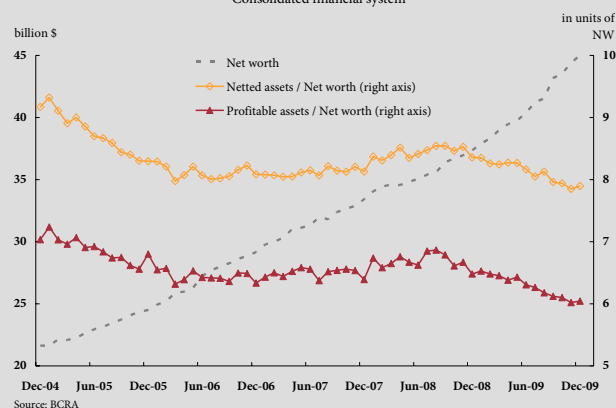


Chart IV.2

Leverage
Consolidated financial system



IV.1 Financial entities

Activity

In recent months the financial intermediation activity dynamics increased

During 2009, banks financial intermediation level with the private sector continued to increase gradually. Both financing and deposits of companies and families renewed their dynamism by the end of the year (see Chart IV.3). Netted asset of the financial system accumulated an expansion of a slightly more than 13% in the year, mainly boosted by public banks.

Financial entities maintained their precautionary liquidity levels, in a scenario where some volatility still persist at the local and international markets. Banks liquid assets maintained their share in netted assets during 2009, while Nobac and Lebac holdings increased (see Table IV.1) consolidating the liquidity position of the sector.

The increase in financing to the private sector reached 8.6% in 2009 (see Chart IV.4). Thus, financing to the corporate sector and to households represent about 12% of GDP, suggesting a significant potential for future expansion. Credits fundamentally used for households consumption, implemented through credit cards and personal loans, as well as overdrafts and loans with real collateral increased above all, thus gaining a larger share in the stock of total financing. The expansion of loans through credit cards was observed both in banks and in the credit card market issued by non-financial firms (see Box 3). Mortgage loans and pledge-backed loans, pre-financing for exports²³ and leasing fell in the year, mainly due to the relative weakness of the economy in the first half of the year. This performance of the credit lines is consistent with a shortening of the average maturity for the total loans to the private sector.

In recent months the growth of the private sector credit was mainly driven by the domestic private banks and public financial entities (see Chart IV.5). These groups of banks increased their share in the total balance of financing to the private sector, while foreign capital banks and NBFs reduced their weight.

In general, the borrowing nominal interest rates felt (see Chart IV.6). The most significant decline was registered in the commercial lines (overdrafts and promissory notes) and personal loans, while the credit cards showed

Chart IV.3

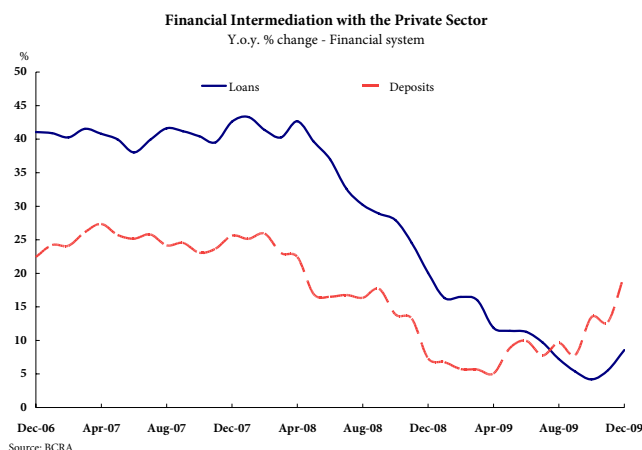


Table IV.1

Balance Sheet

Financial system - As % of netted assets

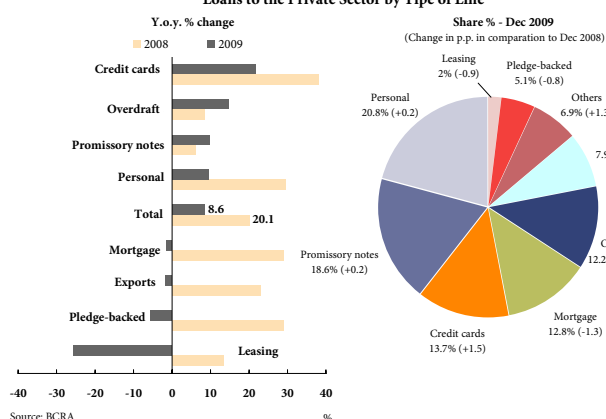
	Dec-08	Jun-09	Dec-09	Change in p.p.		Stock change	
				II H-09	2009	II H-09 (%a.)	2009 (%)
Assets	100	100	100				
Liquid assets	21	22	21	-0.9	0.9	6.7	17.9
Lebac and Nobac	8	8	10	1.7	1.6	72.4	35.5
Loans to the private sector	14	14	15	1.7	1.6	46.3	26.3
Loans to the public sector	42	41	40	-1.0	-1.7	10.0	8.6
Other assets	16	15	14	-1.7	-2.4	-8.4	-3.6
Liabilities + Net Worth	100	100	100				
Private sector deposits	21	20	19	-0.9	-1.9	5.6	2.9
Public sector deposits	52	53	55	1.9	3.0	23.6	19.7
Liabilities with the BCRA (1)	1	0	0	-0.2	-0.5	-92.8	-85.7
ON, OS & foreign credit lines	4	3	3	-0.5	-1.0	-14.9	-16.0
Other liabilities	13	13	13	0.1	0.4	16.5	16.8
Net worth	10	10	10	-0.4	-0.1	7.0	12.4

(1) Includes matching schedule and other liabilities with the BCRA

Source: BCRA

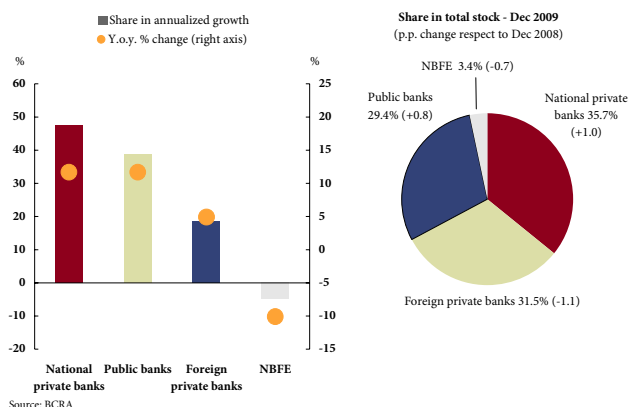
Chart IV.4

Loans to the Private Sector by Type of Line



²³ The fall of financing the export sector expressed in foreign currency reached 11% in 2009

Chart IV.5
Loans to the Private Sector by Group of Banks

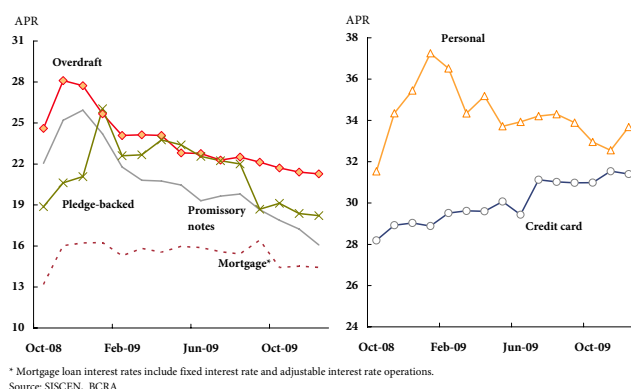


some year-on-year (y.o.y.) increase in their interest rates.

The growth of financing to the private sector was channeled mainly to companies

Financing to the corporate sector²⁴ overgrew the credit to households throughout 2009, gaining share in the total stock of financing (see Chart IV.1) after several years of losing relative share. Nevertheless, by the end of the year the performance of credit to households was again noticeable, driven by consumption financing (see Chart IV.7).

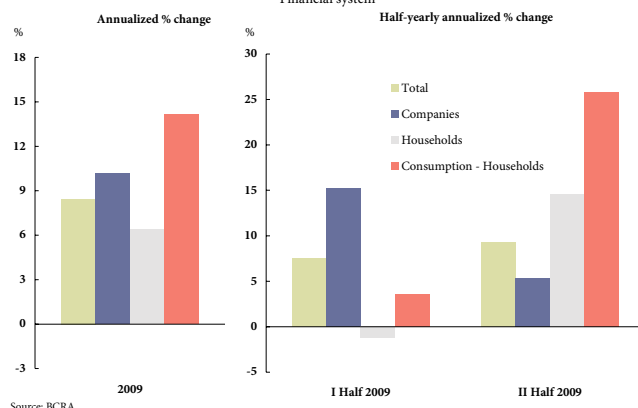
Chart IV.6
Lending Interest Rates in Pesos
Loans to the private sector - Financial system



Throughout the year, bank financing continued to grow in all productive sectors except in the commercial segment. Lending to the construction, services and the agricultural sector increased above average (see Chart IV.8), mainly through overdrafts and promissory notes. Overdrafts stood out as the credit line that explained the performance of the agricultural sector, promissory notes were more important in the case of services, while construction used both lines in similar shares.

Regarding the evolution of credit to corporations in segments, the relatively large segment (over \$5 million) registered a y.o.y. growth above the small financing segments (less than \$5 million).

Chart IV.7
Loans to the Private Sector
Financial system



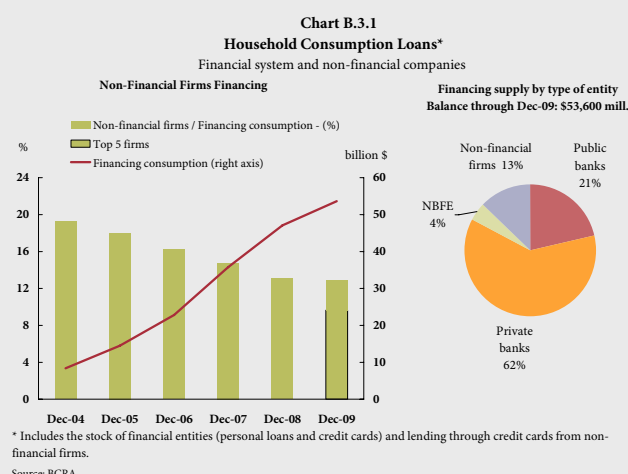
The BCRA continues to implement measures to promote the dynamics of credit. Both the bidding of interest rate swaps and the strengthening of the interest rate futures markets (in collaboration with the MAE) contributed to the creation of a reference for the temporal structure of the interest rates in pesos, to cover the medium and long term, stimulating the granting of fixed-rate loans with longer terms. In this line, simplifying the information requirements for submitting loan applications, evaluating the applicants risk profile when originating and monitoring loans also favor the credit development.

²⁴ Financing to companies are those granted to legal persons and commercial financing granted to individuals, the rest of the financing to individuals is considered within the concept of households.

Box 3 / Household Financing through Credit Cards issued outside the Financial System

A significant part of the financing used by households is generated through non-bank intermediaries. Thus, the credit originated from credit card companies issued by non-financial²⁵ companies represents about 13% of the financing for household²⁶ consumption. Currently there are more than 100 firms operating in this market, presenting a broad regional coverage. This type of resources for families has been increasing its dynamism in recent periods, consistent with the improvement in financial intermediation, reflecting declines in interest rates and delinquency levels. The increasing expected economic activity, together with the improvement in employment levels, provides the basis for a gradual deepening of the activity of these intermediaries

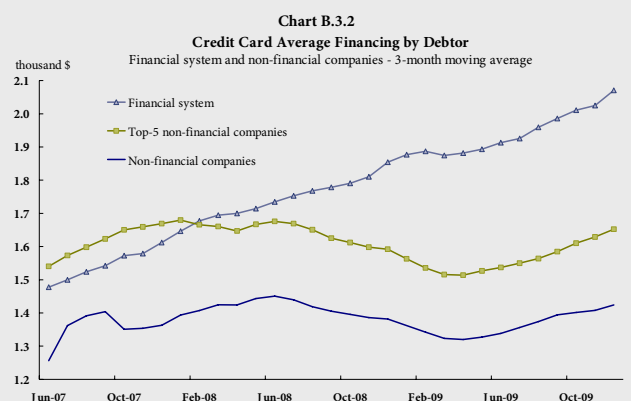
Despite going through a situation of an unprecedented international crisis, local financing for household consumption continued an upward trend in recent years. This performance is consistent with the gradual improvements in household income, together with higher wages and lower unemployment rates, in a context of moderate levels of indebtedness of the sector. Thus, households managed to maintain its financial position and they had gradually been increasing the use of credit resources.



²⁵ While these card companies are not part of the financial system, in some cases they belong to financial groups with banking presence. This set of non-financial companies is identified with the concept of "closed system"

²⁶ Defined as the sum of the stock of credit for consumption (personal loans and credit cards) of financial institutions and the stock derived from credit card issued by non-financial companies.

The role assumed by financial institutions in the granting of loans for household consumption was prominent in recent years, given their advantages in terms of availability of an extensive network of branches across the country and its ability to evaluate the potential debtors, among other factors. However, this role is not exclusive of banks; there are other intermediaries like the non-financial companies that issue credit cards, mutual societies, cooperatives, retail chains and even non-formal agents, which provide financing to households. These intermediaries usually have credit origination strategies designed to serve segments of the population that are relatively underserved by financial entities.



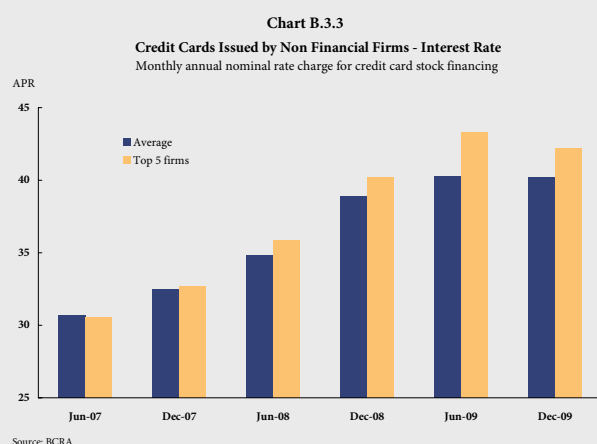
Household financing for consumption originated through credit cards issued by non-financial companies (i.e. not directly linked to banking activity) represents a significant part of the consumer market (see Chart B.3.1), even though it had been gradually losing share compared to the financial system in recent periods. There are currently over 100 firms that are active credit card issuers, most of which focus their business niche in regional areas. It is considered that this credit card market is mainly concentrated in five intermediaries²⁷ that represent 75% of the total stock of financing through this instrument (late 2009), firms that explain the major developments in the sector.

The market development of credit cards issued by non-financial companies in recent years was in part driven by the creation of financial trusts, taking advantage of the

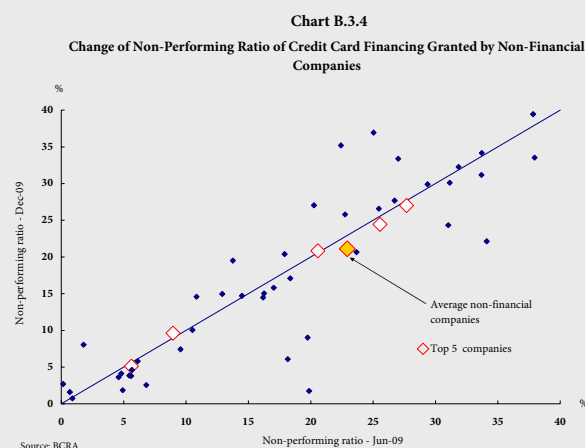
²⁷ Tarjeta Naranja, Tarjetas Cuyanas, American Express, Tarjeta Mas and Tarjeta Shopping.

benefits that capital markets offer in order to transfer risks and obtain liquidity. In particular, in 2009 the non-financial companies that provide credit cards issued trust funds with coupons as underlying assets for an equivalent to the 12% of the average stock recorded in 2009 of financing through this mechanism.

From mid-2009, the household consumption dynamism picked up in part due to the decline in uncertainty about the effects of the international volatility on employment and the local economic activity. In this context, financing for household consumption improved (see Page 56), particularly the granted by non-financial companies that perform financing of medium - small size mostly (about 80% of the financing have residual stocks lower than \$5,000).



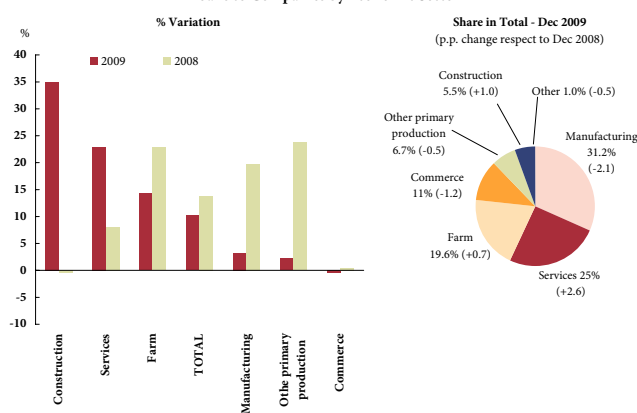
The number of debtors and the balance of financing through credit card also increased (see Chart B.3.2). However, the average balance per card still lies below the observed for the cards issued by the financial system. The economic and financial stability context let the maximum interest rates of financing through this kind of cards began to decline gradually in recent months (see Chart B.3.3). This decline was widespread among the suppliers of credit, although it was found more often in major corporate borrowers.



The gradual improvements of households payment capacity, in line with the stabilization of consumer confidence and the good prospects in terms of employment, coupled with the gradual progress in terms of credit risk management of those that grant credit for consumption, are partly reflected in the progress of the borrowers performance. The delinquency of financing through credit cards issued by nonfinancial companies was around 21% by the end of 2009, falling almost 2 p.p. in the second half of the year (see Chart B.3.4). The delinquency level of credit cards of non-financial companies is located above that of loans originated in the financial system, being in principle consistent with the characteristics of a segment with a relatively higher counterparty risk.

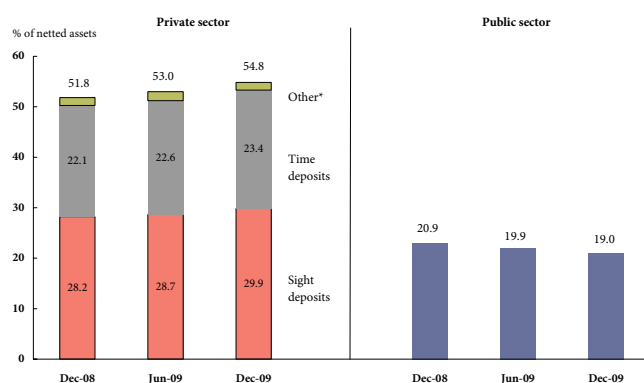
The positive economic growth prospects for the coming months would lead to gradual improvements in the labor market, thus creating a positive environment for the future development of credit lines of non-financial companies. These companies help to broaden the regional and socioeconomic activity of banks, complementing their action. Given the expansion and good prospects, it is important to monitor the aggregate debt levels of households for the proper monitoring of the systemic risk, so as to prevent excessive leverage situations that may cause some deterioration of their ability to pay.

Chart IV.8
Loans to Companies by Economic Sector



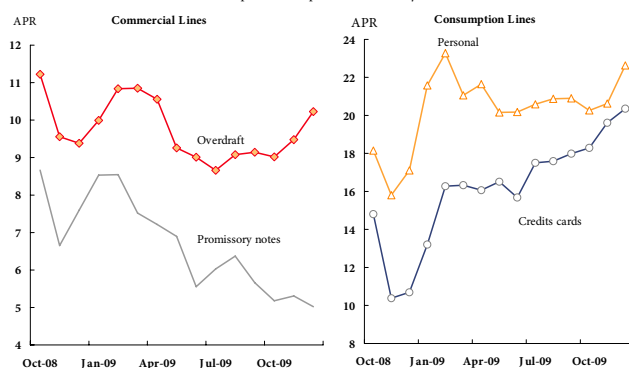
Source: BCRA

Chart IV.9
Deposits in the Financial System



*Note: includes dormant deposits, deposits in guarantee, outstanding orders, correspondent accounts, etc.
Source: BCRA

Chart IV.10
Spread of Lending Interest Rates - Credit to the Private Sector
Operations in pesos - Financial system



* Mortgage loan interest rate include fixed interest rate or adjustable interest rate operations.
Source: SISGEN and BCRA

Private sector lending growth occurs together with a slight increase in financing to the public sector (increased 1.6 p.p. of the netted assets in the year to 15%). This performance is mainly explained by the national banks, given the financing program of the National Treasury under the Act 26,422 (art.74).

Increasing private sector deposits boosts its share in total funding

Total deposits of the non-financial²⁸ sector increased by almost 15% in 2009, driven largely by those of the private sector that grew 19.7%, thus increasing their share in total funding (see Chart IV.9). The rise in deposits of companies and households helped total deposits reached almost 17% of GDP.

The increase in private sector deposits is being explained by deposits both in pesos and in foreign currency. Deposits in foreign currencies expanded 27%²⁹ in 2009, reaching nearly 20% of the total. Deposits in pesos rose 16% in the year, being driven by both sight and time deposits.

The evolution of private sector deposits occurred in a context of lower interest rates, in line with the reduction carried out by the BCRA of 150 b.p. in repo rates in the second half of 2009. In terms of spread, while commercial financing was reduced, credit to households exhibited some increase (see Chart IV.10).

By the end of 2009 rediscounts granted by the Central Bank during the 2001-2002 crises were fully canceled, after the last bank in the matching scheme paid all its obligations. Besides, the exposure of all financial institutions to foreign liabilities remains low and is decreasing, thus minimizing the possible negative effects in a context of continued volatility of capital flows.

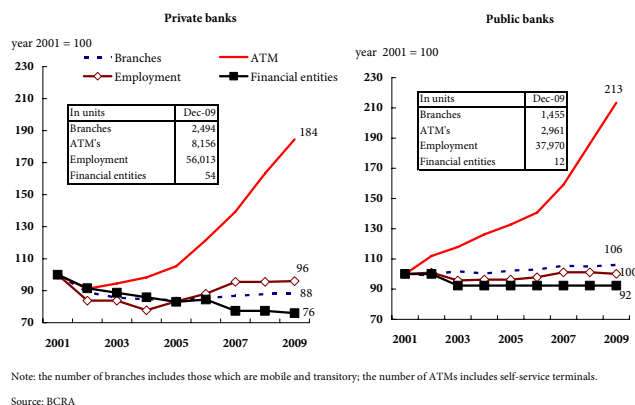
The geographical coverage of the financial system infrastructure continued to improve

The evolution of the infrastructure of the financial system continued accompanying the growth of the financial intermediation activity. In 2009 the number of ATMs increased 13.4%, duplicating 2001 levels. The number of branches increased slightly, driven both by public and private banks, while the payroll of workers in the financial system decreased slightly (see Chart IV.11).

²⁸ It includes public and private deposits, interest and CER adjustments.

²⁹ In domestic currency this variation reaches 40%. This difference originates in the effects of an increased nominal exchange rate.

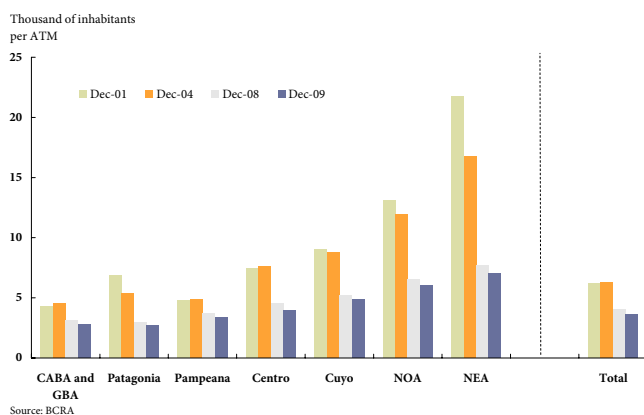
Chart IV.11
Financial System Structure by Type of Bank



The geographical coverage of the infrastructure of financial services continues to improve among the various jurisdictions of the country. In 2009, the ratio of inhabitants to ATMs fell in all regions of the country, being noticeable the progress in the NEA and NOA regions (see Chart IV.12). The gap between the region with most and least coverage was 2.6 times (5.1 before the crisis). The north jurisdictions continue to maintain lower coverage levels through branches, although they have improved in recent years.

After several years of improvements in operating efficiency of the financial system, given the recent developments of the resources used in the process of financial intermediation, in 2009 there were no significant changes in productivity indicators. Moreover, though from moderate levels, the degree of concentration of the financial system registered a slight increase in the last year. In particular, the Herfindahl Hirschman Index was approximately 672³⁰ (as measured by the sum of deposits and credits to the private sector), 2% higher than the closing value of 2008.

Chart IV.12
Financial System Regional Coverage

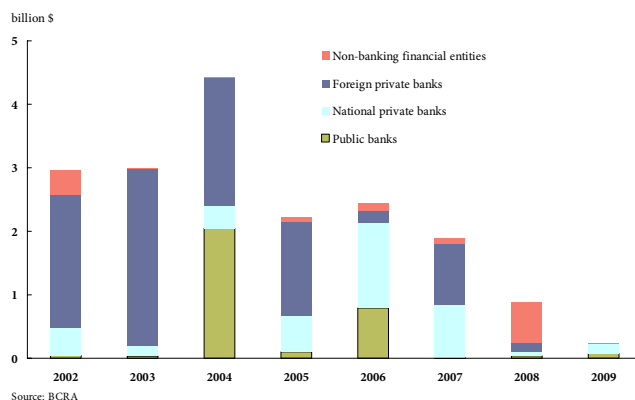


Capital position

The financial system maintains its solvency

The consolidated net worth grew at a rate of 21%, higher than that observed in recent years. This growth was explained by book profits and by the capital contributions. In 2009 the systemic capitalizations amounted to \$240 million, being mainly channeled to domestic private banks (see Chart IV.13). As a result of the higher relative growth of the equity of banks with respect to assets, in recent months the financial leverage declined (see Chart IV.2) reaching the lowest value since 2003.

Chart IV.13
Capitalization of the Financial System
By group of banks



The capital compliance of the financial system continued to rise steadily to 18.6% in terms of risk-weighted assets (APR). In 2009 this indicator rose 1.8 percentage points (p.p.), mainly by the performance of private sector banks (both domestic and foreign capital) (see Chart IV.14). The capital compliance of the financial system almost doubled the regulatory requirements at the end of 2009.

The increased book profits of the financial system were boosted by the financial margin

In a scenario of moderate growth in the volume of financial intermediation, banks exhibited nominal book

³⁰ Equivalent to a financial system with 15 banks of the same size.

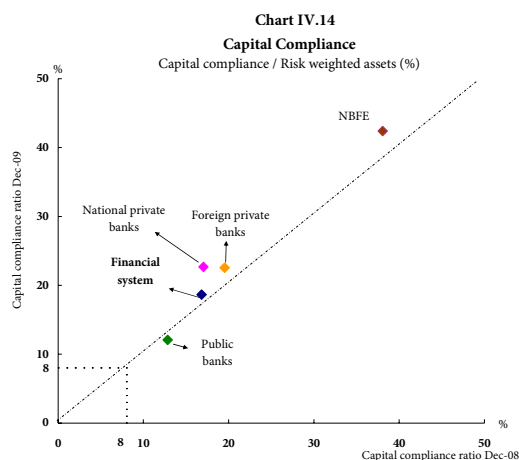
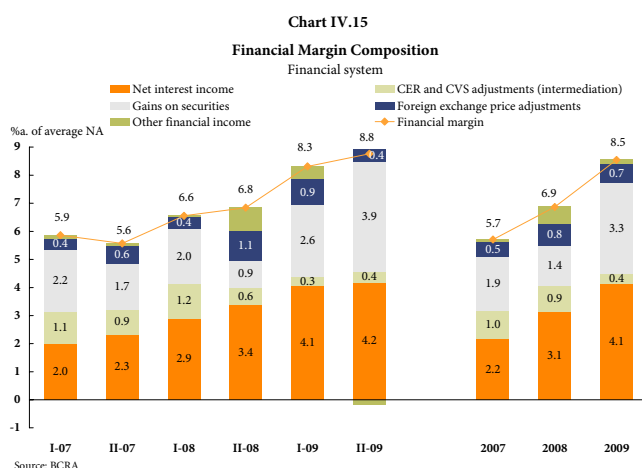


Table IV.2
Profitability Structure: Financial System
In annualized terms - As % of average netted assets

	93-00	2007	2008	2009	I-09	II-09
Financial margin	6.1	5.7	6.7	8.5	8.3	8.8
Net interest income	4.9	2.2	3.1	4.1	4.1	4.2
CER y CVS adjustments	0.0	1.0	0.9	0.4	0.3	0.4
Gains on securities	0.8	1.9	1.4	3.3	2.6	3.9
Foreign exchange price adjustments	0.0	0.5	0.8	0.7	0.9	0.4
Other financial income	0.3	0.1	0.4	0.1	0.5	-0.2
Service income margin	3.5	3.1	3.6	3.9	3.7	4.0
Operating costs	-6.7	-5.5	-6.1	-6.7	-6.6	-6.8
Loan loss provisions	-2.2	-0.7	-0.9	-1.1	-1.2	-1.0
Adjustments to the valuation of gov. securities (*)	-	-0.3	-0.6	-0.1	-0.1	0.0
Tax charges	-0.5	-0.6	-0.8	-1.0	-1.0	-1.0
Amortization payments for court-ordered releases	-	-0.7	-0.3	-0.1	-0.1	-0.2
Other	0.7	0.9	0.5	0.1	-0.1	0.3
Income tax	-0.3	-0.4	-0.4	-1.2	-1.0	-1.4
ROA	0.5	1.5	1.6	2.3	2.0	2.7
ROE	3.4	11.0	13.4	19.2	16.7	21.6
Adjusted ROA (**)	-	2.5	2.5	2.5	2.1	2.9

(*) 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



profits for the fifth consecutive year. Accumulated book profits reached 2.3% of assets in 2009, 0.7 p.p. over the previous year, in a framework in which results improvements from securities, interest and services outpaced rises in administrative costs and loan loss provision (see Table IV.2). The items related to the amortization payments for court-ordered releases and to the adjustments to the valuation of government securities, which represent the effects of the crisis of 2001-2002, almost disappeared. When netting the impact of these items in the last two years, the profitability of 2009 had been similar to 2008.

The financial margin of the banking system closed 2009 at 8.5%a. of netted assets (see Chart IV.15). This evolution reflected the increase in the performance in securities and in net interest income, partly compensated by the lower CER adjustments, and the decline of the foreign exchange price adjustments and other outcomes.

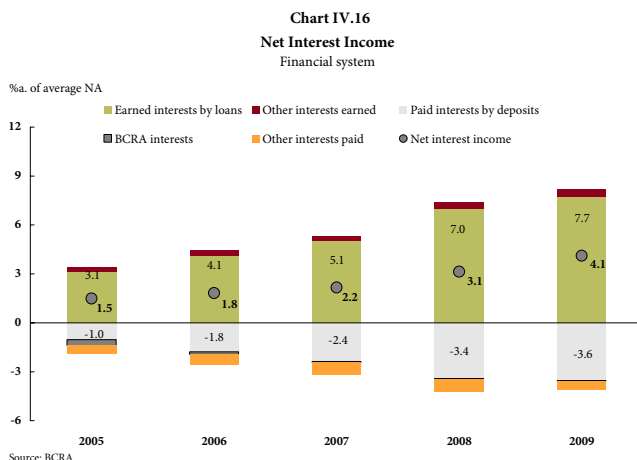
Results from securities were the item with higher relative increase in recent months, from the recovery of the fixed income market after the 2008 minimum. The current book results of securities, accumulated in the period 2007-2009, are similar to those if the portfolio had been valued at market prices. However, this last alternative would have presented greater volatility.

The expansion of the results on interests was mainly explained by the greater increase in earned income on loans to the private sector regarding the increased expenses associated to the deposits (see Chart IV.16). Net interest income emerged as the most important weighted factor in the banks financial margin. The adjustments accrued with CER declined significantly (see Table IV.2), reflecting the lower mismatch of adjustable accounting items given the securities swaps³¹. The differences in items related to the exchange rate recorded a slight decrease when compared to 2008. The results for services continued to rise. The expenditures originated in the granting of credits rose in recent months more than those from deposits.

Operating costs and charges on loan loss provisions grew moderately

Management spending continued to increase in 2009 reflecting mainly wage adjustments. The expansions of the more stable incomes continue to surpass the increase of expenses. The operational efficiency of the financial system, measured as the ratio of more stable revenues

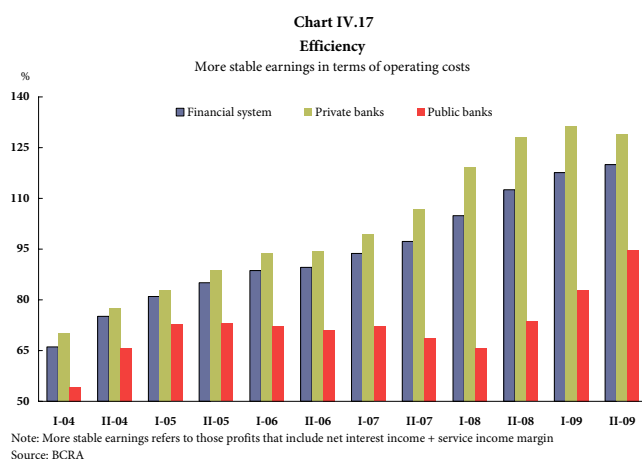
³¹ In the course of 2009 three public swaps of public securities CER-adjustable for new titles that adjust by private banks BADLAR rate.



and operating costs, continued to strengthen gradually (see Chart IV.17). The improvement in portfolio in recent months was reflected in a slowdown of loan loss provision which still closed the year with a slight increase over 2008 (see Chart IV.18).

Over 2010 financial institutions are expected to continue to strengthen its solvency

All financial institutions are expected to continue making book profits and consolidating its solvency indicators during 2010, in a context of growing intermediation with the private sector growth. The net interest income, main source of bank earnings, would continue to lead the sector, followed by the resources generated by services.



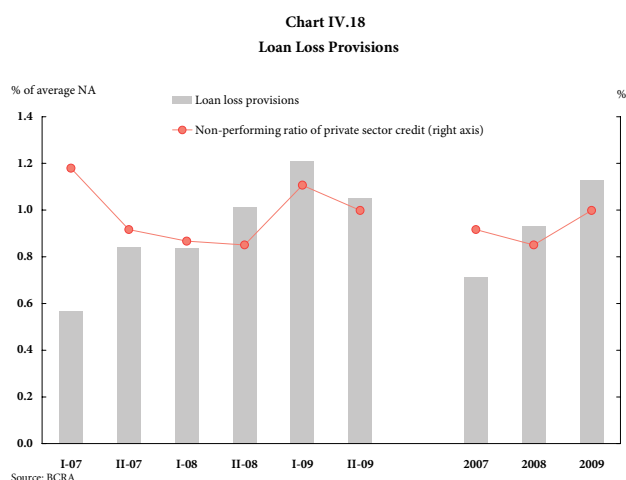
Operating costs are expected to grow slightly to the extent that the financial intermediation activity continues its dynamism.

IV.2 Institutional investors

Portfolio value increased in line with price recoveries

In 2009 a strong recovery of prices in the local market, in line with the region, increased the value of the investment portfolio of all institutional investors (II) (see Chart IV.19). The aggregate portfolio of the Guarantee and Sustainability Fund (FGS), insurance companies and Mutual Funds increased 35% from nearly \$146 billion (14% of GDP) by the end of 2008 to about \$197 billion (17% of GDP)³². While improvement in prices included market instruments from both the public and the private sector, nearly two thirds of the increase in the portfolio of the II was linked to holdings of government bonds (in line with its high weighting)³³. Despite the annual recomposition, the relative size of the portfolio of institutional investors is still below its own maximum (over 20% of GDP in 2006) and of the average of the major Latin American countries (almost 50% of GDP) (see Chart IV.20).

While the upward trend was widespread among the portfolios of different groups of investors, the aggregate increase is largely explained by the behavior of the main institutional investor at the local level, the FGS (portfolio



³² Shows the aggregate investment portfolio on a gross (unconsolidated) and excluding availability.

³³ Holdings of government securities account for nearly 80% of the aggregate portfolio of investments of the II. Growth in the value of these holdings includes both a price effect as well as quantity. The valuation of assets differs among different subgroups of II.

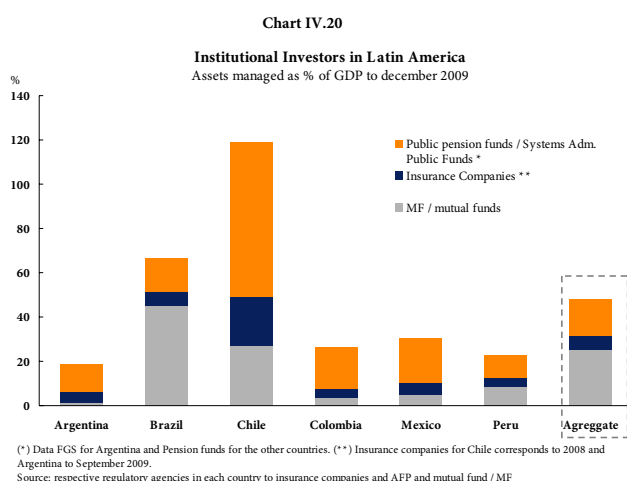
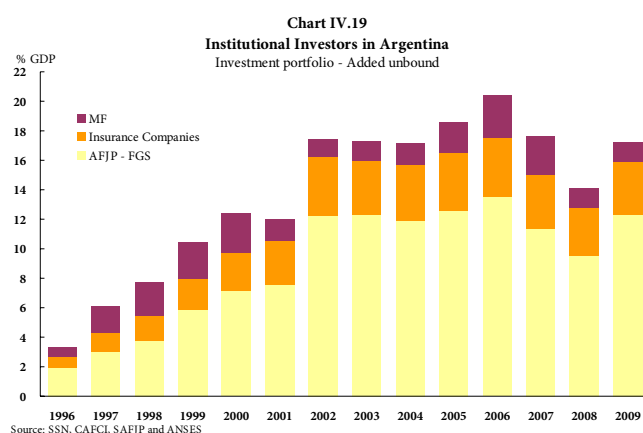


Table IV.3
Social Security Fund FGS ANSES Portfolio

Items	Dec-08		Dec-09		% change
	Amount (mill.\$)	Share %	Amount (mill.\$)	Share %	
Deposits in banks	3,519	0.04	4,075	2.9	16
National Government Securities	58,427	59.5	87,296	62.0	49
Other Government Securities	639	0.7	732	0.5	15
Corporate Bonds	1,611	1.6	2,309	1.6	43
Time deposits	10,215	10.4	9,574	6.8	-6
Equities	7,844	8.0	13,831	9.8	76
Mutual funds	3,173	3.2	1,833	1.3	-42
Foreign Securities (Include equities & bonds)	5,137	5.2	6,760	4.8	32
Structured products	3,660	3.7	3,805	2.7	4
Other financial trusts	1,561	1.6	549	0.4	-65
Investments and infrastructure	2,183	2.2	8,400	6.0	285
Other	255	0.3	1,688	1.2	562
Total	98,224	100.0	140,853	100.0	43

Source: BCRA from ANSES-FGS.

managed of \$140.85 billion at the end of 2009, see Table IV.3). A substantial portion of this variation was explained by the public sector assets in portfolio: the increase of financing to the Government and the revaluation of the government securities during 2009 led the weighing of public credit operations reach 62% at the end of the year³⁴ (2.5 p.p. more than in 2008). Additionally the strong dynamics recorded in the financing of productive and infrastructure projects are noticeable, the balance rose from \$2.2 billion at the end 2008 to \$8.4 billion at December 2009³⁵. Among other assets in the portfolio of FGS, it is noticeable the increase in the value of local equity holdings and to a lesser extent, foreign (in line with the stock indices revaluation, more pronounced at local level). Corporate bonds holdings rose in the year, although in the second half were more stable³⁶. In contrast, holdings of mutual funds, certain financial trusts and term deposits exhibited a decline.

Insurance companies' assets totaled \$56.1 billion in December 2009, with \$40.9 billion in investments. These investments increased 21% since late 2008, reflecting a widespread movement among the different types of companies (although the growth of general insurance companies and work risk -ART- is notable). The investments increase was led by government securities, other fixed income instruments with strong price improvements and some dynamics in the placements during the year, as the ON.

The portfolio of mutual funds closed 2009 with an increase of 15% (these favorable dynamic continues during the first months of 2010). Although money markets funds (including time deposits) still showed by the end of 2009 the greater weight of the total, the context of appreciation of fixed income instruments and equities, coupled with a search for greater profitability, led its balance to fall throughout the year (from almost 70% to a weighting of less than 50% of the total). The rest of the mutual funds subgroups rose across the board, showing also a clear lead of the component linked to government bonds. Fixed income funds grew over 160% in the year (80% in the second half) against a change of 43% in the case of equity income funds.

³⁴ Adding structured finance trusts exposure to the public sector is 64.7% (with growth of 1.5 p.p. year-on-year).

³⁵ The stock of these loans is made up of incentives to the auto industry and twelve productive or infrastructure projects. The three main projects in order of magnitude are: NASA I, Central Atucha II, SISVIAL II and EPEC Loans.

³⁶ In the first months of operation, the FGS had participated actively in primary placements of corporate bonds. This dynamism has weakened in recent months of 2009.

Box 4 / Performance of the Financial Trust Market in Argentina

Financial Trusts (FT) have been an instrument widely used locally in recent years to obtain liquid funds. Through asset securitization, companies that have high capacity of credit origination but low opportunities to increase their indebtedness, may get new funds that allow them to continue to expand its business. Moreover, the FT is a market instrument that contributes to the diversification of risks of the financial institutions. The performance of the FT placement was affected in recent times by a more adverse international scenario and by changes in the local market. The positive economic development estimated for the remainder of 2010 will help rebuild the market gradually

The local market of FF began to show great momentum since 2005, being favored by the consumption boom associated with the economic activity recovery, employment and the household income. Indeed, the amount of securitized assets in 2005 exceeded \$5 billion, tripling the previous year's level, and exhibiting an increase of 46% over 2006. The change in context that occurred after the outbreak of the international financial crisis, coupled with other factors more directly linked to the activity of the FF resulted in a slowdown in growth rates of around 13% in 2007 and 2008, displaying a slight fall in 2009.

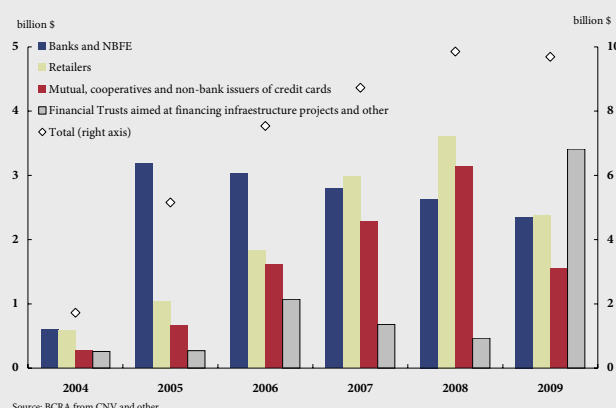
The moderation in the expansion rate of the securitized assets exhibited in recent periods can be attributed both to the depth of the international financial crisis and its inevitable impact on the domestic economy, as to market-related factors. Regarding this, in early 2009 an appliance company with very active participation in the FT market was involved in a meeting of creditors. This led in a certain extent to a greater risk perception by the economic agents and brought about a readjustment of rules of the National Securities Commission (CNV) that was intended to establish greater controls on agents involved in the structuring and management of financial trusts.

Also, in late 2008 there was a change in the income tax treatment of the FT³⁷ that affected the new placements. The BCRA expanded the opportunities for investment of banks in FF, especially those related to the implementation of infrastructural works associated with the provision of public services. On the other hand, the

social security system reform in November 2008 generated a change in the profile of a major institutional investor of the market. The transfer of the portfolio of the AFJPs to the FGS administered by the ANSES, meant less demand for products intended for the financing of consumption and most of those channeled to the financing of productive projects and infrastructure.

The changes evidenced in the FT market in recent periods were reflected in the composition of the trustor and the assets held in trust. Regarding the underlying assets, related primarily to consumption (personal loans and credit card vouchers) that had been growing at high rates and represented over 90% of securitized assets in 2008, during 2009 they registered a decline until totaling about 53% of new securitizations. Moreover, last year started to gain importance other types of assets like future cash flows, mostly linked to infrastructure trusts, and mortgage loans, which were absent in 2008.

Chart B.4.1
Financial Trusts Issues

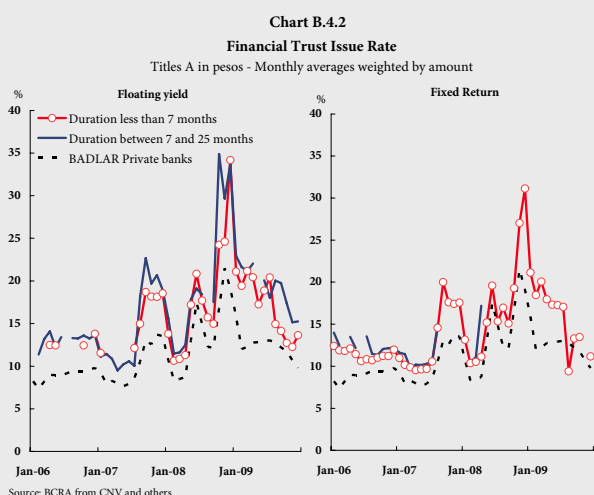


As regards trustors, sectors that were gaining share such as retail and mutuals, cooperatives, non-bank issuers of credit cards, in the last year showed reductions in the amounts of securitized assets (34% and 51% less than in 2008 in either group). In addition, financial institutions are showing a gradual slowdown in the securitized amounts (about 11% less in 2009 compared to the previous year), while infrastructure trusts (mostly in the public sector) underpinned the FT market during 2009 (see Chart B.4.1).

In line with the increase in the securitization of assets linked to the financing of infrastructure and productive projects, recently there was an increase in the duration of the senior securities. In particular, in June and August

³⁷ Decree 1207/2008 which removed the exemption to the payment of Income Tax

2009, the duration (weighted average amount) exceeded the maximum of December 2006 (which had been 50 months), increasing to 60 and 53 months respectively. In December 2009 the duration was 17 months, 11.5 months compared to December of the previous year.

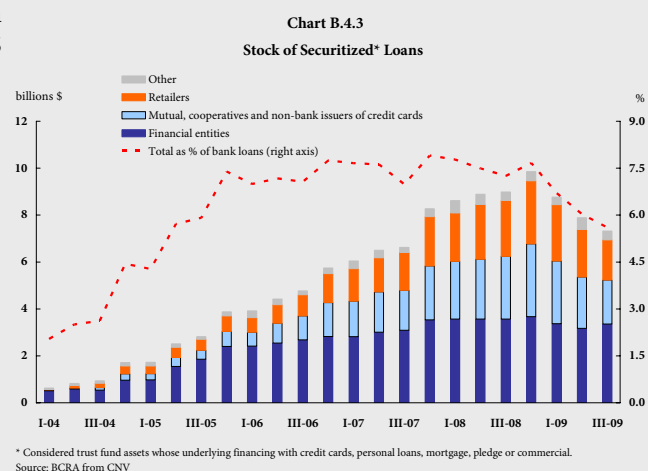


In line with the evolution of interest rates of the financial market, after a period of relative stability, in September 2007 and December 2008 the cut-off interest rates on senior securities recorded peaks due to the impact of the international financial crisis. The interest rate of securities with fixed and floating performance (with a duration inferior to 7 months) reached values of 34.2% and 31.1% respectively. Subsequently, as financial markets returned to normal the auction rates of senior securities were showing a downward trend. Indeed, the auction rate (weighted average amount) of shorter securities with floating interest rates in December of 2009 was at 13.6%, 20.5 p.p. below that recorded in the same period of last year. The auction rate for those securities issued with fixed reached 11.2% in December 2009, having recorded an average of 31.1% a year ago (see Chart B.4.2).

With respect to the financial trusts designed to finance infrastructure, the placements that took place in June and November 2009 for Series I and II of the Trust established by Decree 976/01 were carried out at relatively higher rates (with a margin over the Private Banks BADLAR rate of 4% and 5.5% in both cases), mainly as a result of a greater duration (about 40 months and 67 months respectively).

The stock of financial trusts with underlying private sector loans reached \$7.3 billion in September 2009, of which 46% corresponded to securitizations originated by financial institutions. The level reached by this type of FT represented about 6% of loans of financial entities, a percentage that, after remaining relatively stable during

2006 and 2007, has been gradually decreasing since late 2008 (see Chart B.4.3)



The context of economic recovery expected in 2010, with higher levels of employment and household income, will boost again the dynamics of financial trusts. This would allow non-financial firms and banks have a source of additional resources to continue driving their business, while constituting a tool for risk diversification.

V. Financial System Risks

Summary

Improved macroeconomic conditions, despite the persistence of uncertainty factors on the international scenario, have helped to establish a more favorable operating framework for the financial system. When analyzing risk exposures and the volatility confronted, the sector's risk map shows some signs of progress.

The financial system records a sound position in the face of liquidity risk as a result of its high coverage by means of liquid assets and the consolidation of private sector deposits as the main source of funding, all within the framework of the Central Bank full exercise of its role as the lender of last resort. Limited interest rate volatility, given lower exchange rate variability, should provide a suitable context for the management of this risk by banks.

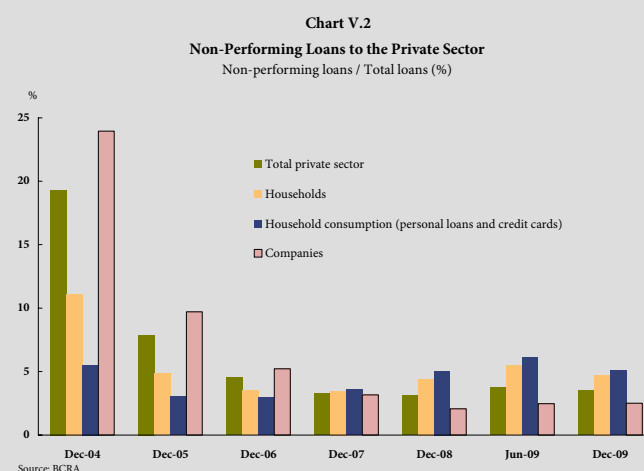
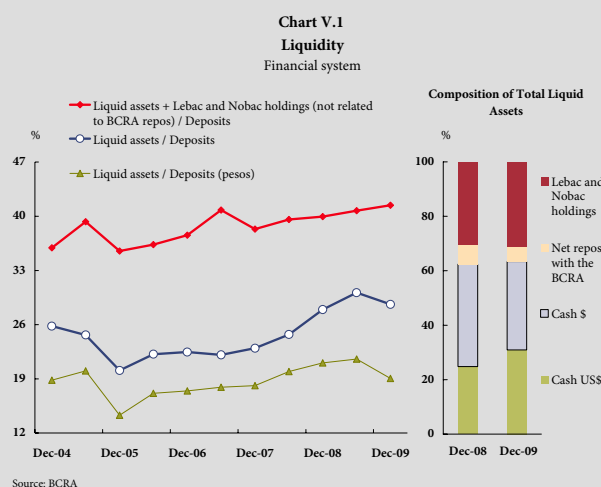
Financial institutions have recorded an improvement in the credit risk assumed from the private sector. The proportion of non-performing loans has declined in recent months, mainly following the behavior of consumer credit lines. This trend is expected to be strengthened in coming months as a result of the lower burden anticipated for household debt servicing. In turn, as the economic recovery gains strength, company repayment capacity is becoming increasingly robust. Banks maintain coverage by provisions of their non-performing loans at a relatively high level.

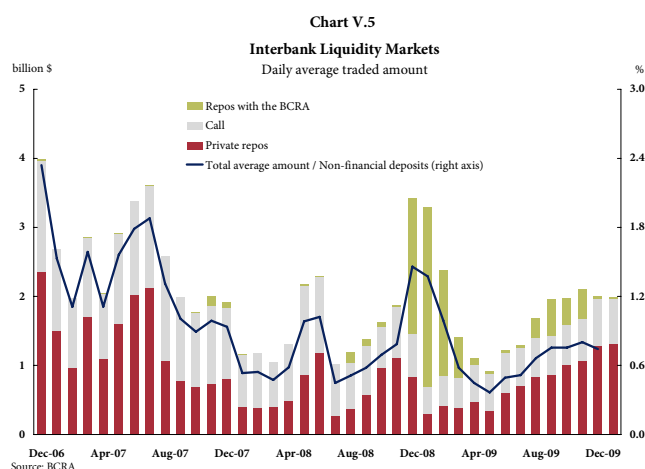
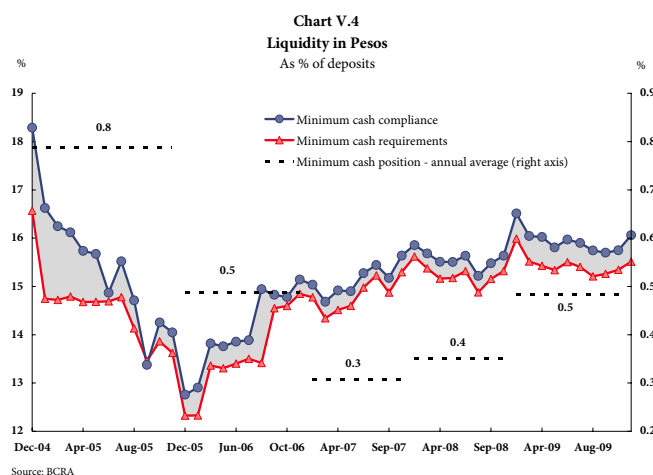
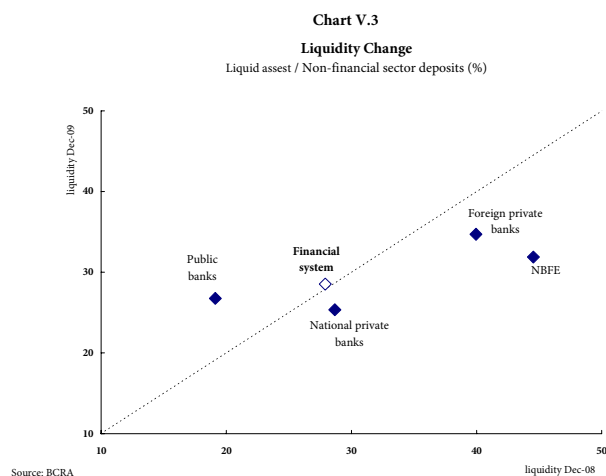
The holding of foreign currency balance sheet mismatching at a low level, and the current reduced exchange rate volatility are further factors that improve the position of the financial system in the face of currency risk.

Shrinking mismatching of CER-adjusted items, derived mainly from Government swaps of PGN and Bocon bonds carried out during 2009, has reduced the exposure of the financial system to real interest rate risk. In addition, the gradual reduction in interest rate volatility helps hold down the risk of fluctuations with any significant impact on the sector solvency.

Within the framework of government bond prices recovery, there has been a slight increase in the exposure of the financial sector to market risk. Given the lower volatility expected for Government securities during the rest of the year, in line with the progress that is expected to be made in the holdout debt restructuring process, it is estimated that the financial system will keep its exposure to market risk at a reduced level.

As a result, the financial system shows a risk balance that has improved compared with the situation last year, presenting a favorable outlook for coming periods, with sound indicators in terms of liquidity and solvency.





V.1 Liquidity risk

The financial system records a accurate position in relation to liquidity risk

Over the course of 2009 domestic financial entities maintained the level of their liquid assets within the context of reduced interest rate variability. As a result, banks can count on a basis from which efficient liquidity risk management can be performed, at the same time as support is provided for a gradual recovery in private sector lending growth. Private sector deposits continue to gain strength as the main source of financial entity funding (see Page 42).

Financial system liquid assets (items in national and foreign currency, including cash, current accounts at the Central Bank and net repos with this Institution using Lebac and Nobac) stood at 28.6% of deposits at the end of 2009, remaining at levels similar to those of the previous year. While public banks increased their liquidity reserves, private banks reduced them slightly (see Chart V.3). Financial entity liquidity in pesos stood at 19.1% of deposits in 2009, a modest reduction over the course of the year. When taking into account Lebac and Nobac holdings not linked to repo operations, total financial system liquidity reached 41.4% of deposits (see Chart V.1).

The holding of high levels of precautionary liquidity is a feature of most emerging economies (see Chart I.14). Locally, following the increase in liquid assets observed in a highly volatile international context, the gradual market normalization recorded as from the second half of 2009 helped financial entities to start developing their lending to the private sector, at the same time as they increased their holdings of other yield-bearing assets with a low relative risk.

Financial entity liquidity continues above the Central Bank requirements. While excess compliance in domestic currency remained relatively stable (see Chart V.4), excess compliance on foreign currency items increased as a result of the higher growth rate over the year recorded by deposits and the moderate decline in loans.

Box 5 / Progress by Basel Committee on Re-shaping International Recommendations on Financial Regulation

In recent months progress has continued to be made by the Basel Committee on Banking Supervision in relation to the agenda of proposals put forward by the G-20 countries intended to redesign the international regulatory framework for financial intermediation, with the aim of contributing to mitigate banking risks that could have an adverse impact on the real sector of the economy. Concrete proposals have begun to be designed to strengthen financial entity solvency and liquidity, and these measures are currently at a consultation stage and will be introduced in coming years, once the consolidation of the global economy has been completed

As a result of the global crisis, a large number of banks in developed economies began to experience difficulty in preserving adequate liquidity levels, giving rise to the need for unprecedented levels of assistance from central banks to prevent the collapse of their financial systems. This scenario had been preceded by a period of ample global liquidity, during which there were signs of some relaxation in the assessment and management of liquidity risk by institutions. This latest crisis, like other lesser ones that preceded it, brought to light the speed with which this risk was able to materialize, and the way sources of funding could suddenly disappear.

Taking its cue from these lessons, in December 2009 the Basel Committee on Banking Supervision (BCBS) released a consultation document³⁸ that includes new proposals to achieve improved monitoring and quantification of financial institution liquidity risk at international level, having at its heart two complementary standards. The first of these, the so-called Liquidity Coverage Ratio (LCR), seeks to promote greater strength for financial institutions in the short term, contributing to ensure that they should have sufficient high-quality liquid resources (those that can quickly and easily be transformed into cash without the need to take major losses) in order to confront a serious stress situation lasting approximately one month. The mentioned liquid assets should cover all net outflows of resources predicted to take place during this period, including deposit losses (according to their specific

characteristics: retail, wholesale, hedged, etc.), reductions in wholesale funding, requirements for increased collateral in the case of derivative transactions, and others. At the same time a liquidity standard is being promoted that offers greater strength in stress situations, with long time horizons, named Net Stable Funding Ratio (NSFR), intended to create additional incentives for banks to carry out structural funding with less volatile resources. The availability of stable sources of funding used by the institution will be quantified (resources at more than one year that could be called upon in stress situations) in relation to the liquidity profile of its assets, contemplating off-balance-sheet exposures. Stable funding requirements would be calculated by means of the introduction of weighting factors for each type of asset, with lower coefficients for those that are more liquid, and can therefore be used to obtain a greater proportion of cash when sold in the event of a stress episode. Both liquidity standards will have the objective to strengthen the efforts of supervisors to promote structural change in bank liquidity profiles.

Furthermore, at the end of 2009 the Committee issued another document for consultation³⁹ that contained most of the proposals for improving capital regulations globally, encouraging the construction of more resilient financial systems, improving their powers to absorb shocks from stress episodes and at the same time minimizing risks of overflows from the financial sector into the real economy. It should be taken into account that among the main factors responsible for the severity of the global crisis were the high financial system leverage levels and the adverse effects generated by the deleveraging processes, as well as the erosion of levels and quality of the banking capital base. The initial effects of the crisis were magnified as a result of the high degree of interconnectivity among institutions, being quickly transmitted to the remaining financial agents and to the real economy. In this scenario, the proposals are a series of reforms to regulatory standards in order to strengthen regulation at individual bank level (microprudential), thus improving their strength to face stress periods, although the reforms should also have a macroprudential emphasis to confront systemic risks.

Proposals submitted for consultation have included an increase in the quality, consistency and transparency of bank capital structures. Specifically, until now banks have been able to maintain relatively low base capital levels (common equity defined as ordinary stock and retained

³⁸ International framework for liquidity risk measurement, standards and monitoring, 12/ 09

³⁹ Strengthening the Resilience of the Banking Sector, 12/09

earnings) in terms of risk-weighted assets, before the application of regulatory adjustments. However, the crisis made it clear that losses could mostly be met out of such resources as long as the institution remains operational. Consequently, it is proposed to strengthen the capital segment best able to absorb losses, Tier 1 capital, and in particular its component with the best quality, common equity, promoting its composition predominantly by ordinary stock and retained earnings. In addition, the need has been raised for increased consistency in the definition of capital among different countries, and an improvement in its transparency.

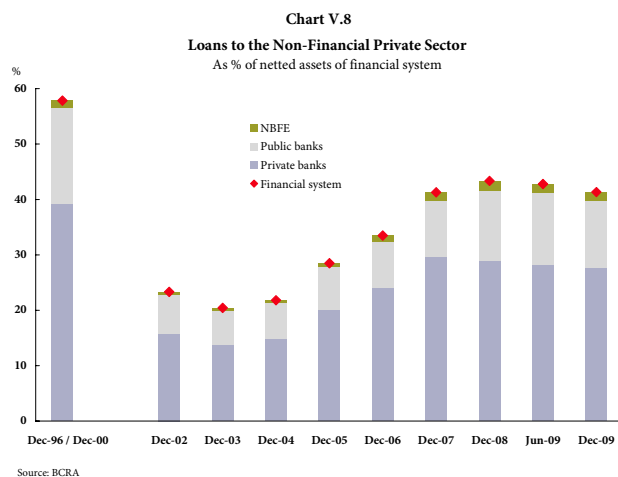
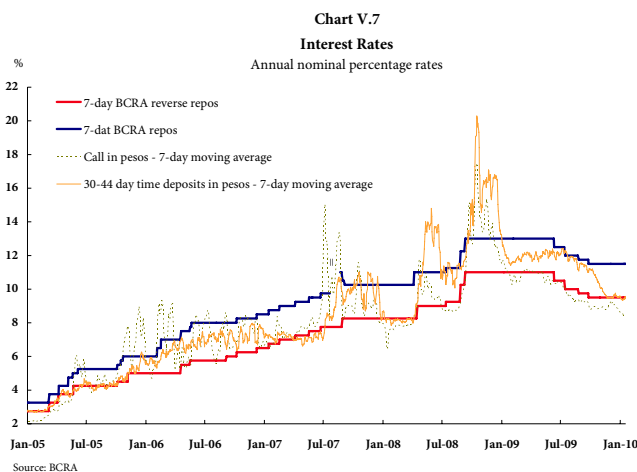
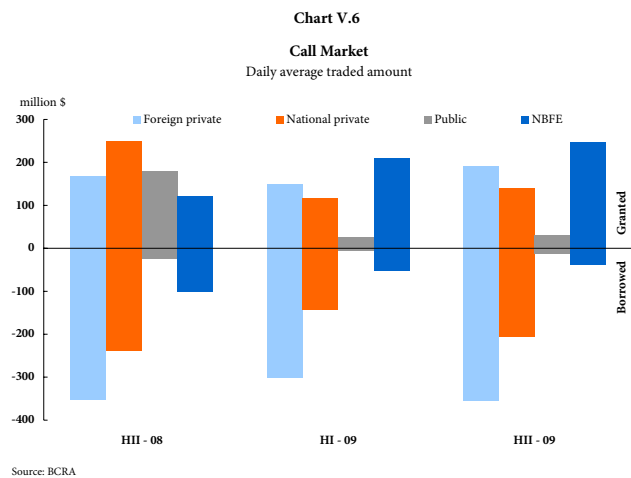
The creation of a regulatory framework with greater risk coverage is another point that the reform proposes to deal with, including the reinforcing of capital requirements in relation to counterparty credit risk arising out of derivative contracts. These proposals will improve individual bank resilience at the same time as lowering the risk that any future shock could be transmitted by operations in derivatives. Furthermore, increased capital requirements are proposed in order to encourage the migration of OTC (over the counter) operations to organized exchanges with a central counterparty. It is also proposed that measures be taken to reduce dependence on external ratings, encouraging banks to perform their own internal risk evaluation. An analysis of the possibility of setting a limit leverage ratio on an internationally harmonized basis is also being made, as a supplementary measure for the risk-based framework. This would be calculated using a definition for high quality capital and would consider all assets (included liquid assets) as well as bank off-balance-sheet items.

With the aim of reducing the procyclical nature of financial systems, so that they reduce instead of amplify shocks, it is proposed to introduce a series of measures to promote the build-up of capital buffers in good economic times. These buffers would be created using a portion of the profits obtained during periods of positive results, with limitations on dividend distributions and bank manager bonuses when results are below stipulated levels. Buffers should enable banks to maintain capital at above minimum levels, even during times of economic deterioration. Also being analyzed is the introduction of provisioning based on expected losses which makes it possible to capture actual losses more transparently over the life of the credit portfolio.

As some of the crisis episodes were preceded by banking credit growth that could have caused

weaknesses in the sector, the BCBS is also studying the identification of a series of macroeconomic variables that would provide a warning in the event of excessive credit growth. In addition, the BCBS is studying and drawing up standards to help supervisors measure the systemic importance of banks, as well as their impact on financial stability and the real economy. Policy options will be reviewed to reduce the probability and the impact of the collapse of systemic banks, with evaluation of the advantages and disadvantages of alternatives such as the incorporation of supplementary capital requirements.

At present the impact of the proposed measures is being assessed, so then can proceed to their calibration. On the basis of the findings, recommendations on capital will be adjusted, so that they can begin to be introduced as financial and economic conditions improve (aiming for implementation in 2012). In parallel with these improvements, in developed economies such as that of the US new proposals for a banking business regulatory framework are under discussion, with measures being proposed to strengthen the work of supervisors (those of the Fed in particular) to protect financial service consumers, eliminate incentives leading to banks becoming “too big to fail”, create improved mechanisms for bank liquidation and establish more restrictive capital and leverage requirements for such institutions. Work is also taking place on the setting up of an entity for the early identification of financial problems and the strengthening of transparency for complex instruments, as well as establishing measures to prevent fraud. Achieving a global regulatory system that will strengthen financial stability will be linked to the degree of complementation and coordination that will be reached among all the proposals currently under analysis.



Gradual recovery of interbank liquidity markets

Trading volumes on the call market and for repos between banks have been recovering on a gradual and sustained basis (see Chart V.5). Non-bank financial entities have gained participation in the market as net sellers, while foreign banks have maintained their position as net funds-takers (see Chart V.6). Leading interest rates followed the downward trend in the repo market in which the Central Bank operates. In particular, in the second half of the year this Institution established a reduction of 1.5 p.p. in the interest rates on repos and reverse repos (see Chart V.7). Lower volatility led to discontinuation of the transaction terms of 14, 21 and 28 days that had been introduced to face the international crisis peak. In addition, the interest rate futures market was boosted by the participation of the Central Bank through its “*función giro*” which was also adopted for interest rate swap operations (see Box 2).

Within a context of limited exchange and interest rate volatility, it is expected that the financial system will maintain its coverage of liquidity risk

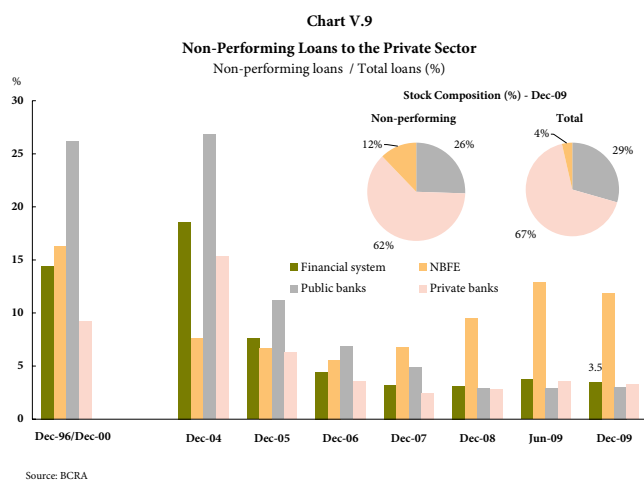
The improved economic and financial situation expected for the coming months of 2010 will be reflected in total deposit and interbank markets. Private sector deposits are likely to continue to gain strength as the main source of funding for banks, contributing to the adequate management of liquidity risk by the financial system in a context in which the Central Bank is fully able to exercise its role as a lender of last resort.

V.2 Credit risk

V.2.1 Private sector

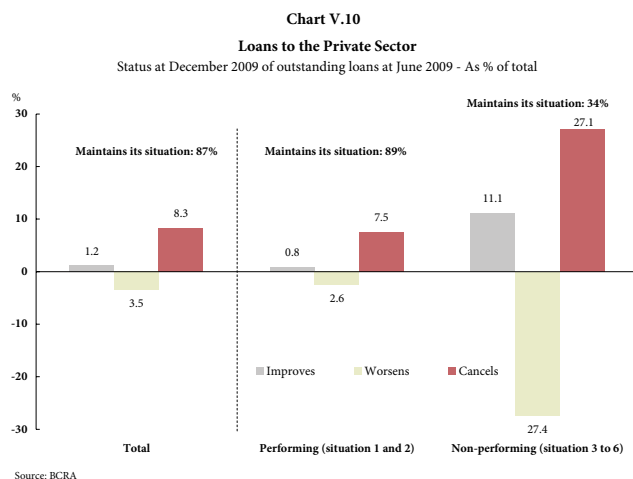
Financial system exposure to the private sector fell slightly in 2009, in a context of limited credit risk

In 2009 the rate of growth in lending to companies and households declined, so that overall the financial system has recorded a slight reduction in its exposure to this sector (see Chart V.8). Nevertheless, in recent months there have been signs of renewed lending dynamism, particularly in the case of that directed to households, with an incipient decline in delinquency levels. Debtor payment capacity is expected to remain relatively unchanged, possibly showing slight improvement, given the positive outlook for the employment market and the strengthening of the economic recovery in the various productive sectors, with a gradual improvement in the position of the financial system in the face of the risk of lending to the private sector.



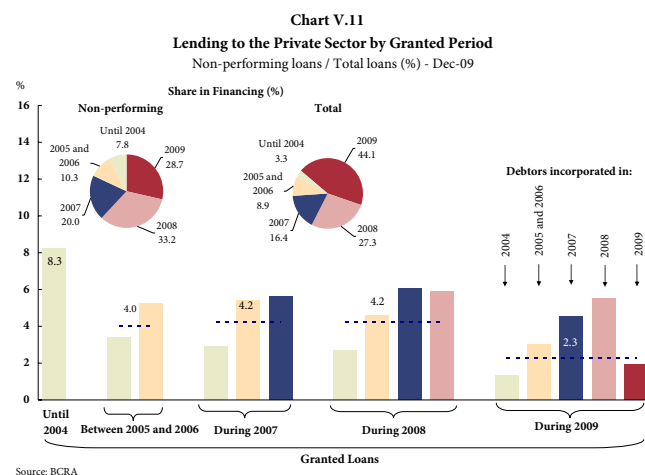
In recent months a decline has been recorded in private sector lending non-performance, mainly in the consumer loan segment

The non-performance ratio for lending to companies and households stood at 3.5% at the end of 2009, with a reduction of 0.3 p.p. since the peak for the year. This drop was driven by household consumer credit lines⁴⁰ (see Chart V.2), and was mainly led by private banks (see Chart V.9). Household lending non-performance totaled 4.7%, less than in the middle of the year, while that corresponding to the productive sectors of the economy remained steady at around 2.5%.



Loans that had been outstanding in mid-2009 deteriorated moderately over the second half of the year. Close to 3.5% of credit lines registered a worsening of their situation, while 1.2% posted improvements (see Chart V.10). It is estimated that the non-performance ratio for loans originated between 2005 and 2008 (more than half the total stock) has stabilized at a moderate level, with greater delinquency being recorded by loans granted to debtors incorporated to the financial system more recently (see Chart V.11).

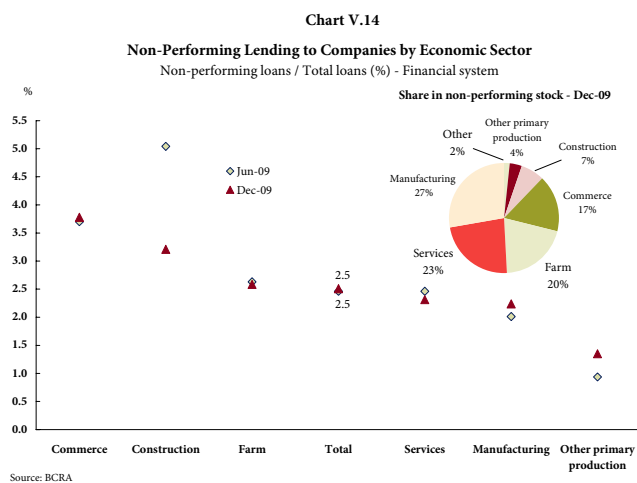
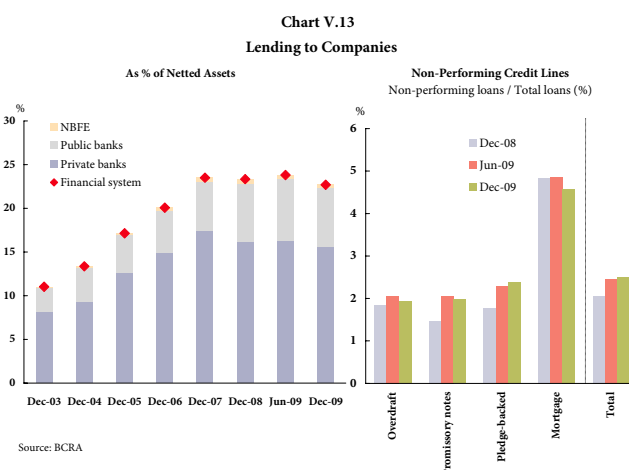
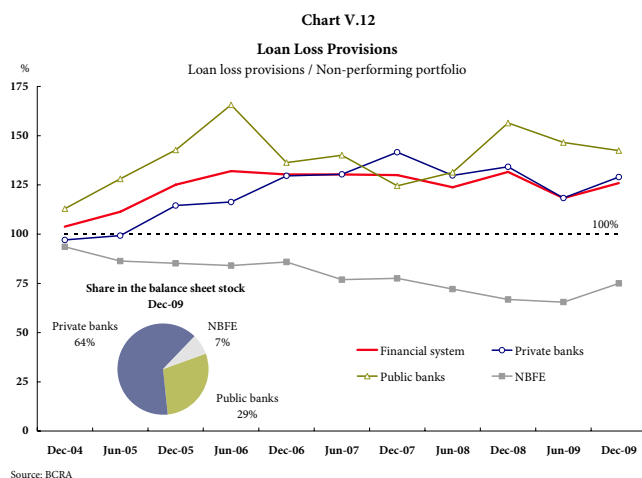
The level of coverage by provisioning continues to exceed that of the non-performing private sector loan portfolio (see Chart V.12), an indication of the soundness of the financial system in the face of this intrinsic risk. In recent months the coverage indicator has risen slightly, mainly explained by private banks and non-bank financial entities, in line with the improved performance in terms of credit portfolio delinquency.



It is expected that the financial system will increase the weighting of its lending to the private sector over the course of 2010, without deteriorating its position in the face of counterparty risk

Growth in the level of economic activity is expected to gain strength during 2010, within the framework of gradual improvements in the employment market and the activity of the various productive sectors, so that households and companies will increase the use of resources provided by the financial system. In addition, it is expected that the private sector would maintain its payment capacity, which will be reflected in the preservation of a reduced credit risk exposure.

⁴⁰ Loans to households are those granted to individuals, except for commercial loans, which are added to loans to legal persons and treated as lending to companies.



Companies

Financial system exposure to companies has declined, and non-performance has stabilized at a low level

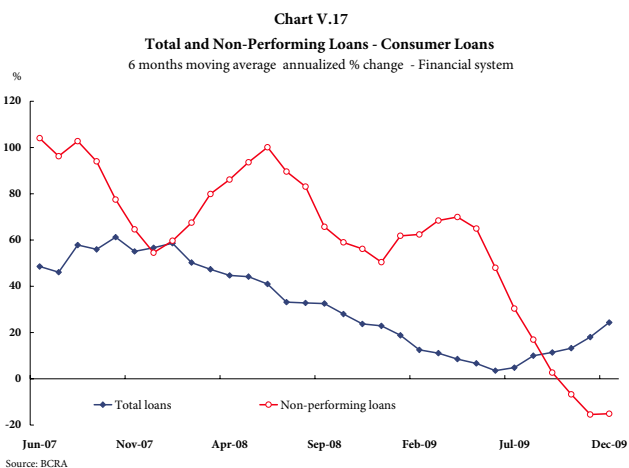
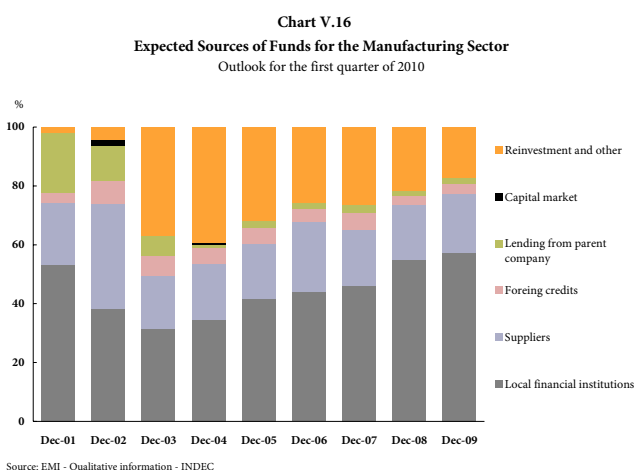
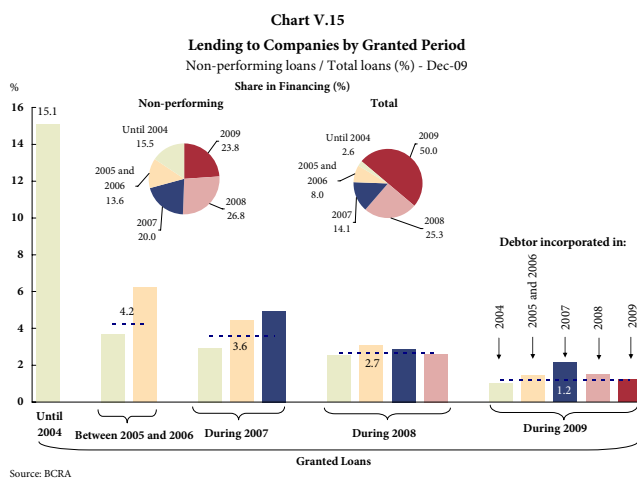
Growth in lending to productive sectors slowed in the second part of 2009, so the financial system slightly reduced its exposure to companies (see Chart 13). The strengthening of the economic recovery favors company repayment capacity (see Page 55) at a time when borrowing levels are low, helping to stabilize the delinquency ratio for the sector at a low level. In recent months non-performance has remained at around 2.5% of lending to companies. Except in the case of pledge-backed loans, over the course of the second half of 2009 credit lines delinquency have declined.

Loans to the construction sector posted the largest drop in non-performance ratio, mainly due to the reclassification at off-balance-sheet accounts (unrecoverable loans). Service businesses recorded an improved credit performance in recent months in view of the notable dynamism of lending to this sector. Manufacturing industry and certain primary activities (mining, oil and fishing) continue to show the lowest levels of non-performance (see Chart V.14). It is estimated that credit lines granted to the corporate sector in recent years have shown a lower relative delinquency ratio (see Chart V.15).

It is expected that financial institutions will gradually increase their exposure to companies, maintaining credit risk under control

Company demand for bank credit is expected to show signs of greater dynamism in coming months, a reflection of rising levels of economic activity. At the same time, there will be a greater availability of credit for companies given the positive forecast for the economy and improvements in various sectors within the framework of favorable liquidity levels in banks. The manufacturing, as the largest credit taker in the productive sector, has been forecasted by the INDEC to meet its funding requirements in the first part of 2010 mainly by means of banking resources (see Chart V.16).

The risk of lending to companies faced by banks will remain at moderate levels. As an indication of certain improvement in the sector payment capacity, the number and value of bounced checks by nonsufficient funds in terms of the total amount cleared has continued to fall in recent months (see Page 64).



Households

Financial system exposure to households remains steady, with a gradual reduction in non-performance, particularly in consumer loans

Banks have maintained their exposure to households, in a context of a renewed dynamism in lending to households that has been accompanied by an improvement in the credit performance of such loans. Consumer credit loans drive these developments (see Chart V.17). Stabilization of consumer confidence and the improved outlook for employment should strengthen the sector's payment capacity, lessening the potential for any materialization of the credit risk faced by banks.

Household non-performance fell 0.7 p.p. in the second part of 2009, to 4.7%. This reduction was explained by consumer credit lines, as there was both a decline in nonperforming loans and an increase in the volume granted (see Chart V.18). Credit lines originated in recent years and granted to debtors recently added to the system are estimated to record the highest delinquency ratios in the segment (see Chart V.19).

The greater dynamism seen in credit to household consumption is in line with the increase in domestic spending. Bank lending represents a significant portion of total household financing, although other important intermediaries also exist. In particular, one third of the existing credit card market has been originated by non-financial companies (see Box 3).

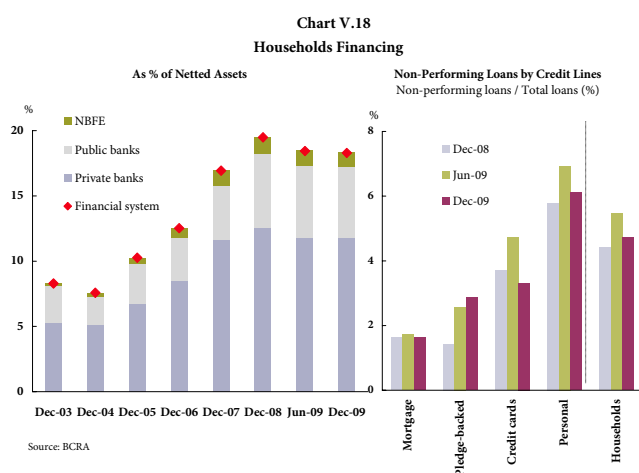
Household payment capacity is expected to continue to improve

At a time when signs of macroeconomic recovery prevail, household payment capacity will gain strength. It is expected that financial credit intermediation will continue to deepen, with an increase in bank exposure to households.

V.2.2 Public sector

Financial system exposure to the public sector remains within bounds

Financial system exposure to the public sector increased slightly in the second half of the year (see Chart V.20). The stock of such assets remains at a historically low level, currently equivalent to slightly over one third of lending to the private sector.

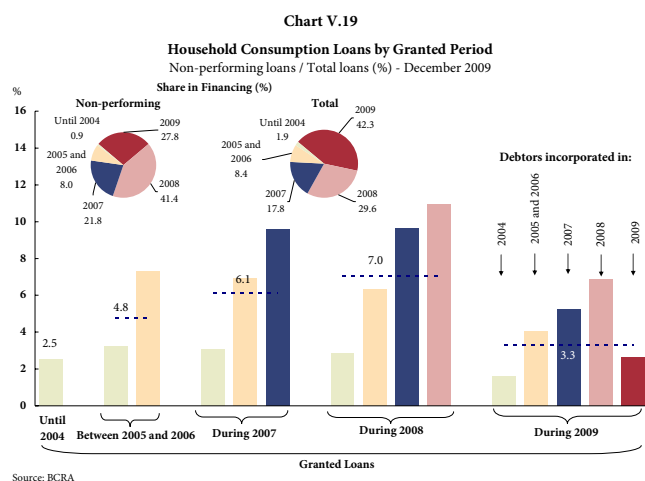


The recent increase in the financial system public sector exposure was mainly explained by official banks. Nevertheless, it should be noted that on the basis of the official deposits balances, the public sector remains a net creditor of the financial system (-3.5% of total assets).

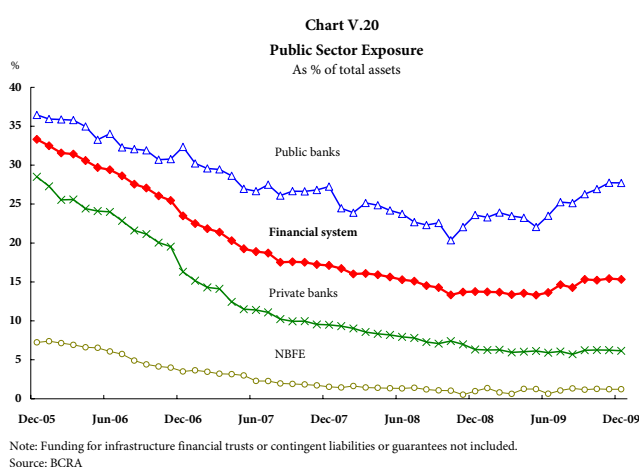
Based on the progress of public accounts, the current level of indebtedness and the actions intended to normalize relations with the international financial community (see Page 36), it is estimated that the public sector will preserve its payment capacity. Recent developments in terms of risk perception by the financial market would in principle be consistent with this evaluation.

V.3 Currency risk

At the end of 2009 there was a reduction in the exposure of banks to currency risk, reflecting the effects of limited mismatching and lower volatility



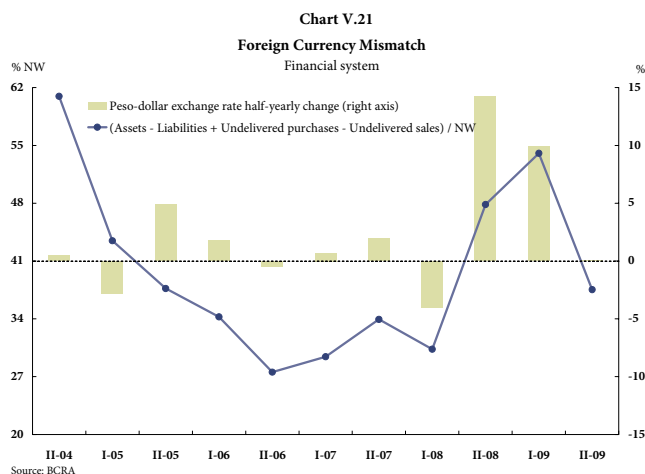
The holdings of financial system foreign currency mismatching at limited levels and the reduction in exchange rate volatility in recent months resulted in a drop in banks balance sheet exposure to currency risk. Over the course of 2009 financial system foreign currency mismatching declined when taking into account both asset and liability items as well as foreign currency futures contracts without delivery of the underlying asset⁴¹ (see Chart V.21). The reduction in net foreign currency futures purchases by banks was partially offset by an increase in assets (mainly liquidity) and a drop in foreign currency liabilities (fewer public sector deposits and settlement of corporate bonds). At the start of 2010 a slight increase in currency mismatching was recorded.



Private banks were responsible for the reduction in foreign currency mismatching (see Chart V.22) recorded in 2009. There has been a widespread bank observance of the regulatory limit set for the net global foreign currency position (PGNME). At systemic level this position stood at 35% of the RPC at the end of 2009, having fallen over the course of the year. In addition to the reduction in the financial system foreign currency mismatching, in the second half of 2009 there was a drop in exchange rate volatility that contributed to banks management of this risk.

As a result, the financial system maintains a limited and declining exposure to currency risk, with a relatively low probability that exchange rate fluctuations will result in

⁴¹ In memorandum accounts.



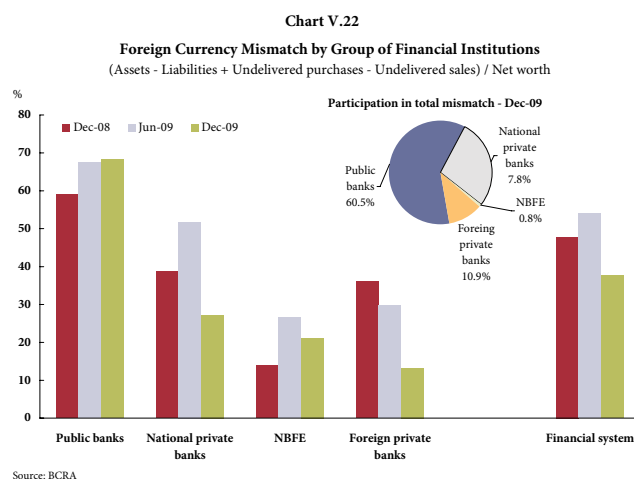
balance sheet losses. There is also only a limited credit risk from variations in the exchange rate, given the reduced share of lending to the private sector denominated in foreign currency, mostly directed towards the tradable sector of the economy (see Chart V.23).

Currency risk is expected to remain at a low level

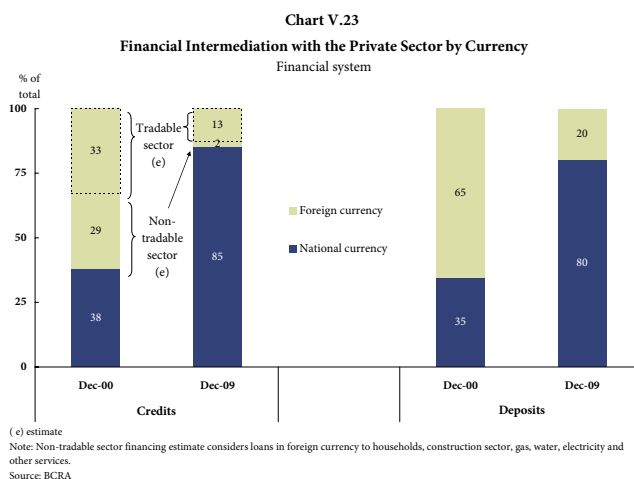
Both currency mismatching and nominal exchange rate volatility remain at low levels, thus maintaining a limited currency risk exposure. The outlook for the foreign exchange market, with current account surplus forecasted for the ninth consecutive year, help ensure the currency risk faced by banks remains at a low level.

V.4 Interest rate risk

Financial system exposure to interest rate risk declined in 2009



There was no significant change in the terms' mismatching faced by the aggregate financial system over the course of 2009. The increase in the maturity of assets as a result of the moderate rise in exposure to the public sector was almost entirely offset by the reduction in longer-term private sector exposure (see Chart V.24). There was no significant change in the duration of bank funding in 2009. Total deposits are gradually gaining weight in the composition of total funding, at a time when time deposits with a lower relative maturity have recorded a declining share (see Chart V.25). Funding sources with relatively longer maturity (corporate debt, subordinated debt and foreign credit lines) have reduced their participation in total funding.

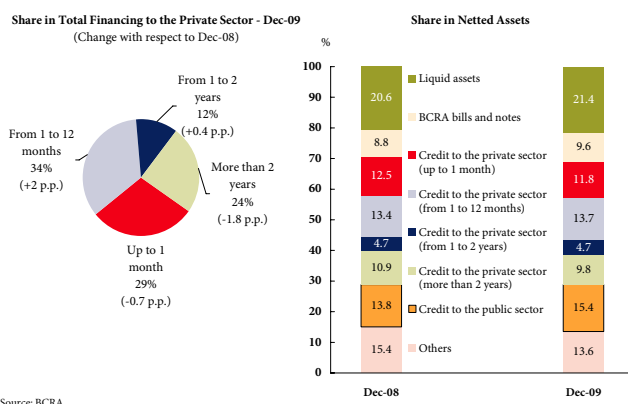


This performance, added to a context in which leading interest rates have fallen and their volatility has been kept within bounds, prompted a gradual reduction in the exposure of the banking system to this risk.

Government swaps of public sector CER-adjusted debt led to a drop in banks' exposure to real interest rate risk

In recent months banks have continued to shrink their mismatching of CER-adjusted items, mainly as a result of the PGN and Bocon bond swaps carried out by the Government. The difference between adjustable assets and liabilities ended 2009 at around 54% of financial system net worth, a significant reduction over the year (see Chart V.26), thus lowering banks' exposure to real interest rate risk. CER-adjusted bank liabilities also fell during the year, mainly from the settlement in full of the

Chart V.24
Lending to the Private Sector by Time to Maturity



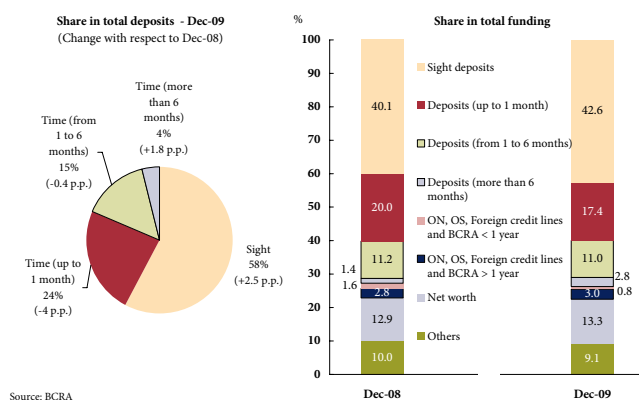
rediscounts granted by the Central Bank during the crisis in 2001-2002.

Private banks experienced a reduction in the regulatory requirement for minimum capital coverage of the interest rate risk during the year for this reason, while the requirement for public banks was increased slightly.

It is estimated that the interest rate risk faced by the financial system will continue to decline

It is expected that interest rates will record only limited volatility in 2010 as long as international financial markets volatility remains low. The greater development of the interest rate futures market in which the Central Bank participates through the “*función giro*” (see Box 2) and the adoption of this mechanism for interest rate swaps will assist in the management of the interest rate risk faced.

Chart V.25
Total Deposits by Time to Maturity

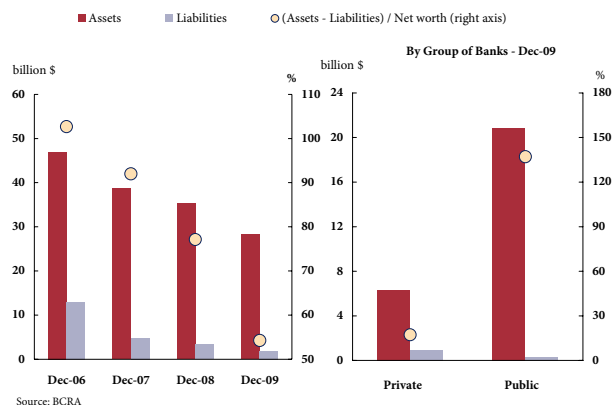


V.5 Market risk

In a framework of rising government security prices, financial system exposure to market risk increased moderately

A higher share of government securities and Lebac and Nobac with usual quote in total assets, in a period of widespread improvement in security prices (see Chart V.27) have been the main reasons for increased financial system exposure to market risk. During the second half of 2009 there was an increase in the volatility of the leading securities held by banks (see Chart V.28). It should be noted that government bond valuation alternatives have softened the impact of price fluctuations on banking net worth.

Chart V.26
CER Mismatching
CER adjusted statements - Financial system

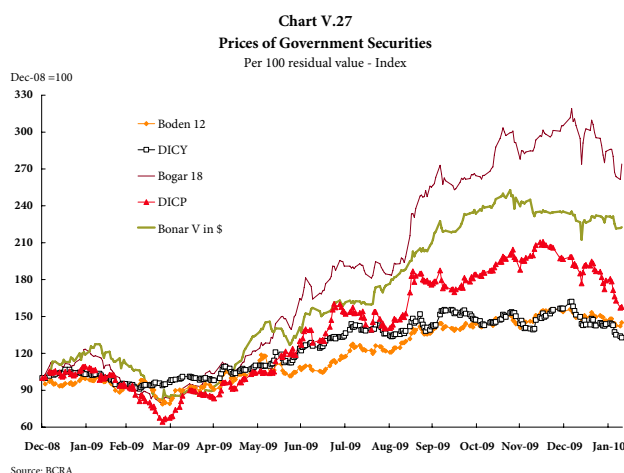


In line with the increase in volatility in the second part of the year there has been an increase in the value exposed to market risk in terms of regulatory capital (see Chart V.29), taking the requirement for bond and equity holdings to 2% of RPC. As lower bond market volatility can be expected as a result of the restructuring of the holdout debt, it is anticipated that the financial system would continue to record a limited exposure to market risk.

V.6 Balance of risks

In a context of lower risks faced, the outlook for 2010 is positive

In a context in which the Central Bank retains the ability to act as a lender of last resort, systemic liquidity

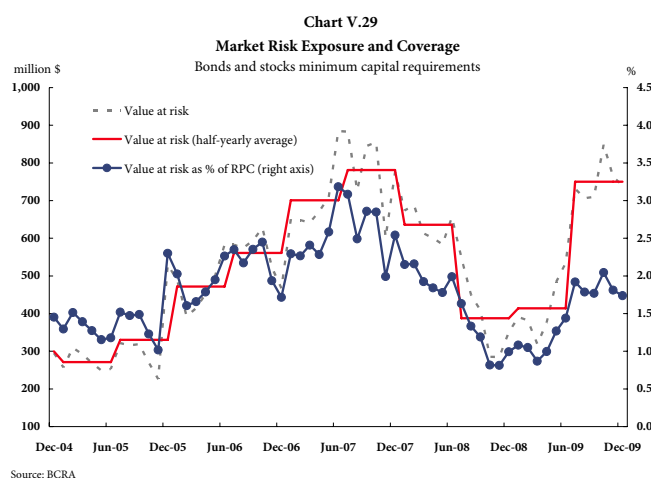
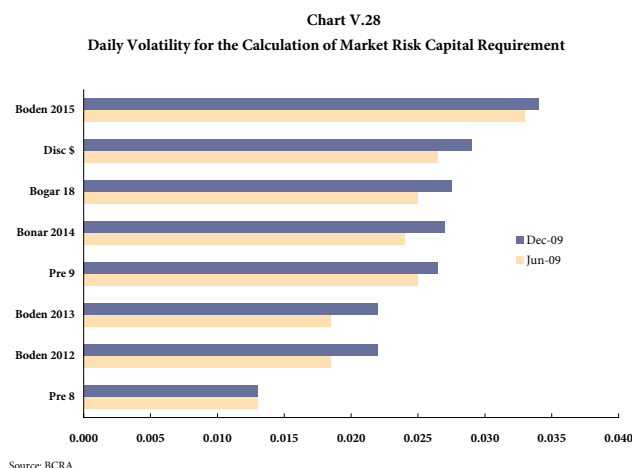


remains high, and private sector deposits are trending upward, liquidity risk continues at a low level with good prospects for the near future. Liquid asset stocks are sufficient to permit an expansion process in lending to the private sector without any major restrictions.

Improvements in household consumption financing have been behind the reduction in private sector loan portfolio non-performance at a time of high coverage by provisions. Positive expectations in terms of employment and signs of rising economic activity will contribute to improve private sector payment capacity, reducing the credit risk faced by banks.

In view of the moderate levels of foreign currency mismatching in the financial system and the reduction in nominal exchange rate volatility, it is expected that currency risk will remain limited. The downward trend in interest rate volatility reduces the probability of fluctuations that could have a negative impact on financial entity net worth. The decline in balance sheet mismatching of CER-adjusted items reduces exposure to real interest rate risk. Some increase in exposure to market risk is expected although this will take place from very low current levels.

Given the favorable expectations for the economy in coming months, there is no significant expected change in the risk map. Sound solvency indicator levels lead to forecasts the preservation of the financial stability conditions.



Box 6 / Mechanisms for the Early Detection of Financial Crises: Development and Current Status

The magnitude of the impact of financial crises on business activity and household wealth has encouraged the development in recent decades of tools for early crisis detection, increasing the probability of its anticipation and prevention. Nevertheless, the failure to identify the signs of the global crisis that arose in mid-2007 revealed the need to redesign these mechanisms and to adopt innovative methodologies, which are currently being developed. Such initiatives, added to the progress being made in the reformulation of international recommendations for financial regulation and macroprudential monitoring, should contribute to the development of financial intermediation in sounder conditions of financial stability

Early warning systems (EWS) that originated in the 90s analyzed the relationships between periods of marked credit growth, the generation of financial market bubbles and the development of the economic cycle. Although these first works contributed to improved identification of the sources of vulnerability, the use of ex-post information did not enable a timely anticipation of the moment when crises would break out, nor did it allow preventive measures to be adopted. These works also did not make it possible to evaluate potential overspill onto domestic and international financial markets. The need for mechanisms to have an improved predictive capacity and be able to evaluate the systemic effects of crises encouraged the development of a second generation of more complex tools contemplating market information and the growing interrelationship among the various participating institutions.

The first works on EWS carried out in the 90s basically centered on two approaches. Some analyzed the impact of the principal macroeconomic and aggregate financial system variables on crisis episodes. Others performed alternative studies centered on analyzing financial institutions individually, estimating crisis probabilities.

The first group adopted a qualitative comparison focus⁴², that identifies indicators anticipating financial or balance of payments crises. To do so these studies contrasted the performance of macroeconomic variables and bank balance sheets in periods considered to be “normal” with those in periods immediately preceding a financial crisis.

⁴² See for example Frankel, J. and A. Rose (1996) “Currency Crashes in Emerging Markets: An Empirical Treatment” JIE (Nov.): 351–66.

As a result, thresholds were established as from which macro and bank variables would be giving indications of potential vulnerability. The principal weakness of such analysis lies in the appropriate choice of thresholds, an exercise that is somewhat arbitrary. One improvement on this mechanism is the extraction of signals approach⁴³, based on the construction of a composite leading indicator made up of a weighted set of macroeconomic and financial system indicators on the basis of which crisis probability can be estimated. Threshold determination takes place by means of the reconciliation of contrasting objectives: no omission of crises events that have taken place, and minimizing the number of false alarms. All these models have their limitations. On the one hand, the choice of thresholds influences results of the forecasts: high thresholds mean that some episodes will not be foreseen, while those that are low will tend to give rise to many false alarms. Furthermore, the weighting of variables in the indicator would not provide information on their true contribution to the unleashing of a crisis.

With the aim of analyzing the strengths and weaknesses of individual financial institutions, in late 90’s newly introduced econometric models began to estimate the probability of their failure⁴⁴. These developments took into account macroeconomic variables to recognize the impact of the economic cycle, as well as indicators of the individual bank’s performance, particularly in the areas of liquidity, capital and risks. Econometric tools were used to capture the development of the mentioned factors and their impact on the situation of each bank, using binary response models to address normal and distress times (*logit* or *probit* models). The current crisis brought to light the fact that these models do not consider systemic effects or interrelationships between banks, leading to the need to search for new methods that help to anticipate crises.

The performance of stress tests on financial systems is an additional tool that has become widespread in the last ten years⁴⁵, and contributes to identify possible vulnerabilities. Such exercises seek to measure the impact

⁴³ Lizondo S. and Reinhart C. M. (1998), “Leading Indicators of Currency Crises,” IMF Vol. 45, Issue 1 (March), pp. 1–48.

⁴⁴ See for example Demirgüç-Kunt, A. and E. Detragiache (1998) “The Determinants of Banking Crises in Developing and Developed Countries.” IMF Staff Papers 45(1): 81–109. Dabós, M.P. “An empirical model of bank failure probability”, Universidad de Belgrano.

⁴⁵ See Box 5 of FSR I-09.

of extreme but possible macroeconomic scenarios on bank liquidity and solvency from the point of view of both individual entities and the system as a whole.

The global financial crisis that began in 2007 showed up significant weaknesses in the mechanisms used to anticipate crisis events. The new context made clear the importance of counting on tools that could on the one hand register the effects from financial market shut-downs, rapid deterioration in financial intermediation processes, risks generated by excessive exposure, and markets that could become macroeconomically misaligned. On the other hand, these mechanisms also have to take into account the interrelationship among institutions and the systemic impact of those relationships. As a result, models began to be developed based on asset pricing theory that sought to evaluate the probability of financial stress for banks as a whole. Consequently, analysis is evolving from a static model to one that is more forward-looking, based on the use of market variables that contemplate the future expectation of agents on the situation of banks, the market in general, and the macroeconomic context. In addition, increased relevance is assigned to channels for communication of impacts between banks and second round effects⁴⁶.

Along these lines, the so-called contingent claims approach (CCA)⁴⁷ studies the relationship between banking crises and situations of financial and economic stress in the private sector. As bank failures generally take place when banks are unable to meet their obligations as a result of the impact of a recession in the economic cycle, the aim is to model the various sectors of the economy and their interrelationship through their risk-adjusted balance sheets using options valuation models⁴⁸. At the same time the structure of financial systems began to be analyzed through the evaluation of multivariate data (conditional correlations and cluster analysis⁴⁹), a tool that would allow regulators to obtain information on the institutions that could impact on others in the event of problems, analyzing the changes in the distribution of groups of banks between periods of stress and periods of normality.

Another approach that has begun to be developed in recent years has centered on the search for a financial stability index to make comparisons taking into account the different dimensions of banking activity. Financial

stability measures began to be designed on the basis of general equilibrium models introducing the financial system⁵⁰, incorporating more modern methodologies to capture crossed impacts and joint stress distribution (the copula function⁵¹). Although these tools represent progress, their considerable complexity, need for data (input) and the lack of empirical proof and calibration, represent barriers to their effective utilization by the authorities. This situation is aggravated in emerging economies, which offer less developed financial systems and a reduced availability of historical and market statistics.

Faced by these difficulties that are commonly to be found in emerging countries, some central banks, such as that of Colombia⁵², began to build financial stability indicators to be able to count on early warning mechanisms, incorporating leading banking indicators on a weighted basis. These help to provide early indication of financial crises episodes at both system aggregate level and for uniform bank groups and individual banks. In addition, stress tests are performed on these indicators to evaluate the impact of shocks.

The lack of warning regarding the 2007 financial crisis and its considerable international impact provided a clear indication that analysis of individual financial institutions and the financial system separately were insufficient to prevent new stress episodes. Hence the renewed interest in early detection of systemic macroeconomic and banking vulnerabilities that could threaten financial stability. Looking forward, the aim will be to complete the implementation and subsequent fine-tuning of such mechanisms, making them accessible to policymakers in developed economies, and in particular to those of emerging economies. This would provide a valid tool for the taking of preventive measures in a timely manner, avoiding stress situations that could once again place global financial stability at risk, avoiding their negative impacts on the real economy and the population in general.

⁴⁶ Several issues of the IMF's GFSR.

⁴⁷ Gray, Merton and Bodie "New framework for measuring and managing macrofinancial risk and financial stability", NBER, wp13607, 2007

⁴⁸ Black-Scholes and Merton

⁴⁹ Global financial stability report, IMF, April 2009

⁵⁰ Aspachs, Goodhardt, Segoviano, Tsomocos and Zicchino (2006) "Searching for a metrics for financial stability", LSE.

⁵¹ Segoviano (2009) "Banking stability measures", IMF, wp09/04.

⁵² Pineda, F., Piñeros, J.H. Reporte de Estabilidad Financiera. Banco de la República de Colombia. March 2009.

VI. Payments System

Summary

The use of electronic means of payment at a local level continues growing, recording improvements in terms of efficiency and security in transactions. Even though currency held by the public remains as the main mean of payment, there is a gradual increase in the use of alternative instruments that allow mitigating risks and speeding up the payment process.

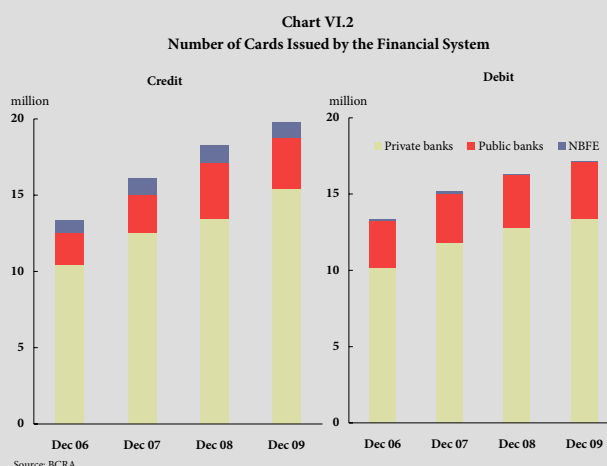
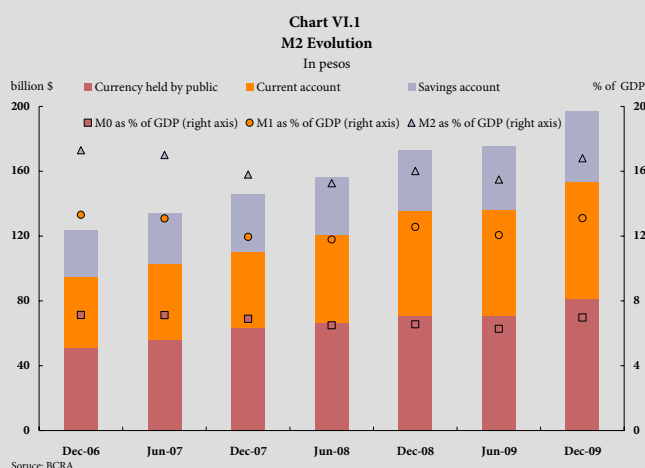
The number of credit and debit cards is expanding in line with the recovery of the momentum shown by the financial intermediation activity, driven by a framework of greater economic growth.

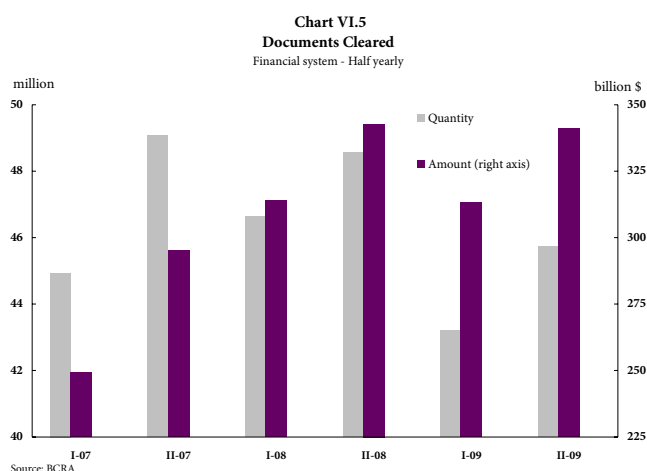
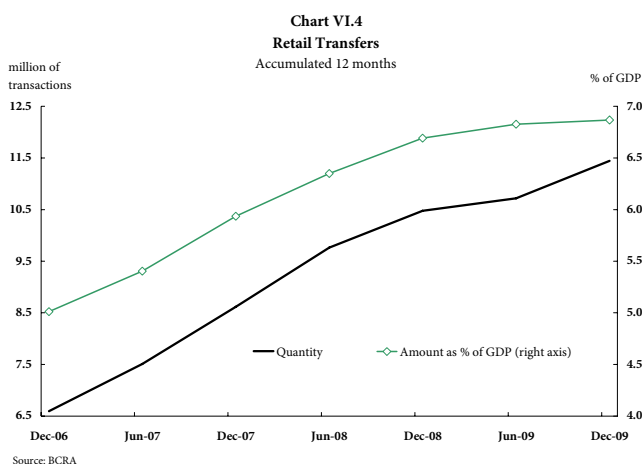
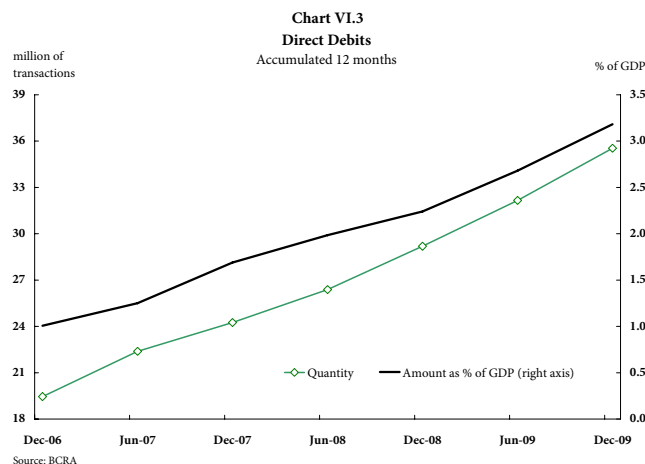
During the second half of 2009, clearing checks increased while bounced checks by nonsufficient funds fell. The number of truncated checks exceeded 80% of total documents cleared.

Direct debits related to the payment of utilities and other services recorded an increase against the first half of last year.

Retail transfers have also evidenced greater momentum. On the other hand, the use of the Electronic Means of Payment for transactions in pesos (high value payment system) recorded a slight reduction in terms of GDP over 2009.

The BCRA continues boosting measures that may contribute to deepening the Payment System and that would imply greater flexibility and efficiency in transactions. Progress is being made on the project known as Uniform Federal Clearing (CFU) in order to standardize all documents that may be subject to clearing. At present, work is being done on nominative time deposit certificates. Additionally, collaboration is given in work teams such as the “Payments and Securities Clearance and Settlement Initiative for the Western Hemisphere”, coordinated by the Center for Latin American Monetary Studies (CEMLA) in order to strengthen the existing payment systems and the settlement of securities in countries of Latin America and the Caribbean.





VI.1 National Payments System

The use of electronic means of payment is growing within the framework of greater momentum exhibited by the economic activity and some improvements in the geographic coverage of the financial services infrastructure

The National Payment System (NPS) continues deepening its development gradually, evidencing greater scope and diversification of instruments that contribute to speeding up and providing more security to the economy's payment process.

Currency held by the public continues to be the most widely used mean of payment at local level. Specifically, cash held by the public keeps gaining share in monetary aggregates (see Chart VI.1), stabilizing at about 7% of GDP. However, the use of electronic payment mechanisms such as transfers and direct debits is slowly growing within a context of gradual improvements in the geographic coverage of the financial services infrastructure (see Page 42).

In line with the recovery of momentum shown by banks financial intermediation with corporations and households, a trend mainly driven by the context of growing economic activity, a rise in the number of credit and debit cards is observed (see Chart VI.2).

In addition, the checks clearing keeps growing in low value clearing houses both in terms of direct debits and retail transfers. Direct debits related to the payment of utilities and other services (electricity, telephone, cable television, among others) rose against last year, amounting to 3.2% of GDP in 2009 (see Chart VI.3). Retail transfers also exhibited a hike over the period and accounted for 6.9% of the GDP during the last 12 months (see Chart VI.4).

The number of checks⁵³ cleared over the second half of 2009 increased (see Chart VI.5), out of which 81% were truncated (which do not require the sending of the image to the drawee bank, in the case of amounts of up to \$5,000). Therefore, the amount of documents cleared fell slightly in terms of GDP. The proportion of bounced checks by nonsufficient funds in terms of total documents cleared evidences a falling trend following the increase recorded in the second half of 2008, considering the local effects of the international crisis (see Chart VI.6).

⁵³ The concepts of checks and documents in this section of the chapter are used interchangeably.

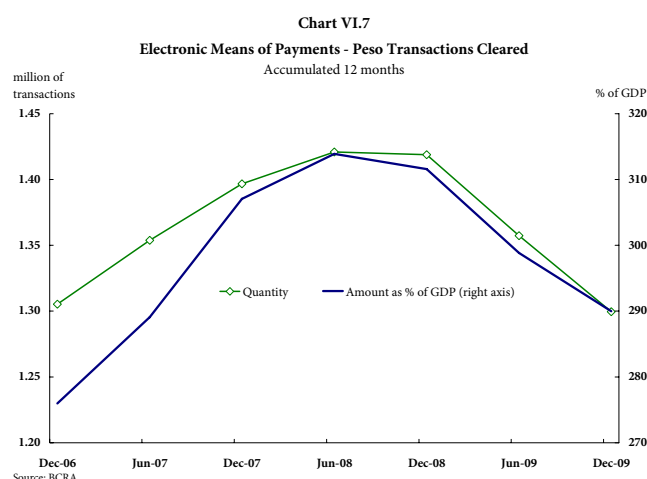
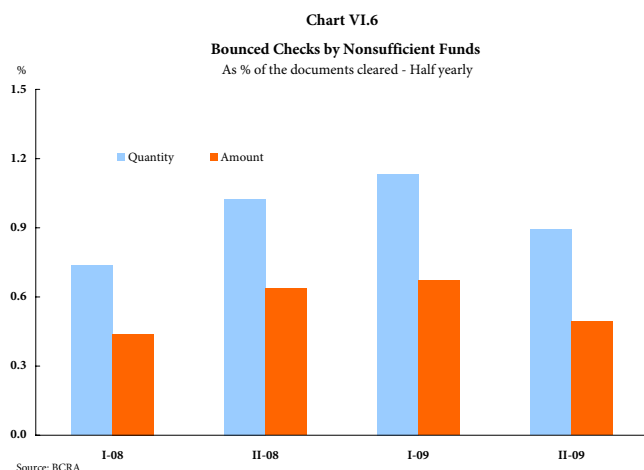
The amount of transactions channeled in pesos through the Electronic Means of Payment -MEP- (high value payment system) remained stable over the last periods, which gave rise to its lower weighting in terms of GDP during 2009 (see Chart VI.7).

VI.2 Modernization of the Payment System

The BCRA continues working on measures that would allow deepening the Payment System

The BCRA continues boosting measures aimed at contributing to the Payment System deepening and that would imply greater efficiency and security in transactions. Progress is being made on the standardization of all documents to achieve their optimum verification and control by depositary entities. Within this framework, work is currently being made on nominative time deposit certificates in the context of the project known as Uniform Federal Clearing (CFU). Likewise, a set of innovative different measures aimed at favoring the use of electronic transfers and of debit and credit cards is under study and these instruments would be provided with greater functions.

In order to strengthen the securities payment and settlement system in Latin American and Caribbean countries, the BCRA continues taking part in the work teams generated by the “Payments and Securities Clearance and Settlement Initiative for the Western Hemisphere” coordinated by the CEMLA.



Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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	27.9	28.6
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	14.5
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	38.4
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	3.5
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	-2.8
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	2.3
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	19.2
8- Efficiency	142	136	138	142	147	143	189	69	125	151	167	160	167	185
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	18.6
10- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	134	93	90	98

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	Dec 08	Jun 09	Dec 09	Change (%)	
												Half-yearly	Inter annual
Assets	163,550	123,743	187,532	186,873	212,562	221,962	258,384	297,963	346,762	366,409	385,905	5.3	11.3
Liquid assets ¹	20,278	13,005	17,138	27,575	29,154	20,819	37,991	46,320	58,676	62,576	71,067	13.6	21.1
Public bonds	10,474	3,694	31,418	45,062	55,382	66,733	64,592	62,678	65,255	76,262	84,851	11.3	30.0
Lebac/Nobac	0	0	-	-	17,755	28,340	29,289	36,022	37,093	41,030	43,867	6.9	18.3
Portfolio	0	0	-	-	11,803	21,067	25,767	31,598	25,652	26,464	34,748	31.3	35.5
Repo	0	0	-	-	5,953	7,273	3,521	4,424	11,442	14,566	9,119	-37.4	-20.3
Private bonds	633	543	332	198	387	389	813	382	203	270	308	13.7	51.8
Loans	83,277	77,351	84,792	68,042	73,617	84,171	103,668	132,157	154,719	157,071	169,882	8.2	9.8
Public sector	15,164	22,694	44,337	33,228	30,866	25,836	20,874	16,772	17,083	15,066	20,570	36.5	20.4
Private sector	64,464	52,039	38,470	33,398	41,054	55,885	77,832	110,355	132,844	138,171	145,261	5.1	9.3
Financial sector	3,649	2,617	1,985	1,417	1,697	2,450	4,962	5,030	4,793	3,834	4,052	5.7	-15.5
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-4,930	-3,728	-4,089	-4,744	-5,482	-5,828	6.3	22.8
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	26,721	26,039	29,712	38,152	41,072	33,484	-18.5	-12.2
Corporated bonds and subordinated debt	794	751	1,708	1,569	1,018	873	773	606	912	1,197	1,146	-4.3	25.6
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,883	4,881	5,023	5,714	6,255	5,928	-5.2	3.7
Compensation receivable	0	0	17,111	14,937	15,467	5,841	763	377	357	17	16	-6.9	-95.6
Other	39,514	18,669	13,572	6,392	12,924	16,124	19,622	23,706	31,169	33,604	26,395	-21.5	-15.3
Leasing	786	771	567	397	611	1,384	2,262	3,469	3,935	3,260	2,933	-10.0	-25.5
Shares in other companies	2,645	2,688	4,653	4,591	3,871	4,532	6,392	6,430	7,236	7,792	6,817	-12.5	-5.8
Fixed assets and miscellaneous	4,939	4,804	8,636	8,164	7,782	7,546	7,619	7,643	7,903	8,132	8,239	1.3	4.2
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,647	2,782	2,912	3,153	4,075	3,926	-3.7	24.5
Other assets	3,950	5,334	9,338	12,043	13,180	10,950	9,953	10,347	12,275	11,380	10,227	-10.1	-16.7
Liabilities	146,267	107,261	161,446	164,923	188,683	195,044	225,369	261,143	305,382	321,619	337,567	5.0	10.5
Deposits	86,506	66,458	75,001	94,635	116,655	136,492	170,898	205,550	236,217	250,083	271,796	8.7	15.1
Public sector ²	7,204	950	8,381	16,040	31,649	34,019	45,410	48,340	67,151	67,268	69,127	2.8	2.9
Private sector ²	78,397	43,270	59,698	74,951	83,000	100,809	123,431	155,048	166,378	179,232	199,237	11.2	19.7
Current account	6,438	7,158	11,462	15,071	18,219	23,487	26,900	35,245	39,619	40,259	45,752	13.6	15.5
Savings account	13,008	14,757	10,523	16,809	23,866	29,078	36,442	47,109	50,966	56,649	62,807	10.9	23.2
Time deposit	53,915	18,012	19,080	33,285	34,944	42,822	54,338	65,952	69,484	75,068	83,926	11.8	20.8
CEDRO	0	0	12,328	3,217	1,046	17	13	0	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	57,662	58,638	50,647	-13.6	-12.2
Interbanking obligations	3,545	2,550	1,649	1,317	1,461	2,164	4,578	4,310	3,895	3,087	3,251	5.3	-16.5
BCRA lines	102	4,470	27,837	27,491	27,726	17,005	7,686	2,362	1,885	1,002	270	-73.1	-85.7
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,548	6,938	5,984	5,984	5,670	5,033	-11.2	-15.9
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	4,684	4,240	3,864	4,541	3,608	3,369	-6.6	-25.8
Other	37,883	17,295	11,955	11,012	18,934	21,671	22,930	28,752	41,357	45,272	38,724	-14.5	-6.4
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,381	1,642	1,672	1,763	1,914	1,922	0.4	9.0
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,099	6,792	7,695	9,740	10,984	13,203	20.2	35.6
Net worth	17,283	16,483	26,086	21,950	23,879	26,918	33,014	36,819	41,380	44,790	48,337	7.9	16.8
Memo													
Netted assets	129,815	110,275	185,356	184,371	202,447	208,275	244,791	280,336	321,075	338,235	363,249	7.4	13.1
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	203,286	235,845	271,652	312,002	329,779	355,641	7.8	14.0

(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 (%)	
<i>In millions of current pesos</i>	1999	2000	2001	2002 ¹	2003	2004	2005	2006	2007	2008	2009	II-08	I-09	II-09	II-09 / I-09	II-09 / II-08
Financial margin	6,967	7,291	6,943	13,991	1,965	6,075	9,475	13,262	15,134	20,526	28,858	10,826	13,614	15,244	12	41
Net interest income	5,396	5,106	4,625	-3,624	-943	1,753	3,069	4,150	5,744	9,574	13,917	5,288	6,655	7,263	9	37
CER and CVS adjustments	0	0	0	8,298	2,315	1,944	3,051	3,012	2,624	2,822	1,196	1,007	515	681	32	-32
Foreign exchange rate adjustments	227	185	268	5,977	-890	866	751	944	1,357	2,304	2,278	1,683	1,516	762	-50	-55
Gains on securities	1,112	1,481	1,490	3,639	1,962	1,887	2,371	4,923	5,144	4,462	11,003	1,554	4,178	6,826	63	339
Other financial income	232	519	559	-299	-480	-375	233	235	264	1,363	463	1,294	751	-288	-138	-122
Service income margin	3,623	3,582	3,604	4,011	3,415	3,904	4,781	6,243	8,248	10,868	13,057	5,835	6,139	6,918	13	19
Loan loss provisions	-2,565	-3,056	-3,096	-10,007	-2,089	-1,511	-1,173	-1,198	-1,894	-2,832	-3,818	-1,590	-1,993	-1,825	-8	15
Operating costs	-7,432	-7,375	-7,362	-9,520	-7,760	-7,998	-9,437	-11,655	-14,634	-18,748	-22,699	-9,864	-10,878	-11,821	9	20
Tax charges	-497	-528	-571	-691	-473	-584	-737	-1,090	-1,537	-2,315	-3,268	-1,304	-1,561	-1,707	9	31
Income tax	-421	-446	-262	-509	-305	-275	-581	-595	-1,032	-1,342	-4,038	-672	-1,684	-2,354	40	250
Adjustments to the valuation of government securities ²	0	0	0	0	-701	-320	-410	-752	-837	-1,757	-184	-873	-110	-74	-33	-92
Amortization payments for court-ordered releases	0	0	0	0	-1,124	-1,686	-1,867	-2,573	-1,922	-994	-460	-472	-127	-332	161	-30
Other	617	535	702	-3,880	1,738	1,497	1,729	2,664	2,380	1,366	472	525	-137	608	-545	16
Monetary results	0	0	0	-12,558	69	0	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	4,773	7,920	2,411	3,263	4,656	43	93
Adjusted results ³	-	-	-	-	-3,440	1,337	4,057	7,631	6,665	7,523	8,563	3,757	3,501	5,062	45	35
<i>Annualized indicators - As % of netted assets</i>															<i>change in p.p.</i>	
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	4.6	5.8	5.7	6.7	8.5	6.9	8.3	8.8	0.4	1.9
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	1.5	1.8	2.2	3.1	4.1	3.4	4.1	4.2	0.1	0.8
CER and CVS adjustments	0.0	0.0	0.0	3.9	1.3	1.0	1.5	1.3	1.0	0.9	0.4	0.6	0.3	0.4	0.1	-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	1.1	0.9	0.4	-0.5	-0.6
Gains on securities	0.9	1.2	1.2	1.7	1.1	1.0	1.2	2.2	1.9	1.5	3.3	1.0	2.6	3.9	1.4	2.9
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	0.8	0.5	-0.2	-0.6	-1.0
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.3	2.7	3.1	3.6	3.9	3.7	3.7	4.0	0.2	0.3
Loan loss provisions	-2.1	-2.4	-2.6	-4.7	-1.1	-0.8	-0.6	-0.5	-0.7	-0.9	-1.1	-1.0	-1.2	-1.0	0.2	0.0
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-5.1	-5.5	-6.1	-6.7	-6.3	-6.6	-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	-1.0	-0.8	-1.0	-1.0	0.0	-0.2
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.4	-1.2	-0.4	-1.0	-1.4	-0.3	-0.9
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	-0.1	-0.6	-0.1	0.0	0.0	0.5
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	-0.1	-0.3	-0.1	-0.2	-0.1	0.1
Other	0.5	0.4	0.6	-1.8	0.9	0.8	0.8	1.2	0.9	0.4	0.1	0.3	-0.1	0.3	0.4	0.0
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	0.0
ROA	0.2	0.0	0.0	-8.9	-2.9	-0.5	0.9	1.9	1.5	1.6	2.3	1.5	2.0	2.7	0.7	1.1
ROA adjusted ³	-	-	-	-	-1.9	0.7	2.0	3.4	2.5	2.5	2.5	2.4	2.1	2.9	0.8	0.5
ROE	1.7	0.0	-0.2	-59.2	-22.7	-4.2	7.0	14.3	11.0	13.4	19.2	13.2	16.7	21.6	4.9	8.3

(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 | Portfolio Quality

<i>As percentage</i>	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	3.4	2.7	2.7	3.0
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	3.5
Provisions / Non-performing loans	61.1	66.4	73.8	79.2	102.9	124.5	129.9	129.6	131.4	125.7
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.0	-0.8	-0.8	-0.8
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-3.3	-3.0	-3.3	-2.8

(*) 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	2009
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	29.8
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	6.2
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	43.3
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	3.3
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	-3.1
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	3.0
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	15.2	22.9
8- Efficiency	144	135	139	146	152	151	168	93	115	136	158	152	166	195
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	22.5
10- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	116	87	86	120

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	Dec 08	Jun 09	Dec 09	Change (%)	
												Half-yearly	Inter annual
Assets	119,371	82,344	118,906	116,633	128,065	129,680	152,414	175,509	208,888	218,950	229,549	4.8	9.9
Liquid assets ¹	13,920	10,576	11,044	14,500	15,893	14,074	22,226	29,418	37,044	40,376	43,562	7.9	17.6
Public bonds	7,583	1,627	19,751	22,260	24,817	29,966	27,663	24,444	29,552	38,736	47,949	23.8	62.3
Lebac/Nobac	0	0	-	-	8,359	15,227	15,952	17,684	23,457	25,784	31,575	22.5	34.6
Portfolio	0	0	-	-	5,611	12,899	14,220	15,639	12,858	18,274	27,413	50.0	113.2
Repo	0	0	-	-	2,749	2,328	1,732	2,045	10,598	7,510	4,161	-44.6	-60.7
Private bonds	563	451	273	172	333	307	683	310	127	135	233	72.9	83.8
Loans	56,035	52,319	51,774	47,017	50,741	56,565	69,294	88,898	98,529	96,017	101,722	5.9	3.2
Public sector	8,172	13,803	25,056	23,571	21,420	15,954	10,036	6,413	6,249	1,820	1,694	-7.0	-72.9
Private sector	45,103	36,636	26,074	22,816	28,213	39,031	55,632	78,587	88,426	91,151	96,790	6.2	9.5
Financial sector	2,760	1,880	644	630	1,107	1,580	3,626	3,898	3,854	3,046	3,238	6.3	-16.0
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,482	-2,227	-2,365	-2,871	-3,425	-3,653	6.7	27.2
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	16,873	18,387	17,084	25,265	26,447	21,258	-19.6	-15.9
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	675	618	430	699	840	734	-12.6	5.0
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,444	2,982	3,456	3,869	4,424	4,198	-5.1	8.5
Compensation receivable	0	0	15,971	13,812	14,657	5,575	760	377	357	17	16	-6.8	-95.6
Other	34,267	10,735	3,523	3,370	7,905	8,179	14,027	12,822	20,339	21,167	16,311	-22.9	-19.8
Leasing	776	752	553	387	592	1,356	2,126	3,149	3,451	2,842	2,569	-9.6	-25.6
Shares in other companies	1,651	1,703	3,123	2,791	1,892	2,416	4,042	3,762	4,538	5,084	4,067	-20.0	-10.4
Fixed assets and miscellaneous	3,225	3,150	5,198	4,902	4,678	4,575	4,677	4,685	4,926	5,062	5,096	0.7	3.4
Foreign branches	75	112	-109	-136	-53	-148	-139	-154	-178	-199	-202	1.6	13.6
Other assets	2,190	2,574	7,549	7,816	7,137	6,178	5,682	6,277	8,505	7,873	6,946	-11.8	-18.3
Liabilities	107,193	70,829	103,079	101,732	113,285	112,600	131,476	152,153	182,596	190,219	198,438	4.3	8.7
Deposits	57,833	44,863	44,445	52,625	62,685	75,668	94,095	116,719	135,711	142,901	154,387	8.0	13.8
Public sector ²	1,276	950	1,636	3,077	6,039	6,946	7,029	7,564	19,600	20,528	17,757	-13.5	-9.4
Private sector ²	55,917	43,270	38,289	47,097	55,384	67,859	85,714	107,671	114,176	120,170	134,426	11.9	17.7
Current account	4,960	7,158	8,905	11,588	13,966	17,946	20,604	27,132	30,188	30,337	35,127	15.8	16.4
Savings account	9,409	14,757	6,309	10,547	14,842	18,362	23,165	30,169	32,778	36,265	40,999	13.1	25.1
Time deposit	39,030	18,012	11,083	18,710	22,729	27,736	38,043	45,770	46,990	48,974	54,058	10.4	15.0
CEDRO	0	0	9,016	2,409	798	3	1	0	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	39,298	38,817	34,235	-11.8	-12.9
Interbanking obligations	2,293	1,514	836	726	1,070	1,488	3,383	1,979	1,160	1,163	1,668	43.4	43.7
BCRA lines	83	1,758	16,624	17,030	17,768	10,088	3,689	675	649	91	41	-54.7	-93.7
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,548	6,413	6,686	5,672	5,317	4,626	-13.0	-18.5
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	2,696	2,249	1,833	2,261	1,231	1,262	2.5	-44.2
Other	33,466	11,010	7,374	7,939	12,878	11,530	16,015	18,150	29,555	31,016	26,638	-14.1	-9.9
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,319	1,642	1,668	1,759	1,910	1,918	0.5	9.0
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,264	3,989	4,443	5,828	6,591	7,897	19.8	35.5
Net worth	12,178	11,515	15,827	14,900	14,780	17,080	20,938	23,356	26,292	28,731	31,111	8.3	18.3
Memo													
Netted assets	88,501	73,796	117,928	115,091	121,889	123,271	143,807	166,231	192,074	201,838	216,100	7.1	12.5

(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											Semestre			Change (%)	
<i>In millions of current pesos</i>	1999	2000	2001	2002 ¹	2003	2004	2005	2006	2007	2008	2009	II-08	I-09	II-09	II-09 / I-09	II-09 / II-08
Financial margin	5,176	5,441	5,282	10,628	2,575	3,415	5,253	7,778	8,960	12,964	19,720	6,957	9,359	10,361	11	49
Net interest income	3,819	3,598	3,519	-304	107	1,214	2,069	2,826	4,191	7,727	10,068	4,264	5,003	5,065	1	19
CER and CVS adjustments	0	0	0	1,476	1,082	900	1,215	858	662	651	185	222	84	101	20	-55
Foreign exchange rate adjustments	213	160	256	6,189	-312	666	576	740	990	1,620	1,509	926	908	601	-34	-35
Gains on securities	908	1,232	962	3,464	1,892	959	1,259	3,154	2,888	1,637	7,343	262	2,599	4,744	82	1,707
Other financial income	236	450	546	-197	-195	-322	134	199	229	1,329	616	1,282	764	-149	-119	-112
Service income margin	2,598	2,554	2,598	2,782	2,341	2,774	3,350	4,459	5,881	7,632	9,198	4,083	4,322	4,876	13	19
Loan loss provisions	-1,872	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-737	-1,174	-1,863	-2,751	-1,043	-1,400	-1,351	-3	29
Operating costs	-5,326	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-7,741	-9,735	-12,401	-14,807	-6,523	-7,097	-7,710	9	18
Tax charges	-368	-379	-418	-512	-366	-393	-509	-769	-1,105	-1,715	-2,380	-960	-1,131	-1,249	10	30
Income tax	-386	-393	-216	-337	-295	-202	-217	-365	-380	-1,168	-3,001	-706	-1,453	-1,548	7	119
Adjustments to the valuation of government securities ²	0	0	0	0	-665	-51	-201	-170	-100	-267	3	-135	-20	24	-217	-118
Amortization payments for court-ordered releases	0	0	0	0	-791	-1,147	-1,168	-1,182	-1,466	-688	-233	-332	-52	-181	249	-45
Other	447	307	615	-4,164	1,178	846	1,156	1,641	1,576	916	264	513	-35	300	-946	-42
Monetary results	0	0	0	-10,531	-20	0	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	3,412	6,014	1,853	2,491	3,522	41	90
Adjusted results ³	-	-	-	-	-1,357	252	2,016	4,267	4,023	4,367	6,244	2,320	2,564	3,680	44	59
<i>Annualized indicators - As % of netted assets</i>															<i>change in p.p.</i>	
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	4.3	5.9	5.8	7.3	9.8	7.7	9.6	10.1	0.5	2.4
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.7	2.1	2.7	4.4	5.0	4.7	5.1	4.9	-0.2	0.2
CER and CVS adjustments	0.0	0.0	0.0	1.1	0.9	0.8	1.0	0.6	0.4	0.4	0.1	0.2	0.1	0.1	0.0	-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	1.0	0.9	0.6	-0.3	-0.4
Gains on securities	1.1	1.4	1.2	2.5	1.7	0.8	1.0	2.4	1.9	0.9	3.7	0.3	2.7	4.6	2.0	4.3
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.2	0.1	0.8	0.3	1.4	0.8	-0.1	-0.9	-1.6
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.7	3.4	3.8	4.3	4.6	4.5	4.4	4.8	0.3	0.3
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.8	-1.1	-1.4	-1.2	-1.4	-1.3	0.1	-0.2
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.9	-6.3	-7.0	-7.4	-7.2	-7.3	-7.5	-0.3	-0.3
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6	-0.7	-1.0	-1.2	-1.1	-1.2	-1.2	-0.1	-0.2
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.7	-1.5	-0.8	-1.5	-1.5	0.0	-0.7
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	0.0	-0.1	0.0	0.0	0.0	0.2
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	-0.1	-0.4	-0.1	-0.2	-0.1	0.2
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.9	1.2	1.0	0.5	0.1	0.6	0.0	0.3	0.3	-0.3
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	0.0
ROA	0.3	0.1	0.2	-11.3	-2.5	-1.0	0.5	2.2	1.6	1.9	3.0	2.0	2.5	3.4	0.9	1.4
ROA adjusted ³	-	-	-	-	-1.2	0.2	1.6	3.2	2.6	2.5	3.1	2.6	2.6	3.6	1.0	1.0
ROE	2.3	0.8	1.4	-79.0	-19.1	-8.1	4.1	15.3	10.9	15.2	22.9	16.1	20.1	25.5	5.4	9.4

(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 | Portfolio Quality

<i>As percentage</i>	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	3.4	2.7	2.7	3.0
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	3.5
Provisions / Non-performing loans	61.1	66.4	73.8	79.2	102.9	124.5	129.9	129.6	131.4	125.7
(Total non-performing - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.0	-0.8	-0.8	-0.8
(Total non-performing - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-3.3	-3.0	-3.3	-2.8

(*) 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 Societies.

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.

Index of Charts and Tables

Index of Charts

1.	Real GDP.....	7
2.	Financial Intermediation with the Private Sector.....	8
3.	Non-Performing Loans to the Private Sector.....	9
I.1.	Real GDP.....	11
I.2.	International Debt Issuances of Emerging Economies.....	11
I.3.	Unemployment Rate, Selected Countries.....	12
I.4.	Commodity Prices.....	12
I.5.	Stock Indices and Expected Volatility.....	12
I.6.	Spreads over Germany Bonds Evolution.....	13
I.7.	Treasuries Yield and Inflation Expectation.....	13
I.8.	US Treasury Auctions.....	13
I.9.	Main Currencies Evolution.....	14
I.10.	MSCI Indices (Equities).....	14
I.11.	Emerging Debt Spread Indices (CDS).....	14
I.12.	Emerging Country Currencies Indices.....	15
I.13.	Capital Compliance.....	15
I.14.	Liquid Assets.....	16
I.15.	Non-Performing Loans and Provisions.....	16
B.1.1.	Public Sector Financial Situation: Euro Area Countries.....	17
B.1.2.	5-Year Credit Default Swap Prices Evolution.....	17
B.1.3.	Financial Sector Equity Prices in Euro Area Distressed Countries.....	18
II.1.	Real GDP.....	19
II.2.	Issues of Corporate Bonds.....	19
II.3.	Real GDP.....	20
II.4.	Consumption Growth.....	20
II.5.	Construction Investment.....	20
II.6.	Current Account Balance Evolution.....	21
II.7.	Price Indexes.....	21
II.8.	M2 Explanatory Factors.....	21
II.9.	M2-2009 Targets.....	22
II.10.	International Reserves.....	22
II.11.	Argentina Yield Curves.....	22
II.12.	Sovereign Debt Spreads.....	23
II.13.	Gross Public Debt Evolution.....	23
II.14.	Outstanding Lebac and Nobac Stock Composition.....	23
II.15.	Yield Curves of Lebac Auctions.....	24
II.16.	Lebac Secondary Market.....	24
II.17.	Traded Volume of Government Bonds (MAE+BCBA).....	24
II.18.	Issuance of Financial Trusts.....	25
II.19.	Trading of Differed Payment Checks.....	25
II.20.	Local Stock Market Evolution.....	25
II.21.	Equity Trading Volume.....	26
II.22.	Future Dollar.....	26
B.2.1.	Badlar Interest Rate.....	27
B.2.2.	Traded Maturity in Futures of Badlar Interest Rate.....	27
B.2.3.	Futures of Badlar Interest Rate Curves.....	28
III.1.	Recent Industrial Evolution.....	29
III.2.	Household Debt Burden.....	29
III.3.	Financial System Asset Portfolio.....	30
III.4.	Composition of Corporate Loan Portfolio.....	30
III.5.	GDP, Goods and Services.....	30
III.6.	Corporate Debt.....	31
III.7.	Corporate Debt Burden.....	31
III.8.	Automotive Sector Indicators.....	31
III.9.	Manufacturing Sector Debt.....	32
III.10.	Primary Sector Debt.....	32
III.11.	Synthetic Indicator of Public Services.....	33
III.12.	Service Sector Debt.....	33
III.13.	Supermarket and Shopping Malls Centres.....	33
III.14.	Construction Indicators.....	34
III.15.	Consumer Confidence.....	34
III.16.	Household Consumption Indebtedness.....	34
III.17.	Share in National Tax Revenue.....	35
III.18.	NFPS Primary Expenditure Share.....	35
III.19.	NFPS* Primary Balance.....	35
III.20.	National Public Debt.....	36
IV.1.	Loans to the Private Sector by Type of Debtors.....	37
IV.2.	Leverage.....	37
IV.3.	Financial Intermediation with the Private Sector.....	38
IV.4.	Loans to the Private Sector by Type of Line.....	38

IV.5.	Loans to the Private Sector by Group of Banks.....	39
IV.6.	Lending Interest Rates in Pesos.....	39
IV.7.	Loans to the Private Sector.....	39
B.3.1..	Household Consumption Loans.....	40
B.3.2.	Credit Card Average Financing by Debtors.....	40
B.3.3.	Credit Cards Issued by Non-Financial Firms – Interest rate.....	41
B.3.4.	Change of Non-Performing Ratio of Credit Card Financing Granted by Non-Financial Companies..	41
IV.8.	Loans to Companies by Economic Sector.....	42
IV.9.	Deposits in the Financial System.....	42
IV.10.	Spread of Lending Interest Rates - Credit to the Private Sector.....	42
IV.11.	Financial System Structure by Type of Bank.....	43
IV.12.	Financial System Regional Coverage.....	43
IV.13.	Capitalization of the Financial System.....	43
IV.14.	Capital Compliance.....	44
IV.15.	Financial Margin Composition.....	44
IV.16.	Net Interest Income.....	45
IV.17.	Efficiency.....	45
IV.18.	Loan Loss Provisions.....	45
IV.19.	Institutional Investors in Argentina.....	46
IV.20.	Institutional Investors in Latin America.....	46
B.4.1.	Financial Trusts Issues.....	47
B.4.2.	Financial Trust Issue Rate.....	48
B.4.3.	Stock of Securitized* Loans.....	48
V.1.	Liquidity.....	49
V.2.	Non-Performing Loans to the Private Sector.....	49
V.3.	Liquidity Change.....	50
V.4.	Liquidity in Pesos.....	50
V.5.	Interbank Liquidity Markets.....	50
V.6.	Call Market.....	53
V.7.	Interest Rates.....	53
V.8.	Loans to the Non-Financial Private Sector.....	53
V.9.	Non-Performing Loans to the Private Sector.....	54
V.10.	Loans to the Private Sector.....	54
V.11.	Lending to the Private Sector by Granted Period.....	54
V.12.	Loan Loss Provisions.....	55
V.13.	Lending to Companies.....	55
V.14.	Non-Performing Lending to Companies by Economic Sector.....	55
V.15.	Lending to Companies by Granted Period.....	56
V.16.	Expected Sources of Funds for the Manufacturing Sector.....	56
V.17.	Total and Non-Performing Loans – Consumer Loans.....	56
V.18.	Households Financing.....	57
V.19.	Household Consumption Loans by Granted Period.....	57
V.20.	Public Sector Exposure.....	57
V.21.	Foreign Currency Mismatch.....	58
V.22.	Foreign Currency Mismatch by Group of Financial Institutions.....	58
V.23.	Financial Intermediation with the Private Sector by Currency.....	58
V.24.	Lending to the Private Sector by Time to Maturity.....	59
V.25.	Total Deposits by Time to Maturity.....	59
V.26.	CER Mismatching.....	59
V.27.	Prices of Government Securities.....	60
V.28.	Daily Volatility for the Calculation of Market Risk Capital Requirement.....	60
V.29.	Market Risk Exposure and Coverage.....	60
VI.1.	M2 Evolution.....	63
VI.2.	Number of Cards Issued by the Financial System.....	63
VI.3.	Direct Debits.....	64
VI.4.	Retail Transfers.....	64
VI.5.	Documents Cleared.....	64
VI.6.	Bounced Checks by Nonsufficient Funds.....	65
VI.7.	Electronic Means of Payments – Pesos Transactions Cleared.....	65

Index of Tables

1.	Soundness Indicators of the Financial System.....	10
III.1.	Grain and Oilseed Production.....	32
IV.1.	Balance Sheet.....	38
IV.2.	Profitability Structure: Financial System.....	44
IV.3.	Social Security Fund FGS ANSES Portfolio.....	46