Financial Stability Report

Second Half 2009

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Preface

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

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

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

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

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

The date of publication of the next issue of the FSR will be on March 31, 2010, on the Central Bank website.

Buenos Aires, September 30, 2009

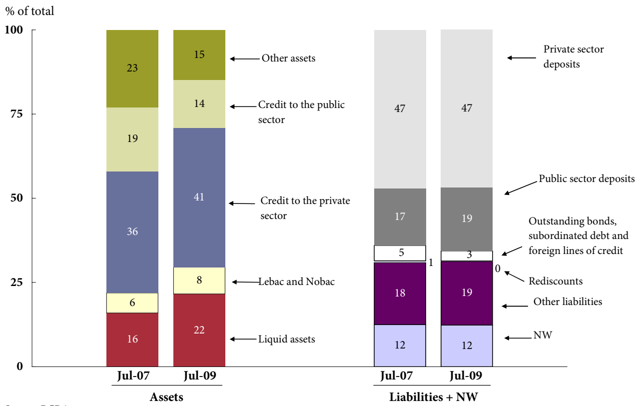
Contents

Central Bank Outlook

Two years after the outbreak of a deep international financial and economic crisis, with its epicenter in the developed countries, the global economy would be finding the first signs of stabilization. As a result of the fiscal and monetary stimulus packages, in recent months improvements have been noted in some sector indicators, as well as a reduction in financial market volatility. Although it is still too soon to be able to confirm that we are at the outset of a sustained global economic recovery, it can nevertheless be stated that a major depression has been avoided, and that the current situation is much more favorable than had been expected some months earlier, despite persistence of a significant downward risk.

As might be expected, Argentina has felt the impact of this global economic contraction of unprecedented magnitude. Nevertheless, this worldwide crisis had found us in a sounder state than on previous occasions. This degree of strength, built in a patient and persistent manner over recent years, matched by the development of a series of measures to confront specific problems during the international crisis, ensured that the tremendous external shock was able to be absorbed at a relatively low cost. In particular, the monetary and financial policy framework implemented by the BCRA, based on a risk management approach, showed itself to be an appropriate anchor for the Argentine economy, which has a lengthy history of macroeconomic instability. This scheme, showing strict consistency among its components, combines a robust monetary policy, the development of an anti-cyclical liquidity cushion policy, a managed floating exchange rate regime and regulations that restrict financial system risks.

Chart 1
Financial System Balance Sheet Expansion and Normalization



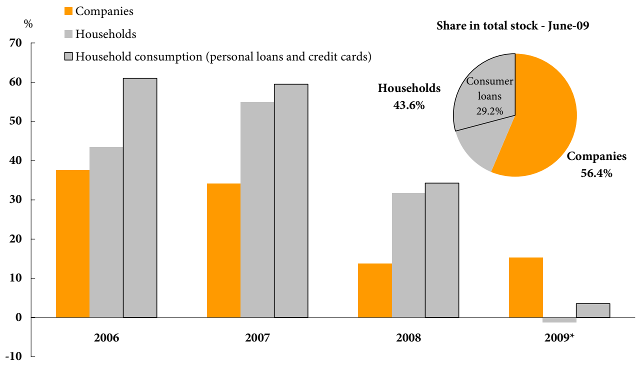
Source: BCRA

As well as the development of policies aimed at shoring up private sector activity, another aspect that concentrates the attention of policy-makers globally has been the redefinition of international financial architecture. It will be essential to maintain this reformist impulse, given the global consensus regarding the role played by the existence of serious regulatory failings as one of the factors responsible for the crisis. In the debate on the changes to come, including the role of International Financial Institutions, a window has opened for discussion at the G-20 forum. The BCRA is an active participant in this area, following its inclusion as a full member of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) (see Box 6), enabling it to contribute actively in the process of drafting regulation standards as well as in the coordination of financial institution supervision policies. In these environments, interest has been shown in the anti-cyclical and prudential reforms that have been successfully implemented in emerging countries such as Argentina. The development of liquidity (in both local and foreign currency) and solvency buffers, added to the limits set on currency mismatching, together with the reduction of exposure to the public sector, are measures that were introduced by the Central Bank to provide strength to the Argentine financial system.

At local level, some signs of economic recovery have been seen. The pre-crisis situation of Argentina, which combined twin surpluses with a Central Bank that recorded an exceptionally strong balance sheet, considerably softened the effects of the global crisis. The prudential regulatory framework implemented by the Central Bank in recent years has helped to ensure the financial system shows a restricted level of intrinsic risk, with amply sufficient coverage mechanisms. As a result, financial entities record notable strength, maintaining satisfactory liquidity and solvency levels. This helped to mitigate the impact of the crisis, transforming the sector into a shock absorber, instead of encourage them, as happened in the past.

Chart 2

Private Sector Credit Growth



*Note: First half annualized
Source: BCRA

With the aim of continuing to develop anti-cyclical strategies while supporting the dynamic of lending to the private sector, at the same time as preserving the conditions leading to financial stability, the Central Bank introduced further measures. In particular, recently there was an adjustment to the repo transaction mechanism, with cuts in interest rates on these transactions on three occasions (in July, August and September). In a complementary step, changes were introduced aimed at strengthening lending to the private sector within the context of prudential action. Sound lending policy should be based on sustained deposit growth as the basic raw material for the intermediation process in a context of financial stability.

Bank financial intermediation with the private sector continues to expand, with improvements in the composition of balance sheets. One of the strengths of the local financial system is the low level of exposure to external funding, minimizing the possibility of experiencing the negative effects of high volatility in international capital flows that usually takes place in periods of crisis.

The liquidity risk faced by financial entities remains restricted. The volume of liquid assets continues to be significant, and this is complemented by private sector deposit growth, following the successful overcoming of four episodes of tension in the local market (July to

October 2007, April to June 2008, September to November 2008, and March 2009). In addition to the liquidity windows that were opened, the BCRA adopted new tools, making it possible for banks to make reverse repos in pesos for terms of up to one year. The full implementation of the Central Bank's role as a lender of last resort has consolidated the position of banks in the face of liquidity risk from traditional intermediation activity.

While the financial system is continuing to increase its lending to the corporate sector, the materialization of credit risk derived from the economic slowdown appears to be beginning to stabilize. Private sector loan non-performance growth, which has arisen mainly in household consumer credit, has begun to slow notably and remains at historically low levels. In this context, the financial system records robust coverage by means of provisions.

Table 1
Main Soundness Indicators of the Financial System

In %	2001 Average	2004 December	2007 June	2009 June
Liquidity				
.. (Liquid assets + Central Bank securities) / Total deposits	21	40	41	41
Private sector credit risk				
.. Credit / Total assets	40	20	32	39
.. Non performing loans / Total loans	15.7	18.6	3.9	3.7
.. Provisions / Non performing loans	66	104	130	118
Currency risk				
.. (Foreign currency assets - Foreign currency liabilities) / Net Worth	62	56	28	31
Liabilities				
.. Total deposits / Liabilities	60	61	74	77
.. Outstanding bonds, subordinated debt and foreign lines of credit / Liabilities	12	10	4	3
.. BCRA assistance / Liabilities	2	11	2	1
Leverage				
.. Assets / Net worth	8.7	8.9	8.1	8.2

Source: BCRA

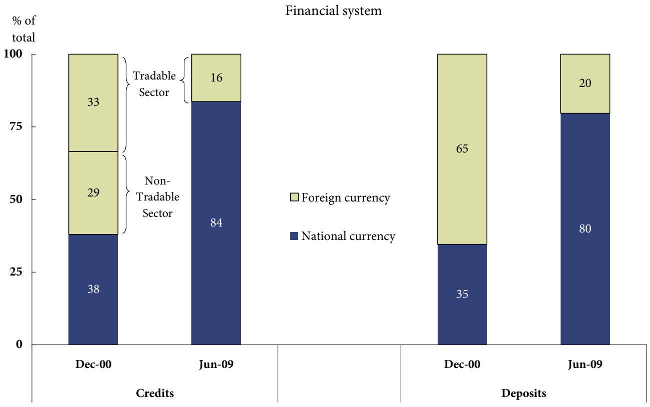
The consolidation of economic activity recovery would imply that the credit risk faced by banks will remain restricted. The corporate sector is showing signs of recovery, and this fact, together with the maintenance of low indebtedness levels, will have a positive impact on corporate economic and financial positions, strengthening their payment capacity. Households are showing signs of a reduction in their indebtedness. Despite the reduced dynamism of the labor market, the restrained evolution of retail prices and the sector lower financial burden levels will contribute to the shoring up of their payment capacity through to the end of 2009.

Financial sector exposure to the public sector is stabilizing at the lowest levels seen in recent years. The risk of lending to the public sector is expected to continue at a low level, as local sources of finance and liabilities management transactions provide the Government with sufficient resources to be able to meet its financial commitments.

Exposure to interest rate risk also remains at a low level, while interest rate volatility is expected to decline as a result of the Central Bank's anti-cyclical policies. Furthermore, together with the MAE this Institution has created the interest rate future market, participating by means of its "*Función Giro*", facilitating credit operations among counterparties, and has also auctioned fixed for variable interest rate swaps to help ensure improved interest rate risk management by banks. Activity levels in these markets, particularly in the case of futures, have increased quite significantly since then. In addition, the financial system balance sheet mismatching of CER-adjustable items continues to decline, mainly as a result of Guaranteed Loans swaps, further limiting exposure to real interest rate exposure.

The financial system currently records a very low foreign currency exposure risk. On the one hand, mismatching between foreign currency assets and liabilities is at a historically low level, the result of a series of prudential measures establishing that foreign currency bank deposits could only be used for lending in the same currency to companies generating foreign currency income. On the other hand, the current managed floating exchange rate regime encourages conditions that restrict the volatility of the nominal exchange rate.

Chart 3
Financial Intermediation by Currency
Financial system



Source: BCRA

As a result of the policies that were developed by the Central Bank, a gradual improvement has been achieved in the geographical coverage of the infrastructure used to provide financial services. In particular, the number of ATMs per inhabitant and the distribution of branches have increased significantly in those regions recording the lowest coverage levels.

The National Payments System continues to diversify the range of mechanisms available for the carrying out of transactions, deepening the use of banking money. There is a gradual increase in the number and value of documents cleared through the financial system, with a reduction in the proportion of rejected checks for lack of funds. The Central Bank continues to work on the standardizing of documents to be cleared following the introduction of the Uniform Federal Clearing.

Actions by the BCRA, together with the incipient improvement detected in the local economy, will considerably reduce the possibility of any deterioration in the current risk map for the remainder of 2009. It is expected that there will be no significant change in the exposure pattern, and that adequate coverage levels will be maintained.

In short, in the face of the global crisis, the Central Bank's monetary and financial policy has proved to be an anchor for systemic stability for the first time in decades, allowing the country to endure a period of strong tension while protecting two public goods: monetary and financial stability, which are essential to sustain the economic growth path.

I. Internacional Context

Summary

The adverse effects of the global financial turmoil materialized with intensity during 2009. The global economy contracted sharply and, although in recent months there were signs of some stabilization in some sectorial indicators, signs of normalization or of a global economic recovery are still not consolidated.

In order to balance the sharp contraction in the economic activity, the various authorities adopted measures to mitigate the negative effects of the crisis in the financial markets and in the real economy. Both in developed as well as in emerging economies, monetary and fiscal active policies were implemented, while more cautious strategies are currently taking place given the progressive market recovery.

Given the perception that governments would not let other systemic financial institutions fail, interbank spreads recovered rapidly. In recent months further improvements in financial markets were observed, while policy measures implemented by authorities at global level were considered positive, registering a volatility reduction. However, considerable risks of a turnaround still remain in view of the evolution of the real economy.

An increase in the implementation of protectionist policies continued to be verified, situation that contributed to the international trade tightening. In this context, the worldwide focus of attention is concentrated in the coordination of economic policies and the redefinition of the global financial architecture including the role of the international financial institutions.

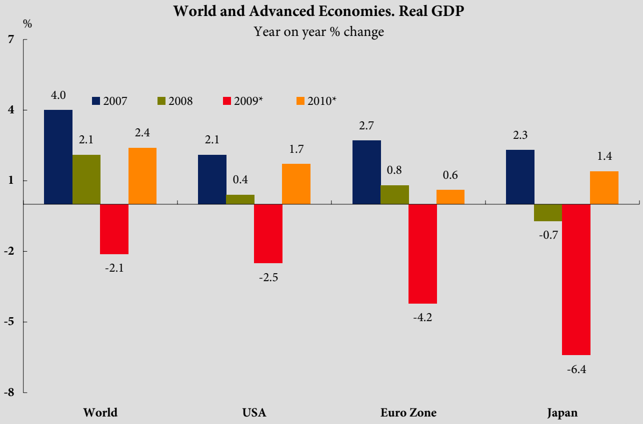
Stock markets in emerging countries, led by the so-called BRICs, accompanied the positive trend in developed economies, favored by the commodity prices recovery and the relative strength of their economies. While maintaining positive expectations, volatility persists and cannot be rule out further price corrections.

Financial systems in Latin America continue facing the crisis from a relatively stronger position, maintaining levels of liquidity and solvency above other regions. Banks continue to increase their financial intermediation activity with the private sector, albeit at a slower pace. The strength of these financial systems should favor the credit growth recovery once there is a clear evidence of an international crisis rebound.

Chart I.1

World and Advanced Economies. Real GDP

Year on year % change

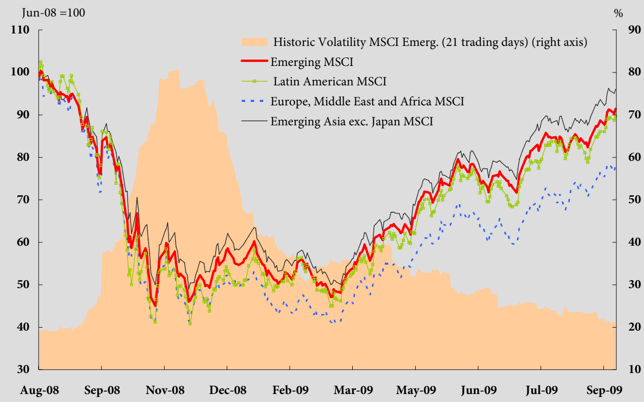


Source: Focus Economics

* projected

Chart I.2

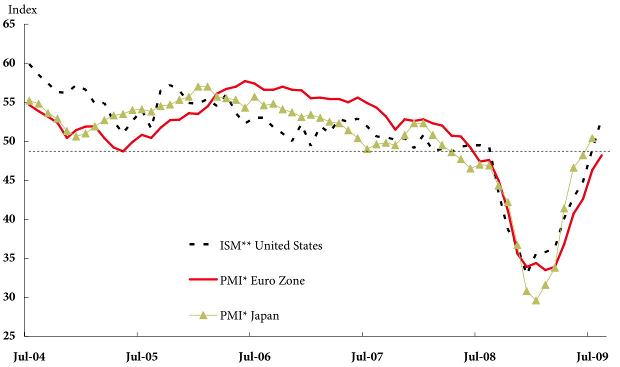
MSCI Indices (Equities)



Source: Bloomberg

Chart I.3

Advanced Countries. Leading Indicator of Industrial Production

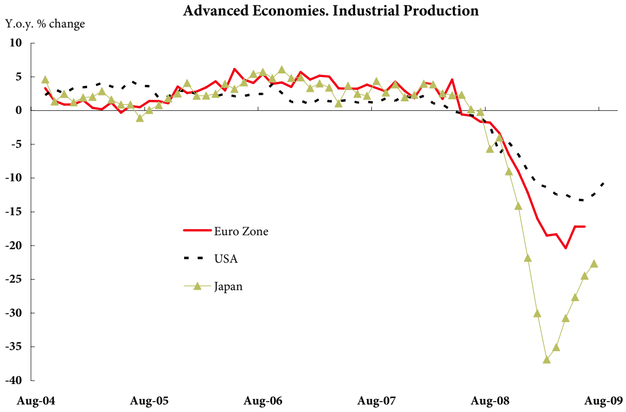


If the Index is higher than 50 points it shows an improvement relative to previous month in business conditions .
Source: Bloomberg

*Purchasing Managers Index
** Institute for Supply Management

Chart I.4

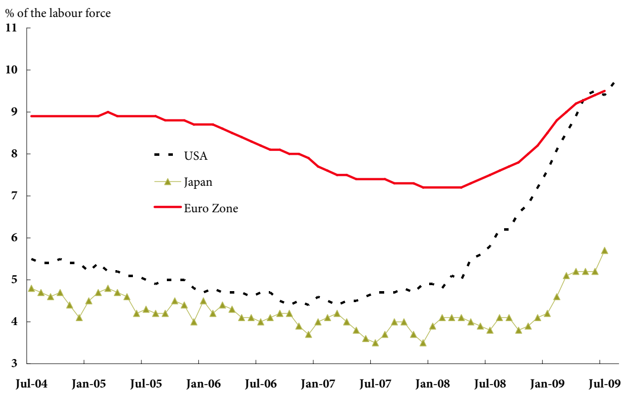
Advanced Economies. Industrial Production



Source: DataStream

Chart I.5

Avanced Economies. Unemployment Rate



Source: Datastream

I.1 International Condition

The global economic activity contracted sharply during the first part of 2009 showing signs of stabilizing in recent months

So far in 2009, the global economic activity and trade suffered the greatest contraction of the last decades, affecting both advanced and emerging economies although the latter showed a greater resistance with respect to past crisis. Beyond the recent stabilization of some sectorial indicators and certain improvements at the margin in various indices of confidence, it is still premature to consider that we are heading to a sustained recovery. The projected growth of the global activity shows a contraction of 2.1% in 2009, for the first time since 1982, and an increase of 2.6% in 2010 (see Chart I.1).

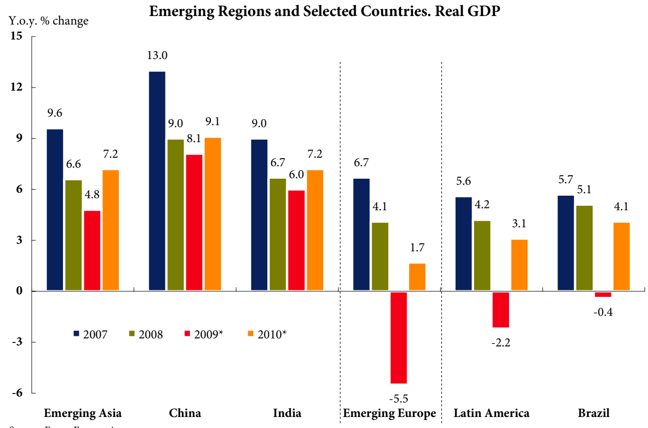
The main confidence indicators in industrialized economies show a change in trend, accumulating several consecutive months of expansion. By the end of the first semester, the indicators of economic activity seem to have reached a floor while in some specific cases have begun to recover (Charts I.3 and I.4). The labor market continued to deteriorate in recent months (see Chart I.5) becoming one of the major risk factors for the recovery of the economic activity, given that together with other variables such as household wealth and the still restrictive conditions of access to credit would keep private consumption still down.

The prospects for emerging economies are somewhat more encouraging, while its recovery will continue depending on the dynamics of the global adjustment. Some of these countries began to show signs of improvement in the economic activity driven by the domestic demand. The performance between both regions and countries remains heterogeneous. While some economies are beginning to exhibit an incipient recovery, others still show risks of stagnation. Thus, emerging Asia will grow in 2009 and emerging Europe will show a marked deterioration in its performance though some recovery is expected in 2010. Latin America exhibits a slight GDP drop in 2009 as well as prospects of a rapid recovery in 2010 (see Chart I.6).

The sharp contraction of the economic activity reduced the inflation rates globally. In developed economies, the retail price variation fluctuated around zero (in monthly and year-on-year terms) and forecasts anticipate that it will remain at similar levels at the end of the year. Most emerging economies continue showing positive changes in retail prices, though well below those of 2008.

Chart I.6

Emerging Regions and Selected Countries. Real GDP



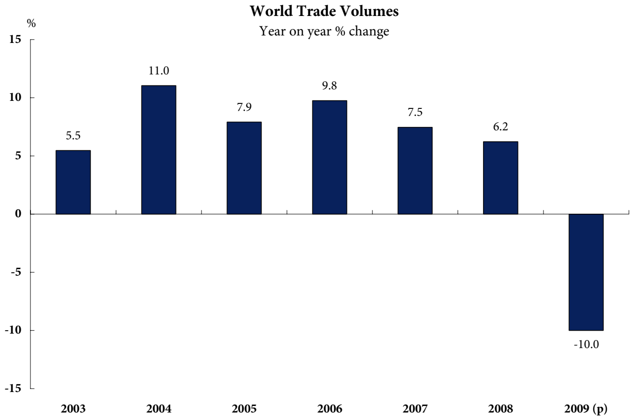
Source: Focus Economics

* projected

Chart I.7

World Trade Volumes

Year on year % change

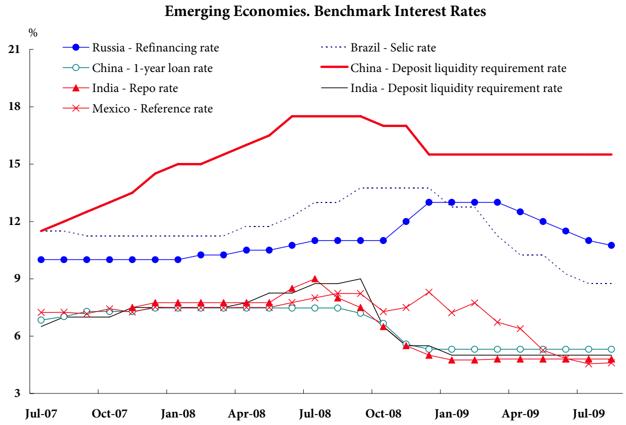


Source: World Trade Organization

(p) projected

Chart I.8

Emerging Economies. Benchmark Interest Rates



Source: Bloomberg

The international trade continues to be exposed to an increased use of protectionist policies, among which the promotion of locally produced goods purchases and commercial barriers are noticeable. Global credit restrictions in the worldwide market also act as a limiting factor of trade flows. Foreign exchange decreased 20% year-on-year in the first half of the year, while its reduction throughout 2009 could exceed the projections of the international agencies (about 10%, see Chart I.7).

Global economic authorities continue to adopt measures to restore stability in financial markets and reduce the impact of the crisis on the economic activity

The magnitude of the crisis established the need for a global coordination of economic policies and the re-definition of the international financial architecture, including the role of the International Financial Institutions (IFIs). Thus, the IMF's lending capacity increased by US$500 billion and a special allocation was fulfilled amounting to US$250 billion of Special Drawing Rights (SDRs) among member countries.

Advanced and emerging economies continue with the implementation of active monetary and fiscal policies aimed at supporting their economies (see Box 5). Several countries continued to reduce successively their benchmark interest rates keeping them in some cases at their respective record lows (see Chart I.8).

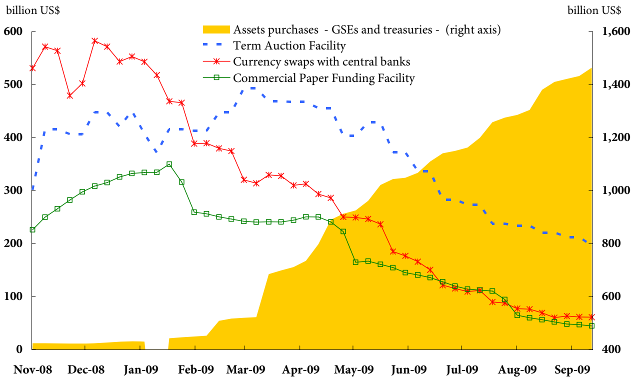
In recent times, a more cautious strategy (wait and see) is observed in developed economies due to their risk aversion adjustment and the progressive improvement of the capital and credit markets. The US and the European authorities implemented various policy measures to strengthen financial institutions and the economy in general, during the first months of the year. Among the main measures implemented in the US regarding the financial system are included the change from investment to commercial banks, granting of explicit asset guarantees, additional capital injections with public funds, rise in the deposit insurance limits and regulatory changes intended to limit the accounting effect on banks' balance sheets (see Box 7). Moreover, the Fed initiated programs to purchase direct long-term debt from the Treasury[1] (quantitative easing), programs to support the depressed securitized assets market (credit easing - TALF[2]) as well as measures were proposed to withdraw the so-called "toxic assets" from the banks' balance sheets.

[1] In the case of the ECB purchases of corporate instruments were carried out.
[2] Term Asset-Backed Securities Loan Facility

Chart I.9

Federal Reserve Programs

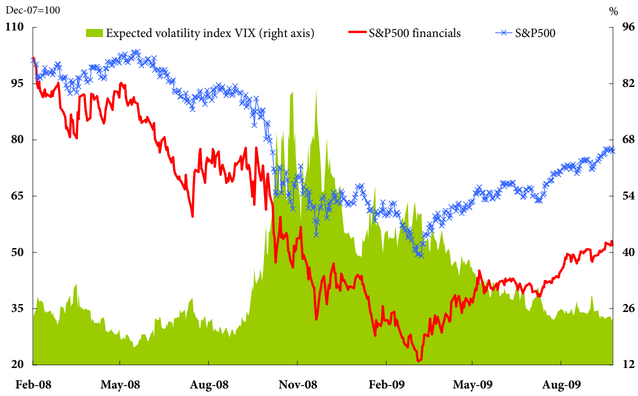
Stocks



Source: FED

Chart I.10

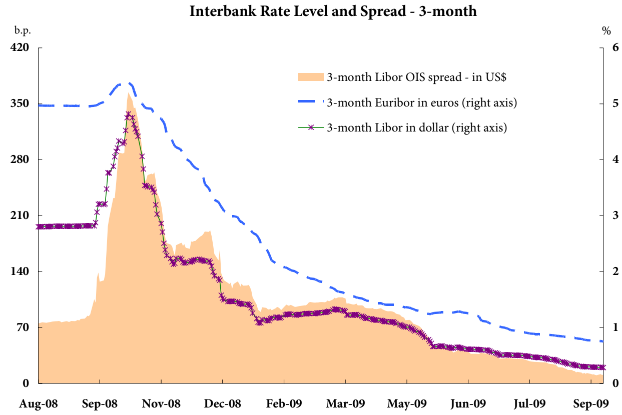
US Stock Markets



Source: Bloomberg

Chart I.11

Interbank Rate Level and Spread - 3-month



Source: Bloomberg

Facing signs of a less dramatic market context, the US Treasury and the Fed began to moderate some of its expansive programs, while the latter accelerated the long-term assets purchases (see Chart I.9). Through the stress tests[3] implemented on all systemic financial institutions, the expectations about potential losses within the system were stabilized. In addition to monetary /financial policies, other policies of fiscal nature (ARRA[4]) were added. Thus, the US Government intervention contributed to the improvement in expectations so that exit strategies are already been discussed for various types of policies.

Stock indices of developed economies are recovering with a gradual correction in expected volatility

After the peaks of turbulence of the second half of last year, at the beginning of 2009 a context of high uncertainty and strong volatility was evident, which began to revert last March. Since then, major progress was observed although financial markets show considerable downside risks (primarily based on the evolution of the real economy).

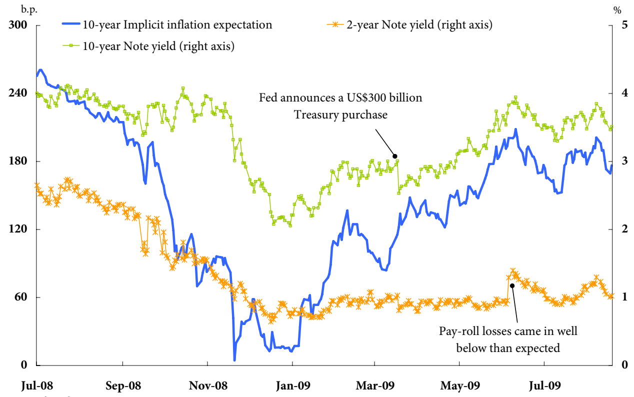
The change in tone was evident in different markets. The US stock market rebounded after falling nearly 25% in the first months of 2009, reaching new highs for the year (see Chart I.10). The stock price recovery was accompanied by a lower risk perception. The implied volatility index of S&P500 (VIX) fell steadily in recent months to a level that is half the observed at the beginning of the year[5]. However, prices continue to show considerable volatility reacting sharply to both the information about the domestic economy evolution as to the perceptions about the prospects of external markets (China[6]).

In a context in which some interest rates reached historical lows (due to policies of quantitative expansion and to safety nets of major central banks), interbank spreads began to improve rapidly, returning to levels similar to those prior to the collapse of Lehman Brothers (see Chart I.11). This behavior is in part linked to the perception that governments would be unwilling to let other systemic financial institutions fell. The challenge of restoring the functioning of private credit flows while achieving the objectives of monetary policy continues.

[3] Supervisory Capital Assessment Program.
[4] American Recovey and Reinvestment Act.
[5] A similar behavior is observed for the VDAX in Europe.
[6] In August the benchmark chinese stock market indices contracted near 20% due to declining expectations in government's incentives.

Chart I.12

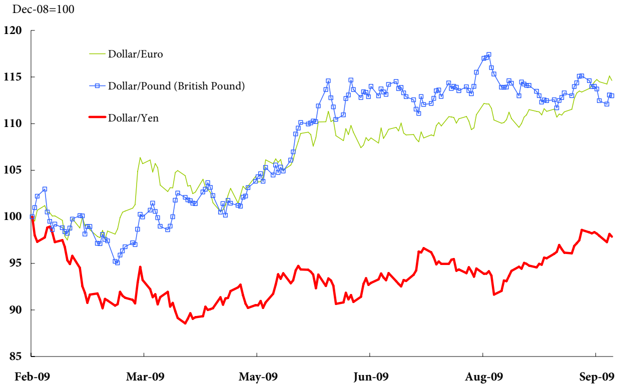
Treasuries Yield and Inflation Expectation



Source: Bloomberg

Chart I.13

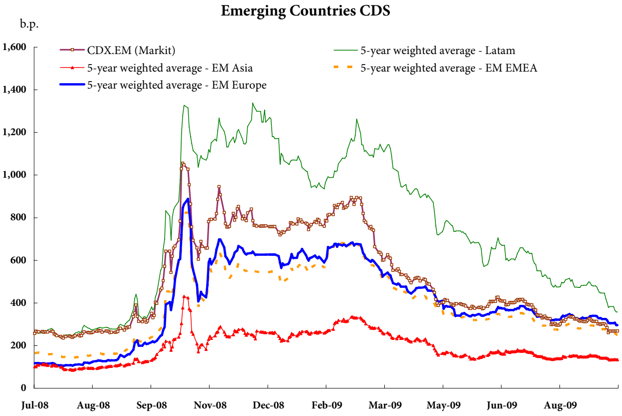
Currency Evolution of Developed Countries



Source: Bloomberg

Chart I.14

Emerging Countries CDS



Source: BCRA from Bloomberg data

The flight to quality weakens, pushing up Treasury yields

The yield evolution of the US Government debt is being influenced by the monetary situation, the perspectives on the fiscal situation and by some recomposition of the risk appetite. In the context of market turmoil, the demand for Treasuries was remarkably high in the first half of the year, resulting in yields around record lows. Afterward, with economic/financial data more positive than initially expected, long-term yields instruments tended to increase more than short-term yields (linked to the monetary policy) (see Chart I.12). The purchasing assets policies of the Fed could not stop this trend, which gained momentum with the weakening of the flight to quality episodes and with the rise of the implicit long term inflation rates.

The fiscal deterioration increased the US Government financing needs, doubling the estimated supply of long-term Treasury instruments in the first part of 2009. The fiscal dimension seems to gain momentum which may involve certain risks once the current crisis is overcome.

The rise in risk perception, the hedging of currency mismatches and the carry trade operations that had favored the appreciation of the dollar until early 2009 weakened in recent months increasing the value of other currencies (see Chart I.13). Certain political frictions, the evolution of the US economy in a post crisis scenario together with the possibility of a weaker dollar at international[7] level could involve in the medium term a further weakening of the US currency.

Assets of emerging markets show a general improvement (exhibiting a better performance those instruments linked to the BRICs) although they remain volatile

In line with the relative change concerning the prospects of developed countries (favoring commodity prices) a considerable revaluation in emerging markets assets began to be noticeable (see Box 1).

In addition to the improvement in the context, the relative strength of emerging economies is also noticeable, which now have more degrees of freedom to implement countercyclical measures after they developed prudential policies.

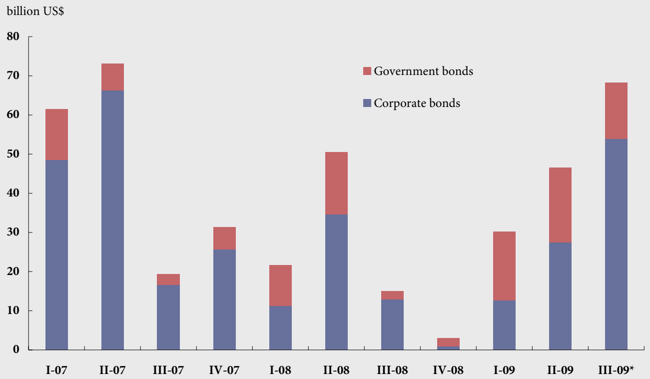
[7] For example, various central banks are inclined to agree to currency reciprocal swaps.

Box 1 / Debt Issuance of Governments and Companies of Emerging Economies in International Markets

In a context of improvement in international markets and with an incipient recomposition of risk appetite, windows of opportunity are opening that governments and companies are increasingly exploiting to issue debt. So far this year emerging economies already issued around US$140 billion of debt in international markets (US$51 billion correspond to sovereign debt). However, more restrictive market access conditions are observed when compared to that observed before the crisis, including higher spreads over Treasuries and shorter terms

Chart B.1.1

International Debt Issuance of Emerging Economies



(*) Up to September 23
Source: Bloomberg

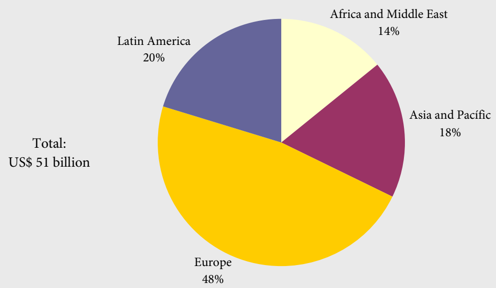
Since March, a renewed interest in emerging market assets including debt instruments (both sovereign and corporate) is evident. This behavior reflects the effects of a correction of the high degree of prevailing uncertainty, the progress in the recomposition of the appetite for risk and the prospects of interest rates in developed economies that remained at low levels for a long period. In addition to these factors, some strength showed by emerging economies themselves and a relatively favorable outlook for the coming years are also involved. Regarding debt instruments, a context of lower spreads (as evidenced by indices such as the EMBI+ or the CDX EM 5Y[8]) together with an increase in secondary markets[9] trading implied windows of opportunity for both governments and companies of emerging economies to get financing in international markets.

By September, issuances related to emerging economies accumulate US$140 billion, amount that is 55% higher than the operations involved in 2008[10] (see Chart B.1.1). Different windows of opportunity that coincide with periods of relative improvement in debt spreads and that have been increasingly exploited are observed. The first funding opportunity opened by the end of December 2008 and continued in January. Placements again gain momentum between mid-March and late May. More recently, the transactions showed significant dynamism in July and September thus the issuance of the third quarter accounts for nearly half of what was placed so far in 2009.

Chart B.1.2

Emerging Economies Sovereign Issuances by Region

January to September 2009



Source: BCRA from Bloomberg data

Around 37% of the total amount placed so far this year corresponds to sovereign debt issuance (though the ratio amounts to 85% if other issues where the public sector[11] was involved are considered), equivalent to an amount almost 80% (126%) higher than the placements of the same period of 2008 (2007). Among sovereign operations, Eastern European countries (see Chart B.1.2) constitute the region with the greatest

[8] Both the yields of the main bonds operated in international markets as the spreads of EMBI+ showed a significant reduction for all emerging since March. The contraction was even more pronounced in the case of credit default swaps (CDS), whose market was particularly resentful after the fall of Lehman Brothers. However, aggregate indicators show an important expansion over the average of 2006-2007.

[9] According to EMTA data, the operated amount of emerging debt during the first six months of the year show a gradual improvement regarding the low levels of the last half of 2008, while maintaining a 20% decline year-on year.

[10] In 2008 were issued about US$90,000 million of emerging market debt. Approximately 97% of this amount was issued between January and September.

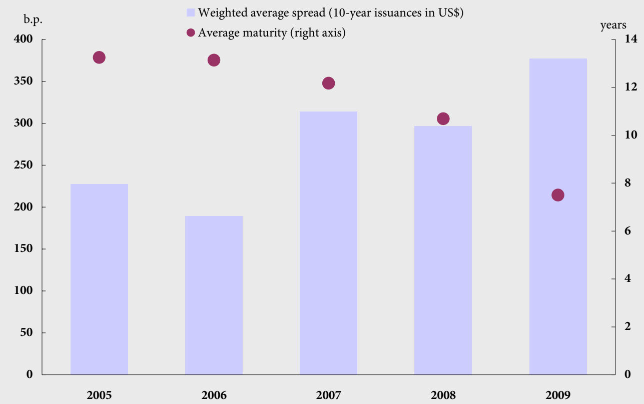
[11] Public companies or with high Government participation

dependence on external financing. In this context, transactions in euros represented almost one third of the total. Issuing of Latin American governments (all in dollars) began to gain a greater role recently: in September they explain half of the amount placed by sovereigns.

While a clear increase in the amounts placed by governments is verified, the obtained financing conditions have certain differences from that observed before the international financial crisis. On the one hand, an increase in the cost of funding was observed with spreads widening in comparison to instruments with low credit risk. Although the operations include a diverse universe of issuers (in terms of rating), for the issuing in dollars close to a 10-year term the weighted average spread for 2009 is around 400 b.p., while in 2005-2007 was in the range of 175 b.p.-300 b.p. (see Chart B.1.3). This is in line with observed indices such as the EMBI+ which so far this year shows an average spread rate close to 500 b.p. that almost doubles the average observed in 2005-2007.

Chart B.1.3

EMEA Sovereign Issuances: Maturity and Spread over US Treasuries



Source: BCRA from Bloomberg data

On the other hand, a maturity shortening of placed instruments is observed. Thus, most of the operations were for periods of up to 10 years, although in recent months, various Latin American countries were able to issue at 20 and 30 years. Thus, the maturity -weighted by the dollar amount- issued so far in 2009 is 9 years versus the weighted average maturity over 15 years for placements carried out in 2005-2007.

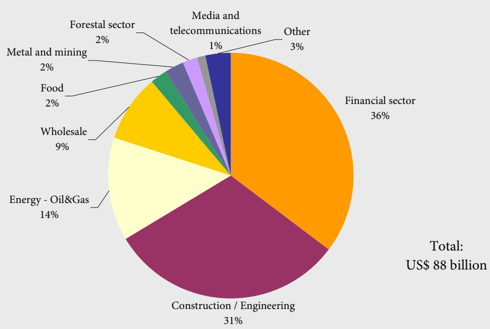
The issuance of emerging companies amount to over US$88 billion so far this year implying an increase of 50% in relation with the same period of 2008 and a decline of one-third with respect to January-September of 2007. The most significant issuances are linked to Asia and offshore centers. At the sectorial level, the operations of the financial segment[12], construction / engineering and to a lesser extent, energy / oil / gas are noticeable (see Chart B.1.4)

Regarding the conditions of issuance for companies, so far in 2009, the predominant currency is the dollar (88% of amount issued) followed by the euro (10%). The weighted average maturity of corporate loans is 6.7 years[13], while before the crisis was close to 10 years. Finally, also in this case, financial costs show an increment. Furthermore, 5-year dollar denominated placements had a weighted average spread over Treasuries of 475 basis points, while in 2007 was 225 b.p.

Chart B.1.4

Emerging Economies Corporate Issues by Sector

January to September 2009



Source: BCRA from Bloomberg data

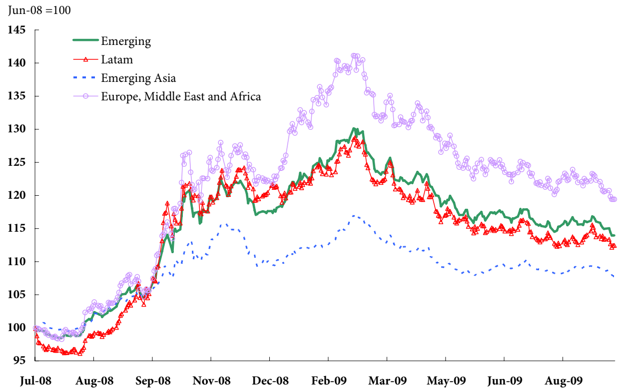
Looking ahead, with emerging economies better positioned than in the past and declining risk spreads but still attractive (in a context of low interest rates in developed countries), both governments and businesses in emerging economies are expected to continue placing debt in international markets. With regard specifically to sovereigns, the issuance level is still low in historical standards, particularly for Latin America. Finally, the persistence of certain downside risks in terms of global economic activity would generate additional incentives to use existing windows of opportunity to get fresh funds.

[12] Almost half of the amounts placed by the financial sector correspond to Asian companies.

[13] Unlike what was observed for sovereign issues, operations on corporate loans were not made for more than 15 years in 2009 (while in 2007 there were transactions over 30 years and more).

Chart I.15

Currency Index: Emerging Markets

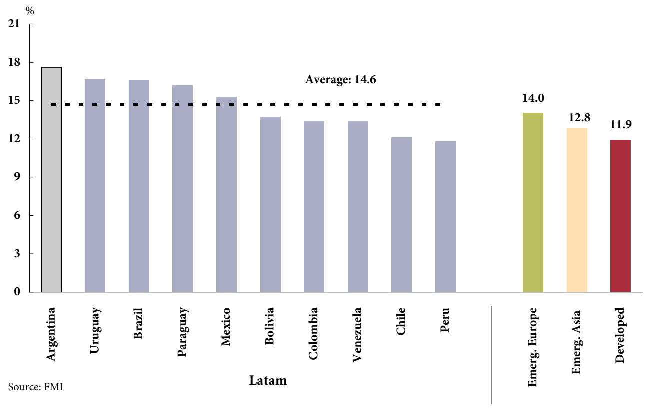


Source: BCRA from Bloomberg

Chart I.16

Capital Compliance

As % of risk weighted assets - Last available data

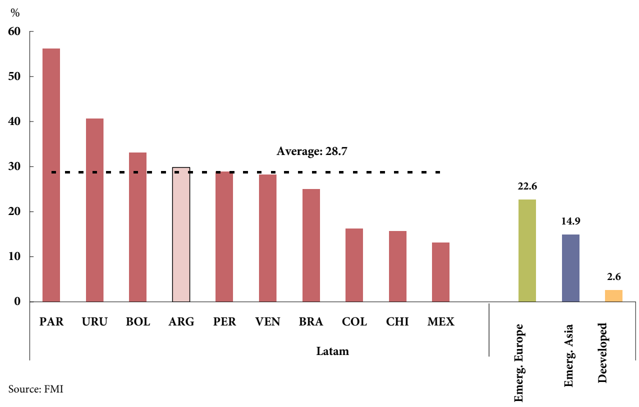


Source: FMI

Chart I.17

Liquid Assets

As % of total deposits - Last available information



Source: FMI

Emerging stock indexes began to show a blunt recovery since the second quarter of the year (see Chart I.2). The rebound in prices coupled with the considerable exchange rate appreciation implied a rise of almost 90% of the MSCI Emerging (measured in dollars) since the minimum levels of this year (see Box 2).

The greater risk appetite led to a sustained downward correction in emerging sovereign debt spreads which was reflected both in the debt spreads measured by the CDX EM index to 5 years (see Chart I.14) as in the spread EMBI+ MS.

Accompanying the performance of emerging assets, the currencies of these countries show a widespread recovery against the dollar so far in 2009 (see Chart I.15). However, they are still 10% in average below the values of a year ago.

Asset prices in emerging economies are still strongly conditioned by the financial market evolution of developed countries and by the global risk appetite. While maintaining positive expectations for emerging assets as "asset class", new episodes of price correction are not excluded.

I.2 Latin American banking systems

Financial systems in Latin America continue to show a strong stand against international turbulence

Most Latin American financial systems continue to show greater resilience to international turbulences with respect to previous episodes of crisis. Solvency and liquidity levels remain high exceeding those in other regions (see Charts I.16 and I.17) as a result of the good macroeconomic performance in recent years and the financial measures implemented by most of the economies of the region[14].

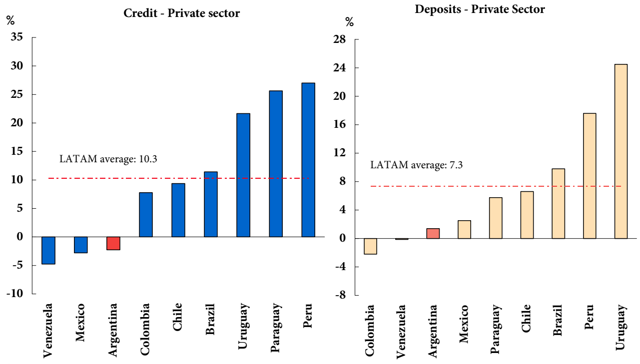
However, Latin American banking systems are not immune to the global financial crisis, and its length is affecting the markets in the region. One of the greatest challenges facing the Latin American financial systems is the reduction and in some cases the reversal of both the transnational credit issued by global banks as well as the financing granted by subsidiaries of international banks. The flight to quality driven by the aversion to emerging

[14] Among those are noticeable: recapitalization of banks, strengthening of the prudential regulation, improvements in monitoring, greater transparency and standards of liquidity precautionary

Chart I.18

Financial Intermediation. LATAM

Y.o.y. % change. CPI* deflacted - Last available data

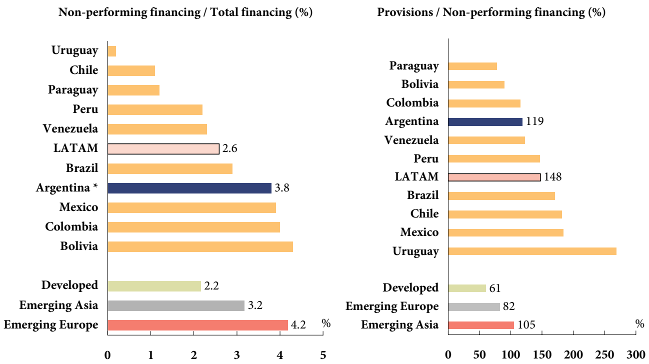


*Note: Argentina deflacted by IPI
Source: IMF

Chart I.19

Non-Performing Loans and Provisions

Last available data



*Note: Private sector non-performing financing as percentage total private sector financing
Source: IMF

risk also impacts on Latin American financial systems, thus longer term funding conditions are tighter and the liquidity of local markets decreased.

The rise in financial intermediation with the private sector is showing a more moderate pace. Lending to businesses and families recorded positive growth rates in most countries of the region, anchored primarily by increased private sector deposits (see Chart I.18).

Some materialization of credit risk faced by Latin American financial systems is observed, although it is still at restricted levels both from a historical perspective as compared to other emerging regions. Thus, the decline in economic activity translates into a lower payment capacity of companies and households and, consequently in a greater credit delinquency largely driven by the deterioration in the quality of consumer credit to households. Provisions exceed irregular funding in most Latin American economies, situation that combined with high levels of capitalization are signals of a good balance sheet position of the banks in the region (see Chart I.19).

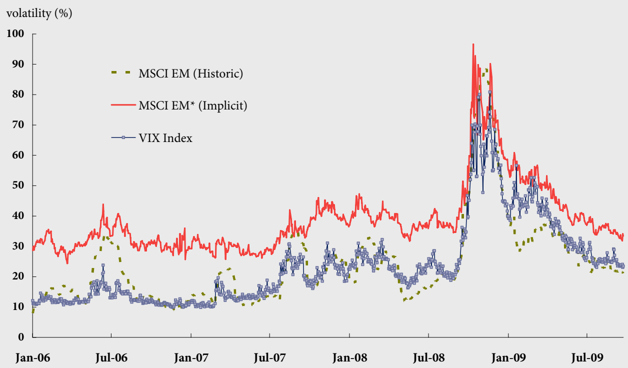
Latin American financial systems are still showing strong fundamental variables, situation that would allow them to recover a greater dynamism in the intermediation of funds in a scenario of world economic recuperation. However, the depth and extension of the crisis remains a potential source of vulnerability that should be taken into account when assessing the performance of the sector.

Box 2 / Sustainability of the Improvement in Emerging Markets Stocks

Significant improvements in the financial instruments of emerging economies are observed, following the positive tone of the international financial markets, albeit starting from very depressed prices. Much of the upturn is linked to the adjustment of expectations compared to the scenario of extreme uncertainty from October to February. However, the improvement must be taken with caution, as it occurs in a context of markets still volatile and strongly influenced by the perspectives on the evolution of the global economy (with considerable downside risks). In fact, in the context of an appreciation trend, episodes of significant correction in prices were already observed

Chart B.2.1

Emerging and US Stock Market Volatility



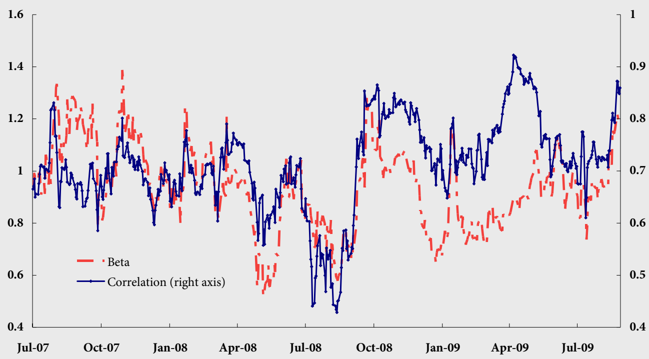
(*) Using options of China Mobile, Teva Pharmaceutical, Petrobras, Taiwan Semiconductor.
Source: Bloomberg

After the widespread collapse of financial markets during the latter part of last year and the first months of 2009, a significant recovery in international markets since early March (see Chapter 1) was observed. This progress occurred in a context marked by widespread adjustments in expectations, in relation to factors such as the economic policy responses in developed countries, more positive economic indicators than initially expected and no new negative shocks in terms of financial stability, among others. With low interest rates in developed economies and incipient recomposition of the risk appetite at global level, a rebound in commodity prices and a favorable response to the measures adopted in emerging economies (EM)[15], a renewed interest in the assets of the latter was verified.

However, this improvement should be taken with caution, to the extent that occurs in a market environment that it is far from being normalized. In fact, while a more optimistic tone prevails, the possibility of a decline in developed economies is not excluded. Thus, this situation affects the valuation of the emerging market assets, which are testing new price levels. In the specific case of stock indices, although the marked upward process has been accompanied by a contraction of its historical volatility, it is located around values that almost double the minimums recorded in 2006-2007 (see Chart B.2.1). This phenomenon is less pronounced in the expected stock market volatility of emerging economies (which is implicit in options prices)[16], although it remains well above the registered in developed economies (in line with its historic performance).

Chart B.2.2

Emerging Assets and Global Market Relationship



(*) Coefficient of correlation and Beta of MSCI EM index relative to MSCI World, with 30-day moving window
Source: Bloomberg

Emerging stock markets have a strong correlation with international markets and their performance is largely conditioned by them. Indeed, both in periods of sharp decline and in the subsequent periods in which a strong rebound was observed, a considerable increase in the interrelation of the EM stock indices with the indices that reflect the global market[17] performance takes place (see Chart B.2.2). This strong correlation is also verified at intra-day level, with emerging market indexes clearly reacting to developments in developed markets.

[15] In addition to the balance sheets submitted by companies from emerging economies and to the overcome problems encountered in the corporate sector in some countries (in terms of increased volatility of exchange rates).

[16] Whereas, for the major companies that make up the index MSCI EM, the average implied volatility in the two call options plus at-the-money and with the nearest maturity.

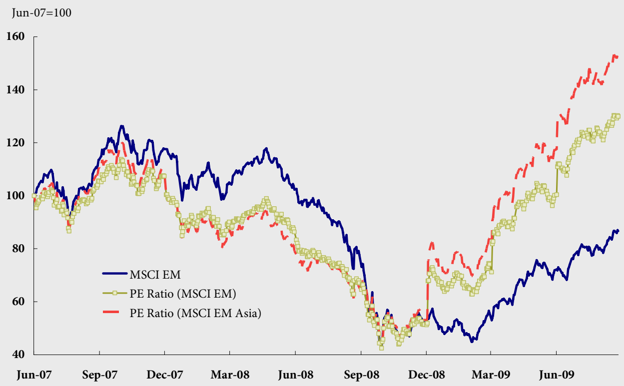
[17] The analysis of correlations and beta is done by comparing the MSCI EM with the MSCI World (with a predominant weight on developed economies.

Moreover, the sensitivity of emerging markets regarding the overall situation (as measured by the MSCI EM beta) is also at relatively high levels.

The greater interest in shares of EM[18] is evident not only in prices but also on the variables associated with portfolio shifts. Mutual funds specializing in stocks of EM accumulate in late September 2009 revenue of about US$38 billion[19]. This virtually counterbalances the outflow recorded during the second half of 2008, showing a back and forth flow from money market funds. However, this flow toward emerging stock markets has been very sensitive to changing signals about the global economic recovery, recording negative flows in specific weeks of June and August.

Chart B.2.3

Emerging Assets Return and Valuation



Source: Bloomberg

The rally of stock indices of emerging economies in recent months, in a context still uncertain, began to raise questions about the sustainability of the progress of the rates and the possibility of a relative overvaluation in certain segments (see Chart B.2.3). For example, the price on earnings ratio[20] for emerging rose considerably during the year. The lower earnings reported by companies, in a context of strong hikes experienced in the valuation of equity, led this ratio above pre-crisis values, although this phenomenon was more pronounced in specific regions such as Asia. Indeed, in August saw a significant price correction (shrinkage above 20%) in the Chinese stock market, facing the eventual lifting of certain stimulus policies.

In short, the recent performance of emerging market securities is largely explained by a correction in prices after the reaction observed during the peaks of turbulence. However, developments occur in a context still volatile with the possibility of strong price adjustments. Moreover, in the medium term a consolidation of the price improvements is expected, accompanying the gradual recovery of the fundamentals of emerging economies. The exit from the crisis would find emerging economies well positioned, based on their ratios of debt and relatively low financial leverage, high levels of international reserves, manageable fiscal deficits and low inflation levels.

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[18] According to data from Emerging Portfolio Fund Research
[19] Only during the second quarter, a record entry of US$26,500 million was observed, with strong routing towards specialized funds in BRICs.
[20] It refers to gains recorded by companies (rather than expected profits)

II. Local Context

Summary

Argentina's sound macroeconomic position has allowed the emergence of recovery signal following the economic slowdown observed at the end of 2008 and at the beginning of 2009. The twin surpluses as well as the high level of international reserves have helped to reduce the impact of the global crisis. In 2009 the Current Account of the Balance of Payments will be positive for the eighth consecutive year, remaining well above the negative values recorded during both the Tequila crisis (1994) and the Brazilian devaluation (1999) (see Chart II.1).

Unlinke previous crises, the prudential policies introduced by the Central Bank in recent years continue to enable the financial system to mitigate the impact of the international financial crisis, transforming it into a "shock absorber" in the face of adverse sudden changes in economic context. In recent months this Institution has implemented additional measures to expand liquidity that have contributed to domestic financial stability and helped to support the gradual economic recovery.

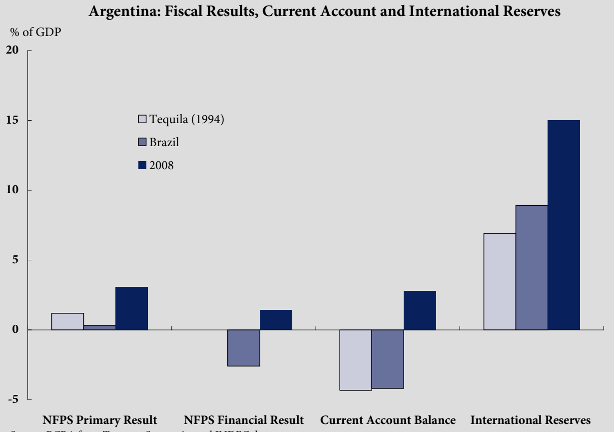
Domestic prices followed the slower pace of the economic activity, the commodity prices, and the monetary policy that is being targetted. The Central Bank has continued to meet its Monetary Program targets, with means of payment (M2) in pesos remaining within the established range.

Domestic bond prices have posted a significant recovery year to date, with markets still continuing to show high levels of volatility. This performance was reinforced by the payment of maturing sovereign debt and the swap of CER-indexed securities, evidencing the Government's ability and willingness to meet its commitments and contributing to a significant reduction in perceived risk. Stock prices kept pace with the improved market climate. Levels of private funding via the issue of financial trusts and corporate bonds are gradually improving.

For the rest of 2009 it is expected that the gradual recovery in international markets will persist, while the local economy gradually regains its dynamism. Keeping the sound monetary and fiscal policy, combined with the prudential and liquidity policies implemented by the Central Bank, constitute an appropriate framework for the recovery of the domestic economy, and will complement the impulse derived from the improved external context.

Chart II.1

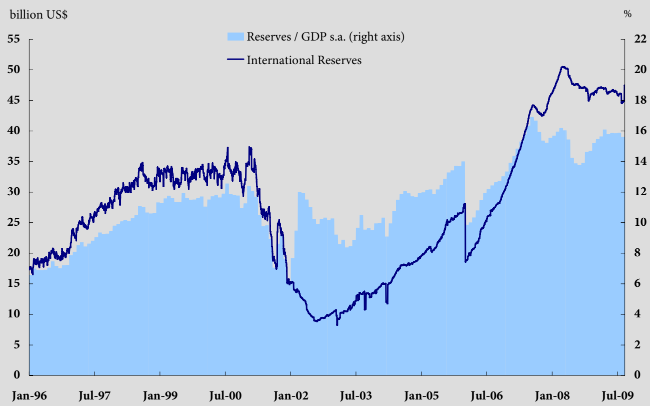
Argentina: Fiscal Results, Current Account and International Reserves



Source: BCRA from Treasury Secretariat and INDEC data

Chart II.2

International Reserves and GDP

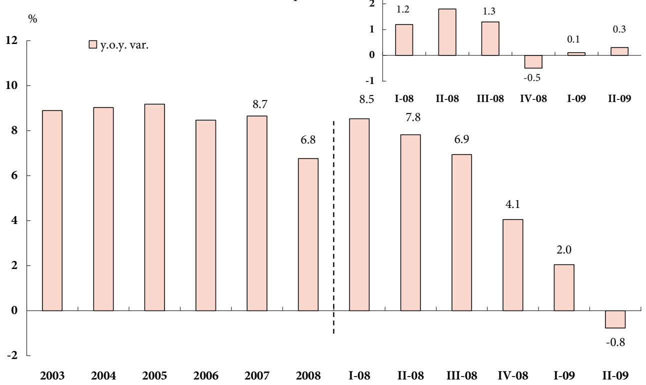


Source: BCRA and INDEC

Chart II.3

GDP

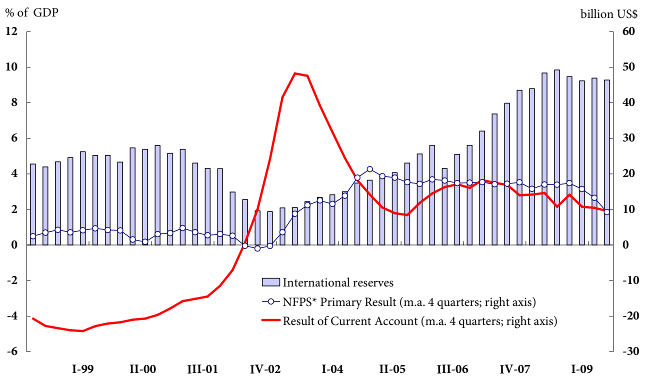
At 1993 price



Source: INDEC

Chart II.4

Fiscal Results, Current Account and International Reserves



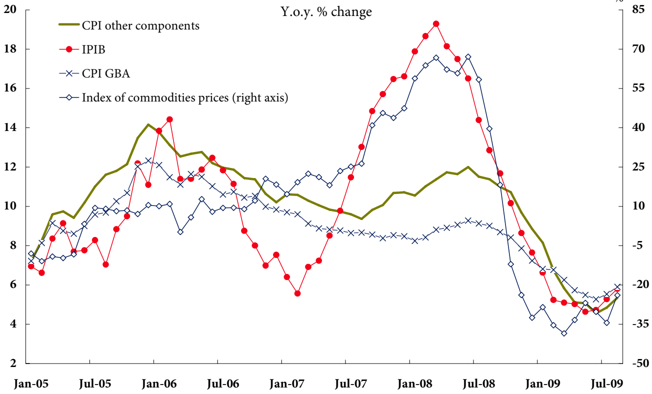
* Non-Financial Public Sector

Source: BCRA from INDEC and Treasury Secretariat data

Chart II.5

Price Indexes

Y.o.y. % change



Source: INDEC and BCRA

II.1 Macroeconomic context

Local economic activity is beginning to show stabilization signs, with prospects for new gradual improvement

Leading indicators for the local economic activity are starting to show signs of stabilization and even improvement following the impact of the international crisis on economies worldwide, including that of Argentina (see Chart II.3). Manufacturing industry, one of the most affected sectors, is growing up again thanks to an exports recovery and the rebuilding of stocks in some areas. Certain service sectors continue to grow, despite some negative impact from the recent pandemic. On this basis, aggregate activity could be set to recover its dynamism over the course of the rest of the year.

The domestic impact of the global economic crisis was reflected in lower job creation, particularly in the private formal sector. In fact, the uncertainty created by the global crisis led to reviews of plans involving increased personnel levels in various manufacturing sectors. Social security system indicators show that some sectors, such as manufacturing and construction, have begun to reduce their workforces, although this effect has been moderated by government subsidy programs for companies and sectors in crisis. The gradual recovery in economic activity will slowly reverse the loss of dynamism in the labor market.

Exports appear to be gaining dynamism after reflecting the impact of the contraction in global trade, particularly in the case of agricultural and manufacturing. Imports have dropped sharply, increasing the trade balance. The trade balance surplus for the year is expected to be higher than in 2008, boosting the current account surplus, which will remain positive for the eighth year in a row (see Chart II.4).

Domestic prices have shown limited pace (see Chart II.5), in line with the overall economic activity and the lower pressure from commodity prices. Further slowdown is expected, although performance will continue to depend on the convergence of fiscal, incomes and competition policies, complemented by the monetary policy being carried out by the Central Bank.

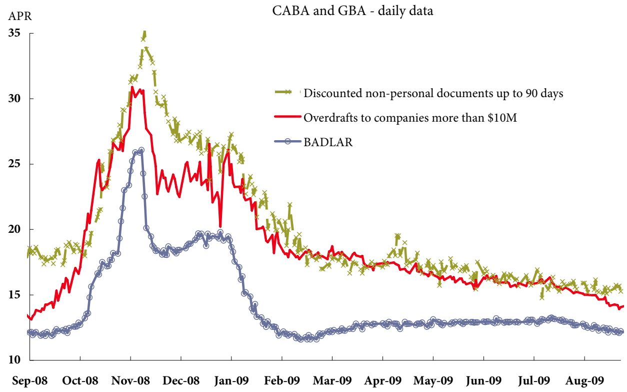
The Central Bank continues to implement anticyclical measures to guarantee the normal operation of the financial market

The series of prudential policies implemented by the Central Bank in recent years have enabled the financial

Chart II.6

Short Term Maturity Operations Interest Rates

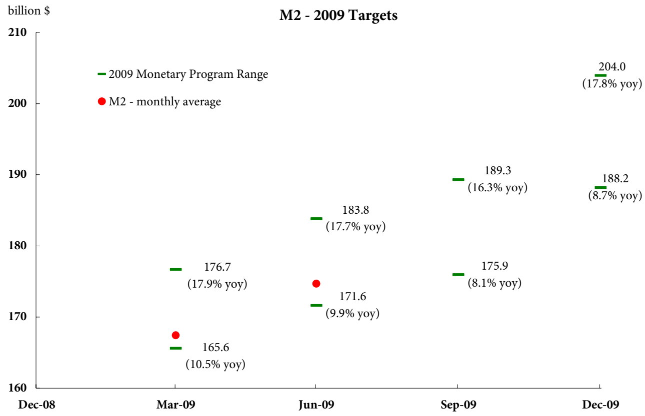
CABA and GBA - daily data



Source: BCRA

Chart II.7

M2 - 2009 Targets



Source: BCRA

system to mitigate the impact of the international financial crisis, so that it has acted as an "absorber" of external shocks to the real economy, instead of propagating them as in previous times.

Monetary policy actions implemented by this Institution in recent months include the adaptation of the repo operation system, eliminating some terms that had been authorized temporarily during the period of greatest international volatility and cutting interest rates on transactions for between 1 and 7 days by 50 b.p. on two occasions (July and August) and 25 b.p. in September.

To generate a new channel for access to credit if necessary, and as long as they have increased their lending to the private sector, banks have been authorized to take part in auctions for access to reverse repos in pesos. The Central Bank also began to hold auctions for swaps of fixed for variable interest rates, to assist in the management of interest rate risk and contribute to a lengthening of fixed interest loan terms by banks. In addition, measures were taken to stimulate the interest rate futures market. In August a mechanism was introduced for participation in the Badlar futures market on the MAE, facilitating lending between counterparts by means of the "*Función Giro*" that makes it possible for transactions to be performed when the two ends (bid and offered) have identical terms but are prevented from closing because of the lack of credit for operations between the parts. In addition, currency swaps were announced with the People's Bank of China and the Central Bank of Brazil.

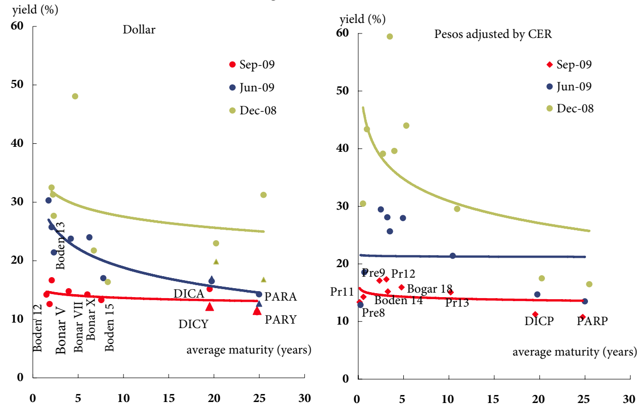
During the first half of the year the Central Bank traded on the exchange market by means of the sale of foreign currency, smoothing peso volatility, at the same time as it continued to inject liquidity, mainly by means of the repurchase of Bills and Notes on the secondary market and their renewal for lesser amounts on maturity. As from August money demand has been returning to normal, a fact reflected in the interest rate (see Chart II.6), enabling the Central Bank to return to its position as a net purchaser of currency (see Chart II.2)

Positive performance by main monetary and financial variables demonstrates the success of the policies adopted by the Central Bank

Even in a context of persistent global volatility, the main monetary and financial variables have evolved in a positive manner, demonstrating the success of the strategy followed by the Central Bank based on four fundamental pillars: a consistent and prudent monetary

Chart II.8

Argentina Yield Curves

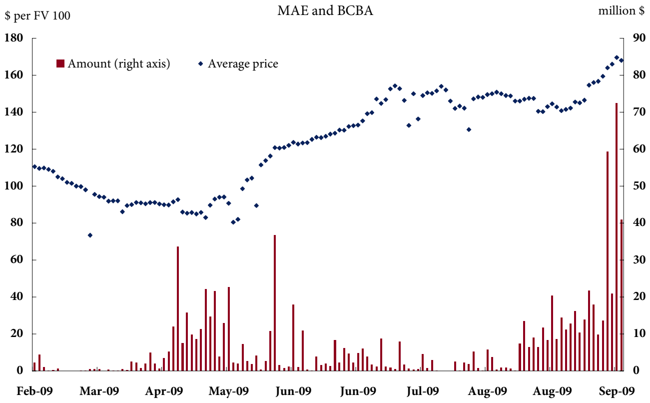


Source: BCRA from MAE data

Chart II.9

Secondary Market Bocan 14

MAE and BCBA

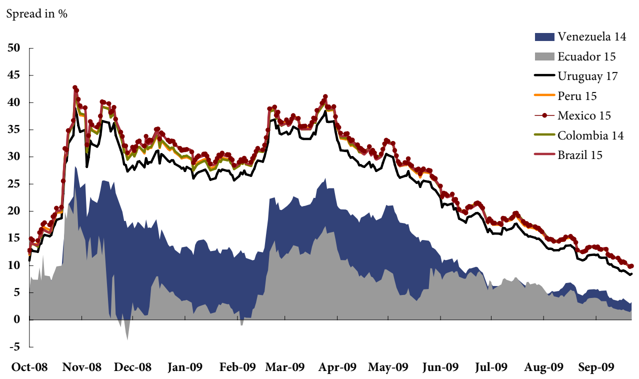


Soruce: BCRA from BCBA and MAE data

Chart II.10

Relative Value

Spread between 5-year maturity US$ bond: Boden 15 vs. benchmark Latam bond



Source: BCRA from Bloomberg and Reuters data

policy, anticyclical financial policies, managed float of the currency, and regulations that restrict risk exposure.

This framework has enabled the targets of the Monetary Program to be met in both the first and second quarters of 2009. Means of payment (M2) in pesos once again stood within the range established by the Monetary Program (see Chart II.7). With the aim of continuing to reaffirm its commitment to providing a broad horizon of certainty in relation to financial variables, at the end of the second quarter the Central Bank announced its estimates 12 months forward for the M2 and private M2 aggregates. The year-on-year change in M2 at June 2010 will be around 11%, while private M2 will be in the order of 12.9%.

1For the rest of 2009, international financial markets conditions are expected to remain volatile, although improving gradually. In such a scenario, preservation of positive results for the country's fiscal and external accounts, added to the preventive measures developed in recent years by the Central Bank, should restrict fluctuations in monetary and financial variables and their impact on the domestic economy.

II.2 Capital markets

Bond prices have recovered though trading volumes are low and volatility persists

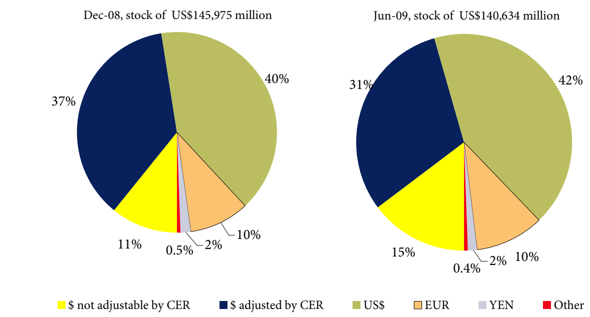
The various types of domestic securities are showing significant recovery from the sharply lower levels reached at the beginning of 2009, within the context of improving international capital markets and various local factors. Volatility continues to be significant, in a market noted for low trading volumes.

Sovereign debt bonds rebounded sharply after the lows reached this year in March. Although there is still strong price volatility and domestic trading volume is low, yield curves for instruments in pesos and those CER-indexed have shown a strong upward trend (see Chart II.8). In the case of the more liquid instruments (and particularly those for shorter terms, such as the Boden 12 and the Bogar 18) parities gradually returned to the levels seen in June 2008. This recovery was consolidated in August following payment of the Boden 12´s coupon for US$2.2 billion, sending out a concrete message regarding the Government's ability and willingness to meet its financial obligations. Non indexed Peso bonds performed in a similar manner, with a notable

Chart II.11

Gross Public Debt Currency Composition

Stock December 2008 and June 2009

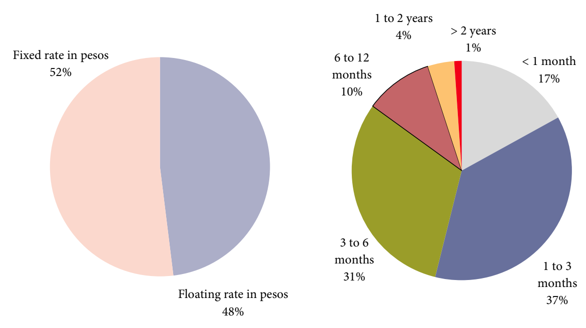


Source: MECON

Chart II.12

Outstanding Lebac and Nobac Stock Composition

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



Source: BCRA

improvement in the prices for the Bocan 14 issued this year[21] (see Chart II.9).

Risk indicators for Argentina have improved as there has been a partial recovery in the appetite for emerging country bonds. Together with the recovery by longer-term sovereign bonds in dollars, the risk spread measured by J.P. Morgan's EMBI+ indicator posted a marked decline, currently standing at around 750 b.p. after having exceeded 1,900 b.p. in October last. Argentina's sovereign debt spread continues to narrow the gap with emerging market benchmark bonds (see Chart II.10).

So far in 2009, Government borrowing has been based on transactions within the public sector[22]. In addition, various transactions were carried out with the aim of reducing short-term financial commitments, such as the swap of Federal Secured Loans (PGN) in the first two months of the year and a transaction to refinance short-term bills held by the ANSeS using Bonar 16 in pesos, in addition to a subsequent subscription of the same bond. The most recent issuances were made using instruments in pesos at variable interest rates (Badlar). As a result, the proportion of debt adjusted according to CER dropped to 31% of the total, while the proportion of debt not subject to adjustment rose to 15%[23] (see Chart II.11). More recently, the Government took further liability management measures with the aim of reducing short-term financial commitments. These included two swap of instruments adjustable by CER covering ten different eligible instruments (several PGNs, Bocon Pre9 and Pr12 and Boden 14). Bocan 14 and the new Bonar 15[24] were placed as a result of these transactions, both with a Badlar-based coupon.

Nobac and Lebac continue to be the main tool for injecting liquidity into the market

In line with the measures introduced as from the beginning of the financial turbulence, the Central Bank continues to make adjustments to the primary placements of its securities, adapting the amounts of issuances and the terms offered to monetary conditions (see Chart II.12). The total stock of Central Bank securities amounts to approximately $40.0 billion, more

[21] This is currently the most liquid of the bonds in pesos that are not adjusted on the basis of CER.

[22] Notably, loans provided by Banco de la Nación Argentina. In total, the placing of bonds and bills in 2009 to date has totaled $9.8 billion, excluding the bonds issued as a consequence of the swaps carried out.

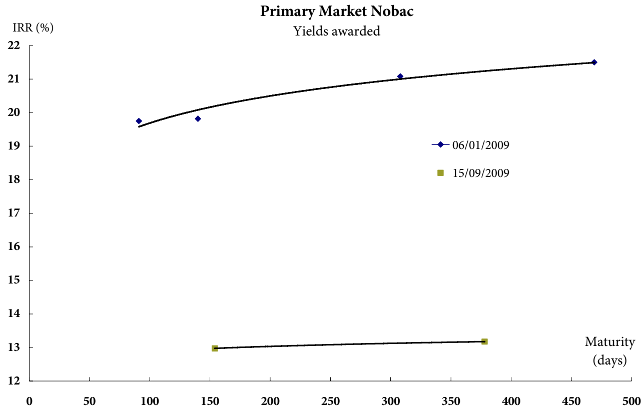
[23] Debt total excludes the debt that did not participate in the debt swap offer in 2005 (holdouts).

[24] Placements included a nominal $4.353 billion in Bocan 14 bonds and promissory notes and a nominal $10.884 billion in Bonar 15. The latter is a bond that will amortize in 6 installments with a floating coupon based on the Private Bank Badlar interest rate. The total coupon will be the same as the mentioned rate plus a margin of 300 b.p. The coupon will be capitalized until 2011 for the floating rate portion, while the margin will be paid in cash.

Chart II.13

Primary Market Nobac

Yields awarded

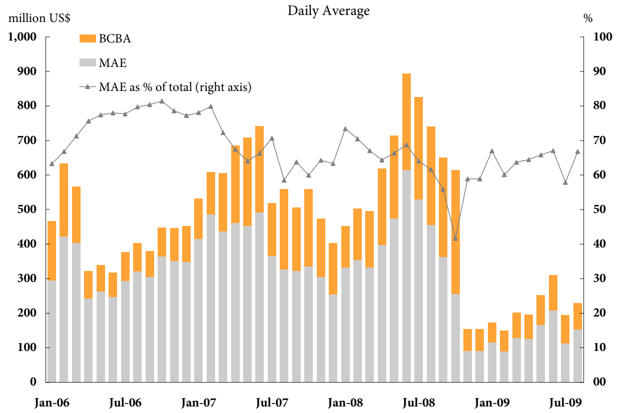


Source: BCRA

Chart II.14

Traded Volume of Government Bonds

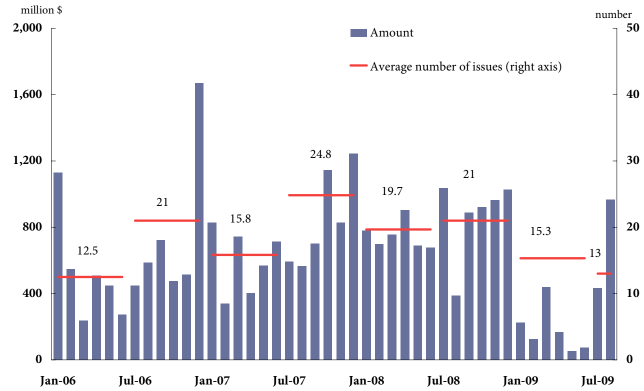
Daily Average



Source: BCRA from BCBA and MAE data

Chart II.15

Issuance of Financial Trusts



Source: BCRA from IAMC and CNV data

than half of which consists of instruments with a residual term of up to 3 months. Securities for terms longer than one year currently account for 5% of the total stock.

Interest rates on primary Lebac issuance have remained relatively stable, beginning a gradual downward path as from July. In line with the reduction in the Badlar interest rate, the Nobac yield curve shifted downward and has shown some signs of leveling off compared with the rate in force at the beginning of 2009 (see Chart II.13).

Secondary market Lebac transactions have gained dynamism in recent months, after a period during which trading was limited. Yields recorded in the bills market fell, leading to a downward trend in the yield curve, though finishing slightly steeper because of the increased yield reduction in the shorter periods. Nobac quotations have held relatively steady, although the spread over Badlar has dropped by somewhat more than 100 b.p. compared with the beginning of the year.

Slight increase in domestic market fixed income trading

Trading in fixed-income instruments (government securities and Lebac/Nobac) on domestic markets showed a slight recovery compared with the final months of 2008[25], although remaining below the levels of previous years (see Chart II.14). In May and June there was a substantial if temporary improvement, connected with the trading of the Boden 2012 strip[26]. This helped to maintain the high share of Central Bank Bills and Notes in the fixed yield market, where they accounted for half the trading volume. During the second quarter there was an increase of over 150% in the volume of Argentine securities traded in comparison with the immediately preceding quarter[27], placing the country third behind Brazil and Turkey by emerging market volume.

Prices and trading volumes for fixed-yield instruments are expected to continue to recover in the medium term, as conditions on both international financial markets and the real domestic economy continue to improve.

Financial trust placements regain dynamism

Financial trusts experienced a sharp cutback in the amount raised during the first half of the year, although

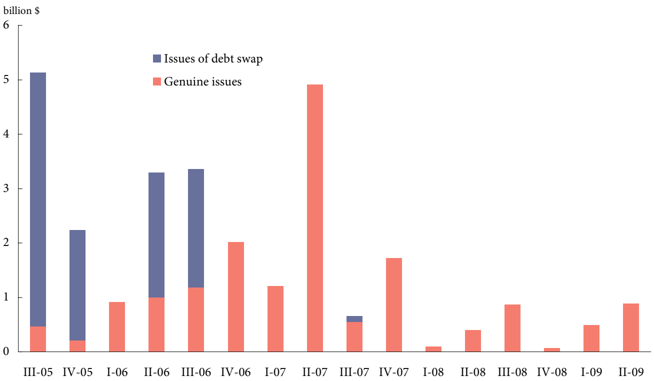
[25] MAE and BCBA data.

[26] The Government authorized the separate trading of interest and amortization coupon number 15 of the Boden 2012 bond (due August 3, 2009), with the aim of enabling investors to participate in a repurchase auction for early payment with a minimal discount.

[27] In global terms, according to EMTA (Emerging Markets Traders Association) data.

Chart II.16

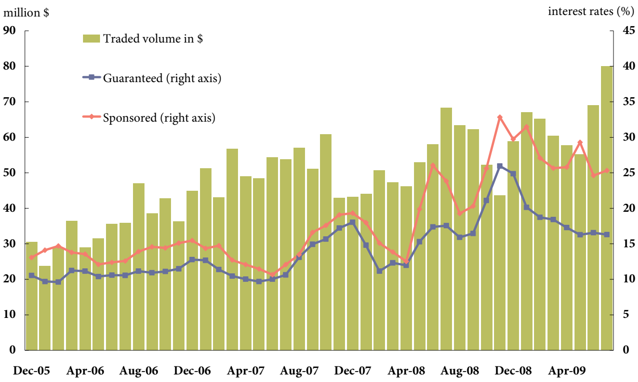
Issue of Corporate Bonds, Commercial Papers and SMEs Bonds



Source: BCRA from BCBA, IAMC and CNV data

Chart II.17

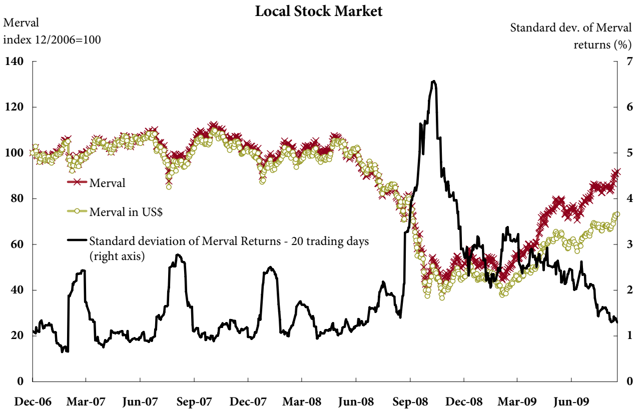
Trading of Differed-Payment Checks



Source: BCRA from IAMC data

Chart II.18

Local Stock Market



Source: BCBA and Bloomberg

they continued to be the principal source of private financing in the market (see Chart II.15). In the first part of the year, financial trust placements totaled around $1.1 billion, recording a fall from the $4.5 billion recorded one year earlier. Although there was no marked reduction in the number of trusts issued, placements were for lower amounts. In recent months, however, financing making use of such instruments has shown vigorous recovery, in line with the improved domestic climate. This financial trust mechanism has thus demonstrated its strength as a savings alternative and a vehicle for financing, after overcoming the crisis and certain specific events[28].

Recovery in financing by means of corporate debt and deferred payment checks

Financing by means of corporate bonds has shown considerable recovery from the depressed levels of the previous year. Counting all the different debt issues (Corporate Bonds -ON- , SME Bonds and Short-term Notes –VCP) financing obtained in the first half of 2009 totals $1.4 billion (see Chart II.16). Issues were concentrated in the electricity and metallurgical sectors, which accounted for two-thirds of these resources. Funds obtained by the banking sector represented close to 14% of the total amount. The Guarantee and Sustainability Fund (FGS-ANSES) was present as an investor in the majority of the primary placements during the year. In recent weeks several issues have taken place in the more favorable market context. In the case of the more recent issuances, in which the FGS-ANSES did not participate, it was possible to detect an auspicious welcoming by the market.

The trading of deferred payment checks is gaining momentum, with greater participation by checks secured by Reciprocal Guarantee Companies (which were used in almost all transactions). These new circumstances were noted for a shortening of loan terms, although rates on guaranteed checks were lower (see Chart II.17).

Stock prices reflected the improved market climate

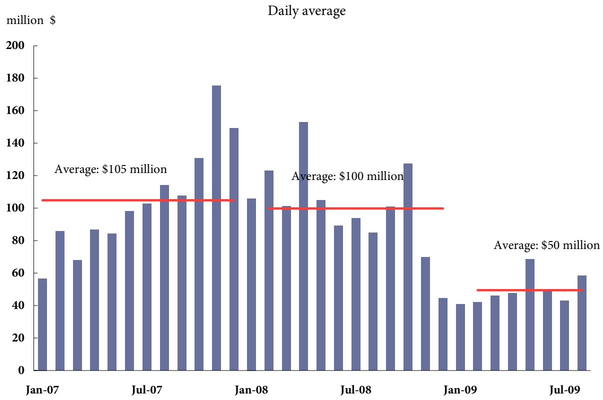
The Merval index posted a sharp recovery since the end of the first quarter of the year, after suffering a sharp decline at the end of 2008 as a result of the deepening of the international crisis. There has been a steady reduction in volatility to the levels prior to the Lehman Brothers debacle (see Chart II.18). The region's stock exchanges performed positively as a consequence of the

[28] Such as irregularities in cash generation at one direct investment agricultural fund.

Chart II.19

Equity Trading Volume

Daily average

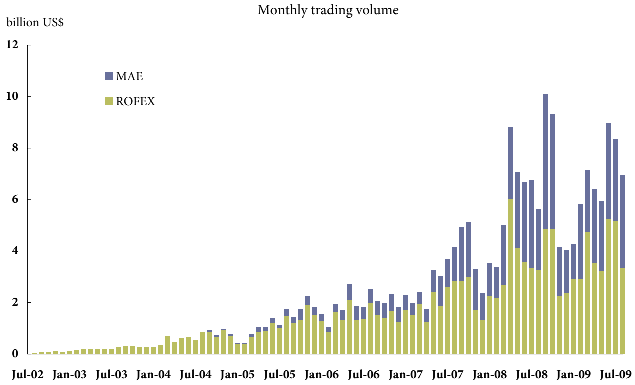


Source: BCBA

Chart II.20

Dollar Futures

Monthly trading volume



Source: ROFEX and MAE

strength of their economies, leading investors to increase their exposure. During 2009 bank stock market capitalization increased almost 85%. Prices are expected to continue to be conditioned by the tone in international markets and the development of the domestic economy.

As in 2008, several local companies have redeemed their shares, either by direct intervention on the market, or by means of public offerings to purchase (OPA). Nevertheless, a sharp drop has been noted in this type of operation in recent months. The first share issuance since the worsening crisis took place in August, for an amount of over $30 million[29]. Equity trading volumes remained steady over the course of 2009 (see Chart II.19), except in May, when various emerging market funds unwound their local positions, boosting the volume traded.

Forward exchange contract trading levels remained steady

During the course of 2009 derivative´s trading volume remained relatively steady (see Chart II.20). Derivative contracts peaked during June, during the legislative elections. The Central Bank participated in forward markets to prevent sudden changes at a time of emerging market volatility.

[29] It corresponds to majority shareholders irrevocable contributions and commercial debts capitalizations.

III. Debtors Performance

Summary

While some productive sectors are still suffering from the contraction effects of foreign demand, as in the case of the durable goods' segment, the domestic economic activity is beginning to show recovery signs. This scenario would gradually contribute to the corporate sector's financial and economic position in a context where indebtedness levels remain moderate and decreasing.

The manufacturing sectors that were most adversely affected in late 2008 and in early 2009, such as the motor industry and chemical and plastic products, are increasing their output. The consolidation of this evolution would favor companies' payment capacity in coming months.

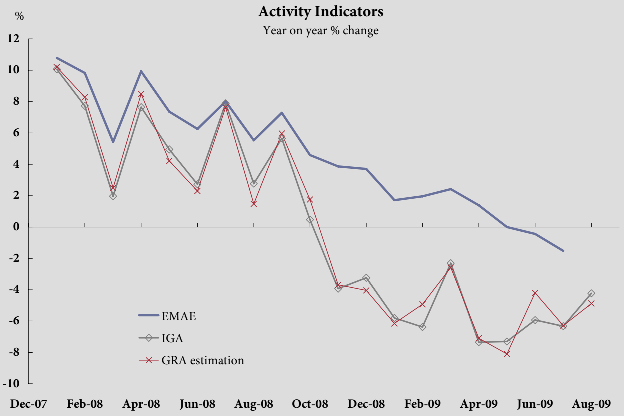
The farming sector has low activity levels due to the adverse climate conditions that affected the country during the last harvest season. Forecasts for the 2009/2010 farming cycle are led by an expected higher soybean production. The low indebtedness level recorded in most of the sector's companies has proven to be a strength to overcome last year's adverse conditions. Better perspectives for 2010 would help improve financial and economic conditions.

Service companies registered an expansion in their activities at a lower rate than that of previous years derived from a reduction in the services delivered to the manufacturing and the farming sectors. These conditions combined with low debt levels allow consolidating their already good payment capacity. Companies related to the retail trade sector have started to exhibit reactivation signs over the last months favoring their financial situation. The construction sector remains stagnant while its reduced indebtedness level allows it to maintain a good financial health.

Unlike previous years, households have gradually started to reduce their indebtedness levels particularly in consumption lines (personal loans and credit cards), expenditure that had been growing steadily over the last years. Although the labor market has evidenced certain weakness, the reduction in price growth as well as the lower levels of households' financial burden would contribute to sustaining their payment capacity facing the closing of 2009.

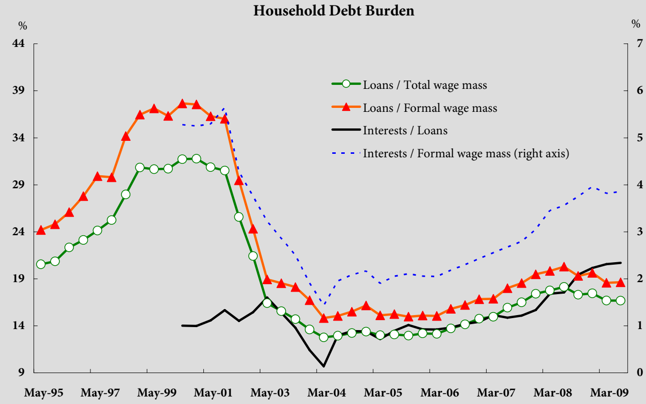
The Public Sector keeps showing, to some extent, the effect of the anticyclical policies implemented in the last periods. Local financing sources and liabilities management transactions will permit compliance with all debt maturities.

Chart III.1
Activity Indicators
Year on year % change



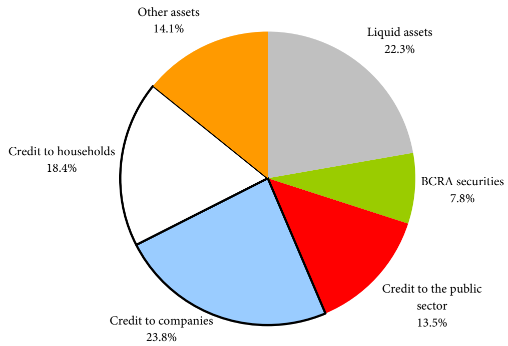
Source: BCRA from INDEC, OJ Ferreres (OJF) and Gabriel Rubinstein & Associates (GRA)

Chart III.2
Household Debt Burden



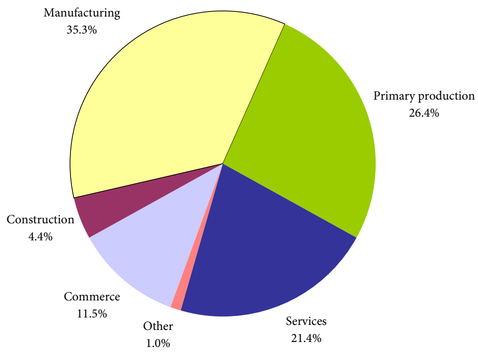
Source: INDEC and BCRA

Chart III.3
Financial System Asset Portfolio
As % of netted assets - June 2009



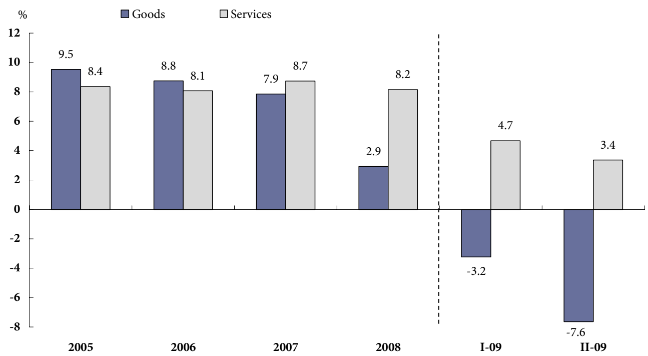
Source: BCRA

Chart III.4
Composition of Corporate Loan Portfolio
June 2009



Source: BCRA

Chart III.5
GDP. Goods and Services
Year on year % change



Source: INDEC

III.1 Financial System Debtors

Bank financing to households stabilizes while corporate credit sustains partially its momentum

Banks continue increasing their financing to the private sector, though evidencing lower expansion of lines destined to households while corporate sector credit remains increasing, accounting for almost 24% of total assets currently (see Chart III.3). The manufacturing sector and primary goods producers continue expanding their relative share in bank financing, consolidating themselves as the main productive sectors with almost 62% of all resources targeted to corporations (see Chart III.4)

Credit from the financial system to the public sector remains at low levels while the most liquid concepts account for almost a third of total assets. Therefore, liquidity items in the balance sheet provided to the sector with additional strength to face the domestic effects arising from turbulences in global financial markets.

III.2 Corporate sector

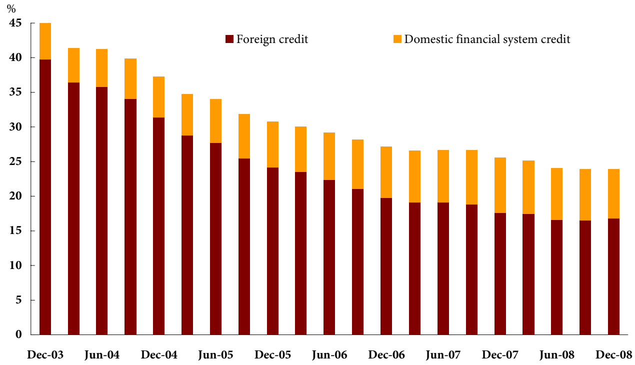
Economy stabilizes and corporations keep a good financial position

The domestic economy is starting to show signs of stabilization and even improvement in some segments (see Chart III.1) following the slowdown exhibited in late 2008 and in early 2009. The production of goods is still contracting (see Chart III.5). However, some sectors are showing marginal signs of recovery boosted by foreign demand and their need to replenish stocks. The manufacturing sector is already evidencing recovery signs while the farming sector was adversely affected by the strong drought that hit the country; nevertheless, it could improve during the current cycle under normal climate conditions. The service sector output keeps growing at a lower rate than that of previous years.

Total corporate[30] sector indebtedness, in terms of its sector GDP, continues recording a gradual reduction (see Chart III.6) in a framework where companies use their own resources as a funding source. Foreign liabilities keep a large share in the total corporate indebtedness level (reaching almost 70% over a total of 23% of GDP), although some reduction has been recorded in the last years. Thus, the weighting of a likely

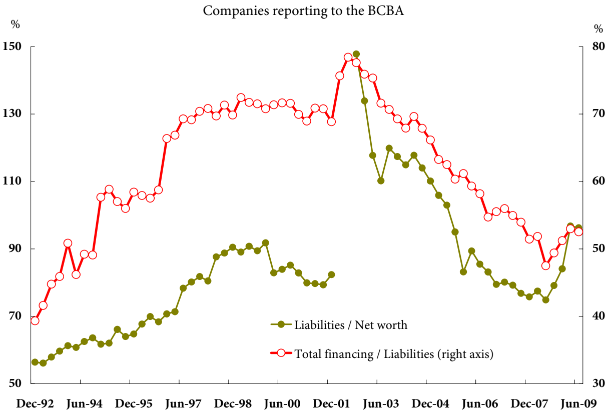
[30] Including resources from both the foreign and domestic financial system (considering securities and financial loans)

Chart III.6
Corporate Debt
As % of GDP 4-quarter moving average



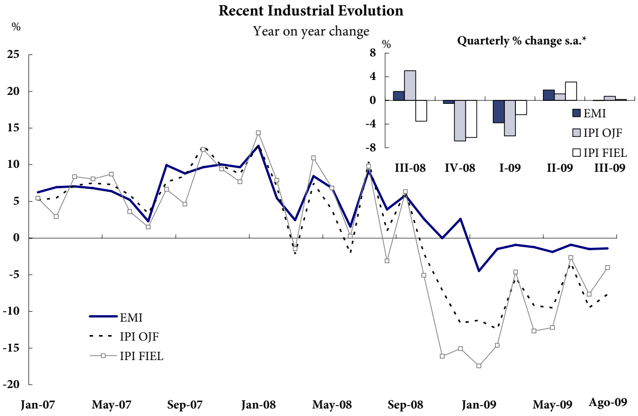
Source: INDEC and BCRA

Chart III.7
Corporate Debt Burden
Companies reporting to the BCBA



Source: BCRA from BCBA data

Chart III.8
Recent Industrial Evolution
Year on year change



Source: INDEC, FIEL and OJ Ferreres (OJF)

* data to august

vulnerability source decreases resulting from potential currency fluctuations in the sector's balance sheets.

Within a framework of greater momentum anticipated for the economic activity in the upcoming months, the financial position of large companies listed in the local Stock Market is improving. Greater leverage levels were exhibited even though they are still at moderate levels (see Chart III.7).

For what is left of 2009, a gradual recovery of aggregate activity is expected as long as foreign conditions improve gradually and local economic agents' confidence strengthens. This situation together with limited indebtedness levels contributes to maintaining the sector's financial position.

Productive sectors

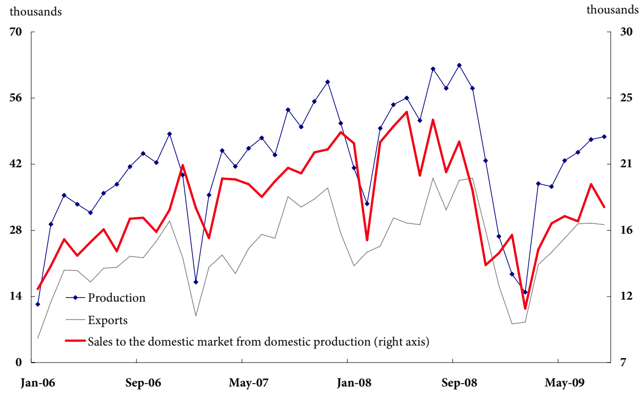
The manufacturing activity is evidencing signs of improvement, providing support to its payment capacity

The manufacturing activity is showing sings of stabilization (see Chart III.8), following a sharp adjustment that started by late 2008. Various sectors reactivated their productive lines in view of the incipient reaction of international demand, the recovery of domestic sales and the need to replenish stocks. The manufacturing areas that experienced a significant drop in the previous months, such as the motor industry (see Chart III.9) and plastic and chemical products, are the ones increasing their output like the food industry.

As a consequence of the decrease in activity levels, the manufacturing sector has changed its financing preferences temporarily. Given the transitory postponement of investment decisions in a context of a more moderate growth perspective, industries are reducing their long term credit demand. They have, at the same time, increased their need for working capital to offset lower incomes from sales.

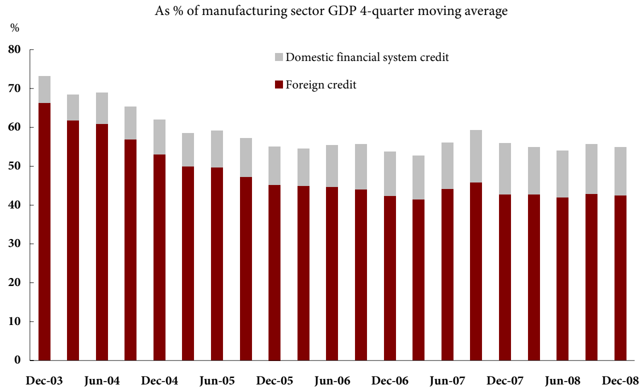
The manufacturing sector debt levels, domestic and foreign, would be gradually increasing, reaching approximately 55% of the sector GDP (where foreign levels account for slightly more than 42 p.p.) (see Chart III.10). The anticipated reactivation of the manufacturing activity could be evidenced in some improvement in the sector's financial position thereby sustaining its payment capacity.

Chart III.9
Automotive Sector Indicators



Source: Automotive Manufacturing Association of Argentina (ADEFA)

Chart III.10
Manufacturing Sector Debt
As % of manufacturing sector GDP 4-quarter moving average



Source: INDEC and BCRA

Table III.1
Grain and Oilseed Production

	2007-08 thousand tns	**2008-09** thousand tns	**2009-10** thousand tns	% Change of 2009-10 production vs 2008-09	Diff. in thousands of tns 2009-10 vs 2008-09
Cereals	**44,741**	**26,074**	**26,379**	**1.2**	**305**
Corn	22,017	12,521	13,005	3.9	484
Wheat	16,348	8,373	6,920	-17.4	-1,453
Sorghum	2,937	1,660	3,300	98.8	1,640
Other	3,440	3,520	3,683	4.6	163
Oilseeds	**51,557**	**35,628**	**56,587**	**58.8**	**20,960**
Soybean	46,238	32,000	51,997	62.5	19,997
Sunflower	4,630	2,900	3,746	29.2	846
Other	689	728	844	16.0	117
Cotton	**494**	**381**	**400**	**4.8**	**18**
Total	**96,792**	**62,083**	**83,366**	**34.3**	**21,283**

Source: BCRA from SAGPyA and USDA data

Favorable business perspectives for the primary sector would provide the possibility to improve their financial situation

The farming sector is facing a drop in their activity level as a result of the adverse climate conditions that hit the country during the last productive cycle. The output from the 2008/09 harvest season is below the forecast previously made and the prior harvest (see Table III.1). This decline results from a lower soya and cereal crop production.

Forecasts are positive for the 2009/10 harvest season, that is just starting, and a greater output than the previous cycle is anticipated. Such growth would be driven by more soya production while cereal harvest would remain without any significant change. Certain improvements to business profitability are expected given the reduction in costs experienced (agrochemicals and rents).

The livestock sector's activity also suffered from the adverse climate conditions since the drought resulted in more animals being sent to slaughter houses to avoid losses. Following the trend from previous years, the milk sector is exhibiting a sustained production growth.

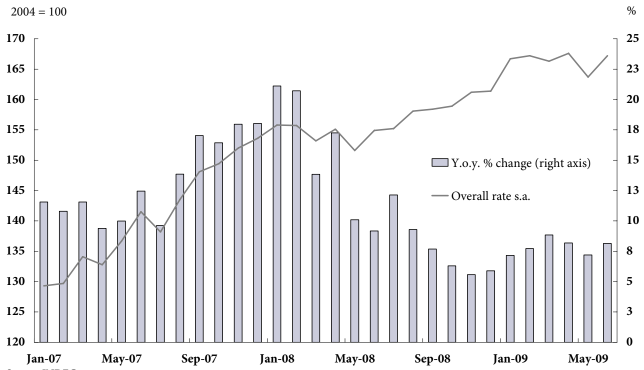
The primary sector continues exhibiting moderate indebtedness levels (36.3 % of the sector GDP), with a slight growth evidenced over the last year resulting from both domestic and foreign resources. The fast recovery of the sector's economic conditions, in line with an anticipated improvement for its activity, would mitigate certain tensions that could arise in its payment capacity.

Utility companies repayment capacity remains stable given the sector's low indebtedness level

Public services keep recording a high activity level (see Chart III.11) but at a lower rate than previous years. Communications sustain this evolution (see Chart III.12) while the rest of public services show a downward trend with a lower consumption level than last year. Trucking and Public transport, as well as tolls, are exhibiting a decline given the gradual production drop of the farming sector, tourism and trade transactions. The demand for electricity, gas, and water is suffering from the effect caused by lower production levels in the manufacturing sector.

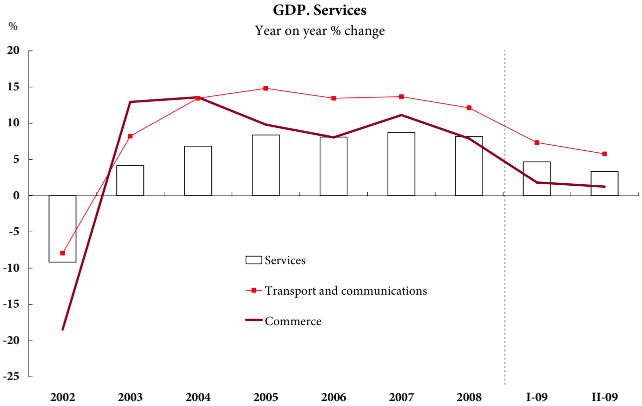
Service companies are showing low and decreasing indebtedness levels (18.5% of the sector GDP) thereby evidencing a drop in the use of foreign resources. This

Chart III.11
Synthetic Indicator Public Services



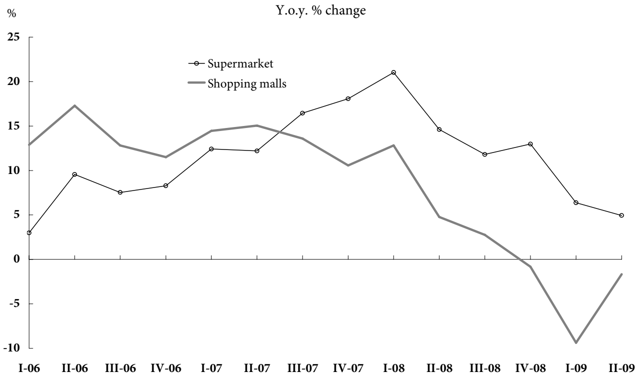
Source: INDEC

Chart III.12
GDP. Services
Year on year % change



Source: INDEC

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



Source: INDEC

* deflated by IPI of private consumption

context contributes to maintaining their aggregate financial position and payment capacity.

Commerce has been experiencing some reactivation over the last months, favoring their financial situation

Retail trade is showing reactivation signs, specially at supermarkets and mall sales (see Chart III.13), this trend is favored, in part, by campaigns conducted jointly with financial entities. Supermarket outlets and the number of business premises keep increasing.

Car sales have risen over the last months (see Chart III.9) while the demand for household appliances suffered a decrease affecting to some extent the finance of various distribution chains. However, some marginal improvement in the sales of sumptuary and durable goods has been recorded in line with the stabilization of consumers' confidence and households' greater consumption willingness.

The gradual activity improvement in the case of commercial firms coupled with low aggregate indebtedness levels would allow improving their financial position and this would be reflected in their payment capacity.

In a context of lower activity and restricted debt levels, construction companies are sustaining their payment capacity

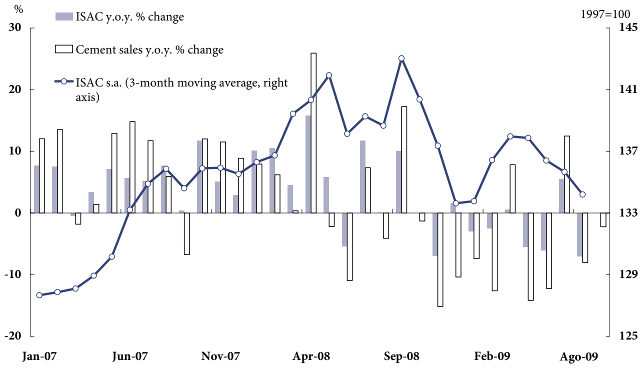
The construction sector remains stagnant (see Chart III.14) keeping its activity level below those recorded over the last years as a result of the uncertainty economic agents have experienced which halts investments in new projects.

Building projects destined to retail and manufacturing, infraestructure, as well as oil companies, decreased as a result of lower activity levels. Construction works for housing and road works mainly are still showing an upward trend primarily driven by the public sector.

For what is left of 2009, it is anticipated that the activity level will continue decreasing given that a drop in the new private projects start-up is forecast by the time the works under way have been completed. This may be inferred from the fall in the demand of imputs and building permits.

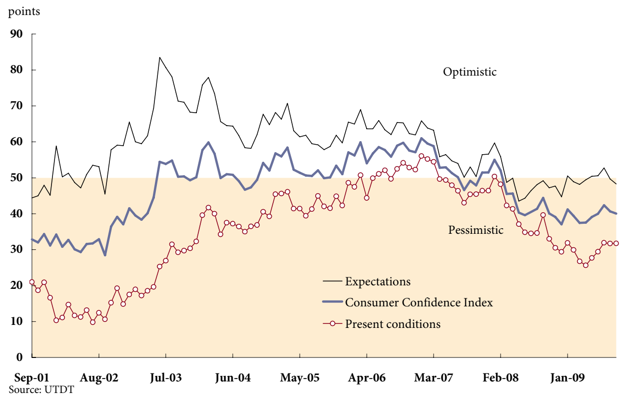
It is within this context that companies in the construction sector sustain low and decreasing debt levels (almost 11.9% of the sector GDP), this situation

Chart III.14
Contruction Indicators



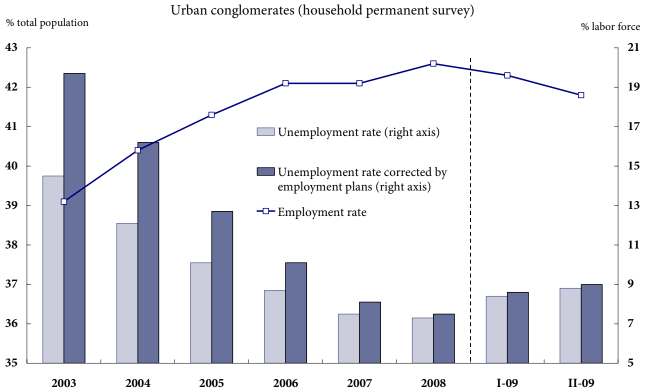
Source: INDEC and AFCP

Chart III.15
Consumer Confidence



Source: UTDT

Chart III.16
Employment and Unemployment Rate
Urban conglomerates (household permanent survey)



Source: INDEC

would allow them to maintain their payment capacity regardless of the fact that they keep experiencing low activity levels.

III.3 Households

Even though the labor market has continued exhibiting some signs of weakness, the slowing down of inflation and lower indebtedness would contribute to maintaining the aggregate payment capacity of households

The gradual stabilization of consumer confidence (see Chart III.15) and the formalization of salary increases would be favoring household consumption rebound, especially in sumptuary and durable goods that had experienced a sharp adjustment. There is still some uncertainty that has led to an increase in precautionary savings and stabilization of the share in the credit market by households.

The labor market is evidencing weakness signs and this is reflected in a lower demand level and an increase in personnel being suspended or even dismissed in certain sectors. A year-over-year increase in unemployment was recorded in the second quarter of 2009, which did not occur since 2003 (see Chart III.16).

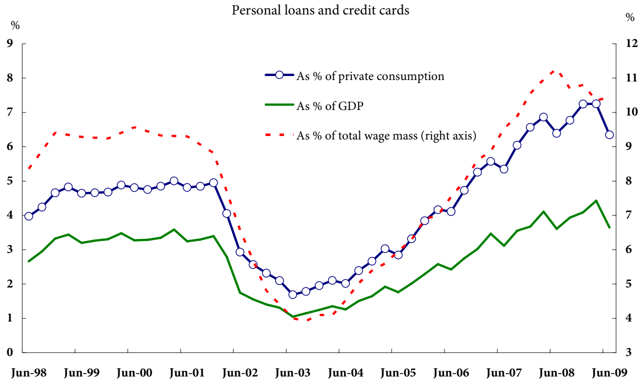
Nominal incomes have increased at a lower rate than previous years given lower salary increase guidelines. Inflation slowdown would keep household consumption levels unchanged while a new increase in pensions for retired people and pensioners is expected following the adjustments set by the Law on Social Security Adjustments.

Unlike the past four years households are exhibiting signs of a slight reduction of their indebtedness levels. Indeed, the growth of the burden of the service on their obligations would be stabilizing (see Chart III.2). This new context could be reflected in sustaining their repayment capacity. Indebtedness through credit lines targeted at consumption (personal loans and credit cards) that had had the most momentum in 2008 are currently losing weight both in terms of GDP and in terms of private consumption (see Chart III.17).

III.4 Public sector

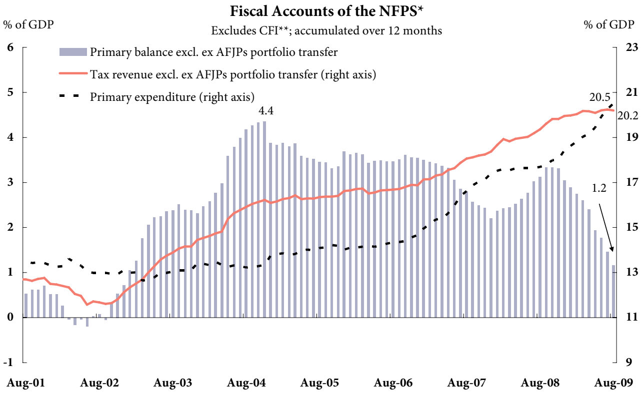
In concordance with the experience of most countries when facing the international crisis, national public finances have shown deterioration signs while the primary result is expected to stay positive for the rest of 2009

Chart III.17
Household Consumption Indebtedness
Personal loans and credit cards



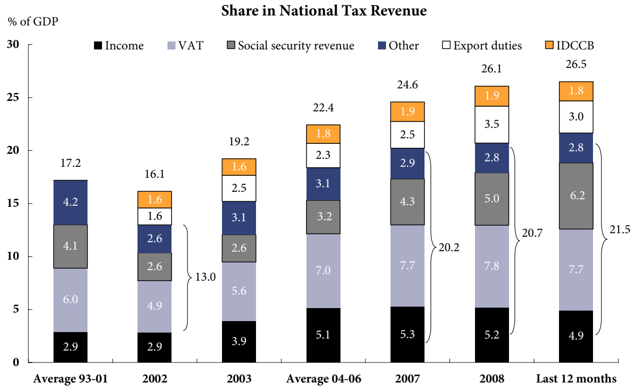
Source: BCRA

Chart III.18
Fiscal Accounts of the NFPS*
Excludes CFI**; accumulated over 12 months



* Non-financial national public sector, cash basis; **Federal tax revenue sharing and special laws.
Source: BCRA from Treasury Secretariat and INDEC data

Chart III.19
Share in National Tax Revenue



* Tax credits and debits to bank accounts.
Source: BCRA from Treasury Secretariat and INDEC data

The primary surplus of the Non-Financial National Public Sector (NFPS) continued recording an improvement in the first part of 2009 though exhibiting some reduction in a year over year basis. However, the financial result evidenced a deficit. The primary surplus amounted to a total of 1.2% of GDP in the last 12 months and is expected to remain positive for all 2009 (see Chart III.18).

During the first part of the year tax revenue recorded a 13% y.o.y. nominal increase which is equivalent to 7% y.o.y. if incomes related to the creation of the Argentine Social Security System (SIPA) are discounted. Tax revenues were mainly driven by social security and this has accounted for more than two thirds of growth so far. Revenue in real terms continued slowing down (with growth rates close to zero in the first eight months of the year) amounting to almost 27% of GDP, setting a new historical[31] record (see Charts III.19 and III.20).

During 2009, the National Government implemented a Tax and Social Security Moratorium and a Capital Repatriation – Amnesty Plan, ending both on August 31. Some $15 billion were formalized on the basis of the former and this would imply tax incomes for 2009 amounting to $1.7 billion. The amount disclosed through capital declaration and repatriation totaled $18.1 billion resulting in incomes of about $240 million.

Primary expenditure continued growing in the first part of 2009 (30% y.o.y.) in a context where applying anti-cyclical measures has been relevant to diminish the contraction effects derived from the international crisis. This increase in primary expenditure was mainly driven by social security provisions, transfers to provinces[32], remunerations and capital spending. A significant slowdown was recorded in the growth rate of transfers to the private sector. Primary expenditure evidenced, once again, a new historical maximum value of approximately 27% of GDP (see Chart III.21).

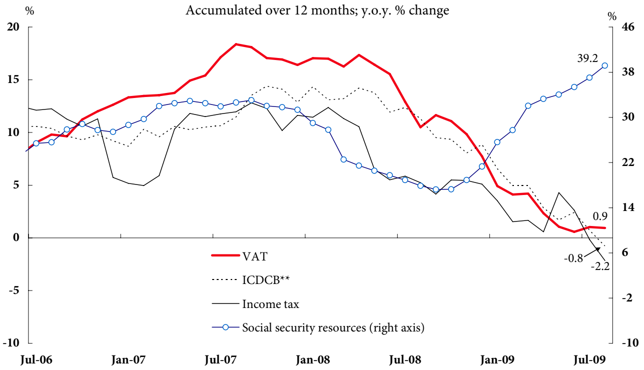
At the start of the year, the National Government conducted a swap of National Guaranteed Loans (PGN), and this implied savings in debt service estimated to be about $6.5 billion for 2009. The National Treasury has so far received financing mainly in the domestic market. The intra-public sector net financing amounted to $6 billion. A new bullet[33]-like fixed income instrument was issued to renew, in part, the maturities of promissory notes held by the National Social Security Administration (ANSeS). Within the framework of

[31] For a more detailed analysis of the Public Sector's income and spending, see the Inflation Reports of the second and third quarter of 2009.
[32] It includes automatic transfers to provinces (federal tax revenue sharing and special laws).
[33] Bonar $ 2016 with quarterly interest at private banks BADLAR rate + 325 basic points (b.p.) for an Effective Value (VE) of $9.6 billion.

Chart III.20

Real* Evolution of Major Taxes

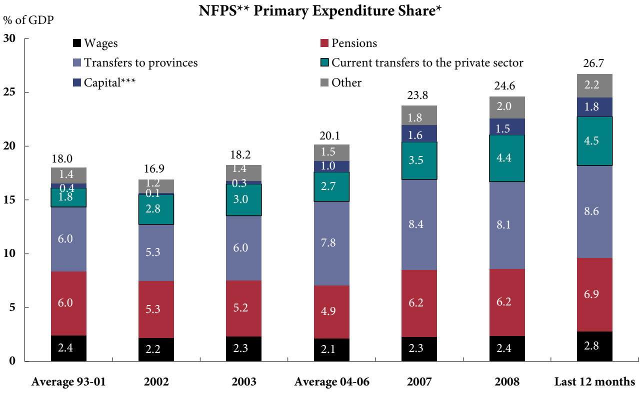
Accumulated over 12 months; y.o.y. % change



* Deflated by the implicit price index of GDP; ** Tax credits and debits on bank accounts
Source: BCRA from Treasuty Secretariat and INDEC data

Chart III.21

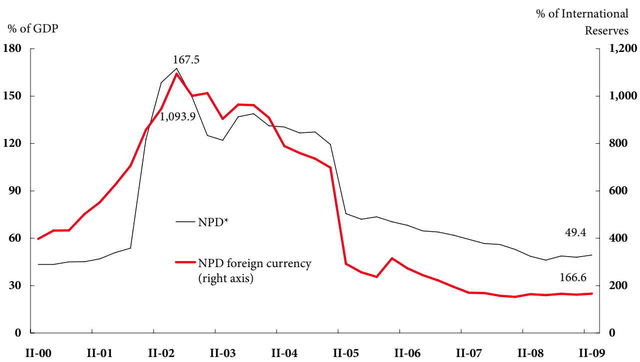
NFPS Primary Expenditure Share***



* Includes automatic transfers to provinces, ** Non-financial private sector; *** Exclude capital transfers to provinces
Source: BCRA from Treasury Secretariat and INDEC data

Chart III.22

National Public Debt



*National Public Debt
Source: BCRA from Ministry of Finance and INDEC

Article N°74 of the Law on the 2009[34] National Budget, the National Treasury was financed by the *Banco de la Nación Argentina* (BNA), while it also used (and should return along the course of the current year) the Unified Funds (FUCO). By late August – early September, the National Government conducted a new swap on CER-linked debt in exchange for BONAR bonds in pesos 2014 and 2015. According to the results announced by the Government, the share percentage reach 76% and meant net savings of about $7.3 billion for the 2009-2012 period.

The national public debt in GDP terms continued falling

During the first part of 2009, the national public debt (NPD) amounted to US$141 billion, showing a lower stock in contrast to the stock recorded in late 2008 resulting due to the exchange rate assessment adjustment and debt net amortizations. Thus, the NPD accounts for approximately 49% of GDP showing a decline against December 2008 (see Chart III.22). The debt would remain at about 50% in GDP terms for the rest of 2009.

In a context where there is still limited access to international markets, domestic financing sources and transactions to conduct liabilities administration would allow facing sovereign debt maturities.

[34] The BNA may extend its financing to the TN as long as funds are aimed at capital expenditure or debt amortization and the balance of the debt granted does not exceed 30% of deposits of the NFPS with the entity. Within this framework, Joint Resolution of the Treasury Secretariat N°105/2009 and N°161/2009 and Finance Secretariat N°31/2009 and N°42/2009 provide for funding operations for $8.3 billion during 2009, out of which $7.5 billion have already been granted.

IV. Financial Sector

Summary

Almost two years from the beginning of the international crisis, the local financial system has been able to respond with a significant degree of resistance in a context of a series of measures introduced by the BCRA to preserve the financial stability and the expansion of credit to the productive sector and households. Financial intermediation with the private sector is growing at a slower pace in a context where certain economic volatility still persists both locally and internationally. Institutional investors observe a significant revaluation of their portfolios influenced by the effects of the widespread market price rebound in recent months.

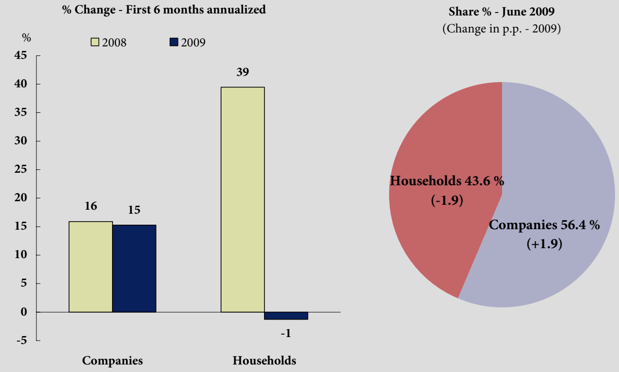
Financing to the private sector recorded growth deceleration while a relative larger share of public financial institutions is observed. The expansion of corporate credit was significant, especially the credit related to manufacturing and to primary production (excluding agriculture), while credit to households segment registered a slight decline. Private sector deposits continue to grow, increasing its share in total funding of financial entities.

The net worth of the financial system continues to grow at a rate close to 14% year on year (y.o.y.) consolidating the trend of the last 5 years. The accrued benefits together with the fresh capital contributions received (mostly in national private financial institutions) explain the net worth expansion. Thus, the capital ratio remains around 17% of the risk weighted assets, showing an excess of capital in relation to the requirements widespread among banks, signaling the stance of the financial system solvency.

In a context of international financial volatility, banks continue to accrue accounting benefits. The alternatives of securities valuation developed by the BCRA narrow the effect that short-term fluctuations would have on the net worth of financial institutions. While profitability would reduce when valuing the main assets in the portfolio of banks at market prices, solvency levels would be adequate.

Chart IV.1

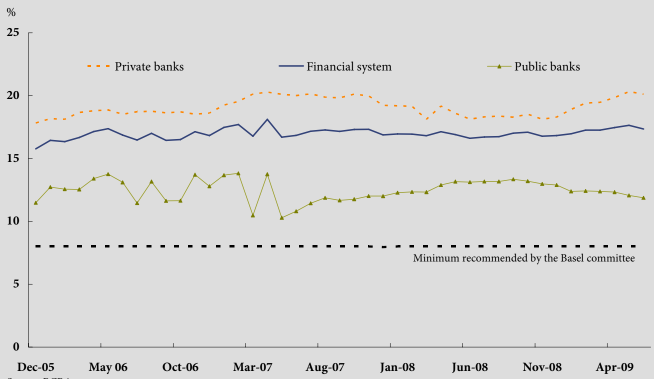
Credit to the Private Sector
Financial system



Source: BCRA

Chart IV.2

Capital Compliance According to Regulation
As % of risk-weighted assets

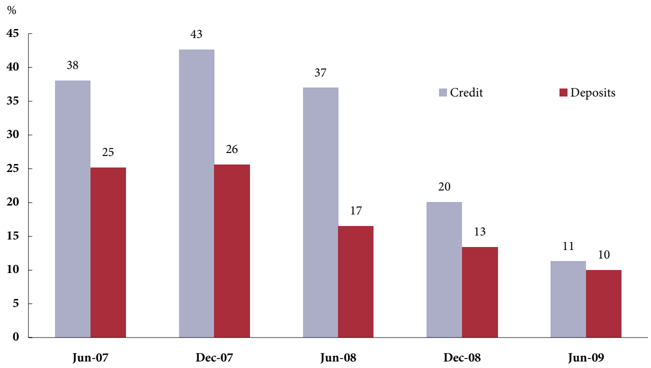


Source: BCRA

Chart IV.3

Financial Intermediation with the Private Sector

y.o.y. % change - Financial system



Note: Dec-08 deposits stocks are adjusted by the transfers of AFJP accounts to the ANSES.
Source: BCRA

Table IV.1

Balance Sheet

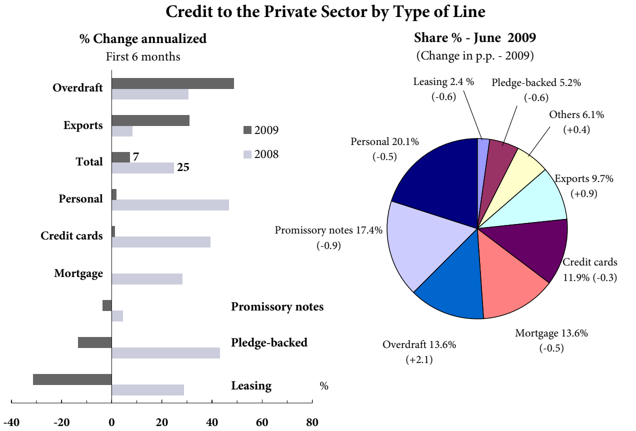
Financial System - As % of netted assets

	Jun-08	Dec-08	Jun-09	Change HI-09 (p.p.)	Stock change HI-09 (a.%.)
Assets	100	100	100		6
Liquid assets	18	21	22	1.7	30
Lebac and Nobac	11	8	8	-0.2	6
Credit to the private sector	43	44	43	-1.0	7
Credit to the public sector	15	14	14	-0.2	7
Other assets	12	14	14	-0.3	6
Liabilities + Net Worth	100	100	100		6
Private sector deposits	20	18	17	-0.9	0
Public sector deposits	53	52	53	1.2	16
Liabilities with the BCRA (1)	1	1	0	-0.3	-72
ON, OS and foreing lines of credit	4	4	3	-0.5	-17
Other liabilities	9	13	13	0.2	14
Net worth	13	13	13	0.3	16

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

Chart IV.4

Credit to the Private Sector by Type of Line



Source: BCRA

IV.1 Financial entities

Activity

Financial intermediation with the private sector grows moderately

The intermediation of banks with the private sector continues to increase in the first part of 2009. Both financing as well as deposits of companies and families exhibited a more moderate rate of expansion than in previous years, slowdown that is becoming less pronounced (see Chart IV.3). Netted assets of the financial system increased 10.9%a. in the first half of the year (11% y.o.y.) mostly boosted by private banks.

Financial institutions keep on maintaining their precautionary liquidity levels (see Table IV.1), policy that gives them and additional reassurance in a scenario where some volatility still persists at the international level. In this context, the BCRA continues to implement additional windows of liquidity provision that contribute to preserve the local financial stability (see page 52).

In the early months of 2009, the expansion of financing to the private sector reached 7%a. (11% y.o.y.) (see Chart IV.4) below the same period of 2008, showing a diverse performance among credit lines. Overdrafts and export[35] finance increased over the remaining lines, thus gaining a greater share in the total stock of financing to the private sector. Consumer loans (personal and credit cards) and mortgages are showing relatively low performances. In the case of credit cards, bank financing volume gradually gained market share at the expense of non-bank financing through closed-system cards, which are located on just under a third of the total (see Chart IV.5). Promissory notes, secured loans and leasing are reflecting some decline.

The evolution of credit to the private sector occurs in a context of gradually lower levels of lending rates regarding year-end 2008. The most significant declines were in commercial lines (overdrafts and promissory notes) and personal loans (see Chart B.3.1).

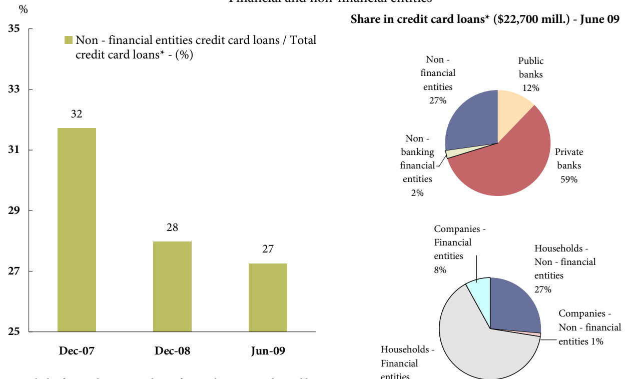
In the last months credit growth to the private sector has largely been driven by public banks and to a lesser extent by foreign capital private banks (see Chart IV.6). Thus, both groups of financial institutions increased their share in the total stock of financing to the private sector

[35] The growth of the export sector financing in local currency is affected in part by the increase in the nominal exchange rate in the period.

Chart IV.5

Credit Card Financing

Financial and non-financial entities

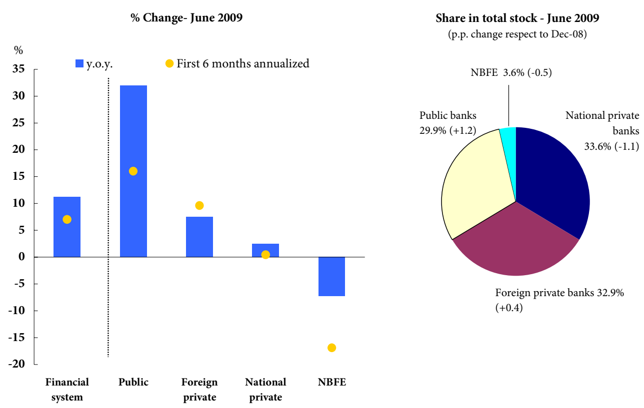


* Includes financial entities and non-financial entities credit card loans

Source: BCRA

Chart IV.6

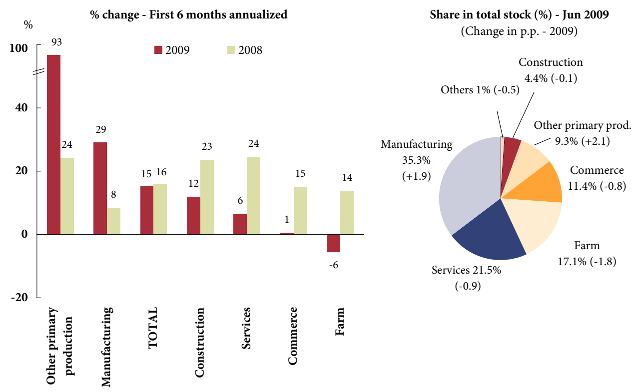
Credit to the Private Sector by Group of Banks



Source: BCRA

Chart IV.7

Lending to Companies by Economic Sector



Source: BCRA

while domestic capital private banks and the NBFE reduce their weight.

Financing to the corporate sector drives the increase of credit to the private sector

Credit growth to the private sector is still primarily intended for the corporate sector[36] which increases its share in the total stock of financing (see Chart IV.1). In the first part of the year, loans to companies grew 15.3%a. (13.5% y.o.y) achieving almost 24% of the netted out assets of the financial system, above 2 p.p. by the end of 2008. With the exception of the agricultural sector, financing continues to grow in all productive sectors. Excluding the agricultural segment, loans to the industry and to primary production showed increases above the average gaining share in total financing (see Chart IV.7)

The BCRA continues to implement measures to promote the dynamics of credit to the private sector. Recently, bidding for interest rate swaps was carried out and it was launched in collaboration with the MAE, the forward market of interest rates. Both measures contribute to the creation of a reference to the temporal structure of interest rates in pesos to cover the medium and long term, stimulating the granting of fixed-rate loans with terms relatively higher than those currently observed in the market. Moreover, the BCRA adopted a series of measures to ease various requirements for the access to credit. Those measures aim to simplify the information required for both the submission of loans applications as the evaluation of the risk profile of applicants when originating and monitoring loans. The expected consolidation of a more convenient macroeconomic environment combined with a package of policies in favor of credit driven by the BCRA would help to support the momentum of the private sector credit in coming months.

Banks are stabilizing their exposure to the public sector around 14% of the netted assets[37] (13% of total assets) (see Chart V.21). A slight increase in the public sector exposure is expected for the remainder of the year, given the financing program of the National Treasury under the Act 26,422 (art. 74).

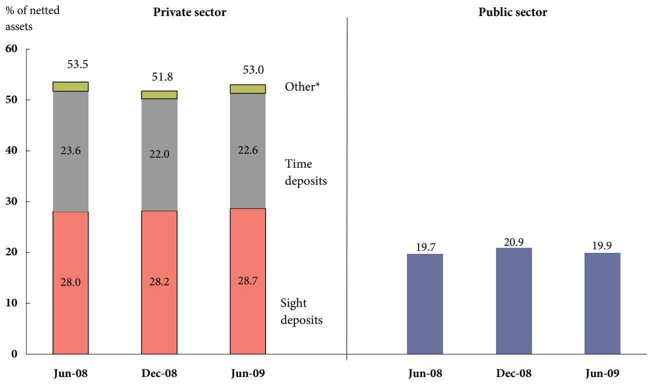
Total non-financial sector deposits increase is driven by companies and households placements

[36] Financing to companies are those granted to legal persons and the commercial financing granted to individuals, the rest of the financing to individuals is considered within the concept of families.

[37] Measured as: (position in government securities (excluding LEBAC or NOBAC) + Loans to public sector + compensation to receive) / netted assets. Does not include contingent liabilities or guarantees.

Chart IV.8

Deposits in the Financial System

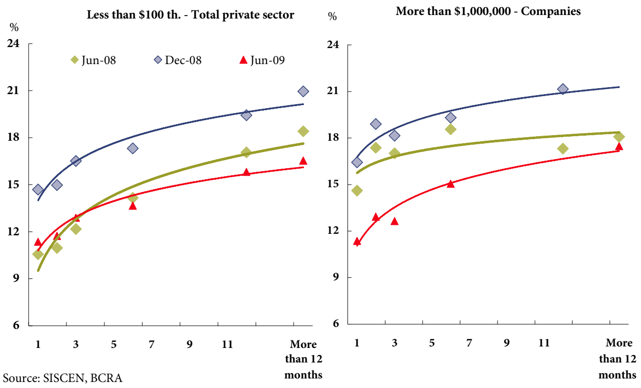


*Note: includes dormant deposits, deposits in guarantee, outstanding orders, correspondent accounts, etc.
Source: BCRA

Chart IV.9

Private Sector Time Deposits in Pesos

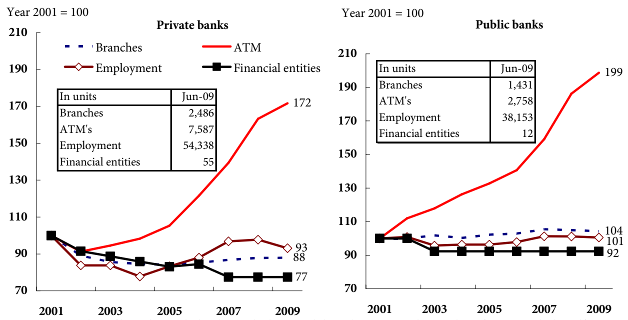
Interest rate operation by contractual maturity - Financial system



Source: SISCEN, BCRA

Chart IV.10

Financial System Structure by Type of Bank



Note 1: the number of branches includes those which are mobile and transitory; the number of ATMs includes self-service terminals.
Note 2: Employment data corresponds to June 2009
Source: BCRA

So far in 2009, the balance of total deposits of the non-financial sector[38] increased 11.5%a. (10.6% y.o.y.) driven largely by the private sector (16.1%a. or 10% y.o.y.) thus increasing their share in total bank funding (see Chart IV.8).

The increase in private sector deposits is being explained by both the loans in pesos and in foreign currency. Deposits in foreign currency accumulated an increase[39] of 41%a. in 2009 (32% y.o.y.) above what was observed in previous years. Deposits in pesos are increasing so far in 2009 boosted both by sight deposits and time deposits.

The expansion in time deposits in pesos observed in recent months is primarily driven by the increase in demand for local currency which translated in a local currency borrowing rate reduction (see Chart IV.9). In this context, the BCRA continued deepening the countercyclical monetary policy establishing the reduction of repo and reverse repo rates in 125 b.p. between July, August and September. As a result of a reduction in lending rates higher than the drop in borrowing rates, the interest rate spread managed by banks is showing a gradually decreasing trend (see Box 3).

Rediscounts for illiquidity granted by the BCRA during the 2001-2002 crises continue to decline, accounting for 0.2% of the financial system liabilities. According to the matching scheme, these obligations should disappear altogether at the end of 2009. Moreover, the exposure of all financial institutions to foreign financing remains low and is decreasing. The almost zero dependence of banks to external financing minimizes the negative potential effects associated with the volatility of international capital flows.

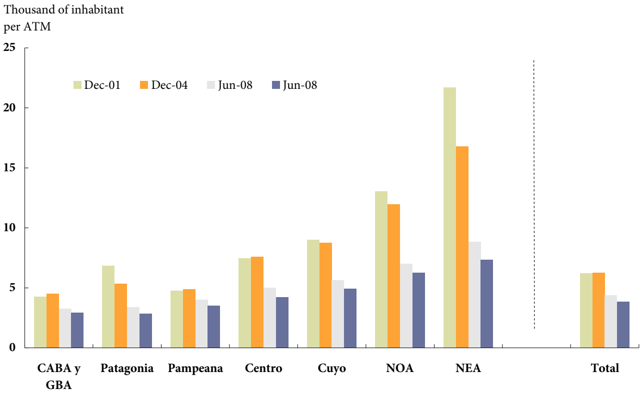
Gradually, the scope of the financial system increases in regions with less access to financial services

The growth of the financial intermediation activity continues to be reflected in the operative structure of the sector. The number of ATMs increased 5.5% in the first half of 2009 (15.2% in the last 12 months), surpassing in more than three-quarters the stock of late 2001. The number of branches is relatively stable. The financial system workforce declined slightly in the first part of 2009, being located around the levels before the crisis of 2001-2002 (see Chart IV.10).

[38] It includes private and public placements, interest and CER adjustments.
[39] In original currency.

Chart IV.11

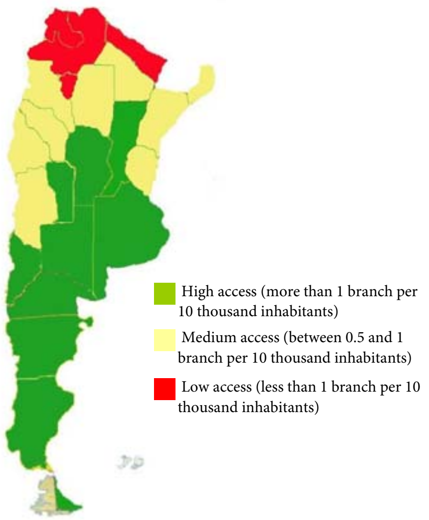
Financial System Regional Coverage



Source: BCRA

Chart IV.12

Financial System Regional Coverage

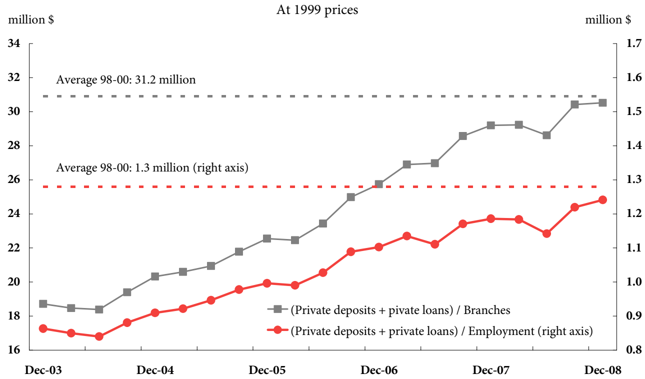


Source: BCRA from INDEC data

Chart IV.13

Productivity

At 1999 prices



*Note: IPI deflacted
Source: BCRA

The geographical coverage of the infrastructure of financial services continues to improve among the various jurisdictions of the country. In the past 12 months, the ratio of inhabitants to ATMs exhibited a drop in those regions with least coverage (see Chart IV.11), decreasing the gap between the regions with the most and lowest coverage to 2.5 times (5.1 before the crisis). Although the regional distribution of branches progressed in recent years, the Northern provinces still have a high potential of development in terms of coverage (see Chart IV.12)

The financial system continues to show progress in terms of operational efficiency. Loans and private sector deposits increased more than the expansion of factors of production which was reflected in the gradual improvement of the productivity indicators (see Chart IV.13). Meanwhile, in the last year, a slight increase in the degree of concentration of the financial system[40] remains low mainly explained by the evolution of loans to the private sector.

Capital position

Banking net worth is growing at a steady pace

The consolidated net worth of the financial system continues to grow at a rate of approximately 14% y.o.y., intensifying the tendency of the last 5 years. Earning book profits by the financial system coupled with capital contributions that were received explain this expansion.

New capital contributions totaled $120 million in the first part of 2009, being channeled primarily to private financial institutions of national origin (see Chart IV.14). Thus, since 2002, capitalizations have totaled $17.8 billion, largely targeted to foreign private banks followed by domestic private banks. In recent months, in a context of a greater relative growth of equity, with respect to assets the system verifies a minor financial leverage (see Chart IV.15).

The capital position of the financial system reflects appropriate solvency levels

The capital compliance in terms of risk-weighted assets continues to grow gradually reaching approximately 17% (see Chart IV.2), signal of the solvency of the financial sector. The excess of capital in terms of requirements is above 80%, a performance widespread to all financial institutions. It is worth noting that from January of this year all mechanisms that moderate

[40] A Herfindhal Hirschman Index of approximately 680 (measured as the sum of deposits and loans to the private sector).

Box 3 / The Behavior of the Bank Spread in Argentina

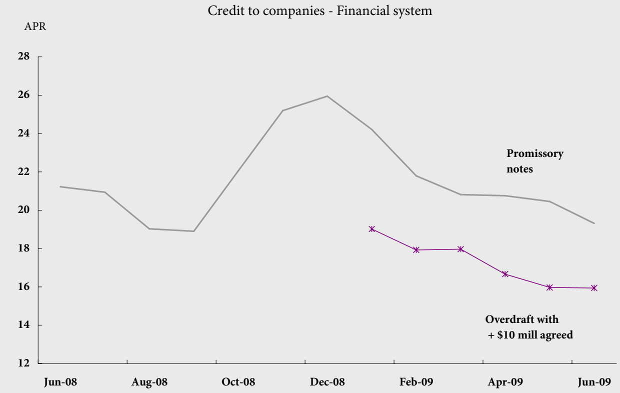
The magnitude, the evolution and the breakdown of the differential of lending and borrowing rates (spread) provide relevant information to evaluate both the performance of the banking sector as well as eventual restrictions to a greater financial depth. Economies with financial systems with higher levels of competition when generating credit, and with banks that perform a proper administration of its assumed risks generally, have lower spreads. Other factors that increase bank spreads are the macroeconomic scenarios of high volatility and the existence of specific episodes of general distrust of private agents. In this regard, the BCRA adopted a risk management approach in the implementation of its policies, promoting an environment of stability necessary for the development of credit of the private sector

As standard practice, the BCRA performs different analysis in order to obtain a better characterization of the factors that tend to explain the existing spread in major local credit lines. The information obtained becomes a necessary input when designing and periodically assessing the financial and monetary policies implemented by this institution.

Chart B.3.1

Lending Interest Rates in Pesos

Credit to companies - Financial system



Source: SISCEN, BCRA

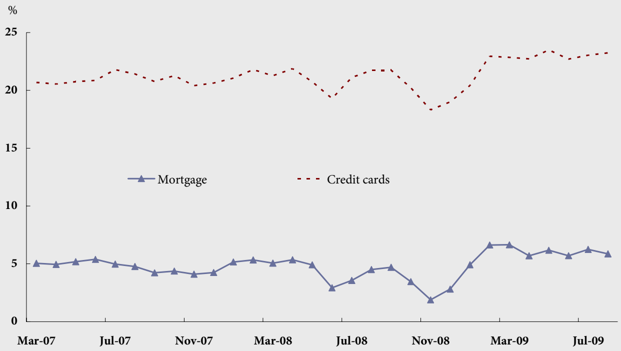
Therefore, since the beginning of the international crisis, episodes of volatility started to be noticed in the local financial markets which translated in the financing costs of deposits (see Chart IV.9), the lending rates (see Chart B.3.1) and in bank spreads, generally being originated by the context of higher perceived risks. The BCRA acted implementing a comprehensive battery of measures that were successful and helped support the financial stability.

Overall, the measures adopted by this institution were mainly aimed to cope with the temporary imbalances in the demand for money, using the tools provided by a prudential floating monetary currency and by the strategy of reserve accumulation, both consolidated over the past five years. These tools were combined with the provision of new liquidity windows that help sustain the supply of resources in case of eventual stress situations. In terms of a better management of risks inherent to the financial intermediation activity, the BCRA is promoting the derivatives market of interest rates (futures and swaps). In general, the BCRA approach of recent years is closely in line with macro-prudential monitoring that is currently gaining relevance at international level.

Chart B.3.2

Spread of Lending Interest Rates - Loans to Households

Operations in pesos with individuals - Financial system



Note: The estimation of weighted deposit interest rates takes into account saving deposits, time deposits and remunerated sight deposits in CABA and GBA.

Source: SISCEN, BCRA

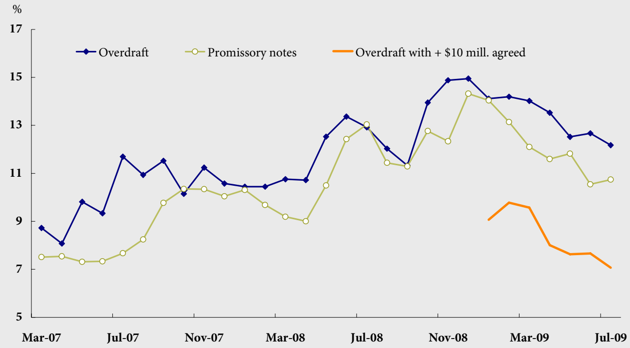
As a result, the main financing interest rates began to return to their standard values exhibiting lower levels and a less volatile performance. Lending rates for companies and to a lesser extent, for households also verified a decrease that influenced the spread levels (Charts B.3.2 and B.3.3) promoting an increase in financing to the private sector. There is a no significant difference between private and public banks regarding the behavior of the interest rate spread in the period analyzed.

In terms of spread components, financial entities reflect charges on the cost of financing primarily related to operating costs, taxes, return on capital and coverage of any risks arising from the traditional brokerage activity. The weight of these factors generally differs among the different credit lines. Regarding risk coverage, there is a component linked to the risk of credit repayment that shows different characteristics depending on the lines either household or commercial, with or without collateral (contemplating non-performing charges). There are also risks factors associated with both the mismatch of interest rates and the liquidity of financial institutions.

Chart B.3.3

Spread of Lending Interest Rates - Loans to Companies

Operations in pesos with legal persons - Financial system



Note: The estimation of weighted deposit interest rates takes into account saving deposits, time deposits and remunerated sight deposits in CABA and GBA.

Source: SISCEN, BCRA

The empirical analysis shows that the spread of domestic interest rates tend to be higher in consumer loans, followed by those intended for commercial activity such as promissory notes and overdrafts. Loans with collateral, especially mortgage loans, tend to exhibit lower spreads on most of the financial entities operating in the local market. Overall, the average spread of the financial system is mainly explained by the coverage of risks assumed (less than half of the weighted total ratio exhibiting some heterogeneity between lines), followed by operating costs (reaching almost a third of the total) and to a lesser extent the tax burden (representing on average less than a quarter of the total).

There are certain differences in the weighting of the spread components among the different credit lines. Thus, in all types of financing with the exception of mortgages, the credit risk is the risk that undertakes greater relative weight. Meanwhile, in mortgages the interest rate risk tends to be more relevant, as well as liquidity. Operating costs tend to be more representative in credit cards.

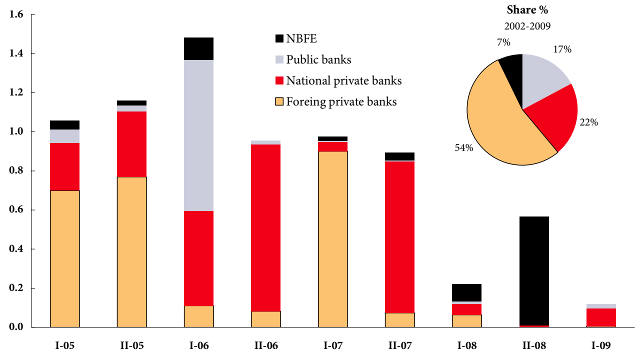
Taking into account these characteristics, the BCRA has been implementing measures that contribute to reduce the spread in financial intermediation. In particular, the implementation of a countercyclical prudential policy that promotes the creation of liquidity cushions in financial institutions can reduce the volatility that can occur in financing. Moreover, the recent implementation of interest rates of futures markets (in conjunction with the MAE), encourages the development of market instruments that mitigate the liquidity risk in banks. Also, by encouraging the stress test exercise in banks, a tool is provided that contributes to a better assessment of the potential effects of credit losses they may face in cases of shock. Finally, the BCRA recently implemented measures to help reduce the operating costs of institutions in the generation and monitoring of credit, as well as measures that provide in-depth financial activity (in terms of regional scope and socioeconomic status) thus gaining operational scale while eventually improving their efficiency.

Facing the next periods, this institution would go on monitoring the current spreads in the intermediation process, in order to continue implementing measures to achieve greater efficiency and depth of credit to companies and households. The stimulus to the credit dynamics must be given in a prudential context, recognizing the importance of the expansion of private sector deposits in a mediation process, so as to preserve the financial stability.

Chart IV.14

Financial Entities Capital Contribution

2005-2009

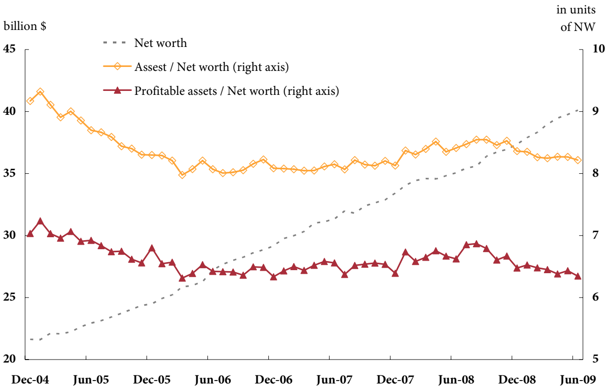


Source: BCRA

Chart IV.15

Leverage

Consolidated financial system



Source: BCRA

Table IV.2

Profitability Structure: Financial System

In annualized terms - As % of average netted assets

	93-00	2006	2007	2008	I-08	II-08	I-09
Financial margin	6.1	5.8	5.7	6.7	6.6	6.8	8.4
Net interest income	4.9	1.8	2.2	3.1	2.9	3.4	4.1
CER y CVS adjustments	0.0	1.3	1.0	0.9	1.2	0.6	0.3
Gains on securities	0.8	2.2	1.9	1.4	2.0	0.9	2.5
Foreign exchange price adjustments	0.0	0.4	0.5	0.8	0.4	1.1	1.1
Other financial income	0.3	0.1	0.1	0.4	0.0	0.8	0.3
Service income margin	3.5	2.7	3.1	3.6	3.4	3.7	3.7
Operating costs	-6.7	-5.1	-5.5	-6.1	-6.0	-6.3	-6.6
Loan loss provisions	-2.2	-0.5	-0.7	-0.9	-0.8	-1.0	-1.2
Adjustments to the valuation of gov. securities (*)	-	-0.3	-0.3	-0.6	-0.6	-0.6	-0.1
Tax charges	-0.5	-0.5	-0.6	-0.8	-0.7	-0.8	-1.0
Amortization payments for court-ordered releases	-	-1.1	-0.7	-0.3	-0.4	-0.3	-0.2
Other	0.7	1.2	0.9	0.5	0.6	0.4	0.4
Income tax	-0.3	-0.3	-0.4	-0.4	-0.5	-0.4	-1.4
ROA	**0.5**	**1.9**	**1.5**	**1.6**	**1.6**	**1.5**	**2.0**
ROE	3.4	14.3	11.0	13.4	13.6	13.2	16.6
Adjusted ROA (**)	-	**3.4**	**2.5**	**2.5**	**2.5**	**2.4**	**2.3**

(*) 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

capital requirements set by the 2001-2002[41] crisis have no effect.

Despite the local effect of the international financial volatility, the financial system completes its ninth consecutive quarter with nominal accounting profits in a context of less growth in financial intermediation with the private sector. The accounting policies promoted by the BCRA in response to the global crisis provide the financial institutions a containment tool for confronting the adverse effects of excessive volatility of financial markets on the traditional financial intermediation process. When valuing the public sector assets portfolio at market prices in the last 12 months the financial system would exhibit lower results –approximately one third of the currently accrued - maintaining an adequate level of solvency.

Net interest income consolidated as the main source of profits in the sector

The more stable revenue source of the financial system, net interest and services income margin, continues to consolidate (see Table IV.2). Net interest income have kept rising (see Chart IV.16) favored by higher loans revenues in a context of an increasing financial intermediation while gradually decreasing expenditures are observed in line with lower operated borrowing rates. The services income margin maintains its expansion path, reaching historically high levels. In particular, the revenues associated with attracting deposits have exhibit the best performance; while those originated from the granting of loans are showing less dynamism (see Chart IV.17).

Results from securities increased their participation showing some variability due to fluctuations of the securities at market prices in portfolios (see Chart IV.18). Differences in prices and the remaining items related to the exchange rate recorded an increase in 2009 compared to the same period of last year, mainly showing the evolution in the exchange rate peso-dollar. As a result, the financial margin of the banking system continues to rise, surpassing those of previous periods. CER adjustments are significantly being reduced, reflecting the lower mismatch of adjustable accounting items on bank balance sheets, evolution partially explained by the PGN exchange of earlier this year[42].

Higher expenditures on operating costs and loan loss provisions

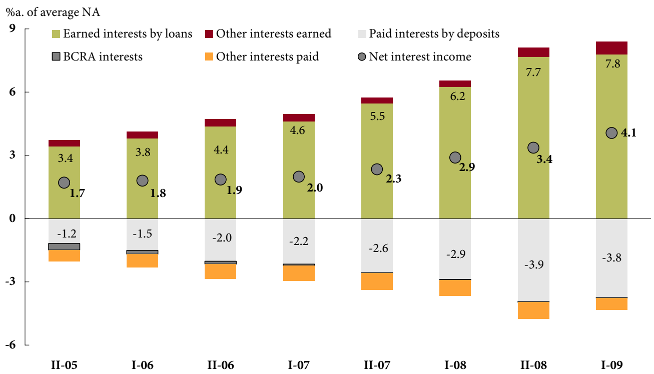
[41] For more details of prudential policies established by the Central Bank on capital requirements, see BEF I-04.

[42] In the course of September, a new swap of government bonds adjusted by CER was carried out.

Chart IV.16

Net Interest Income

Financial system

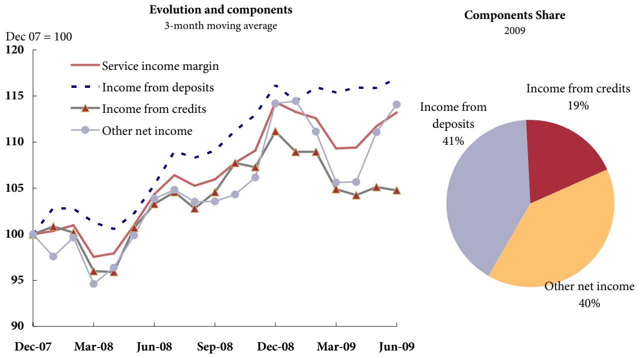


Source: BCRA

Chart IV.17

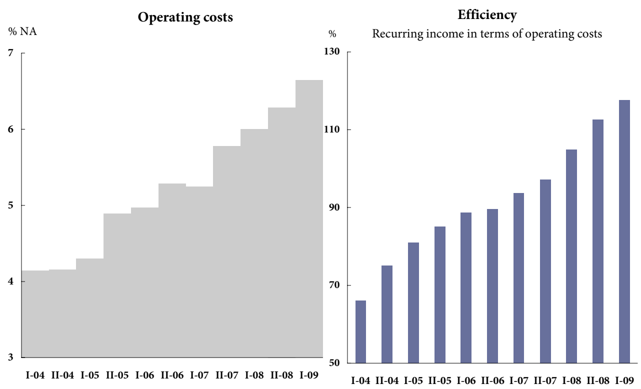
Service Income Margin

Financial system



Source: BCRA

Chart IV.18



Source: BCRA

Management spending show slight increases, exhibiting the wage recomposition of the last months in a context in which the number of people employed in the industry is stabilizing. The expansion of more stable revenues continues to exceed the operating cost increase, thus progressively strengthening the efficiency of the sector (see Chart IV.18). Moreover, the gradual quality deterioration of the loan portfolio particularly intended for household consumption (see page 58) continues to fuel an increase in loan loss provision (see Chart IV.19).

Both public and private banks improve their profitability

Private banks recorded higher profits, being noticeable the evolution of the net interest income and services income margin while the weight of the items that reflect the effects left by the 2001-2002 crisis vanished. Loan loss provision continues increasing in private banks faster than in the financial system.

In particular, national private financial institutions show an improvement in profitability with respect to the end of 2008, mainly explained by interest income (see Table IV.3). Private banks of regional coverage registered book profits slightly lower than the previous half year, partly due to higher charges for income tax accrual. Results from trading securities drive profits of investment Banks.

National banks also increased their earnings, mainly boosted by strong results from financial intermediation with the private sector, while verifying an increase in management expenses.

The solvency of the financial system would continue in the coming months

For the rest of the year, the financial system is expected to keep its solvency levels, based on the accrual of gains from financial intermediation with the private sector. The results for interests, the main source of bank resources, would continue to lead the sector revenue followed by the results for services. The government securities results would probably show a positive development, together with the gradual normalization of the financial markets. In line with the trend observed in recent periods, charges for loan losses are forecasted to continue to increase their share gradually, while administrative costs are expected to stabilize at around current levels showing a decline to the extent that it would strengthen the intermediary market dynamics.

IV.2 Institutional investors

Portfolios are revalued as a result of price recoveries. The FGS-ANSeS participates actively in financing the economy

In a context of greater stability in financial markets, Mutual funds began to spread influenced by the widespread price rebound in world markets. Thus, a gradual but sustained growth is observed since early this year in the total portfolio of the FCI, accumulating a rise greater than $2.5 billion compared to January this year (20%). The portfolio targeted at money markets (including time deposits) reduced its share in the total so far this year, in a scenario of a greater relative dynamism in fixed income funds and equity funds. The remainder of the aggregate portfolio is comprised almost equally by instruments of variable income and of fixed income.

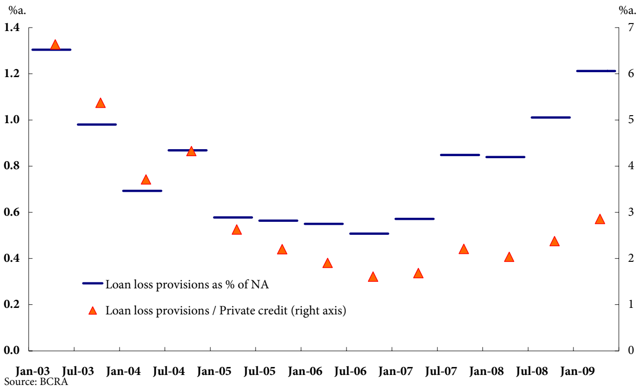
The assets of insurance companies (CS) reached nearly $50 billion at the end of first quarter of 2009 (latest available data), of which more than $36 billion belongs to investments. This represents an increase close to 4.5% when compared to late 2008, either in terms of assets or in investments of companies. The composition of the portfolio remained relatively stable with more than 80% of the investments in the country, led mainly by government bonds and time deposits (see Box 4).

The Guarantee sustainability fund's portfolio (FGS-ANSES) reached $120 billion in August 2009, consolidating the funds of the ex AFJP (Law 26,425) and those of the FGS-ANSeS prior to the transfer of the pension funds (Decree 897/07[43]). Note that almost two thirds of the total portfolio was invested in credit operations with the Nation (mainly government bonds); whereas equity holdings and term fixed deposits are the next two most important items within the composition of the portfolio (9% and 8.4% respectively) (see Table IV.4). Thus, the FGS-ANSeS has actively participated in the period both in the financing of specific production projects and in the placement of fixed term deposits as in primary offerings of instruments in local capital markets.

Chart IV.19

Loan Loss Provisions

Annualized half yearly - Financial system



Source: BCRA

Table IV.3

Profitability Structure by Type of Bank

In annualized terms - As % of average netted assets - First half 2009

	Public	Private					
			Retail				
		Total	Total	National coverage	Regional coverage	Specialized	Investment
Financial margin	6.1	9.6	9.7	9.2	11.6	17.7	22.6
Net interest income	2.0	5.1	5.6	5.2	6.7	13.5	3.9
CER y CVS adjustments	0.7	0.1	0.1	0.1	0.0	0.0	0.0
Gains on securities	2.4	2.7	2.5	2.4	2.9	2.4	9.7
Foreign exchange price adjustments	1.2	1.1	0.9	0.8	1.1	2.2	6.1
Other financial income	-0.2	0.6	0.6	0.5	0.9	-0.3	2.8
Service income margin	2.5	4.4	4.9	4.8	4.5	9.9	2.6
Operating costs	-5.5	-7.2	-7.8	-7.5	-8.3	-15.9	-8.4
Loan loss provisions	-0.6	-1.4	-1.6	-1.6	-0.9	-7.5	-0.9
Adjustments to the valuation of gov. securities (*)	-0.3	0.0	0.0	0.0	0.0	0.0	-0.1
Tax charges	-0.6	-1.2	-1.2	-1.3	-1.1	-1.7	-1.4
Amortization payments of court-ordered releases	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.7
Other	0.9	0.1	0.1	0.1	-0.1	0.3	0.7
Monetary results	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income tax	-1.3	-1.5	-1.5	-1.2	-2.6	-1.2	-4.4
ROA	**1.1**	**2.5**	**2.4**	**2.3**	**3.1**	**1.5**	**9.9**
ROE	10.9	20.0	20.3	20.0	23.3	7.8	32.1
Adjusted ROA (**)	**1.6**	**2.8**	**2.6**	**2.5**	**3.2**	**1.6**	**10.7**
Weight in total assets (%) (***)	38.3	59.8	52.8	43.4	8.5	0.9	2.6

(*) Com. "A" 3911 and complementary communications.'(**) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and complementary communications.
(***) NBFI represent 1,9% of assets.
Source: BCRA

Table IV.4

Social Security Fund FGS ANSES Portfolio

Items	At 5-Dec-08 Amount (mill.$)	At 5-Dec-08 Share %	At 12-Aug-09 Amount (mill.$)	At 12-Aug-09 Share %	Var. %
Deposits in banks	3,519	0.0	5,051	4.2	43.5
National Government Securities	58,427	59.5	72,097	60.0	23.4
Other Government Securities	639	0.7	614	0.5	-4.0
Corporate Bonds	1,611	1.6	2,288	1.9	42.1
Time deposits	10,215	10.4	10,113	8.4	-1.0
Equities	7,844	8.0	10,816	9.0	37.9
Mutual funds	3,173	3.2	2,759	2.3	-13.1
Foreign Securities (Include equities and bonds)	5,137	5.2	5,957	5.0	16.0
Structured products	3,660	3.7	2,618	2.2	-28.5
Other financial trusts	1,561	1.6	555	0.5	-64.4
Investments and infrastructure	2,183	2.2	7,077	5.9	224.2
Other	255	0.3	171	0.1	-32.9
Total	**98,224**	**100.0**	**120,116**	**100.0**	**22.3**

Source: BCRA from ANSeS-FGS.

[43] On 5 December 2008 (the consolidation date of the portfolios) the valuation of the fund managers was $80.2 billion and $18.1 billion correspond to the previous resources of the FGS, totaling $98.2 billion. With the information available till April 2009, the portfolio was valued at $82.8 billion and $19.2 billion, respectively (totaling $102 billion). There is no avalaible data break it down for August 2009 (corresponding to AFJP by Law 26,425 and to FGS by Decree 897/07).

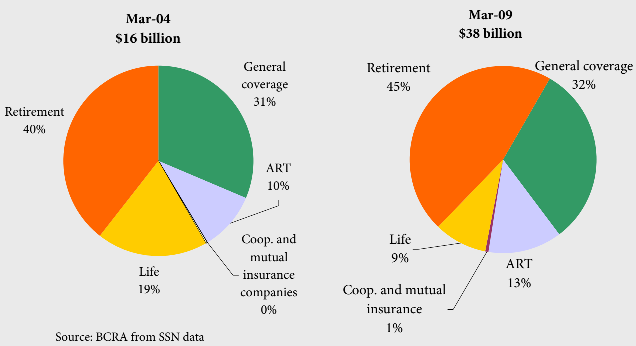
Box 4 / Insurance Companies and their Role as Institutional Investors in the Local Market

Insurance companies represent a group of institutional investors of relevance in the local market, managing a portfolio of $38 billion. The size of the portfolio is increasing in a context of rising income, decreasing claims, stable cost ratios and positive financial results. The composition of the portfolio has divergences among the main subgroups, depending on the nature of its liabilities. Insurance companies shows a greater weighting of liquid instruments, while life insurance and retirement firms have more than half of its portfolio in bonds. An increasing weighting in cash and fixed term deposits is noticeable for the majority of groups

The portfolio (investments and liquid assets) of the aggregate of insurance companies amounted to $38 billion to March 2009[44]. This represents almost 4% of GDP, positioning insurance companies as an institutional investor of relevance in the local market. This ratio compares with a portfolio that represents 12% of GDP in the case of FGS and 1.5% of GDP in the case of the FCI.

Chart B.4.1

Insurance Companies Portfolio Composition in Terms of Liquid Assets and Investments



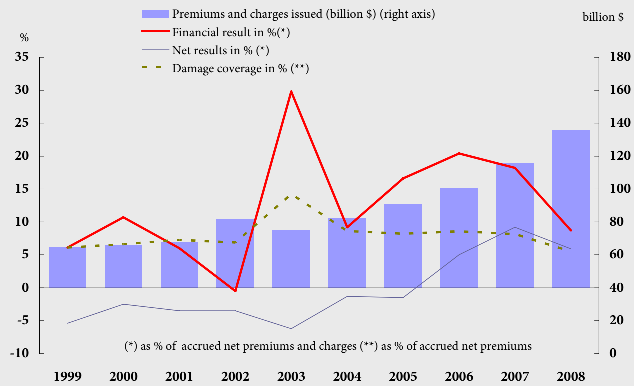
Source: BCRA from SSN data

The nominal amount of the aggregate portfolio of insurance companies is nowadays 1.5 times higher than that observed five years ago (see Chart B.4.1). Indeed, the aggregate portfolio has grown over the past five years at an average rate close to 20% a year. This dynamism occurs in a context of rising income, lower accident rates, stable expense ratios and positive financial results for companies (see Chart B.4.2). Indeed, in the last five years issued premiums and fees increased at an average rate of 22%.

The claims ratio[45] tended to contract from the peaks recorded in 2003. Moreover, the ratio of total expenditure remained stable throughout the period 2004-2008. The ratio of financial results remained in positive territory, though showing some volatility in a range of 9% -20% in the last five years, with a significant decline in 2008. Thus, in the last years, an improvement is observed in the annual ratio of results which became positive since 2006[46].

Chart B.4.2

Evolution of Income and Profitability of Insurance Companies



Soure: SSN

The aggregate of insurance companies includes subsets of different characteristics. Thus, the portfolios of companies with an investment horizon of longer term (life insurance and retirement, with a clear predominance[47] of the latter) involve more than half of the aggregate portfolio. Meanwhile, a third of the portfolio is explained by insurance companies (fire insurance, vehicle, family, theft, etc.) the subsector with the most companies[48]. Finally, the portfolio of insurers

[44] Last available data.

[45] Net claims incurred, rescues and annuities.

[46] The ratios are expressed in terms of different denominators: Net premiums and fees receivable (financial result and profit or loss), net premiums written (claims) and premiums and surcharges issued (total costs).

[47] Retirement funds increased together with the AFJPs scheme.

[48] Insurance companies represent the subsector with the largest number of entities (99 companies versus 21 companies in the retirement insurance subsector) and with less concentrated portfolios (accordingn to Herfindahl-Hirschman index).

involving work risks (ART) represents 13% of the total, while insurers of public transport of passengers have a marginal weight. In perspective, it seems that in the past five years retirement insurance companies and the ART were gaining ground with respect to the weight of the total portfolio[49] at the expense of life insurance companies

The aggregate portfolio administered by insurance companies is composed by 4% in cash ($1.65 billion); while the remainder ($36.350 billion) is allocated to different types of investments (see Table B.4.1). Among local investments (which account for almost 80% of total loans) government bonds[50] and time deposits are noticeable with weightings of 40% and 24% in the total portfolio, respectively. International investments have shown a greater diversification among instruments, with government securities exhibiting its predominance. Note that total assets with greater relative liquidity (cash and short-term investments - domestically and internationally- as fixed term deposits and FCI) amounts to 36% of the aggregate portfolio of insurance companies (about $13,700 million).

Table B.4.1

Insurance Companies Portfolio Composition

March 2009 - in million $

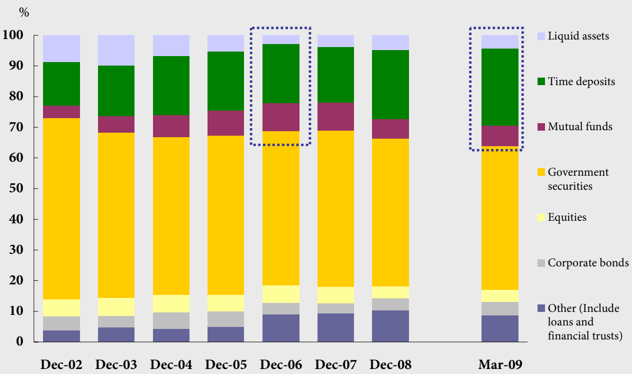
Items	Total	General coverage	ART	Coop.and mutual insurance companies	Life	Retirement
Total liquid assets and investments	**37,999**	11,975	4,796	242	3,495	17,491
Liquid assets	**1,653**	981	257	31	122	262
Investments	**36,345**	10,994	4,539	212	3,372	17,229
Local	***30,086***	*9,228*	*3,660*	*174*	*1,860*	*15,164*
Time deposits	**8,940**	3,204	1,599	110	456	3,572
Securities	**15,186**	3,756	1,481	27	748	9,174
Equities	**1,020**	756	26	5	160	73
Corporate bonds	**976**	263	123	2	182	405
Mutual funds	**1,576**	593	373	8	183	418
Financial trusts	**2,073**	409	55	3	110	1,495
Other (include loans)	**315**	246	3	18	21	27
International	***6,259***	*1,766*	*879*	*38*	*1,512*	*2,065*
Time deposits	**608**	181	191	23	93	120
Securities	**2,626**	772	519	0	745	590
Equities	**474**	100	7	0	349	17
Corporate bonds	**675**	304	39	3	116	213
Mutual funds	**941**	382	111	11	171	266
Other	**936**	26	12	1	38	858
Memo: Number of companies	178	99	13	5	40	21

Source: BCRA from SSN data

Depending on the different nature of the various types of insurance companies liabilities, divergences are expected in the composition of their portfolios. Furthermore, general insurance companies and ARTs show portfolios with greater weighting of liquid assets than life insurance and retirement[51] companies. On the other hand, the preponderance of government bonds is notable in the portfolios of insurance companies offering retirement plans (over 50% of total investments, while for the other groups the weights are around 30% at most). Finally, life insurance companies often exhibit a high weight of international investments (over 40% of their portfolio).

Chart B.4.3

Insurance Companies Portfolio Composition



Source: BCRA from SSN data

In retrospect, during the past two years the aggregate portfolio of the insurance industry has exhibited a tendency to increase the weighting of liquidity: in particular, just cash and time deposits fell from nearly 22% of the total at the end 2006 to almost 30%[52] at present (see Chart B.4.3). Additionally, ON and Financial Trust are registering an improvement. These trends are in line with that observed in recent years both in terms of bank re-intermediation as in financing to the private sector through local capital markets. The advance of the instruments mentioned in the weighting of the portfolios of insurance companies was at the expense of government bonds (which continue to maintain a leading role), stocks and the FCI[53].

[49] The ARTs show a growing involvement on the issue of premiums and additional charges of the industry.

[50] Government bonds can be valued at market prices or in investment accounts.

[51] Cash represent more than 8% of the portfolio of general insurance companies, while for retirement insurance companies the weight is less than 2%. Liquid assets in a broad sense (cash, deposits and FCI), the weight in general insurance companies (45%) is higher than that observed in retirement insurance companies (weight below 30%).

[52] In 2008, both the cash balance and the balance of time deposits grew at rates above 40% annually. A policy change during 2008, referred to companies that register negative technical result could be encouraging the development of those placements.

[53] The balance of shares and the FCI showed declines of around 15% - 20% in 2008, in a context of price drop.

V. Financial System Risks

Summary

The financial system shows a relatively low and balanced intrinsic risk configuration together with broad coverage mechanisms, given the prudential regulatory framework and the policies implemented by the Central Bank. Consequently, banks are showing significant strength in the face of the effects of the international crisis that is ending its second year. The actions taken by this Central Bank intended to preserve financial stability, at a time when there are growing signs of an improvement in the domestic economy that will make possible to significantly lessen the risk of any deterioration in the current risk map over the remainder of 2009.

Banks liquid assets level´s, added to the creation of tools by the Central Bank, and the full validity of its role as a lender of last resort, have ensured that financial entities have maintained a favorable position in the face of liquidity risk. In this scenario, private sector deposits have continued to increase, and interest rates have dropped. The latter has partly reflected the impact of the cuts by the Central Bank in the reference repo market interest rate bands.

Prevails favorable expectations in the face of the risk of lending to households and companies over the remainder of 2009, although there are still slight signs of tension in some segments. Delinquency is still rising from its low levels in the case of household consumer lending, and to a lesser extent in the case of companies. This increase is taking place in the context of certain fragility in the labor market and less dynamism in activity levels in some sectors, although indebtedness remains relatively low. Coverage of non-performing loans by provisions remains robust.

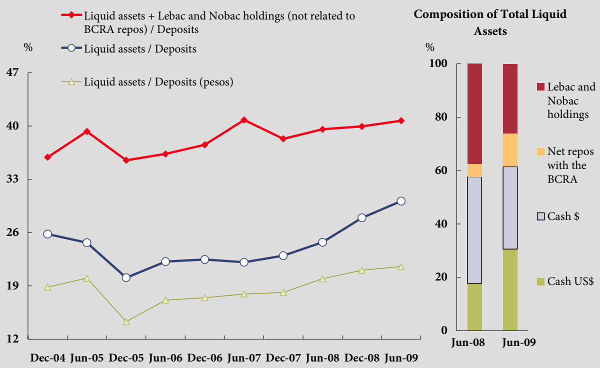
Exposure of the financial system to the public sector is stabilizing at a historically low level. Nevertheless it is expected that there will be some increase in the rest of the year in view of the terms of the National Budget Law and whatever borrowing is generated in relation to the financing of infrastructure projects. National Government accounts are expected to remain in surplus, limiting the credit risk faced by banks.

The foreign currency position of the financial system increased slightly, mainly as a result of net forward purchases, a situation that take place in a scenario of limited exchange rate volatility. In this context there is little probability that variation in the exchange rate affect negatively the solvency of the sector.

Banks are keeping their exposure to interest rate risk at moderate levels. The balance sheet mismatching of CER-adjustable items continues to shrink, mainly because of the swap of PGN loans. As a result, financial system exposure to risk from the real interest rate continues to decline.

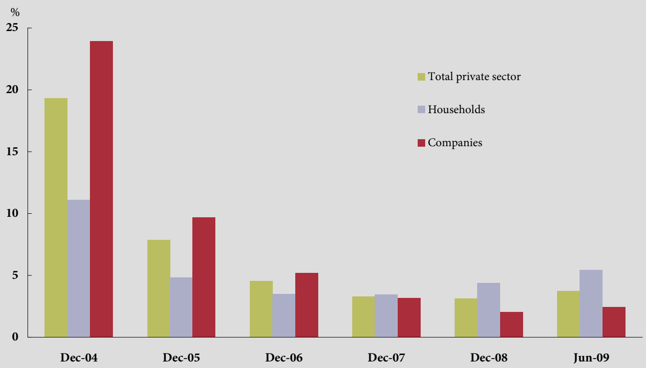
Positive economic prospects are creating a relatively more encouraging framework for the management of the risk faced by banks. The Central Bank's financial and prudential policies generate the appropriate incentives to avoid excessive risk taking by financial institutions, while at the same time promoting growth in financial intermediation.

Chart V.1
Liquidity Indicators
Financial system



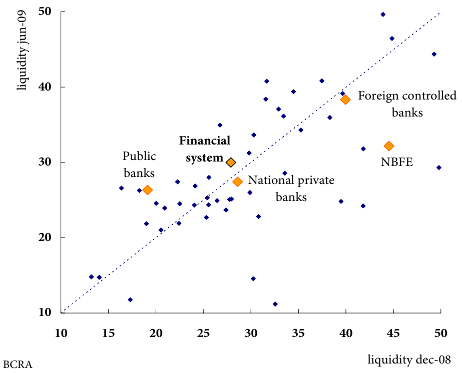
Source: BCRA

Chart V.2
Non-Performing Credit to the Private Sector
Non-performing loans / Total loans (%)



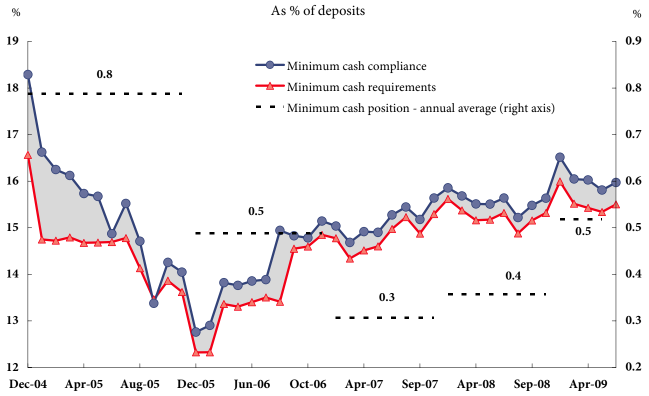
Source: BCRA

Chart V.3
Liquidity Change
Liquid assets / Non-financial sector deposits (%)



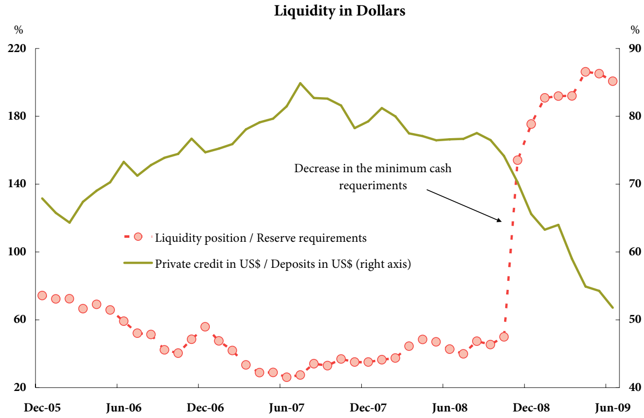
Source: BCRA

Chart V.4
Liquidity in Pesos
As % of deposits



Source: BCRA

Chart V.5
Liquidity in Dollars



Source BCRA

V.1 Liquidity risk

The financial system records a sound position in the face of liquidity risk

Financial entities hold adequate levels of liquid assets with new instruments based on the measures adopted by the Central Bank that enable effective management of the liquidity risk faced.

Banks continued to consolidate their liabilities in the first part of 2009, as a consequence of the rising private sector deposits. Deposits made by companies and households in both sight accounts and time placements registered an increase of 16.1%a. in 2009. As a result, private sector deposits have gained strength as the principal source of bank funds, representing over half the sector's liabilities.

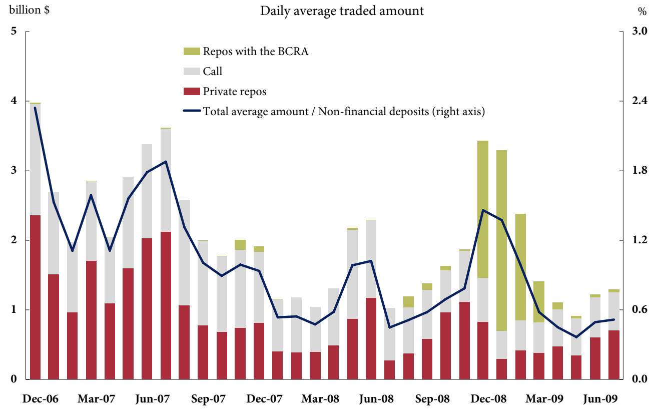
Deepening the strategy implemented in the face of the international financial crisis, the Central Bank continues to promote tools to financial institutions so they can satisfy potential liquidity needs. In the first half of 2009 this Institution included the possibility of auctioning for reverse repo options in pesos for terms of up to one year as an additional measure to the liquidity facilities created previously (prequalification of assets for the assistance regime and the inclusion of PGN and Bogar 2020 within the range of instruments already available to be able to take funds)[54] and took steps to strengthen systemic liquidity by means of the reduction of the stock of Lebac and Nobac in circulation.

Liquid assets[55] for financial institutions as a whole have shown an increase in recent periods to 30% of deposits (see Chart V.1), while the broad liquidity measure[56] reached 41% of total deposits, slightly above the level at the close of 2008. The increase in systemic liquidity in the first half of 2009 was driven mainly by public banks (see Chart V.3), and this movement has been partly offset by reductions in the remaining groups of financial institutions.

Banks hold sufficient liquidity in pesos, in excess of the Central Bank regulation requirements, and count on a precautionary margin that has been rising gradually in a year-on-year term (see Chart V.4). Excess of compliance in foreign currency remains at high levels (see Chart V.5), in line with growth in foreign currency deposits, which has been higher than the performance of loans in the same currency.

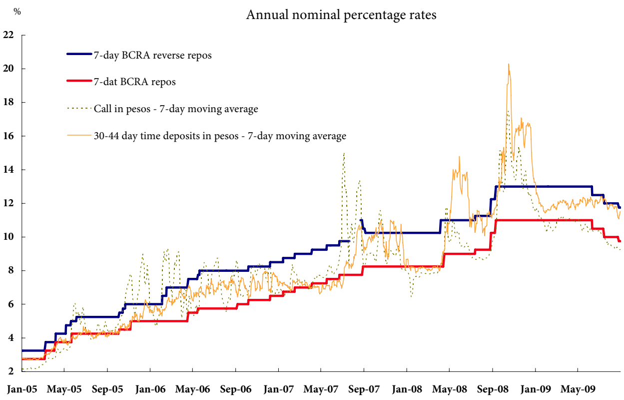
[54] For further details see FSR I-09.
[55] In both pesos and foreign currency, including cash, current accounts in the Central Bank and net repo with this Institution.
[56] Including holdings of Lebac and Nobac not related with Central Bank repo transactions.

Chart V.6
Interbank Liquidity Markets
Daily average traded amount



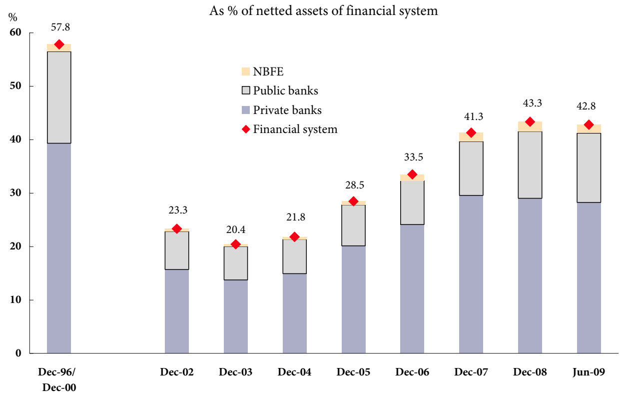
Source: BCRA

Chart V.7
Interest Rates
Annual nominal percentage rates



Source: BCRA

Chart V.8
Financing to the Non-Financial Private Sector
As % of netted assets of financial system



Source: BCRA

Incipient signs of recovery in activity levels on interbank liquidity markets

Following the peaks in international financial volatility seen towards the end of 2008, trading volumes on domestic interbank liquidity markets have recovered gradually (see Chart V.6), although they remain below last year's levels. Together with the development of liquidity markets and the increase in deposits, the main domestic interest rates have been declining (see Chart V.7). As part of the normalization process, and with the aim of deepening its countercyclical policy, the Central Bank decided to make adjustments to the repo and reverse repo mechanism[57]. Between July and September the Central Bank announced three cuts in the interest rate on repos for 1 and 7 days for 1.25 p.p. in total, eliminating some terms that had been created during the periods of mayor financial instability.

In an international environment that still contains elements of uncertainty, banks are expected to maintain a strong position in the face of liquidity risk

The liquidity risk faced by financial institutions is expected to remain within bounds, given the protection represented by the high levels of reserves being held system-wide, the battery of related measures implemented by the Central Bank and the consolidation of its role as a lender of last resort. It should be mentioned that there are beginning to be stabilization signs of the domestic economy, which will provide the conditions for the development of traditional financial intermediation activities, contributing to ensuring that banks can consolidate their funding by means of deposits from companies and households. The risk of a downside will come from any sudden increase in volatility levels.

V.2 Credit risk

V.2.1 Private sector

Financial entities as a whole have slightly lowered their exposure to the private sector

At a time of slowing lending growth, the financial system has slightly reduced its exposure to the private sector (see Chart V.8). There are continued signs of certain materialization of the credit risk arising from lending to companies and households assumed by banks, although risk levels had remained low. There

[57] Including two cuts in the interest rate for 1 and 7-day transactions of 0.50 p.p. each at the beginning of July and August this year, and one of 0.25 p.p. in September.

Box 5 / Strategies by Central Banks in the Face of Asset Price Volatility

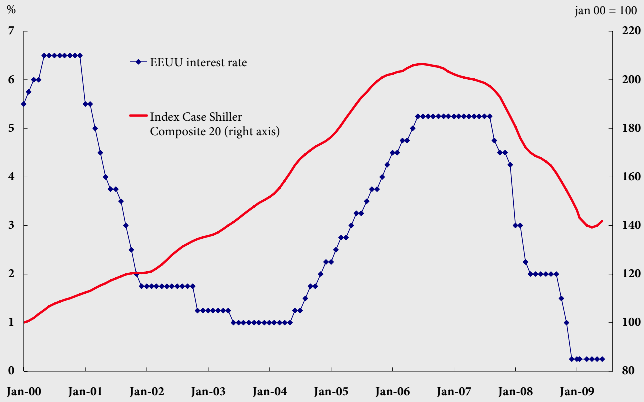
The bursting of the US real estate market bubble that caused the current international financial crisis has reopened the debate on the role of central banks in the face of signs of asset price misalignment. There appears to be consensus on the need for anti-cyclical actions by these institutions aimed at safeguarding financial stability

One of the lessons of the current global financial crisis is that domestic asset price misalignment can seriously threaten financial stability and place economic activity and employment at risk. This takes place when adjustments to the wealth of economic agents and in the cost and availability of credit end up having an impact on consumption and investment levels. For this reason there is a need to rethink the role of central banks in the face of significant deviations in the level of certain variables with regard to the level determined by their fundamentals.

There are two approaches to this problem. One of these has been adopted by the Fed[58] and is known as "mopping up after", which consists of not interfering before the bubble bursts, and then using monetary policy tools to clean up the consequences, mitigating the collateral damage to the banking system and the economy. There are two main reasons for not intervening as a bubble develops. The first is that early detection of bubbles with some degree of precision is a difficult task, as it is necessary to determine whether asset price fluctuations are due to changes in long-term trends in fundamental variables, or whether on the other hand they respond to expectations of speculative gains as a result of future price rises. It also tends to be argued that central banks would not have any advantage over the market when making such an evaluation. The second reason is that even when the development of a bubble can be detected, the monetary authority may not possess the appropriate instruments to deflate it.

Some economists are very critical of the passive behavior of the monetary authority while the real estate bubble was growing, claiming that monetary policy errors encouraged its creation. These include John Taylor,[59] who suggests that the real estate bubble developed because the Fed maintained its low interest rate policy for too long, sincethe 2001 recession in the United States, encouraging excessive leveraging and indebtedness (see Chart B.5.1).

Chart B.5.1
Interest Rates FED and Home Value in US



Source: Bloomberg

Even before the outbreak of the sub-prime crisis, some economists such as Raghuram Rajan outlined their differences with the Fed's approach[60]. Rajan placed special emphasis on the fact that persistently low monetary policy interest rates (designed to avoid a recession) could lead to financial system distortions and therefore to distortions in the prices of assets. In his view, this potential danger does not imply ceasing to use sufficiently low monetary policy rates when necessary, but rather that the supervision entity should pay special attention to the formation of bubbles.

The Fed's alternative approach consists of applying the "lean against the wind" principle to asset prices. Those who support this approach consider that central banks should respond with anti-cyclical policies to any incipient imbalances in asset markets, in an effort to limit the magnitude of the misalignment. This would avoid distortions in resource allocation, softening their impact on the real economy. The central bank's commitment to avoiding excessive asset volatility would contribute to anchoring the public's expectations, preventing the process from feeding on itself.

One central bank that has pioneered the adoption of concrete measures when confronting the development of bubbles was the Swedish central bank. Its governor,

[58] Alan Greenspan, Issues for Monetary Policy, Remarks before the Economic Club of New York, 2002.
[59] John B. Taylor, The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong. NBER Working Paper No. 14631, 2009.
[60] Raghuram G. Rajan, Has Financial Development Made the World Riskier? Jackson Hole Symposium, 2005.

Stefan Ingves[61], maintained that it did not seem reasonable to ignore the risks of a potential imbalance associated with extended periods of asset price growth and borrowing levels.

In the face of a sharp rise in Swedish property prices, the Riksbank made changes to the timing of its changes to policy interest rates. In addition, as from 2006 particular attention was paid to property prices and household leverage in its communications, both through the institution's reports and in the speeches of its authorities.

These actions were heavily criticized by both the specialist press and market analysts and academics. Among the latter, Frederic Mishkin[62] claims that avoidance of the forming of bubbles is an almost impossible task. Mishkin proposes that banks should perform regular stress tests to be prepared for the tensions arising in the financial system when a bubble bursts. He also suggests that it might be useful to monitor the situation of the financial system by means of the regular publication of a Financial Stability Bulletin.

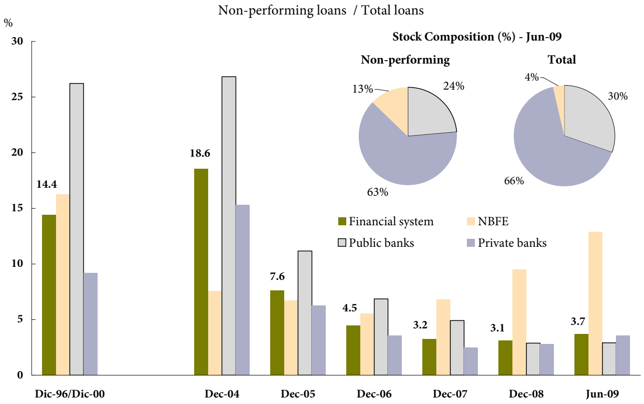
Arguments in support of the use of tools to prevent bubbles from forming (or at least to reduce the possibility of them forming) are in general terms more in line with the use of macro-prudential policies and counter-cyclical monetary policies. The early intervention approach when there are signs of a bubble developing plays a fundamental role when it comes to minimizing risks and potential costs in terms of financial fragility and output adjustment and inflation. This makes asset price monitoring a significant policy element that will probably not be able to be ignored in future by central banks.

In emerging countries there is a need to re-evaluate the efficacy of the instruments that central banks hold to deal with bubbles. Unlike the situation in developed countries, where bubbles take place in specific markets such as those of real estate or technology, in emerging countries the greater preference for domestic assets tends to be reflected in the strengthening of the currency. Capital inflow in the form of financial and productive investments tends to become more widespread, leading to exchange rate appreciation. In such circumstances, the use of the interest rate as an instrument to prevent a bubble from developing may not be the right response, as it would mean placing further pressure on the exchange rate by making domestic currency financial assets more attractive. Exchange market intervention, together with an appropriate sterilization policy, would seem to be a better alternative. Furthermore, there are other macro-prudential tools that could contribute to avoidance of bubbles, such as requirements in terms of requirements for borrowers and debt burden when generating credit, among others.

Locally, a regular evaluation is performed of financial stability conditions within the context of the FSB, and stress tests are carried out to analyze the soundness of individual banks in the event of shocks of various kinds. All this, together with adequate banking regulation and supervision to limit foreign currency mismatching, contributes to minimizing the possibility of forming bubbles, avoiding their potential impact within the domestic financial system, and on the domestic economy and employment levels. have been some indications of weakness in the labor market and lower activity growth rates in various productive sectors, although the outlook for coming months is favorable.

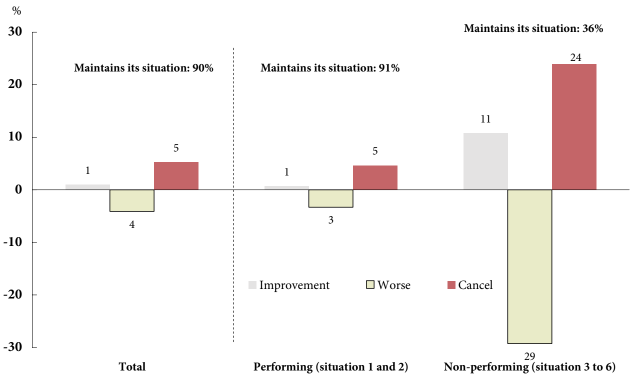
[61] Stefan Ingves, Housing and Monetary Policy: A View from an Inflation-Targeting Central Bank. Jackson Hole Symposium, 2007.
[62] Francesco Giavazzi and Frederic S. Mishkin, An Evaluation of Swedish Monetary Policy between 1995 and 2005. Riksdagstryckeriet, Stockholm, 2006.

Chart V.9
Non-Performing Credit to the Private Sector
Non-performing loans / Total loans



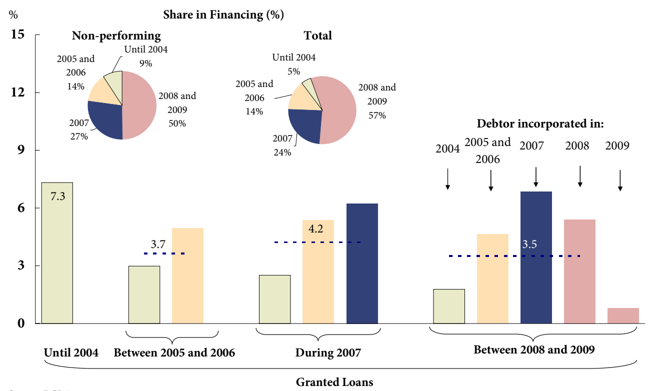
Source: BCRA

Chart V.10
Loans to Private Sector Evolution
Status at June 2009 of outstanding loans at December 2008 - As % of total



Source: BCRA

Chart V.11
Lending to the Private Sector by Granted Period
Non-performing loans / Total loans (%) - June 2009



Source: BCRA

have been some indications of weakness in the labor market and lower activity growth rates in various productive sectors, although the outlook for coming months is favorable.

Private sector non-performing loans continues to increase gradually, while banks maintain solid coverage by means of provisions

From very low levels in historical terms, private sector lending non-performance continues to record a slight increase, reaching 3.7% (see Chart V.9), reflecting the deterioration of the portfolios of non-bank financial institutions and private banks. This increase in non-performance has mainly been driven by credit lines for families, and to a lesser extent, by loans to companies[63] (see Chart V.2). Household irregularity totals 5.5% of loans, after a rise of 1 p.p. in the first half of the year, mainly from the dynamic of consumer loans (personal loans and credit cards). Lending to the corporate sector records a non-performance rate of 2.5%, showing a slight increase over 2009 to date.

Credit lines outstanding for the private sector at the end of 2008 recorded a slight quality deterioration in the year to date. Approximately 4% of loans posted deterioration in their status in the period, while only 1% recorded an improvement (see Chart V.10). It is considered that non-performance is mainly taking place in the credit lines granted in recent periods to debtors that have been incorporated to the financial system more recently (see Chart V.11).

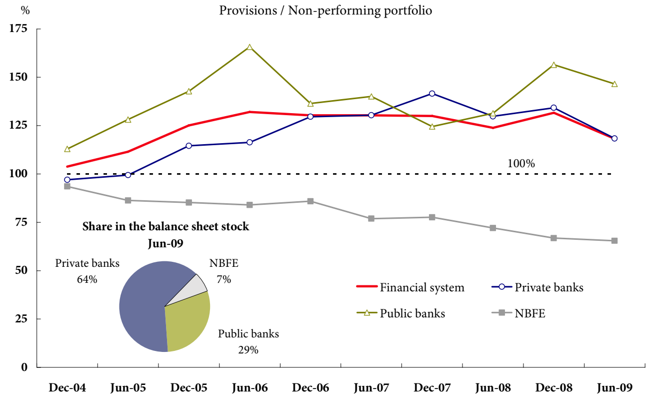
Provisions established by banks continue to cover the full amount of non-performing loans to the private sector (see Chart V.12). Over the course of 2009 the increase in delinquency has slightly reduced the coverage indicator, a situation that has been widespread across the various groups of financial institution.

The Central Bank continues to develop models for the diagnosis of financial system vulnerability to private sector credit risk

Together with the frequent monitoring of traditional variables for evaluation of the performance of the financial system, the Central Bank is introducing credit risk stress testing for the financial system, using methodologies based on macro-economic scenarios and sensitivities (see Box 5 of FSR I-09). The results of these stress tests for credit risk indicate that while the financial

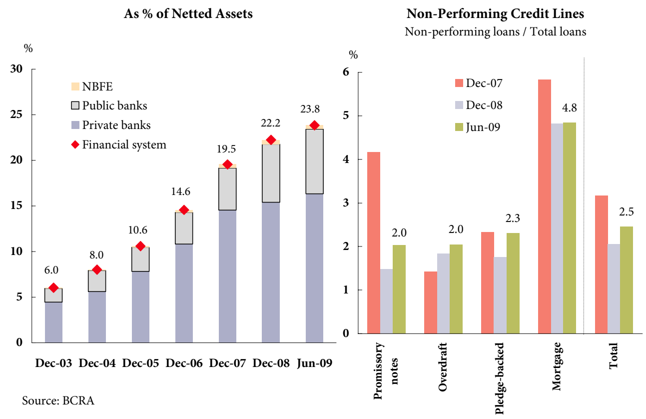
[63] Loans to companies are those granted to legal persons, as well as commercial loans granted to individuals; the remaining loans to individuals are included within the household loan category.

Chart V.12
Provisions



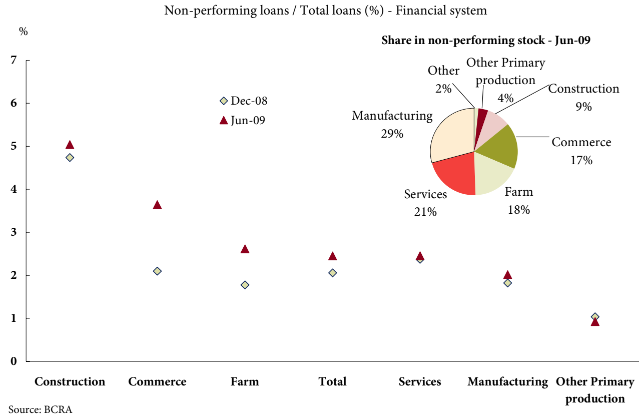
Source: BCRA

Gráfico V.13
Lending to Companies



Source: BCRA

Chart V.14
Non-Performing Lending to Companies by Economic Sector



Source: BCRA

system would post losses, its aggregate solvency would be maintained following shock episodes.

As long as the stabilization of the economy continues and the economic activity recovery signs have materialized, bank credit risk will remain limited

Household and company payment capacity will tend to improve in coming months as the economic recovery gains strength. It should however be noted that the relationship between the materialization of private sector credit risk and the economic cycle is not immediate, as there is normally some lag between economic performance and the delinquency level being recorded.

Companies

Financial system exposure to companies has increased, at the same time as there has been some deterioration in the credit quality of the sector

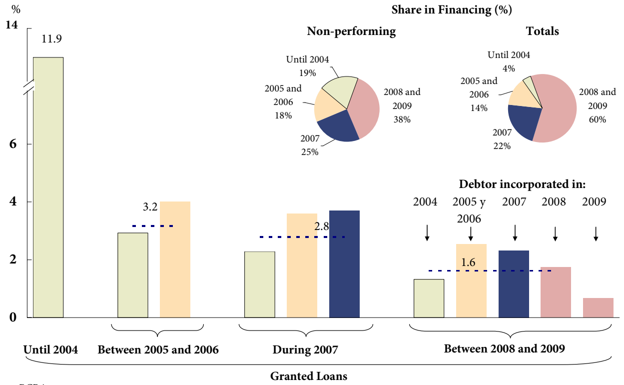
The financial system continues to increase its exposure to the corporate sector (see Chart V.13), led by private banks, and to a lesser extent by public banks. Some increase, although from very low levels, continues to be noted in the materialization of corporate sector credit risk from the domestic consequences of the global crisis. Leading indicators for domestic economic activity have begun to show stabilization signs, and even of a gradual improvement (see page 24), leading to forecasts for some recovery in company payment capacity in the medium term.

The slightly increase in delinquency arises from the generalized behavior across both the various credit lines and the different productive sectors (see Chart V.14). It is estimated that loans to the various sectors granted in the last three years show a lower non-performomg rate than those granted earlier (see Chart V.15).

The financial system would continue to record moderate growth in its exposure to the corporate sector in coming months, as the payment capacity of these debtors stabilizes

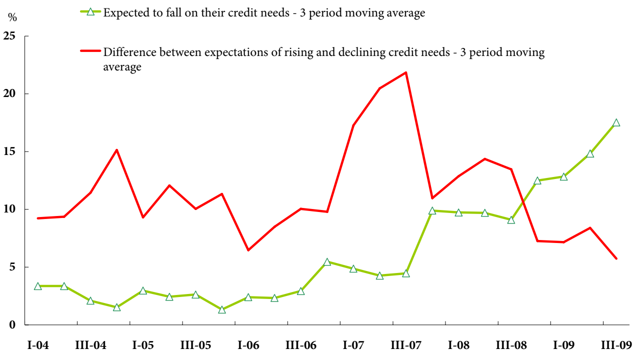
The financial system is expected to gradually increase its lending to firms in the context of an expected gradual recovery in economic activity. In the case of the manufacturing industry sector that demands more than one third of the bank credit corporate lending, it is expected that credit needs will increase somewhat in the near future (see Chart V.16). Companies in this sector

Chart V.15
Lending to Companies by Granted Period
Non-performing loans / Total loans (%) - June 09



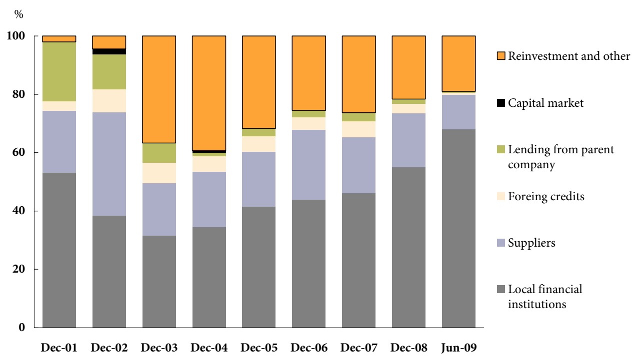
Source: BCRA

Chart V.16
Credit Demand Expectations
Variation compared to same quarter last year



Source: EMI - Qualitative information - INDEC

Chart V.17
Expected Sources of Funds for Manufacturing Sector
Outlook for the third quarter of 2009



Source: EMI - Qualitative information - INDEC

plan to satisfy their credit needs with an increase in financing originating within the financial system (see Chart V.17), a situation that will probably also be seen in other sectors of the economy.

It is expected that companies credit risk faced by banks will remain at a low and controlled level. The gradual reduction in the number of rejected checks in the first part of the year (see page 68) would be an early indication of certain improvement in the sector's payment capacity.

Households

There has been a slight reduction in bank exposure to households within the context of a moderate increase in delinquency

In the first part of the year the financial system has reduced its exposure to households moderately (see Chart V.18). There continues to be some materialization of the risk of lending to households faced by banks, reflected in gradual increases in loan delinquency for the sector, a situation which while widespread across all credit lines is greater in the case of consumer loans (personal loans and credit cards).

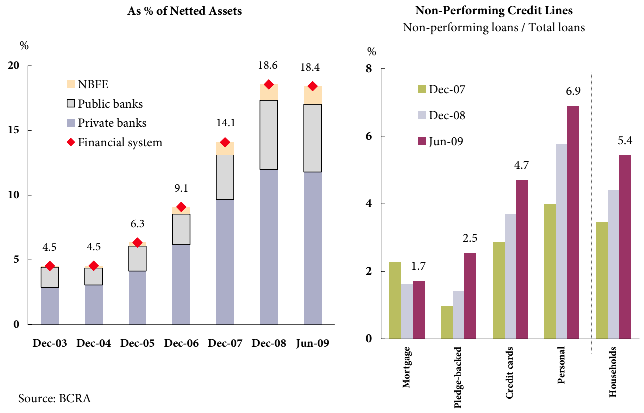
This increase in the non-performance ratio of household consumption credit is being driven by a delinquent portfolio that exceeds the rate of growth of the loan portfolio as a whole (see Chart V.19). This situation will persist in the short term, given the signs of fragility evident in the labor market (see Chapter III).

It is estimated that consumer loans granted in recent years to individuals who have been incorporated more recently to the financial system record a higher non-performance ratio (see Chart V.20).

A considerable portion of household credit comes not from banks but from other intermediaries. Household finance by means of the so-called closed credit card system (issued by private non-financial firms) is currently equivalent to almost one third of total financing granted by credit cards lines. Household financing from this additional source records a gradually rising delinquency that is higher than that seen in the case of similar credit granted by banks.

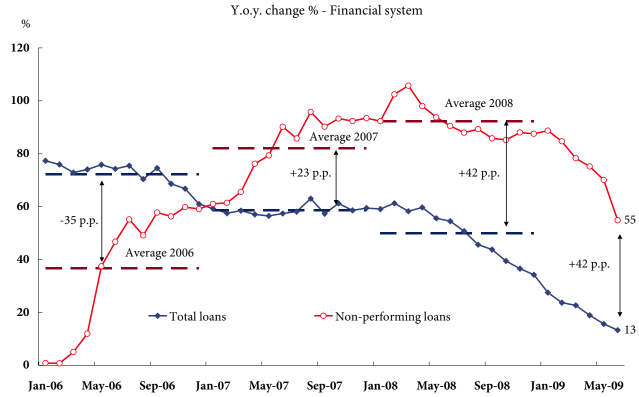
The financial system would continue to register some materialization of household credit risk in coming months

Chart V.18
Households Financing



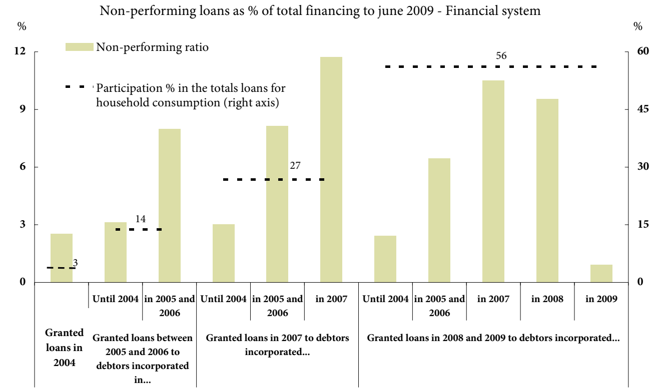
Source: BCRA

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



Source: BCRA

Chart V.20
Estimation of the Non-Performing Credit to Households Consumption
Non-performing loans as % of total financing to june 2009 - Financial system



Source: BCRA

Financial system exposure to households is expected to remain around current levels, during a time when there may be a further decline in the sector's payment capacity, until the favorable signs observed in some economic activity indicators are translated in improvements to the labor market. In such a scenario, the gradual decline in household indebtedness (see page 36) will contribute to avoiding any increased deterioration in the sector's payment capacity.

V.2.2 Public sector

Bank public sector credit risk remains well within bounds

Financial system exposure to the public sector has stabilized over the course of 2009 (see Chart V.21), standing at approximately one third of lending to companies and households. Bank lending to this sector has accumulated a drop of 28 p.p. of assets since the end of 2004, with current levels similar to those of other emerging regions (see Chart V.22).

Some increase in exposure to the public sector is expected for the rest of the year, because of the new borrowing authorized under section 74 of the National Budget Law and because of the potential future subscription of financial trusts for infrastructure. Nevertheless, taking into account government debt placements, the Public Sector is still a net creditor of the banking system (its net exposure totals -5.9% of total assets). The Government's anticyclical policy is gradually being reflected in fiscal accounts (see page 37) although the public sector holds the necessary resources to confront its financial obligations in coming periods. As a result, it is expected that the risk to the financial sector of lending to the public sector will remain at a reduced level.

V.3 Currency risk

The financial system records a reduced level of exposure to currency risk, in a situation in which exchange rate volatility has continued at a moderate level

During a period in which there has been a slight increase in foreign currency mismatching in the financial system, a reduction in peso-dollar exchange rate volatility has allowed banks to hold their balance sheet exposure to currency risk within bounds.

Bank foreign currency mismatching has risen slightly over the course of the year, with an increase in assets

Box 6 / Road to Redesign of the International Financial Regulatory Framework

The magnitude of the adverse effects generated by the subprime crisis brought to light the need for a global redesign of the financial regulatory and supervisory framework, focused on banking activity and incorporating other financial segments that gained relevance as the stress scenario spreaded. Developed nations, together with the leading emerging countries, have begun to draw up proposals that will contribute to the building in the medium term of a more stable and robust financial systems. The experience of emerging economies in the overcoming of crisis episodes and in taking of precautionary measures to confront them is beginning to provide a reference for developed economies

With the aim of significantly reducing the probability and severity of further episodes of financial crisis, the world's leading economies (gathered together in the G-20) in 2008 charged the Basel Committee on Banking Supervision –BCBS- with developing alternatives to overcome the regulatory, supervisory and risk management shortcomings of the banking sector. Furthermore, at the London Summit at early 2009, G-20 leaders transformed an already exiting entity within the BIS, the Financial Stability Forum, into the Financial Stability Board (FSB), increasing the number of member countries represented and broadening its mandate to include the promotion of global financial stability. Argentina began to participate as a full member of the FSB and the BCBS together with other emerging economies, enabling it to make an active contribution to the process of drawing up regulatory standards and the coordination of supervision policies for financial institutions worldwide. The structure of the FSB consists of a Plenary, an executive committee and three permanent commissions responsible for: 1. Evaluation of vulnerabilities 2. Cooperation on regulation and supervision, and 3. Implementation of standards.

The proposed reforms are aimed at the creation of a more robust and less pro-cyclical financial system, while promoting sustainable economic growth. Among the main areas to be improved were capital levels and quality, provision mechanisms, the incentives generated by executive remuneration policy, liquidity levels and the concentration of exposure. The early response from the BCBS has been based mainly on increasing the strength of banks, outlining the consolidation of micro-prudential regulation, the introduction of macro-prudential tools grounded in the use of countercyclical capital buffers, encouragement of increased liquidity levels and lower leverage, as well as measures to confront the risks derived from large banks that are interconnected and could have systemic effects.

The main progress in the area of micro-prudential capital regulations has focused on: i. Increased capital requirements to be applied on bank trading books; ii. Increased capital in relation to re-securitization and exposure to off-balance-sheet vehicles; iii. The issue of best practice principles for the design of stress testing exercises and the valuation of complex financial products; iv. The drafting of principles of best practice for the monitoring and management of liquidity risk; v. Incorporation of compensation standards to the terms of Basel II Pillar II (adopting the principles defined by the FSB) to strengthen the link between compensation and the incentive to take on risk; and vi. Strengthening of Pillar III (market discipline), increasing disclosure of trading, securitization and exposure to off-balance-sheet vehicles.

In addition, the BCBS is currently analyzing and promoting measures to improve capital composition in terms of quality, consistency and transparency, stressing that it should consist mainly of common shares and retained earnings, and promoting the uniformity of deductions and prudential filters that are applied to determine regulatory capital. In the case of liquidity, at the end of 2008 the BCBS issued a series of principles for the supervision and management of bank liquidity, and at present work is being carried out on the incorporation of supplementary liquidity standards: requirement for a liquidity coverage ratio that can be applied cross-border, so that global banks hold sufficient high-quality liquid assets, and another structural liquidity ratio that will ensure a sound funding profile over more extended periods.

The financial turbulence has made it clear that the strengthening of micro-prudential regulation is a necessary if insufficient condition for the promotion of a more robust financial system. As a result, macro-prudential measures are also being developed to reduce the pro-cyclical bias of banking activity that will impact on systemic risks generated by the size and degree of interconnection of global financial institutions. With the aim of moderating the pro-cyclical nature of prudential regulation, it is proposed that capital buffers be set up during economic boom cycles that can be used in a downturn and during crisis episodes, thus reducing the risk of the financial system amplifying fluctuations in the real economy. Buffers would be set over and above recommended minimum capital levels and would be made up of bank profits and their capacity to obtain new capital on the market. Currently, the possibility is being explored of using contingent capital instruments for the creation of these buffers.

Furthermore, analysis is being given to the possibility of requiring increased bank provisions during favorable economic points in the economic cycle, to contemplate the expectation of losses over the length of the economic cycle. The BCBS has issued principles to assist standard-setting bodies with the aim of revising standards and thus strengthening provision levels. In addition, a consensus is developing that capital requirements based on risk need to be complemented by a maximum global leverage ratio. Many banks entered the crisis with high leverage levels, being forced to undergo de-leveraging processes that generated destabilizing forces on both their own net worth and markets in general, exacerbating credit contraction in the midst of the crisis. The proposed limit should be transparent, uniform and easy to interpret, incorporating off-balance-sheet items.

The severity of the crisis was accentuated by its impact to global financial institutions. In this framework, measures are being analyzed and promoted that include the introduction of an additional capital requirement for systemic financial institutions and the strengthening of the structure of over-the-counter (OTC) derivative markets, which were one of the principal channels of contagion during the crisis. In addition, the capital requirements for these OTC transactions are under review with the aim of generating incentives to be able to migrate them to organized markets. Work has also been carried out on recommendations to reduce systemic risk associated with the impact of the crisis on cross-border financial institutions.

Following the London Summit, the FSB has made progress on a program of financial reforms also aimed to mitigate crisis. Some of the main advances in addition to the developments within the context of the BCBS have concerned the strengthening of coordination in the joint supervision of global financial entities (promoting the use of supervisory colleges), and taking measures of systemic relevance that have included improvements to compensation principles, improvements in financial derivatives markets (greater transparency, product standardization and the introduction of central counterparts for derivative OTC markets), improvements to systems for the monitoring of risk rating agencies, encouragement the drafting of principles for the monitoring of hedge funds, the preparation of best practice norms for portfolio managers when investing in structured products, encouragement for the design of contingency plans in cases of tensions in global firms, as well as other less significant initiatives. It should be noted that some of the reform proposals are still being analyzed. In addition, early warning exercises in relation to weaknesses are being designed and calibrated (by the FSB and the IMF).

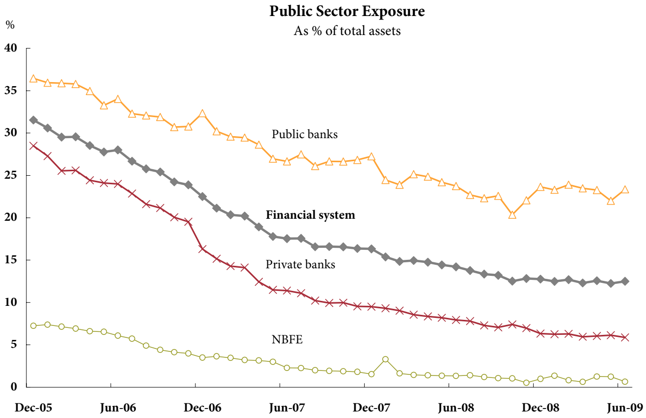
Argentina's position in this regard is clear. Although in the short term economic recovery must be achieved, maintaining stimulus policies though in the medium term these policies must be completed with a series of anti-cyclical policies. The success of the prudential policies implemented by the Central Bank of Argentina to ensure financial stability will then become an international point of reference: the creation of liquidity buffers in domestic and foreign currency as well as capital adequacy cushions, in addition to the restrictions on mismatching, among other measures, will have clearly demonstrated their effectiveness.

The final design of a new international regulatory framework that is both more wide-ranging and more efficient, and that will reduce the vulnerability of financial systems to shock episodes will result from the progress made by these international forums, but their success will be closely linked to the commitments of the various countries in implementing them appropriately and sustaining them over time. Although in the short term such measures could slow the growth of financial intermediation, in coming years they will be reflected in greater levels of confidence in financial intermediaries, contributing to the providing of a suitable framework for the development of economic activity.

Chart V.21

Public Sector Exposure

As % of total assets

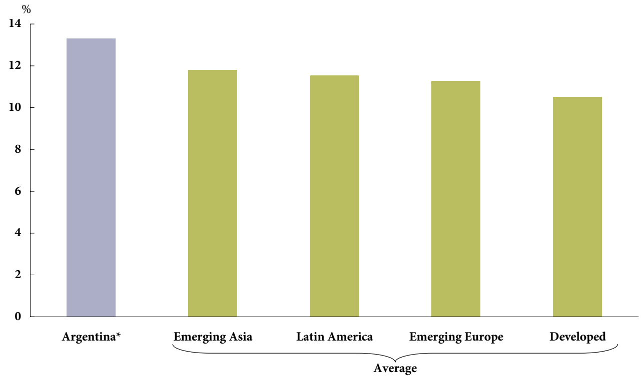


Note: Not include funding for infrastructure financial trusts or contingent liabilities or guarantees.
Source: IMF and BCRA

Chart V.22

Public Sector Exposure - Internacional Comparison

As % of total assets - Last available data

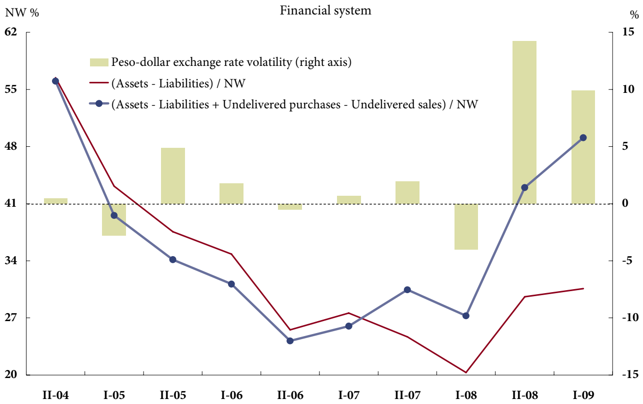


* Note: does not include funding for infrastructure financial trusts or contingent liabilities or guarantees.
Source: FMI and BCRA

Chart V.23

Foreign Currency Mismatch

Financial system



Source: BCRA

slightly higher than the rise in liabilities. Growth in foreign currency assets reflects the impact of greater liquidity, a movement that is partly offset by the reduction in credit lines for foreign trade. Private sector deposits led the growth in foreign currency liabilities, in a period in which there was a gradual repayment of corporate bonds and foreign lines of credit. The broad foreign currency position of banks[64] (including non-deliverable off-balance-sheet items) increased in the first half of the year because of the higher volume of net forward currency purchases (see Chart V.23).

In line with the prudential and financial policies implemented by the Central Bank, financial institution exposure to foreign currency risk is limited, with a low probability of exchange rate fluctuations being reflected in solvency losses. Unlike the situation that prevailed in the previous decade, the risk to lending in foreign currency to the private sector from variations in the exchange rate is low, as foreign currency private sector financing is lower (only 16% of lending to the private sector). There are a series of prudential measures in this area that establish that bank deposits in foreign currency can only be used for loans in the same currency to finance companies generating foreign currency income.

V.4 Interest rate risk

Bank exposure to interest rate risk remains at a moderate level

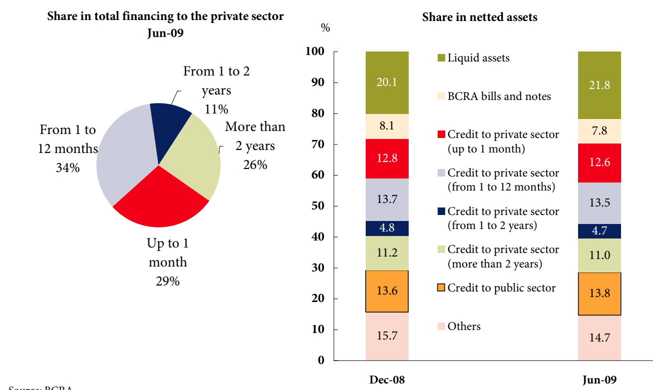
The slight reduction in the residual lending term to the public sector (see Chart V.24) has been partly offset by the increased weighting of public sector lending (generally for longer terms). The residual term of bank funding has remained without significant change (see Chart V.25). Sight deposits lost some of their weight in a situation where time deposits have been gaining share. Relatively longer-term sources of funding, such as Corporate debt, Subordinated debt and foreign credit lines have seen a gradual reduction in their contribution to bank liabilities, due in part to the uncertainty prevailing in financial markets at international level. There has been a reduction in interest rate volatility compared with the peaks at the end of 2008, realigning bank exposure to interest rate risk.

Financial institutions continue to lower their exposure to the real interest rate

By holding a net active position in balance sheet items adjusted by CER, the financial system faces a risk from

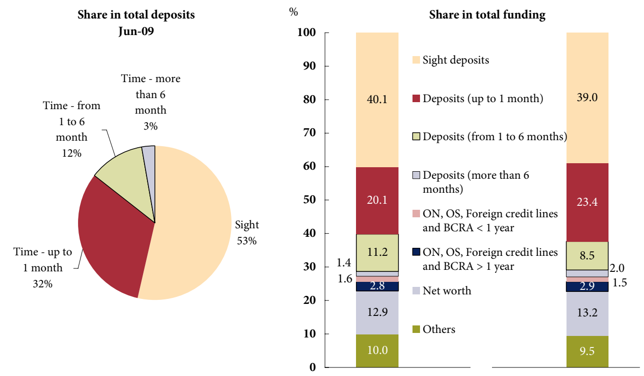
[64] Includes foreign currency asset and liability items and forward purchases and sales of foreign currency in memorandum accounts.

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



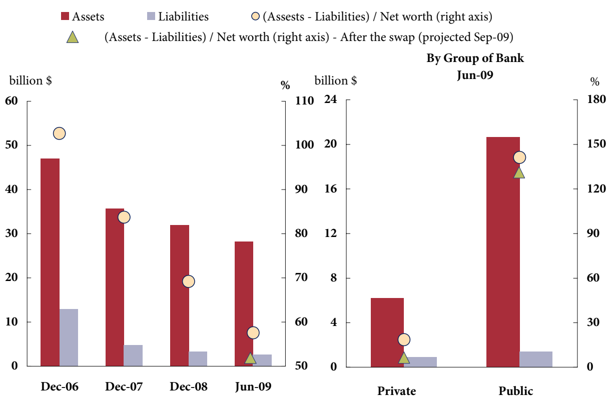
Source: BCRA

Chart V.25
Total Deposits by Time to Maturity
Financial system



Source: BCRA

Chart V.26
CER Mismatching



Source: BCRA

fluctuations in the real rate of interest. The swap of PGN at the beginning of the year led to a drop in adjustable public sector assets, encouraging a reduction in systemic mismatching (see Chart V.26). This behavior continued to be seen during the year as a result of a recent swap of adjustable securities (in September), while some of this effect could be smooth by the end of the matching mechanism by the end of 2009. In addition to the reduction in mismatching, the decline in nominal interest rate volatility encouraged by the measures adopted by the Central Bank will ensure the financial system continues to reduce its exposure to the real rate of interest.

The financial system is expected to maintain interest rate risk within bounds

It is expected that for the rest of the year interest rates will experience declining volatility, reflecting the cuts made by the Central Bank in the repo reference interest rate. With the aim of deepening the measures to develop the lending market, extend the maturity of financing and create new tools for improved administration of the risks faced by financial institutions, the Central Bank together with the MAE set up an interest rate futures market with contracts for terms of up to one year. The Monetary Authority participated with a "*Función Giro*" whereby it connects the "counterparties" with identical terms that were prevented from transacting because of a lack of credit for deals between the two parties. This measure was added to the tenders for fixed for variable rate interest rate swaps carried out by the BCRA for terms of between 1 and 5 years.

As the improvements in the monetary and financial environment are forecasted to continue to gain strength following the turbulence at the end of 2008, there is expected to be a gradual recovery in the demand for domestic currency, leading to an increase in time deposits within the financial system, thus improving the relative maturity of bank funding. As a result, it is estimated that the financial system will record limited exposure to interest rate risk in coming periods.

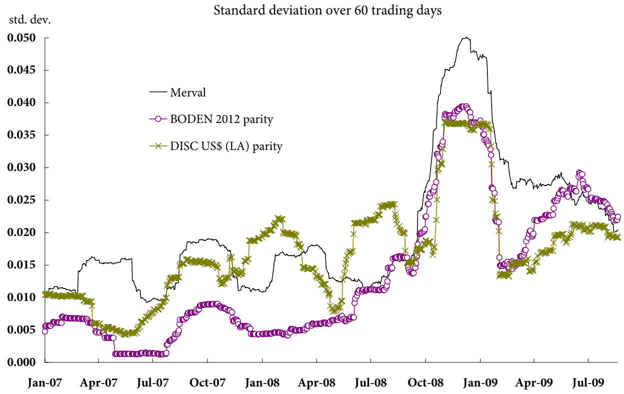
V.5 Market risk[65]

Improvements in security prices slightly reduce the market risk faced by banks

The current context of reduced market turbulence on international financial markets and declining levels of volatility for bond prices (see Chart V.27) is reflected in

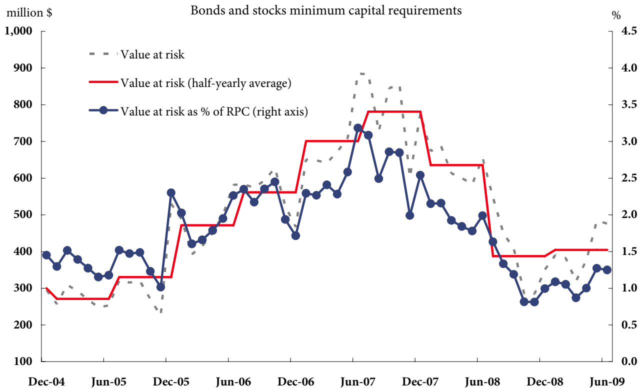
[65] Exposure to market risk includes the balance sheet impact of price volatility in relation to both bonds and shares.

Chart V.27
Fixed Income and Equity Markets Volatility
Standard deviation over 60 trading days



Source: BCBA

Chart V.28
Market Risk Exposure and Coverage
Bonds and stocks minimum capital requirements



Source: BCRA

the market risk faced by banks. In addition, the various valuation alternatives for securities made available to banks by the Central Bank continue to prevent excessive short-term fluctuations from becoming translated into abrupt changes in net worth.

As a consequence of the change in the level of volatility of government security prices, as well as of the types of paper held in portfolios, and the choices made by banks regarding the book value of securities, exposure to market risk in terms of regulatory capital for financial institutions as a whole remains at a low level (see Chart V.28).

V.6 Balance of risks

In a context of demonstrated financial system strength and favorable outlook for the coming months, it is expected that there would be no significant change in the exposure map, coverage level would be maintained, and there would be no broadening of the intrinsic risks assumed

The process of balance sheet consolidation and the strengthening of banking solvency that began five years ago, added to the financial and prudential policy implemented by the Central Bank, have made it possible to experience the second year of the international financial crisis with a financial system that is adequately equipped to manage the risks it faces.

Liquidity risk remains limited as a result of the maintaining of sound reserves, a steady increase in private sector deposits, the development of new instruments by the Central Bank to cover eventualities and the full validity of the role of lender of last resort by this Institution.

Although from low levels, there continues to be some signs of materialization of private credit risk, fundamentally due to household consumer credit lines. Household payment capacity is expected to improve when the favorable signs being recorded in some economic activity indicators are translated into improvements in the labor market.

With the reduction in interest rate and exchange rate fluctuations there is a lower probability of such variables having a negative impact on financial system solvency.

As a result, the financial system continues to perform its intermediation activity in a context of restricted risks, in line with the prudential incentives promoted by the Central Bank in recent years.

Box 7 / Proposals for Financial Reform in the United States

One of the principal lessons from the crisis in the United States was that regulations and supervision mechanisms in force were not sufficiently flexible or coordinated and lacked foresight to identify and act upon the excessive risks that were developing. The 1999 Gramm-Leach-Bliley Act cut back the limitations on financial institution concentration, giving rise to both gaps and overlapping in regulation and supervision, encouraging some of the factors that unleashed the crisis. As a result, in the last two years reforms were proposed that although not yet implemented, could set the foundations for the avoidance of new stress episodes from similar causes in the United States

In mid-2009 the Obama administration submitted a wide-ranging proposal for regulatory re-design consisting of five major objectives: (i) improvement in the supervision and regulation of financial institutions; (ii) comprehensive supervision of financial markets; (iii) protection of financial service consumers and investors; (iv) providing the Government with better tools to resolve crises in specific institutions, placing emphasis on systemic institutions that could place financial stability at risk; and (v) support for coordinated international efforts in relation to financial regulation.

As to the need to achieve an improvement in financial supervision and regulation in the United States (the first objective), the proposals recognized that traditional capital requirements were insufficient, that the original Basel II standards showed a pro-cyclical bias, and that supervisory entities assigned little importance to the potential systemic effects of large very interconnected corporations. It was furthermore concluded that the fragmented supervision system for which the United States was noted needed to be redesigned, eliminating the existing regulatory vacuums (investment banks, for example). Also, the crisis revealed that other financial institutions that had not been taken into account until then, such as money market mutual funds, were also vulnerable to runs, while others, such as the hedge funds, operated outside the margin of the regulatory framework.

As a result, it is now being proposed to create a new body, the *Financial Services Oversight Council* (FSOC), to facilitate the exchange of information among the various different financial regulators, providing a framework for the elimination of regulatory gaps and overlapping and the identification of emerging risks. In addition it is intended that it should advise the Fed on the categorization of institutions which for reasons of size, leveraging and interconnection, mainly those known as financial holding companies –FHC, could represent a threat to financial stability.

It is also being proposed that the FHCs should fall within the Fed´s regulation and supervision, even if they do not possess deposit-taking institutions, that they should meet stricter capital and liquidity regulatory standards in view of their nature, and that a consolidated supervision should be performed of all the companies in the group.

It is also proposed to review the regulatory standards specific to deposit-taking banks. Emphasis will be placed on reducing the pro-cyclical bias in current regulations (asset valuation and provisioning), increasing capital requirements for institutions of systemic importance and evaluating capital alternatives (contingent capital instruments or the purchase of insurance against macroeconomic risks). Attempts will also be made to implement mechanisms to align executive compensation with the long-term value of the company, reducing incentives that place the traditional business of the sector at risk.

To minimize the existence of regulatory voids and arbitration, the creation has been proposed of the National Bank Supervisor (NBS). This authority would have within its sphere the federal deposit-taking financial institutions and foreign banks, with the repeal of legislation on state savings institutions (also with the aim of avoiding arbitration). Supervision of investment banks would be switched from the Securities and Exchange Commission (SEC) to the Fed (following the experience with Lehman Brothers and Bear Sterns). In addition, it has been proposed that all hedge funds and other private capital pools be registered with the SEC, and that an Office of National Insurance (ONI) be set up to be responsible for improving the control of insurance companies. The recommendations intended to redesign federal banking supervision, the introduction of a prudential regulator (a role that would now be assigned to the Fed together with the FSOC) and the creation of an insurance supervisor were all contained in a previous proposal submitted by the Bush administration in 2008 that did not prosper in the US Congress.

With regard to the objective of achieving integrated supervision of financial markets (Point ii. of the Obama reform), it is proposed to strengthen regulation and supervision of securitization markets, promoting the introduction of regulations making the originators of these products retain some of the credit risk, at the same time as aligning participant compensation with the long-term performance of the underlying loans, as well as strengthening regulation of risk rating agencies. Other related proposals include creating a comprehensive regulatory system for all over-the-counter derivatives, including credit default swaps (CDS), and the harmonizing of regulations on futures and securities. In addition, efforts will be made to strengthen the operation of payment systems, giving supervision powers to the Fed, as well as granting the possibility of access to its liquidity windows.

In accordance with the objective of protecting consumers, it is planned to create a Consumer Financial Protection Agency (CFPA) that would become the sole federal agency responsible for contributing to the protection of the consumers of financial services, with powers to regulate service providers (based on existing powers and new ones). The Bush reform included a similar initiative.

It is also proposed to strengthen the system for protection of investors, taking emphasis on principles of transparency, justice and responsibility. The agency responsible for protecting investors will continue to be the SEC, in some case together with the FSOC, the Federal Trade Commission and the Department of Justice.

Although the US financial system possessed specific procedures for dealing with bank closures (the bankruptcy law) prior to the subprime crisis, they were inadequate when it came to facing problems in institutions such as the FHCs, the resolution of which could unleash adverse systemic effects. A special regime is therefore being proposed for FHCs, contemplating the situations that could arise in non-bank segments (not covered by deposit insurance). This would represent a change compared with the disorderly manner in which the crisis was handled in the case of Lehman, Bear Stearns and AIG. In addition, a procedure will be established for the approval of special (and unusual) cases, with the need for extension of Fed credit lines to other institutions. Some of these initiatives also coincide with the financial reform proposals of the previous administration.

Lastly, the Democrat administration has made clear its intention to achieve greater international cooperation for regulation and supervision of financial institutions, introducing best practices that will help soften the impact of new periods of crisis.

This proposal received similar criticisms to that of the previous administration, because of the absence of any adequate solution to executive remuneration policies currently not linked to the risks assumed, and because they do not encourage the taking of preventive action by regulators, which are in part explained by the continued existence of a wide variety of regulatory agencies. Also, there are criticisms that merger processes could be entered into with the sole objective of coming under state protection in some financial sectors (P. Volcker). It is also claimed that the proposed changes lack concrete proposals for reformulating the role of risk rating agencies (P. Krugman).

Efforts towards implementation of these measures in the United States would provide additional tools to mitigate new crisis episodes, at a time when discussion continues at international level within the G-20 and the Financial Stability Board to achieve a global financial reform that will ensure overall financial stability.

VI. Payments System

Summary

The National Payments System (NPS) diversified the mechanisms for transaction purposes and the local context is recording a greater use of electronic means of payment allowing households and corporations to conduct their transactions in a flexible and secure manner.

Even though cash continues to be the main mean of payment when closing transactions, the use of bank money, transfers and direct debits in particular, is increasing and is gradually consolidating a change of habits in the population.

In line with a gradual slowdown of credits to households, a smaller amount of credit cards in circulation has been recorded while the number of debit cards remains stable.

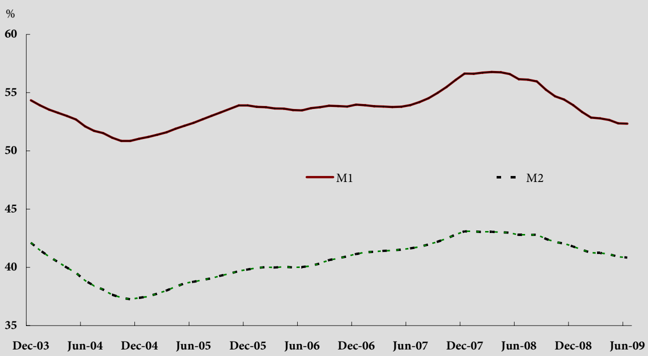
The quantity and amount of documents cleared by the financial system has recorded a gradual recovery over the last months together with a decrease in the number of rejected checks due to lack of funds in total terms. This is a general characteristic in all groups of financial entities.

The Central Bank has been working on standardizing all documents suitable for clearing since the implementation of the Uniform Federal Clearing (CFU). Unifying design and control measures provide depositary banks with a set of proper tools to control and verify these documents.

In order to provide instruments that meet diverse financing needs in public expenditures, the Central Bank has worked on the creation of a means of payment known as Orden de Pago Oficial Nominativo (OPON) that may be cleared through electronic clearing houses.

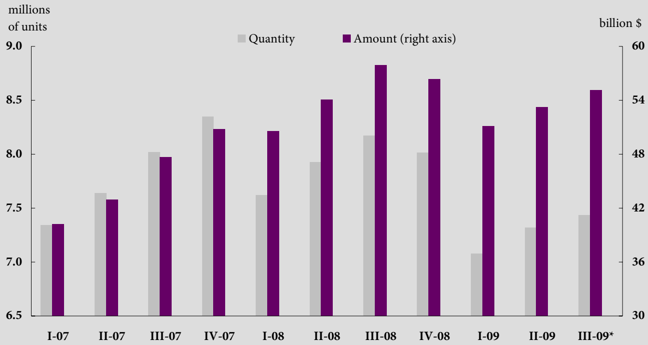
To make the NPS more efficient and therefore contribute to financial stability conditions, the Central Bank is part of a regional project coordinated by the Center for Latin American Monetary Studies (CEMLA), where different current topics on financial innovations and surveillance management models are discussed at an international level promoting the development of joint work schemes among countries of the region thereby improving the performance of payment systems.

Chart VI.1
Currency Held by Public
As % of monetary aggregates - 6 month moving average



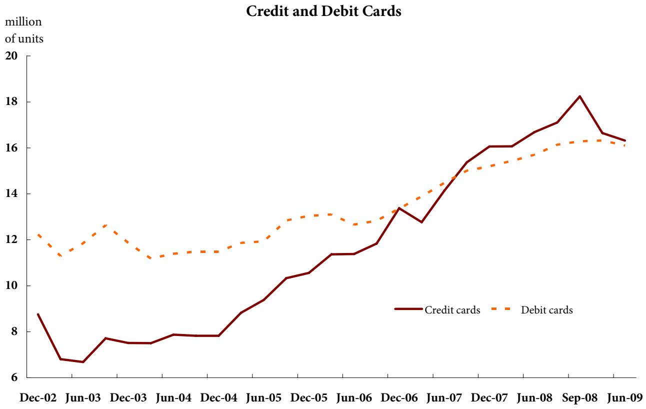
M1 = currency held by public + current accounts. M2 = M1 + saving accounts. Aggregates include pesos.
Source: BCRA

Chart VI.2
Documents Cleared
Financial system - Quarterly



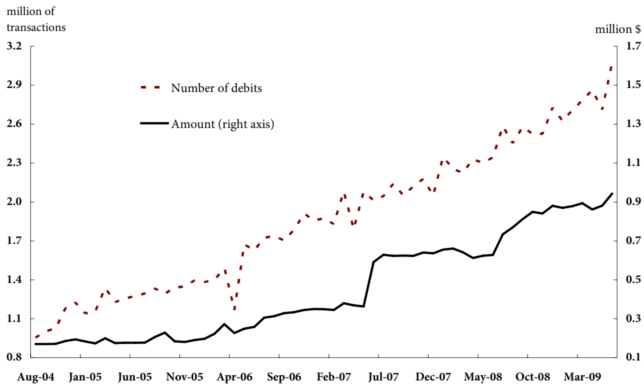
*to August
Source: BCRA

Chart VI.3
Credit and Debit Cards



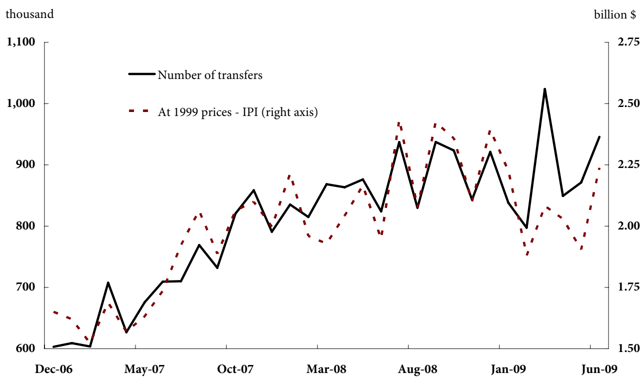
Source: BCRA

Chart VI.4
Direct Debits



Source: BCRA

Chart VI.5
Retail Transfers



Source: BCRA

VI.1 National Payments System

In a context of lower volatility, the volume of document cleared is gradually recovering and checks rejected due to lack of fund are decreasing as a proportion of the total cleared

The National Payments System (NPS) continues progressing in terms of efficiency and use by companies and households. In a context where there are diverse options to conduct transactions, electronic means of payment are gaining territory, allowing clients to perform their transactions with greater flexibility and security.

Currency held by the public retains a majority share in transactions conducted; however, the use means of payment is gradually being diversified. Specifically, cash remains growing at a slower pace than monetary aggregates (see Chart VI.1) thereby losing share within the means of payments. Additionally, a slight decrease in the amount of banknotes and coins in GDP terms has been recorded.

In line with the slowdown of credit to households, especially in the case of consumption lines, a slight fall in the amount of credit cards in circulation has been observed during the first part of the year. The quantity of debit cards has remained stable in 2009 (see Chart VI.3).

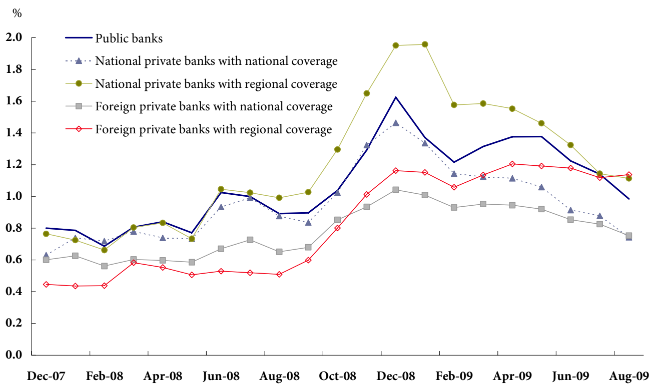
So far this year, the growth rate of documents cleared in low value clearing houses, especially in the case of direct debits, and to a lesser extent, retail transfers remains sustained both regarding the amount of transactions and volumes. Households and corporations are using direct debits more intensively mainly to pay for services such as: electricity, phone, cable television, etc. Against the same period last year, a 20% increase is recorded in the amount of direct debits (see Chart VI.4). Considering retail transfers (taking into account transactions and amounts), values similar to those of previous months have been recorded (see Chart VI.5).

During the first part of 2009 a gradual increase in the amount and volume of documents cleared has been recorded (see Chart VI.2); checks rejected for lack of funds, meanwhile, have decreased as a proportion of the total cleared, situation that has been generalized in different homogeneous groups of financial entities (see Chart VI.6). The number of truncated checks (which do not require the sending of the image to the drawee bank) accounts for more than three quarters of all documents cleared.

Chart VI.6

Documents Rejected by Group of Banks

Documents rejected by lack of funds / Documents compensated - Quantity

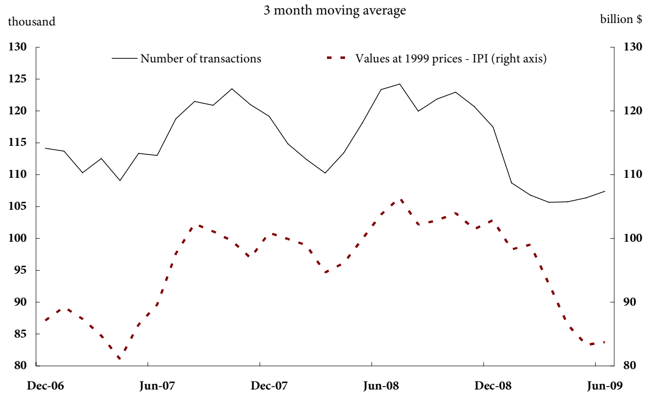


Source: BCRA

Chart VI.7

Electronic Means of Payments - Peso Transactions Cleared

3 month moving average



Source: BCRA

The use of the Electronic Means of Payment (MEP) system (high-value payment system), has decreased so far evidencing some stagnation over the last periods (see Chart VI.7).

VI.2. Modernization of the payments system

The BCRA is promoting the standardization of documents suitable for clearing

The BCRA continues boosting measures to enhance the NPS to make it flexible. As a supplement to the Uniform Federal Clearing (CFU), which allows transmitting images of documents suitable for clearing and eliminating their physical movement, work is being done on standardizing the documents aforementioned. So far, money orders and bills of exchange have been standardized apart from checks. By unifying designs and control measures, depository banks are provided with a set of tools to verify and control these documents effectively. Additionally, financial entities may have access to the reservoir of document images thereby making their management flexible.

In order to provide instruments that will contribute to meeting diverse needs regarding the financing of public expenditures, work has been done within the Central Bank's sphere of action to create a means of payment known as *Orden de Pago Oficial Nominativa (OPON),* which may be issued by a State agency or an official contracting company and which may also be cleared through Electronic Clearing Houses.

In terms of improvements and reforms to the NPS and with a view to maintaining financial stability and economic growth, the Central Bank is participating in working groups resulting from the Western Hemisphere Payment and Securities Clearance and Settlement Initiative coordinated by the Center for Latin American Monetary Studies (CEMLA), by being part of a permanent forum of discussion, organization and joint activities and document spreading. It is within this context that issues that are present in the international debate, surveillance management models applied to payment systems in Europe and in Latin America, as well as financial innovations and standards are assessed to promote the development of joint projects.

Statistics Annex – Financial System

Chart 1 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Jun 08	2008	Jun 09
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	24.7	27.9	30.1
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	14.2	12.8	12.5
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	38.7	39.4	38.6
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	3.1	3.7
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	-2.5	-3.3	-2.2
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	1.6	2.0
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	13.6	13.4	16.7
8- Eficiency	142	136	138	142	147	143	189	69	125	151	167	160	166	167	182
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	16.6	16.8	17.4
10- Excess capital compliance	64	73	49	54	58	54	-	116	185	173	134	93	83	90	86

Source: BCRA

Chart 2 | Balance Sheet

In millions of current pesos	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Jun 08	Dec 08	Jun 09	Change (%) Half-yearly	Change (%) Inter annual
Assets	**163,550**	**123,743**	**187,532**	**186,873**	**212,562**	**221,962**	**258,384**	**297,963**	**327,833**	**347,336**	**366,154**	**5.4**	**11.7**
Liquid assets[1]	20,278	13,005	17,138	27,575	29,154	20,819	37,991	46,320	51,492	59,049	62,573	6.0	21.5
Public bonds	10,474	3,694	31,418	45,062	55,382	66,733	64,592	62,678	65,980	65,298	76,262	16.8	15.6
Lebac/Nobac	0	0	-	-	17,755	28,340	29,289	36,022	40,712	37,156	41,030	10.4	0.8
Portfolio	0	0	-	-	11,803	21,067	25,767	31,598	33,499	25,711	26,464	2.9	-21.0
Repo	0	0	-	-	5,953	7,273	3,521	4,424	7,213	11,445	14,566	27.3	102.0
Private bonds	633	543	332	198	387	389	813	382	753	206	270	31.3	-64.1
Loans	83,277	77,351	84,792	68,042	73,617	84,171	103,668	132,157	145,987	154,675	156,786	1.4	7.4
Public sector	15,164	22,694	44,337	33,228	30,866	25,836	20,874	16,772	17,092	17,062	14,786	-13.3	-13.5
Private sector	64,464	52,039	38,470	33,398	41,054	55,885	77,832	110,355	123,095	132,812	138,166	4.0	12.2
Financial sector	3,649	2,617	1,985	1,417	1,697	2,450	4,962	5,030	5,800	4,801	3,834	-20.1	-33.9
Provisions over loans	-6,907	-6,987	-11,952	-9,374	-7,500	-4,930	-3,728	-4,089	-4,262	-4,748	-5,475	15.3	28.5
Other netted credits due to financial intermediation	42,361	21,485	39,089	27,030	32,554	26,721	26,039	29,712	37,003	38,194	41,075	7.5	11.0
Corporate bonds and subordinated debt	794	751	1,708	1,569	1,018	873	773	606	688	911	1,197	31.4	74.0
Unquoted trusts	2,053	2,065	6,698	4,133	3,145	3,883	4,881	5,023	5,654	5,682	6,260	10.2	10.7
Compensation receivable	0	0	17,111	14,937	15,467	5,841	763	377	314	357	17	-95.3	-94.7
Other	39,514	18,669	13,572	6,392	12,924	16,124	19,622	23,706	30,347	31,244	33,601	7.5	10.7
Leasing	786	771	567	397	611	1,384	2,262	3,469	3,936	3,951	3,260	-17.5	-17.2
Shares in other companies	2,645	2,688	4,653	4,591	3,871	4,532	6,392	6,430	6,735	7,175	7,802	8.7	15.9
Fixed assets and miscellaneous	4,939	4,804	8,636	8,164	7,782	7,546	7,619	7,643	7,699	7,903	8,132	2.9	5.6
Foreign branches	1,115	1,057	3,522	3,144	3,524	3,647	2,782	2,912	2,869	3,152	4,075	29.3	42.0
Other assets	3,950	5,334	9,338	12,043	13,180	10,950	9,953	10,347	9,641	12,481	11,392	-8.7	18.2
Liabilities	**146,267**	**107,261**	**161,446**	**164,923**	**188,683**	**195,044**	**225,369**	**261,143**	**289,166**	**305,964**	**321,637**	**5.1**	**11.2**
Deposits	86,506	66,458	75,001	94,635	116,655	136,492	170,898	205,550	225,505	236,508	250,083	5.7	10.9
Public sector[2]	7,204	950	8,381	16,040	31,649	34,019	45,410	48,340	59,911	67,361	67,268	-0.1	12.3
Private sector[2]	78,397	43,270	59,698	74,951	83,000	100,809	123,431	155,048	163,036	166,459	179,232	7.7	9.9
Current account	6,438	7,158	11,462	15,071	18,219	23,487	26,900	35,245	36,702	39,710	40,259	1.4	9.7
Savings account	13,008	14,757	10,523	16,809	23,866	29,078	36,442	47,109	48,699	50,945	56,649	11.2	16.3
Time deposit	53,915	18,012	19,080	33,285	34,944	42,822	54,338	65,952	70,048	69,549	75,068	7.9	7.2
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	54,050	57,655	58,636	1.7	8.5
Interbanking obligations	3,545	2,550	1,649	1,317	1,461	2,164	4,578	4,310	5,071	3,894	3,087	-20.7	-39.1
BCRA lines	102	4,470	27,837	27,491	27,726	17,005	7,686	2,362	2,223	1,884	1,002	-46.8	-54.9
Outstanding bonds	4,954	3,777	9,096	6,675	7,922	6,548	6,603	6,938	6,376	5,984	5,670	-5.3	-11.1
Foreign lines of credit	8,813	7,927	25,199	15,196	8,884	4,684	4,240	3,864	4,681	4,542	3,608	-20.6	-22.9
Other	37,883	17,295	11,955	11,012	18,934	21,671	22,930	28,752	35,699	41,351	45,269	9.5	26.8
Subordinated debts	2,255	2,260	3,712	2,028	1,415	1,381	1,642	1,672	1,589	1,763	1,914	8.5	20.4
Other liabilities	2,210	2,524	6,997	6,569	5,685	5,099	6,792	7,695	8,021	10,037	11,004	9.6	37.2
Net worth	**17,283**	**16,483**	**26,086**	**21,950**	**23,879**	**26,918**	**33,014**	**36,819**	**38,667**	**41,372**	**44,517**	**7.6**	**15.1**
Memo													
Netted assets	129,815	110,275	185,356	184,371	202,447	208,275	244,791	280,336	304,505	321,366	337,979	5.2	11.0
Consolidated netted assets	125,093	106,576	181,253	181,077	198,462	203,286	235,845	271,652	295,211	312,310	329,523	5.5	11.6

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

Source: BCRA

Methodological note (chart 1)

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

Statistics Annex – Financial System (cont.)

Chart 3 | Profitability Structure

	Annual										Half-year			Change (%)	
In millions of current pesos	1999	2000	2001	2002[1]	2003	2004	2005	2006	2007	2008	I-08	II-08	I-09	I-09 / II-08	I-09 / I-08
Financial margin	6,967	7,291	6,943	13,991	1,965	6,075	9,475	13,262	15,134	20,528	9,700	10,828	13,692	26	41
Net interest income	5,396	5,106	4,625	-3,624	-943	1,753	3,069	4,150	5,744	9,574	4,287	5,288	6,654	26	55
CER and CVS adjustments	0	0	0	8,298	2,315	1,944	3,051	3,012	2,624	2,822	1,814	1,007	515	-49	-72
Foreign exchange rate adjustments	227	185	268	5,977	-890	866	751	944	1,357	2,307	621	1,686	1,826	8	194
Gains on securities	1,112	1,481	1,490	3,639	1,962	1,887	2,371	4,923	5,144	4,462	2,908	1,554	4,178	169	44
Other financial income	232	519	559	-299	-480	-375	233	235	264	1,362	70	1,293	519	-60	645
Service income margin	3,623	3,582	3,604	4,011	3,415	3,904	4,781	6,243	8,248	10,868	5,033	5,835	6,139	5	22
Loan loss provisions	-2,565	-3,056	-3,096	-10,007	-2,089	-1,511	-1,173	-1,198	-1,894	-2,832	-1,242	-1,590	-1,985	25	60
Operating costs	-7,432	-7,375	-7,362	-9,520	-7,760	-7,998	-9,437	-11,655	-14,634	-18,748	-8,884	-9,864	-10,878	10	22
Tax charges	-497	-528	-571	-691	-473	-584	-737	-1,090	-1,537	-2,315	-1,011	-1,304	-1,561	20	54
Income tax	-421	-446	-262	-509	-305	-275	-581	-595	-1,032	-1,342	-670	-672	-2,340	248	249
Adjustments to the valuation of government securities[2]	0	0	0	0	-701	-320	-410	-752	-837	-1,757	-884	-873	-189	-78	-79
Amortization payments for court-ordered releases	0	0	0	0	-1,124	-1,686	-1,867	-2,573	-1,922	-994	-521	-473	-353	-25	-32
Other	617	535	702	-3,880	1,738	1,497	1,729	2,664	2,380	1,441	841	600	738	23	-12
Monetary results	0	0	0	-12,558	69	0	0	0	0	0	0	0	0	0	0
Total results	**291**	**3**	**-42**	**-19,162**	**-5,265**	**-898**	**1,780**	**4,306**	**3,905**	**4,757**	**2,361**	**2,396**	**3,263**	**36**	**38**
Adjusted results[3]	-	-	-	-	-3,440	1,337	4,057	7,631	6,665	7,508	3,766	3,741	3,805	2	1
Annualized indicators - As % of netted assets														*change in p.p.*	
Financial margin	5.6	5.7	5.7	6.5	1.1	3.1	4.6	5.8	5.7	6.7	6.6	6.9	8.4	1.5	1.8
Net interest income	4.3	4.0	3.8	-1.7	-0.5	0.9	1.5	1.8	2.2	3.1	2.9	3.4	4.1	0.7	1.2
CER and CVS adjustments	0.0	0.0	0.0	3.9	1.3	1.0	1.5	1.3	1.0	0.9	1.2	0.6	0.3	-0.3	-0.9
Foreign exchange rate adjustments	0.2	0.1	0.2	2.8	-0.5	0.4	0.4	0.4	0.5	0.8	0.4	1.1	1.1	0.0	0.7
Gains on securities	0.9	1.2	1.2	1.7	1.1	1.0	1.2	2.2	1.9	1.5	2.0	1.0	2.6	1.6	0.6
Other financial income	0.2	0.4	0.5	-0.1	-0.3	-0.2	0.1	0.1	0.1	0.4	0.0	0.8	0.3	-0.5	0.3
Service income margin	2.9	2.8	3.0	1.9	1.9	2.0	2.3	2.7	3.1	3.6	3.4	3.7	3.7	0.0	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	-0.8	-1.0	-1.2	-0.2	-0.4
Operating costs	-5.9	-5.8	-6.1	-4.4	-4.2	-4.1	-4.6	-5.1	-5.5	-6.1	-6.0	-6.3	-6.6	-0.4	-0.6
Tax charges	-0.4	-0.4	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.8	-0.7	-0.8	-1.0	-0.1	-0.3
Income tax	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.4	-0.4	-0.5	-0.4	-1.4	-1.0	-1.0
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.2	-0.3	-0.3	-0.6	-0.6	-0.6	-0.1	0.4	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	-0.4	-0.3	-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	0.5	0.6	0.4	0.5	0.1	-0.1
Monetary results	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.2**	**0.0**	**0.0**	**-8.9**	**-2.9**	**-0.5**	**0.9**	**1.9**	**1.5**	**1.6**	**1.6**	**1.5**	**2.0**	**0.5**	**0.4**
ROA adjusted[3]	-	-	-	-	-1.9	0.7	2.0	3.4	2.5	2.5	2.5	2.4	2.3	-0.1	-0.2
ROE	*1.7*	*0.0*	*-0.2*	*-59.2*	*-22.7*	*-4.2*	*7.0*	*14.3*	*11.0*	*13.4*	*13.6*	*13.2*	*16.7*	*3.5*	*3.1*

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

Chart 4 | Porfolio Quality

As percentage	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Jun 08	Dec 08	Jun 09
Non-performing loans (overall)	12.9	13.1	18.1	17.7	10.7	5.2	3.4	2.7	2.7	2.7	3.3
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**	**3.1**	**3.7**
Provisions / Non-performing loans	61.1	66.4	73.8	79.2	102.9	124.5	129.9	129.6	123.5	131.4	118.0
(Total non-perfoming - Provisions) / Overall financing	5.0	4.4	4.7	3.7	-0.3	-1.3	-1.0	-0.8	-0.6	-0.8	-0.6
(Total non-perfoming - Provisions) / Net worth	26.2	21.6	17.2	11.9	-1.0	-4.1	-3.3	-3.0	-2.5	-3.3	-2.2

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

Sttistics Annex – Private Banks

Chart 5 | Financial Soundness Indicators

As %	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Jun 08	2008	Jun 09
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	26.6	34.1	32.7
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	7.9	6.3	5.9
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	47.4	44.0	42.9
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	2.7	2.8	3.6
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	-2.9	-3.4	-2.2
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	1.8	1.9	2.5
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	14.2	15.2	20.1
8- Eficiency	144	135	139	146	152	151	168	93	115	136	158	152	163	166	193
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	18.1	18.3	20.1
10- Excess capital compliance	33	47	27	60	49	43	-	88	157	155	116	87	77	86	97

Source: BCRA

Chart 6 | Balance Sheet

In millions of current pesos	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Jun 08	Dec 08	Jun 09	Change (%)	
												Half-yearly	Inter annual
Assets	**119,371**	**82,344**	**118,906**	**116,633**	**128,065**	**129,680**	**152,414**	**175,509**	**188,766**	**209,087**	**218,949**	**4.7**	**16.0**
Liquid assets[1]	13,920	10,576	11,044	14,500	15,893	14,074	22,226	29,418	30,542	37,110	40,376	8.8	32.2
Public bonds	7,583	1,627	19,751	22,260	24,817	29,966	27,663	24,444	21,974	29,542	38,736	31.1	76.3
Lebac/Nobac	0	0	-	-	8,359	15,227	15,952	17,684	15,626	23,457	25,784	9.9	65.0
Portfolio	0	0	-	-	5,611	12,899	14,220	15,639	12,596	12,853	12,858	0.0	2.1
Repo	0	0	-	-	2,749	2,328	1,732	2,045	3,030	10,604	12,926	21.9	326.5
Private bonds	563	451	273	172	333	307	683	310	578	130	135	3.6	-76.7
Loans	56,035	52,319	51,774	47,017	50,741	56,565	69,294	88,898	96,583	98,499	96,017	-2.5	-0.6
Public sector	8,172	13,803	25,056	23,571	21,420	15,954	10,036	6,413	6,186	6,213	1,820	-70.7	-70.6
Private sector	45,103	36,636	26,074	22,816	28,213	39,031	55,632	78,587	85,943	88,422	91,151	3.1	6.1
Financial sector	2,760	1,880	644	630	1,107	1,580	3,626	3,898	4,454	3,864	3,046	-21.2	-31.6
Provisions over loans	-3,248	-3,957	-7,463	-5,225	-3,717	-2,482	-2,227	-2,365	-2,626	-2,881	-3,425	18.9	30.4
Other netted credits due to financial intermediation	36,600	13,037	27,212	22,148	25,753	16,873	18,387	17,084	22,963	25,240	26,447	4.8	15.2
Corporate bonds and subordinated debt	724	665	1,514	1,394	829	675	618	430	506	699	840	20.3	66.0
Unquoted trusts	1,609	1,637	6,205	3,571	2,362	2,444	2,982	3,456	4,105	3,845	4,424	15.1	7.8
Compensation receivable	0	0	15,971	13,812	14,657	5,575	760	377	314	357	17	-95.3	-94.7
Other	34,267	10,735	3,523	3,370	7,905	8,179	14,027	12,822	18,038	20,339	21,167	4.1	17.3
Leasing	776	752	553	387	592	1,356	2,126	3,149	3,519	3,462	2,842	-17.9	-19.2
Shares in other companies	1,651	1,703	3,123	2,791	1,892	2,416	4,042	3,762	4,129	4,529	5,083	12.2	23.1
Fixed assets and miscellaneous	3,225	3,150	5,198	4,902	4,678	4,575	4,677	4,685	4,750	4,926	5,062	2.8	6.6
Foreign branches	75	112	-109	-136	-53	-148	-139	-154	-152	-178	-199	11.8	31.1
Other assets	2,190	2,574	7,549	7,816	7,137	6,178	5,682	6,277	6,506	8,708	7,873	-9.6	21.0
Liabilities	**107,193**	**70,829**	**103,079**	**101,732**	**113,285**	**112,600**	**131,476**	**152,153**	**164,082**	**182,810**	**190,219**	**4.1**	**15.9**
Deposits	57,833	44,863	44,445	52,625	62,685	75,668	94,095	116,719	122,751	135,737	142,901	5.3	16.4
Public sector[2]	1,276	950	1,636	3,077	6,039	6,946	7,029	7,564	9,450	19,553	20,528	5.0	117.2
Private sector[2]	55,917	43,270	38,289	47,097	55,384	67,859	85,714	107,671	111,642	114,250	120,170	5.2	7.6
Current account	4,960	7,158	8,905	11,588	13,966	17,946	20,604	27,132	27,875	30,278	30,337	0.2	8.8
Savings account	9,409	14,757	6,309	10,547	14,842	18,362	23,165	30,169	29,850	32,707	36,265	10.9	21.5
Time deposit	39,030	18,012	11,083	18,710	22,729	27,736	38,043	45,770	48,802	47,044	48,974	4.1	0.4
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	35,123	39,254	38,817	-1.1	10.5
Interbanking obligations	2,293	1,514	836	726	1,070	1,488	3,383	1,979	2,135	1,150	1,163	1.1	-45.5
BCRA lines	83	1,758	16,624	17,030	17,768	10,088	3,689	675	711	649	91	-86.0	-87.2
Outstanding bonds	4,939	3,703	9,073	6,674	7,922	6,548	6,413	6,686	6,129	5,672	5,317	-6.3	-13.3
Foreign lines of credit	5,491	4,644	15,434	9,998	5,444	2,696	2,249	1,833	2,706	2,262	1,231	-45.6	-54.5
Other	33,466	11,010	7,374	7,939	12,878	11,530	16,015	18,150	23,441	29,521	31,016	5.1	32.3
Subordinated debts	1,668	1,700	3,622	1,850	1,304	1,319	1,642	1,668	1,585	1,759	1,910	8.5	20.5
Other liabilities	1,420	1,637	5,671	4,890	4,213	3,264	3,989	4,443	4,624	6,060	6,591	8.8	42.5
Net worth	**12,178**	**11,515**	**15,827**	**14,900**	**14,780**	**17,080**	**20,938**	**23,356**	**24,682**	**26,277**	**28,730**	**9.3**	**16.4**
Memo													
Netted assets	88,501	73,796	117,928	115,091	121,889	123,271	143,807	166,231	174,957	191,991	201,837	5.1	15.4

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

Source: BCRA

Methodological note (chart 5)

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

Statistics Annex – Private Banks (cont.)

Chart 7 | Profitability Structure

	Annual										Half-year			Change (%)	
In millions of current pesos	1999	2000	2001	2002[1]	2003	2004	2005	2006	2007	2008	I-08	II-08	I-09	I-09 / II-08	I-09 / I-08
Financial margin	5,176	5,441	5,282	10,628	2,575	3,415	5,253	7,778	8,960	12,964	6,006	6,957	9,362	35	56
Net interest income	3,819	3,598	3,519	-304	107	1,214	2,069	2,826	4,191	7,727	3,463	4,264	5,003	17	44
CER and CVS adjustments	0	0	0	1,476	1,082	900	1,215	858	662	651	429	222	84	-62	-80
Foreign exchange rate adjustments	213	160	256	6,189	-312	666	576	740	990	1,620	694	926	1,045	13	51
Gains on securities	908	1,232	962	3,464	1,892	959	1,259	3,154	2,888	1,637	1,374	262	2,599	890	89
Other financial income	236	450	546	-197	-195	-322	134	199	229	1,329	47	1,282	631	-51	1,252
Service income margin	2,598	2,554	2,598	2,782	2,341	2,774	3,350	4,459	5,881	7,632	3,549	4,083	4,322	6	22
Loan loss provisions	-1,872	-2,173	-2,464	-6,923	-1,461	-1,036	-714	-737	-1,174	-1,863	-820	-1,043	-1,400	34	71
Operating costs	-5,326	-5,263	-5,224	-6,726	-5,310	-5,382	-6,303	-7,741	-9,735	-12,401	-5,877	-6,523	-7,097	9	21
Tax charges	-368	-379	-418	-512	-366	-393	-509	-769	-1,105	-1,715	-754	-960	-1,131	18	50
Income tax	-386	-393	-216	-337	-295	-202	-217	-365	-380	-1,168	-461	-706	-1,453	106	215
Adjustments to the valuation of government securities[2]	0	0	0	0	-665	-51	-201	-170	-100	-267	-132	-135	-24	-82	-82
Amortization payments for court-ordered releases	0	0	0	0	-791	-1,147	-1,168	-1,182	-1,466	-688	-356	-332	-186	-44	-48
Other	447	307	615	-4,164	1,178	846	1,156	1,641	1,576	916	404	513	97	-81	-76
Monetary results	0	0	0	-10,531	-20	0	0	0	0	0	0	0	0	0	0
Total results	**269**	**93**	**174**	**-15,784**	**-2,813**	**-1,176**	**648**	**2,915**	**2,457**	**3,412**	**1,559**	**1,853**	**2,491**	**34**	**60**
Adjusted results[3]	-	-	-	-	-1,357	252	2,016	4,267	4,023	4,367	2,047	2,320	2,700	16	32
Annualized indicators - As % of netted assets														*change in p.p.*	
Financial margin	6.1	6.2	6.4	7.6	2.3	2.9	4.3	5.9	5.8	7.3	7.6	8.1	10.9	2.8	3.3
Net interest income	4.5	4.1	4.3	-0.2	0.1	1.0	1.7	2.1	2.7	4.4	4.4	5.0	5.8	0.8	1.5
CER and CVS adjustments	0.0	0.0	0.0	1.1	0.9	0.8	1.0	0.6	0.4	0.4	0.5	0.3	0.1	-0.2	-0.4
Foreign exchange rate adjustments	0.3	0.2	0.3	4.4	-0.3	0.6	0.5	0.6	0.6	0.9	0.9	1.1	1.2	0.1	0.3
Gains on securities	1.1	1.4	1.2	2.5	1.7	0.8	1.0	2.4	1.9	0.9	1.7	0.3	3.0	2.7	1.3
Other financial income	0.3	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.2	0.1	0.8	0.1	1.5	0.7	-0.8	0.7
Service income margin	3.1	2.9	3.2	2.0	2.0	2.4	2.7	3.4	3.8	4.3	4.5	4.8	5.0	0.3	0.6
Loan loss provisions	-2.2	-2.5	-3.0	-5.0	-1.3	-0.9	-0.6	-0.6	-0.8	-1.1	-1.0	-1.2	-1.6	-0.4	-0.6
Operating costs	-6.3	-6.0	-6.4	-4.8	-4.6	-4.6	-5.1	-5.9	-6.3	-7.0	-7.4	-7.6	-8.3	-0.6	-0.8
Tax charges	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3	-0.4	-0.6	-0.7	-1.0	-1.0	-1.1	-1.3	-0.2	-0.4
Income tax	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.2	-0.7	-0.6	-0.8	-1.7	-0.9	-1.1
Adjustments to the valuation of government securities[2]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	0.0	0.1	0.1
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	-0.4	-0.4	-0.2	0.2	0.2
Other	0.5	0.4	0.7	-3.0	1.0	0.7	0.9	1.2	1.0	0.5	0.5	0.6	0.1	-0.5	-0.4
Monetary results	0.0	0.0	0.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROA	**0.3**	**0.1**	**0.2**	**-11.3**	**-2.5**	**-1.0**	**0.5**	**2.2**	**1.6**	**1.9**	**2.0**	**2.2**	**2.9**	**0.7**	**0.9**
ROA adjusted[3]	-	-	-	-	-1.2	0.2	1.6	3.2	2.6	2.5	2.6	2.7	3.1	0.4	0.6
ROE	*2.3*	*0.8*	*1.4*	*-79.0*	*-19.1*	*-8.1*	*4.1*	*15.3*	*10.9*	*15.2*	*13.6*	*16.7*	*22.7*	*6.0*	*9.1*

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

Chart 8| Porfolio Quality

As percentage	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Jun 08	Dec 08	Jun 09
Non-performing loans (overall)	8.3	9.9	19.8	15.7	8.9	4.4	2.9	2.2	2.4	2.5	3.4
Non-performing loans to the non-financial private sector	**9.8**	**14.0**	**37.4**	**30.4**	**15.3**	**6.3**	**3.6**	**2.5**	**2.7**	**2.8**	**3.6**
Provisions / Non-performing loans	67.7	75.7	73.4	79.0	97.0	114.3	129.3	141.3	129.6	134.1	118.3
(Total non-perfoming - Provisions) / Overall financing	2.7	2.4	5.3	3.3	0.4	-0.6	-0.9	-0.9	-0.7	-0.9	-0.6
(Total non-perfoming - Provisions) / Net worth	13.4	11.4	18.6	11.2	1.3	-2.2	-3.0	-3.6	-2.9	-3.4	-2.2

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

Abbreviations and Accronyms

AEIRR: Annual Effective Internal Rate of Return

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

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

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

APR: Annual Percentage Rate.

b.p.: basis points.

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

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

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

BIS: Bank of International Settlements.

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

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

Bogar: *Bonos Garantizados.* Guaranteed Bonds.

BoJ: Bank of Japan.

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

BOVESPA: São Paulo Stock Exchange.

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

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

CDS: Credit Default Swaps

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

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

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

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

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

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

CPI: Consumer Price Index.

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

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

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

DGF: Deposit Guarantee Fund.

Disc: Discount bond.

EB: Executive Branch.

ECB: European Central Bank.

EMBI: Emerging Markets Bond Index.

EMI: *Estimador Mensual Industrial.* Monthly Industrial Indicator

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

Fed: Federal Reserve of US.

FOMC: Federal Open Market Committee (US).

FS: Financial Stability.

FSR: Financial Stability Report.

FT: Financial trust.

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

FV: Face value.

GDP: Gross Domestic Product.

HHI: Herfindahl-Hirschman Index.

IADB: Inter-American Development Bank.

IAMC: *Instituto Argentino de Mercado de Capitales.*

ICs: Insurance Companies.

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

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

IFS: International Financial Statistics.

IMF: International Monetary Fund.

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

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

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

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

IRR: Internal Rate of Return.

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

ISDA: International Swaps and Derivates Association.

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

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

LIBOR: London Interbank Offered Rate.

m.a.: Moving average.

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

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

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

MAS: Mutual Assurance Societes.

MC: Minimum cash.

MEC: Electronic Open Market.

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

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

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

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

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

MF: Mutual Funds.

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

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

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

MP: Monetary Program.

MR: Market rate.

MRO: *Main refinancing operations.*

MSCI: Morgan Stanley Capital International.

NA: Netted assets.

NACHA: National Automated Clearinghouse Association.

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

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

NDP: National public debt.

NFPS: Non-financial national public sector's.

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

NPS: National Payments System.

NW: Net worth.

O/N: Overnight rate.

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

OECD: Organization for Economic Co-operation and Development.

ON: *Obligaciones Negociables*. Corporate bonds.

ONCCA: *Oficina Nacional de Control Comercial Agropecuario*

OS: *Obligaciones Subordinadas*. Subordinated debt.

P / BV : Price over book value.

p.p.: Percentage point.

Par: Par bond.

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

PF: Pension Funds.

PPP: Purchasing power parity.

PPS: Provincial public sector.

PS: Price Stability.

PV: Par Value.

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

REM: BCRA Market expectation survey.

ROA: Return on Assets.

ROE: Return on Equity.

Rofex: Rosario Futures Exchange.

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

RTGS: Real-Time Gross Settlement.

s.a.: Seasonally adjusted.

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

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

SEDESA: *Seguro de Depósitos Sociedad Anónima.*

SEFyC: Superintendence of Financial and Exchange Institutions.

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

SME: Small and Medium Enterprises.

SSN: *Superintendencia de Seguros de la Nación.*

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

TD: Time Deposits.

TFC: Total financial cost.

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

UFC: Uniform Federal Clearing.

UIC: Use of Installed Capacity.

UK: United Kindom.

US$: United States dollar.

US: United States of America.

UTDT: Universidad Torcuato Di Tella.

VaR: Value at Risk.

VAT: Value added Tax.

WB: World Bank.

WPI: Wholesale Price Index.

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