# Financial Stability Report

Second Half 2011

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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**Financial Stability Report**
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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 April 3, 2012, on the Central Bank website.*

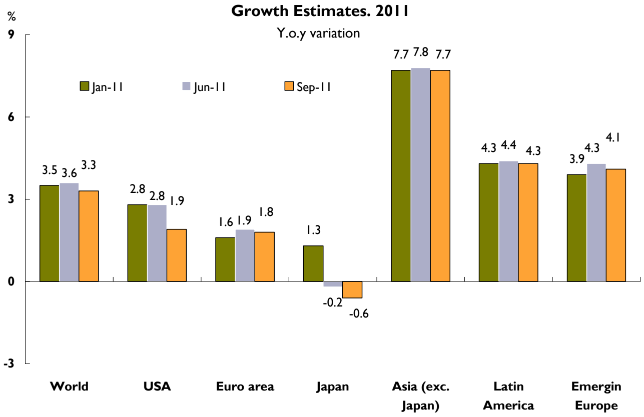
*Buenos Aires, September 29, 2011*

# Contents

# Central Bank Outlook

Chart 1

Growth Estimates. 2011




Source: FocusEconomics

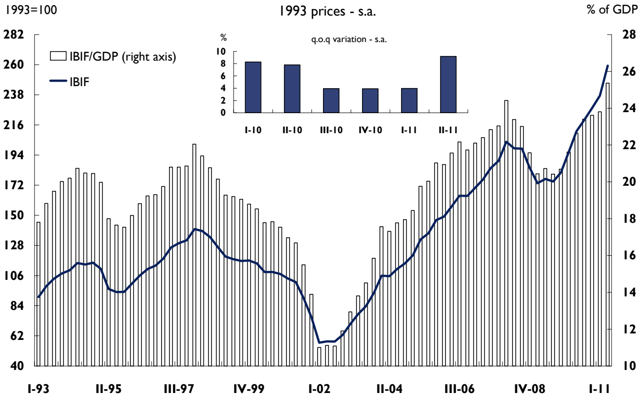
Three years after the collapse of Lehman Brothers and well below of recovery forecasts, the growth pace of the global economy is now slowing, and in some parts of the world manufacturing activity is already showing signs of contraction. In several countries financial market deregulation has led to the generation of financial wealth well in excess of genuine increases in the productivity of the real economy. Nevertheless, once the crisis was unleashed, its effects were not restricted to the financial sector, as negative externalities were generated for the rest of the economy. In such a scenario, governments were forced to make use of fiscal resources, and central banks implemented extraordinary liquidity measures to ensure the survival of the financial system and thus avoid a general collapse of economic activity. This process brought to light the importance of protecting financial stability on the basis of the design and implementation —in micro and macroprudential terms— of a stronger and more comprehensive regulatory and supervisory system, within the framework of macroeconomic policies able to ensure growth and employment.

Those more developed economies —currently at the center of this crisis— are showing insufficient levels of growth, a notable weakness in their labor markets, and fragility in their financial systems (see Box 2). These factors, in the context of an incipient process of private sector debt reduction in various areas of the economy, prevent the recovery of private sector consumption at the same time as they discourage investment. In this situation of economic weakness, countries in the Euro Zone are experiencing growing difficulty in securing financing, while fiscal adjustment plans that are being announced to preserve the sustainability of public accounts will make the recovery from the crisis even more difficult (see Box 1).

Emerging economies continue to show higher growth rates, although with less dynamism than in previous quarters. The recent drop in trade volumes and the reversal of capital flows in the less restrictive economies of this group lead to predictions that emerging economies will gradually begin to feel the effects of the greater slowdown in the more developed economies. This has been confirmed by measures recently adopted by some of the central banks of those economies, which after having begun to reduce the stimulus policies deployed during the crisis, seem to have once again been placing greater attention on the level of economic activity, rather than on seeking to lower the level of inflation.

Chart 2

Gross Domestic Fixed Investment



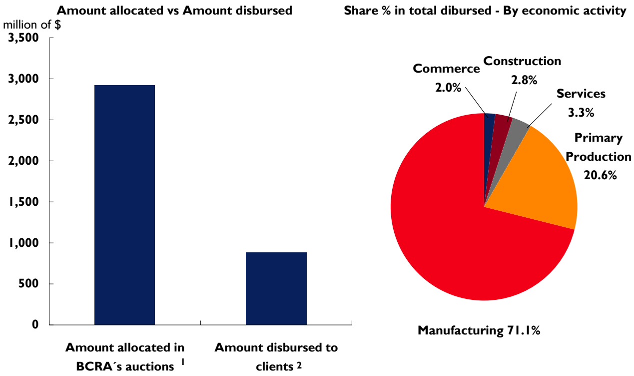

In this adverse international scenario, the Argentine economy has continued to grow firmly in a widespread manner across all productive sectors, recording a expansion of 9.5% in year-on-year terms during the first half of the year, mainly from increased consumption and investment. In the context of the consolidation of the labor market, with unemployment setting record lows and rising income levels, household consumption has gained strength. Investment for its part, encouraged by rising domestic demand and exports, posted a market increase in the first half of 2011, standing at over 24% of GDP at the middle of the year.

In the case of monetary policy, in the first half of 2011 the Central Bank met the target established in the Monetary Program. Provisional figures for the months of July, August and September indicate that the target would be met in the third quarter of the year —reaching a level close to the middle range of the band. As a result, the growth path of monetary aggregates has kept pace with the rise in economic activity, with higher levels of bank lending, particularly in the case of loans to companies. In a similar manner, exchange rate policy succeeded in limiting the volatility of the exchange rate by means of intervention in the market. In complementing action, through Lebac and Nobac auctions it was sought to balance money creation factors with money demand. As a result, while in the months when there is seasonally a surplus in the exchange market, monetary surpluses derived from the accumulation of reserves were neutralized, in the last months when there were signs of a change in the portfolios of individual investors leading to a greater demand for dollars, liquidity was injected through the partial renewal of Lebac and Nobac bills and notes falling due.

As an instrument to stimulate investment over the mid to long term, the Central Bank has continued to auction funds under the Bicentenary Productive Financing Program. Eight auctions have already been held using this mechanism, with the allocation of a little over $2.9 billion pesos out of the total of $8.0 billion set aside for the Program. Currently more than 200 projects have received approval from the evaluation units of the Ministries of Industry, Economy and Agriculture, of which approximately 60% have been submitted to SMEs, with the vehicle and car parts, pharmaceutical laboratories, poultry and logistics being the most dynamic sectors in the demand of productive financing. By the end of August, participating banks (12) had already assisted 74 companies, disbursing almost $900 million out of a total amount committed of $1.3 billion.

Chart 3

Evolution of the Bicentenary Productive Financing Program




1: includes the first 8 auctions
2: amount dibursed by the end of august
Source: BCRA

With the aim of further developing the use of banking services, the Central Bank has continued with its policy for the encouragement of universal access to financial services. In addition to the reduction in the cost of inter-bank transfers introduced in the latter part of 2010, which gave rise to a steady increase in the volume of operations (particularly in the case of those of lower value, as transfers for $10,000 or less made through ATMs or Internet have become free of charge), this year the Central bank has added the introduction of immediate transfers, with 3.8 million operations having been carried out until august. This new measure has been added to the instruments introduced in 2010: the Free Universal Bank Account (CGU) and the Settlement Checks.

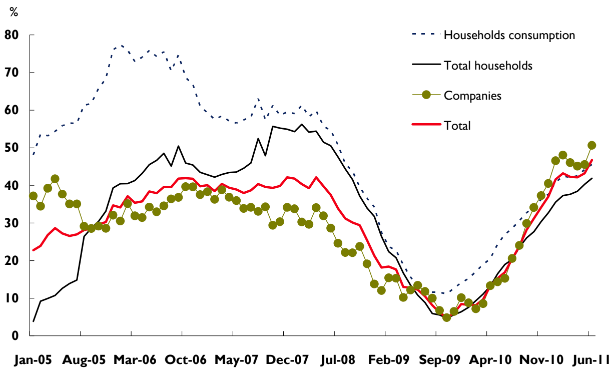
Furthermore, in response to requests for authorization to open branches in areas well-served by banking services, the Central Bank assigns priority to those applications that simultaneously propose the opening of branches where the banking service infrastructure is insufficient. Since this change in regulations introduced at the beginning of the year, the financial service infrastructure in regions of the country where coverage is lower has increased significantly: in 2011 to date the Central Bank has approved the opening of 42 branches in localities with low banking service infrastructure, while further 18 applications are currently being considered. As a result, over the course of this year authorizations for the opening of new branches in regions with a lower financial service presence have doubled compared with the same period of 2010.

Within this framework and the positive macroeconomic situation, financial entities intermediation with the private sector has continued to expand at an accelerating rate in the first half of 2011, achieving a performance similar to that recorded prior to the international crisis. Bank financing to the private sector as a whole rose 44% in annualized (a.) terms in the half-year, with a year-on-year increase of a little over 47% in mid-year. Bank lending to companies recorded a variation of 45%a. in the first half of 2011, with a notable performance by lines for the manufacturing sector (see Box 3). For the second consecutive six-month period, growth in lending to companies has taken place at a higher rate than growth in lending to households, and even exceeded the dynamic recorded by consumer lending (personal loans and credit cards), a phenomenon that is being recorded on a sustained basis for the first time since the return to credit growth following the local financial crisis in 2001-2002.

**Chart 4**

**Credit to the Private Sector by Type of Debtor**

Y.o.y. % variation




Source: BCRA

As a result, bank lending to the private sector reached 13.2% of GDP by mid-2011, accumulating an increase of 1.4 p.p. in the last 12 months, although it remains below the level recorded in previous decades. It should be noted that unlike the situation seen in the past, at present the proportion of lending denominated in foreign currency remains at a low level, being channeled fundamentally to debtors with revenues in the same currency. This should be weighted as a strength factor for the local financial system.

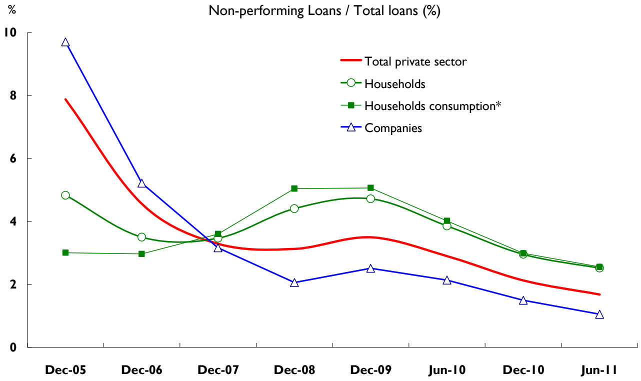
The overall configuration of risks assumed by financial entities during the normal course of their intermediation business has remained at a limited level. Despite the reduction in the principal bank liquidity indicators in the first half of 2011 —marked by expansion in lending to the private sector— the financial system continues to present adequate coverage for its short-term liabilities by means of liquid assets. In addition, the total value of inter-bank repo transactions has continued to rise, leading to greater depth in inter-bank markets.

In the first few months of the year the payment capacity of leading financial system debtors continued to strengthen on the basis of the relatively low levels of indebtedness in the private sector, a situation reflected in the lower non-performance recorded in the case of both lending to productive sectors and that channeled to households. This development continues to be driven mainly by the high levels of productive activity, improvements in the labor market, and higher households´ incomes. The situation of banks in the face of credit risk has been strengthened on the basis of levels of provision coverage that are well in excess of the non-performing portfolio.

In the first half of 2011 there was a slight reduction in the level of financial entities foreign currency mismatching within the context of limited exchange rate volatility derived from the managed floating exchange rate regime. During this period the financial system recorded slight increases in its exposure to interest rate and market risks, although in both cases they continue at low levels.

The financial system continued to post high solvency levels in mid-2011, at a time during which growth in net worth continued to be driven by profits generated during the period. Capital compliance of the banking system reached 16.5% of risk-weighted assets (RWA), with all groups of banks recording levels of capital compliance in excess of minimum prudential requirements.

**Chart 5**
**Non-Performing Loans to the Private Sector**
Non-performing Loans / Total loans (%)




*Note: include personal loans and credit cards.
Source: BCRA

Intermediation levels are expected to continue to rise in coming months, while the financial system will maintain its solvency levels. The risk map is not likely to show significant change, although the volatility of the international scenario could have some impact, restricting to some extent the development of the global economy and consequently, if to a lesser extent, the economies of emerging markets, prices of local financial assets, and the development of the main domestic interest rates. Even in a scenario of greater volatility and uncertainty, it is forecast that local macroeconomic fundamentals, combined with the macro-prudential policies that have been adopted, will help mitigate the domestic impact of the international crisis, so that financial stability can be preserved, as was the case during previous periods of turbulence.

# I. International Context

## Summary

*In the first half of the year, the global economic activity experienced a higher-than-expected slowdown, especially in advanced economies, setting a trend that would deepen in the remaining months of 2011. This performance was due to several factors, such as the weakness of labor markets, the fragility of financial systems and the increasing financing difficulties of several economies of the Euro Zone, which resulted in new fiscal adjustments plans.*

*The discussions around fiscal sustainability in developed nations extended to top leading countries, including the United States and the largest European economies, which deepened the uncertainty about the economic evolution at global level.*

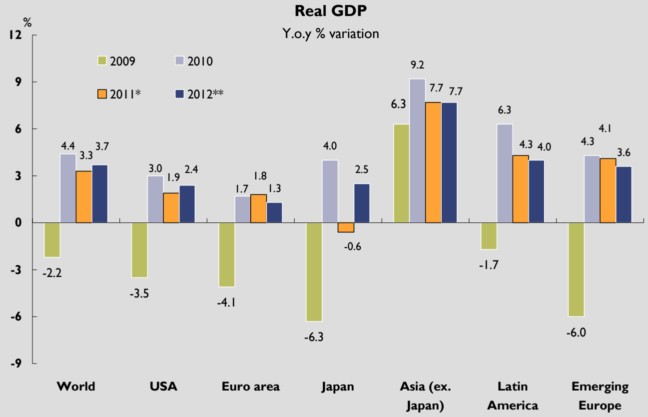
*Emerging regions continued to be the main drivers of global growth, though at a slower pace than in previous quarters. Even though the signals indicate that they would have a relatively better economic performance than the advanced economies, a slowdown in the economic activity of the latter would have an adverse impact on the evolution of emerging economies, mainly through reduced trading volumes worldwide.*

*After a sustained increase in the second half of 2010, commodity prices were subject to a higher volatility in the first six months of 2011. For the rest of the year, primary product prices (especially food) are expected to stand at high levels, underpinned by structural factors such as low demand elasticity within a context of reduced stock levels. Likewise, prices are expected to be relatively volatile due to short-term factors, such as climate conditions and a heightened uncertainty in the financial markets.*

*In the United States and Europe, financial markets have been subject to an increasing volatility so far this year, with a remarkable deterioration as from late July, due to the increasing fear of contagion in the Euro Zone and to the likelihood of a lower growth at global level. This led to a search for shelter in assets such as US government securities and gold. The negative context of recent months has affected the prices of emerging countries' financial assets, resulting in lower levels for stock market indices, a widening of sovereign debt spreads and a decreased momentum in their debt issues in international markets. Within this context, some countries (such as Brazil) have adopted measures to contain the volatility of their currencies against the US dollar.*

*Against this backdrop, global growth perspectives were revised downward in the last two months, vis-à-vis a more adverse and uncertain international context for the rest of 2011 and also for 2012.*

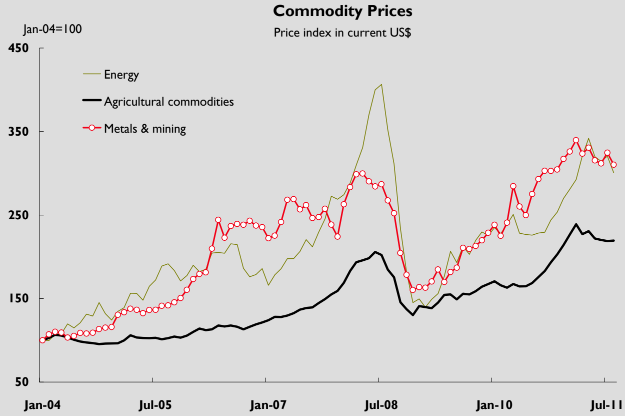
**Chart I.1**
**Real GDP**
Y.o.y % variation




Source: FocusEconomics

* estimated ** forecasted

**Chart I.2**
**Commodity Prices**
Price index in current US$

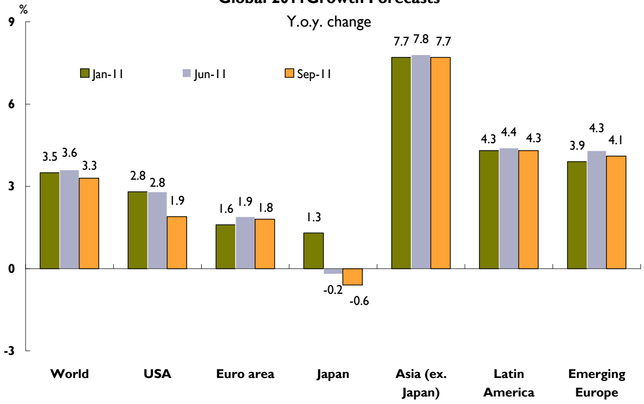



Source: World Bank

## I.1 International Context

**_So far this year, the global economy has experienced a higher-than-expected deceleration mainly due to the weak performance of advanced nations_**

**Chart I.3**
**Global 2011 Growth Forecasts**
Y.o.y. change



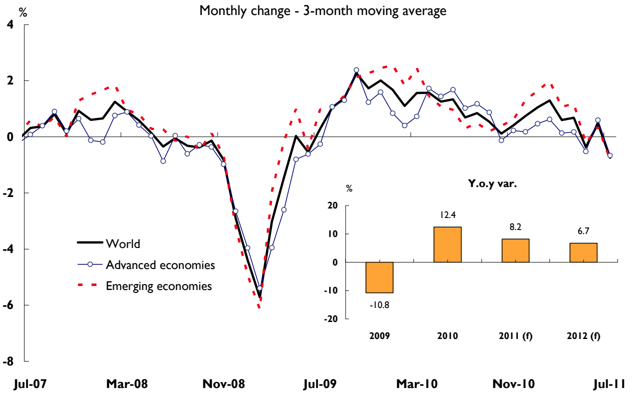

Source: FocusEconomics

Global growth forecasts for 2011 and 2012 were revised downward in recent months mainly because of a higher-than-expected economic slowdown in advanced countries and a reduced drive by emerging economies (see Chart I.3). Thus, a 3.3% increase of the world GDP is expected for the current year and a 3.7% for next year[1] (see Chart I.1).

In line with the declining economic activity, the growth rate of international trade volumes also slowed down, even recording negative year-on-year (y.o.y.) variations in recent months. In this context, international trade is estimated to grow by 8.2% in 2011 and 6.7% in 2012 (see Chart I.4).

Growth deceleration was due to both supply and demand factors. On the one hand, the natural catastrophe that hit Japan at the beginning of the year disrupted the international production chain, mainly in Emerging Asia, though a significant recovery was observed in recent months. Likewise, oil supply reduction related to the conflicts in the Middle East and North Africa contributed to a weaker economic growth around the world. This factor, which was also temporary, impacted adversely on households' spending since it reduced the available income as a result of the hike in fuel prices.

**Chart I.4**
**World Trade Volume**
Monthly change - 3-month moving average



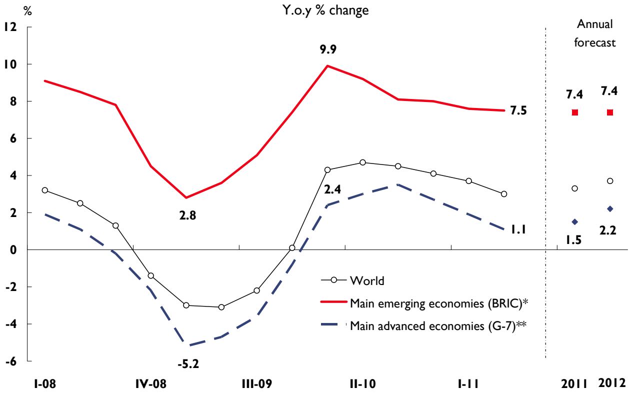

Source: Netherlands Bureau for Economic Policy Analysis and IMF (f) forecasted

The weakness of labor markets and the financial system problems of advanced economies, in a context of an ongoing deleveraging, have impacted adversely on private consumption growth, which in turn discouraged capital spending. Likewise, the increasing discussions around the sustainability of developed economies' public finances, added to the ongoing financing difficulties, gave rise to new fiscal adjustments in some countries with a contractionary effect on the economic activity. Thus, the fragile evolution of private spending was accompanied by a pro-cyclical downward bias in fiscal policies which included, in recent months, even leading economic countries, such as France, Italy and the United States.

The persistent macroeconomic imbalances in advanced economies will continue to add pressures to the exchange rate among their currencies, resulting in a higher volatility in currency markets.

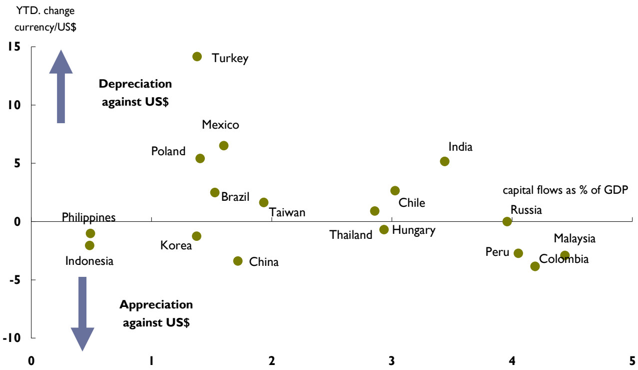
[1] According to the consensus of the analysts compiled by FocusEconomics.

**Chart I.5**
**World Economic Activity**
Y.o.y % change




Source: FocusEconomics *Brazil, Russia, India and China **USA, Japan, Germany, France, Italy, United Kingdom and Canada

**Chart I.6**
**Emerging Economies. Exchange Rate and Expected Capital Flows***




Source: BCRA based on JP Morgan, FMI and FocusEconomics data * Exchange rate: YTD. variation as of Sep-16. Capital flows: 2011 forecasts.

Emerging regions have also exhibited a lower-than-expected economic growth that might be reflecting the impact of the developed world deceleration and of the effects of more restrictive economic policies being currently applied by some countries. In particular, BRIC countries have grown around 7.2% y.o.y. in the first half of the year, below the growth rate recorded in the same period of 2010, even though the rise stands above the world's expansion rate (see Chart I.5).

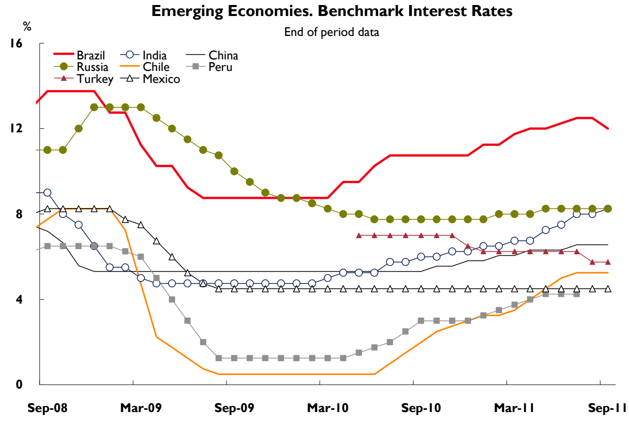
The evolution of commodities' prices has continued to exert pressure on sovereign prices, mainly in the emerging countries due to the high share of food in the consumption basket. Commodity prices were subject to an increasing volatility in the first half of the year, after the steady rise they recorded in the second half of 2010. As a result, in August, agricultural and industrial commodity prices stood 25% and 6%, respectively, above the values recorded one year ago, exceeding the peaks reached in mid 2008 (see Chart I.2). The Commodity Price Index (IPMP), which is prepared by the BCRA to survey the evolution of the most relevant primary products for Argentine exports, grew by 22% y.o.y. in August, though accumulating a rise of only 2% so far this year.

The uncertain economic evolution of advanced countries for the rest of year is expected to continue adding volatility and affecting commodity prices. Nevertheless, some structural factors related to the demand for food will continue to hold. This means that, in the medium term, the prices of the main primary products and their manufactured byproducts are expected to be high within a context of low stock levels. In any case, in the short term, prices are likely to be more volatile due to circumstantial factors such as climate conditions and the effect of uncertainty in financial markets.

In response to the impact of commodity price hikes on inflation, some developing economies have adopted contractionary measures during the first half of the year. Given the fact that the resulting increase in interest rates encourages financial capital inflows, which in turn push on exchange rate appreciation and entail the risk of creating an asset price bubble, the economic authorities of emerging countries have maintained their intervention policy in the currency market and implemented measures to regulate capital inflows (see Chart I.6).

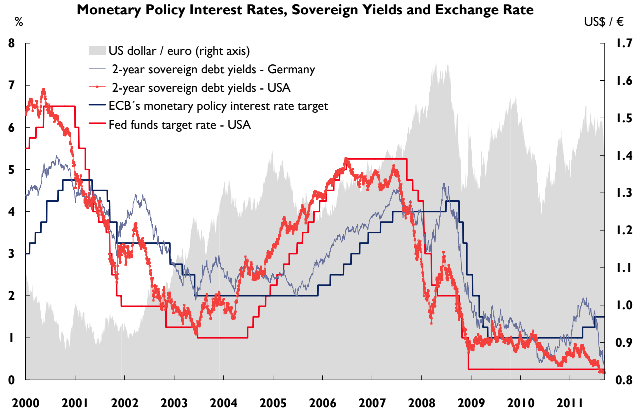
The worsened outlook for economic growth is signaling a more adverse context in the remaining months of the year. Thus, the higher-than-expected growth deceleration in advanced economies and the decisions tending to deepen the fiscal austerity measures adopted

**Chart I.7**
**Emerging Economies. Benchmark Interest Rates**
End of period data



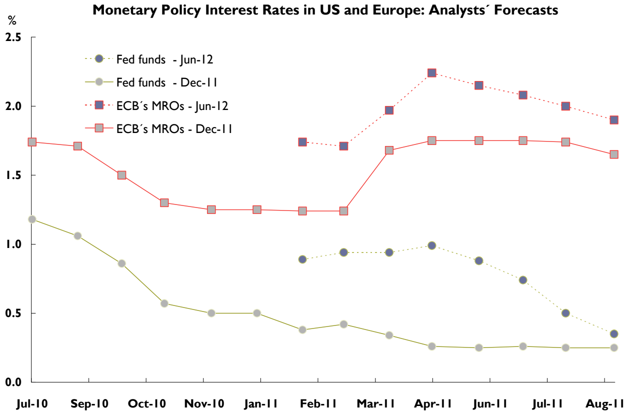

Source: DataStream and BCRA

**Chart I.8**
**Monetary Policy Interest Rates, Sovereign Yields and Exchange Rate**




Source: Bloomberg

**Chart I.9**
**Monetary Policy Interest Rates in US and Europe: Analysts´ Forecasts**




Source: Bloomberg

in most of these countries led some emerging nations to reconsider the contractionary bias they had started to introduce into their policies. Economies such as Peru and Russia, for example, put a stop to the upward trend of the monetary policy benchmark interest rates, while in others the policy bias was reverted vis-à-vis the expectation of a highly deteriorated external context, as is the case of Brazil (see Chart I.7). In several cases, these policy responses were implemented even though their inflation rate targets were not being met.

### *Uncertainty has deepened in the financial markets due to the situation in Europe and the United States*

Financial markets have continued to show a context of increasing uncertainty and high volatility in recent months due to the deepening of the sovereign debt crisis in Europe (which affects the banks of the region), the US fiscal situation and the misgivings about global growth. Thus, in the next months, the risks of a decreased growth and the likelihood of contagion in Europe will be key issues in the evolution of the financial markets.

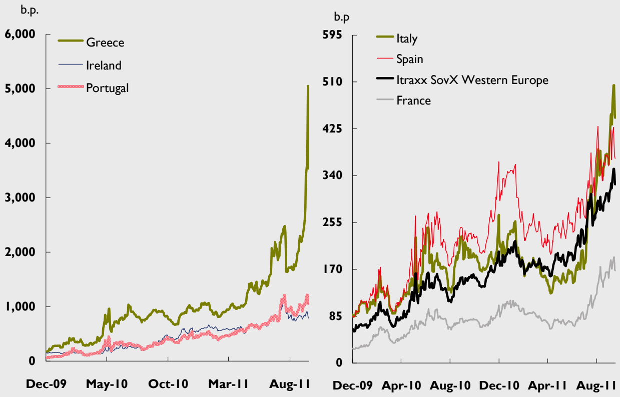
In the Euro Zone, the ongoing erosion of debt markets has forced the authorities to implement new measures in recent months (see Box 1). In this sense, though the European Central Bank (ECB) had started a new cycle of interest rate increase in April as a response to the inflationary pressures perceived at that time, a few months later it had to interrupt the cycle due to the heightened tension in financial markets and the negative signals about the evolution of the activity level[2]. Thus, the analysts' outlook regarding future increases moderated rapidly (see Chart I.8). In the United States, the Federal Reserve announced that it would keep interest rates at minimum levels until 2013, against a backdrop of higher risks for economic growth (see Chart I.9). More recently, within a context of increasing expectations about the implementation of additional stimulus measures, an operation was announced in September to flatten the sovereign yield curve through the sale of short-term instruments and the simultaneous purchase of long-term instruments (for US$400 billion).

[2] In August, 6-month refinancing with full allotment (see Box 1 of Financial Stability Report of the first half of 2011). Transactions with full allotment extended until, at least, the beginning of 2012.

# Box 1 / Debt Crisis in Europe and Policy Responses

**The increasing problems of the Greek government to meet its liabilities and the ongoing deterioration affecting several European economies' sovereign debt in the markets led the authorities of these countries to design new measures to try and contain the situation. Thus, a new financial aid package (including, on this occasion, the private sector participation) for Greece was announced in July, together with a proposal of adding more flexibility to the measures by the EFSF[3]. Later on, as a response to the concern for a continuous weakening of debt prices of large economies, such as Spain and Italy, the European Central Bank (ECB) decided to resume the purchase of government securities. Despite the measures adopted, there are still sizable risks which pose the danger of a potential contagion at global level**

**Chart B.1.1**
**5-year Sovereign Credit Default Swaps**




Source: Bloomberg

Since mid April and more strongly as from June, a heightened concern is noticeable in Europe for the sovereign debt crisis (see Chart B.1.1). Under these circumstances, the market increasingly speculated about the need for an additional aid package for Greece[4] from the European Union (EU) and the IMF, while the European authorities started to debate more explicitly about the possibility of advancing towards the restructuring of the Greek sovereign debt. The result was a higher perceived risk of contagion of the Greek crisis since it was considered that an eventual restructuring might generate responses of similar nature for the cases of Ireland and Portugal, thus magnifying the negative impact on the European banks' balance sheets (which are the main creditors of these countries, see Box 2)[5]. In addition, a potential spillover to other vulnerable economies (due to a combination –in different degrees— of low relative growth, a weak fiscal front, high indebtedness and sizable maturities in the following years) was not a minor issue if the markets continued to deteriorate even more. This situation includes both small countries such as Belgium and Cyprus and large economies such Spain and Italy.

Vis-à-vis the ongoing erosion prevailing in the markets, on July 21st a new financial aid package for Greece was announced —supplementary to that agreed upon in May last year— which would allow to meet the estimated financing needs until mid 2014, subject to the joint conditionalities of the EU and the IMF[6]. The new package included additional funds from the EU-IMF for €109 billion, a reduced cost for the aid[7] (also applicable to Ireland and Portugal) and extended repayment terms (from 7.5 years approximately to between 15 and 30 years with a grace period of 10 years). These measures would be supplemented by a voluntary contribution by the private sector, through a debt swap and the refinancing of liabilities[8]. The proposal being drafted (formally submitted by the end of August) raises a series of alternatives, including a bond exchange into a 30-year instrument (with and without haircut), a swap into a 15-year of average life bond with a haircut, and/or a bond offer at par involving rolling over debt at maturity into 30-year bonds. For bonds with haircuts the reduction would be 20%, and the different instruments offered have differential guarantee schemes. To prevent a negative impact on the financial markets, the European authorities stated that, if necessary, they would implement measures for Greek banks to continue accessing liquidity facilities of the Eurosystem and that they would provide funds for the recapitalization of the insolvent Greek financial entities.

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[3] European Financial Stability Facility.

[4] The first financial aid package agreed upon at the beginning of May, 2010 (for €110 billion) was based on assumptions that turned out to be too optimistic (such as, for example, that Greece would be ready to go back to the markets in 2012). On the other hand, the implementation of the fiscal adjustment policies encountered significant limitations.

[5] The sovereign yield curves of Ireland and Portugal adopted an inverted shape (a situation that is generally associated to scenarios where repayment problems may be expected in the short and medium term) as from the end of April, though the inversion is less marked than in the Greek case.

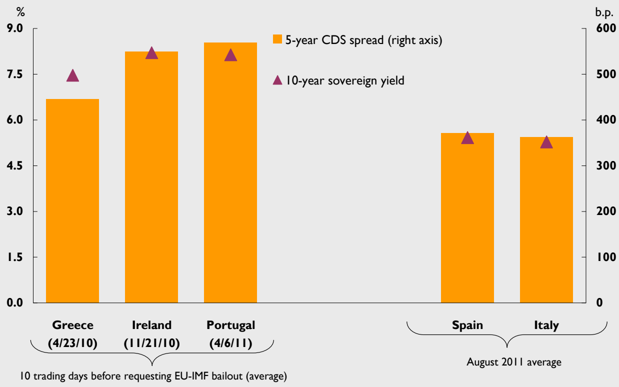
[6] Like the conditions agreed upon in the original program with the UE and the IMF devoted to safeguard the stability of the financial system, improve the sustainability of the fiscal position (fiscal consolidation, structural reforms) and act on the competitiveness and growth potential (in order to adopt a growth model based on international trade).

[7] The interest rate would be the same as that of the balance of payments facility of the European Union (approximately 3.5% at that time).

[8] An eventual program for the repurchase of Greek government debt was also announced in July, but there were no more definitions in this sense.

In addition, an announcement was made about the creation of a work group for the European Commission to analyze together with the Greek authorities the measures required to revitalize the economy, with the promise of an eventual allocation of resources for such purpose. With the objective of containing the expectations of contagion, a flexibilization of the EFSF –and of the European Stabilization Mechanism that will replace it as from 2013— was proposed to allow for the implementation of preventive financing mechanisms, the financing to recapitalize financial entities through loans to governments[9] and the intervention in secondary markets whenever exceptional circumstances may endanger financial stability. This last measure should count on the approval of all the Euro Zone countries.

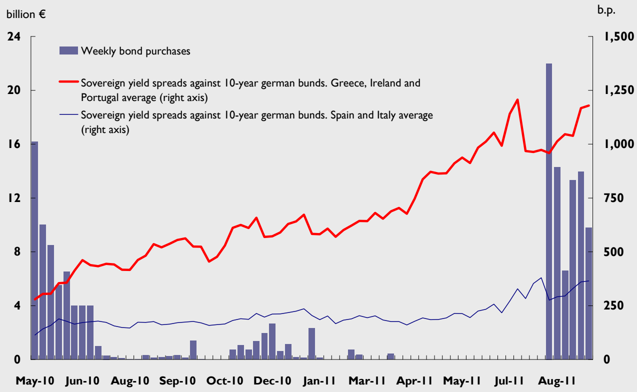
**Chart B.1.2**
**Bailout Requests and Sovereign Debt Yields / Spreads**




Source: BCRA based on Bloomberg data

Even though July announcements were welcomed at the beginning, in August debt markets weakened once again, due to the increasing doubts over the contagion to large economies with sizable debt maturities in the short and medium term[10]. In the case of Spain and Italy, the deterioration of secondary debt markets translated into higher issuance costs in the primary market[11], causing more concern about the deepening of this phenomenon. Special attention was paid to the evolution of benchmark spreads and yields of these two countries in the secondary markets, vis-à-vis the possibility that they may reach similar levels to those of Greece, Ireland and Portugal at the time the financial aid was requested (see Chart B.1.2)[12]. Given the fact that the approval of the EFSF by the parliaments of the member countries was still pending, in the second fortnight of August, the ECB resumed its purchase of government securities, and on this occasion it included Spanish and Italian instruments. These purchases entailed higher amounts than those recorded at the peak of the tension in 2010 (see Chart B.1.3).

**Chart B.1.3**
**ECB´s Purchases of Sovereign Debt and Yield Spreads**




Source: Reuters and Bloomberg

Even though the latest announcements are an important step forward, mainly because of the recognition of the need to reduce the burden of Greek liabilities, the country does not manage to solve its solvency problem[13]. In addition, in a context where the emphasis continues to be on the fiscal consolidation, it is not clear yet how the Greek economy will gain momentum, given the limitations to improve its competitiveness quickly and the impossibility —within the Euro scheme— of improving its competitiveness using the exchange rate as policy tool[14]. Thus, there are still doubts about the effectiveness of the measures implemented so far to contain the crisis in the Euro Zone[15].

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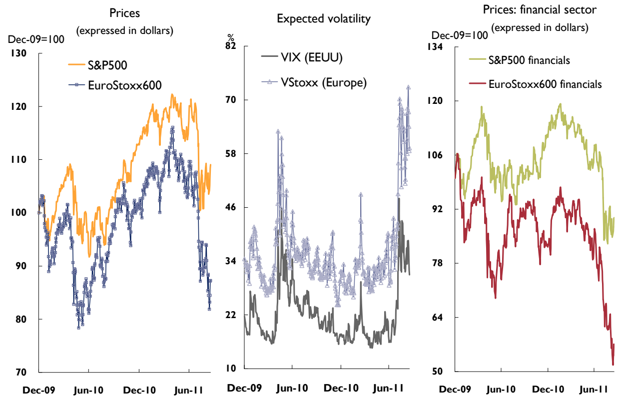
[9] These two measures do not require an aid program with the EU-IMF.
[10] In addition to Spain and Italy (S&P's downgraded the note of the latter in September), the speculations indicated in August that there might be an eventual downgrading of the French debt.
[11] In the case of Spain, while the 10-year debt instrument was issued in 2010 with 4.5% yields on average, in July 2011 the debt issue cost went up to 5.92%. In the case of Italy, 10-year issues went from a return of about 4% on average in 2010 to a peak of 5.77% in the transaction traded in early August 2011 (5.22% in the transaction traded in the following month).
[12] To prevent any further deterioration, the governments of Italy and Spain have announced additional measures to improve their fiscal position, which in turn affect growth expectations for the region.
[13] It is considered that, despite the measures announced to cut the debt burden in Greece (the debt/GDP ratio is currently over 140%), the country should implement a restructuring of liabilities with a more aggressive debt relief.
[14] The decision adopted by the European Union to face the crisis seeking balanced budgets through cuts on spending, tax increases and/or structural reforms have cast doubts over the economic, as well as social and political, sustainability of these measures.
[15] At a more general level, there is an increasing discussion about different alternatives, such as the increase of the amount available at the EFSF (currently, its effective capacity is for €440 billion –after the modification implemented in June–, which added to the contributions by the IMF would imply €750 billion available), a higher debt relief for Greece, a more aggressive policy of banking capitalization and/or the joint issue of debt instruments ("Eurobonds") by all the countries of the region, among others.

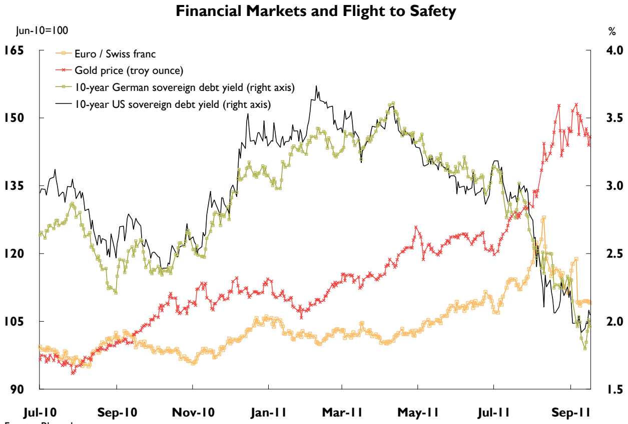
In this context, uncertainty and volatility have deepened, while debt spreads continue to break records in Europe. The main risks that loom in the financial markets are the coordination problems, the inadequate policy decisions and the difficulties for implementation which, all together, may worsen the situation of the Euro Zone leading to a scenario in which the Euro political project may be jeopardized. In turn, an eventual contagion may end up affecting global financial stability and impacting on economic growth, leading to a situation similar to that of the 2008-2009 financial crisis.

**Chart I.10**
**US and Europe Stock Markets**



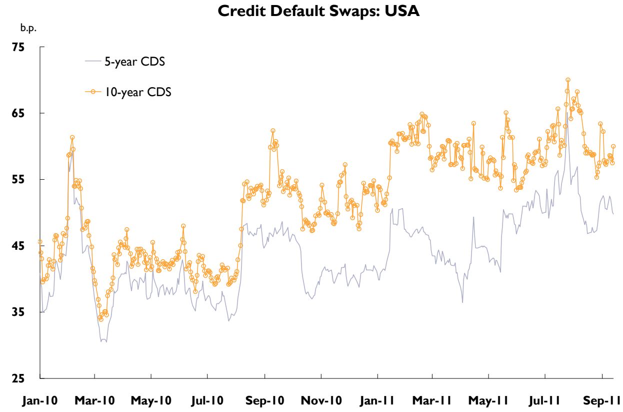

Source: Bloomberg

**Chart I.11**
**Financial Markets and Flight to Safety**




Fuente: Bloomberg

**Chart I.12**
**Credit Default Swaps: USA**




Source: Bloomberg

***Stock market indices have suffered marked reductions and their expected volatility has reached peak values within a one-year term***

The leading stock indices operated without a defined trend during a good part of the first half of the year but deteriorated significantly in July and August[16] due to a combination of adverse factors. In line with this situation, the expected volatility increased during the third quarter of the year, recording higher peaks than those prevailing when the Greek crisis erupted in May 2010 (see Chart I.10). In particular, the financial sector shares recorded a deeper deterioration —mainly in Europe—, impacted by a fear of contagion of the debt crisis to the Euro Zone (see Box 2).

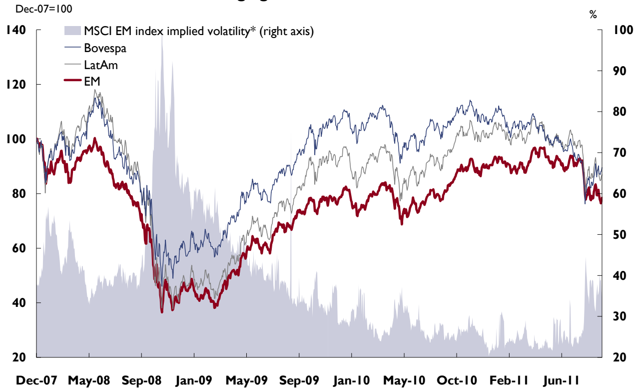
***The economic deceleration outlook and the market risk aversion have taken US Treasury bond yields to historically minimum***

The rise in the perceived risk has encouraged investors to reposition their holdings in assets deemed as relatively safer, especially as from late June. Thus, the trend to yield contraction of the 10-year sovereign debt of the United States and Germany deepened in the third quarter (see Chart I.11). Since the end of the second quarter, these yields lost over 100 b.p. and they have reached minimum values comparable to those of the 2008-2009 crisis. In the case of the United States, this trend was noticeable even despite the fiscal problems —which became evident during the Congressional negotiations about the raising of the debt ceiling—, which resulted in a higher perceived risk for the US debt by the markets (see Chart I.12). In recent months, the search for shelter by investors also affected gold price, which went up over 25% since late June until early September, though an important profit taking occurred in the last weeks resulting in a 10% drop.

The US dollar continued to depreciate against the Euro until early May —following the trend of the previous six-month period— but then tended to appreciate, recovering good part of the ground lost in the first four-month period. The volatility expected for the dollar/euro exchange rate, which had contracted until April, rebounded later on to levels similar to those of late 2010. As regards the Swiss franc, the appreciation against the euro —due in part to the search for shelter in a context of increasing volatility— accelerated between July and August, accumulating an appreciation of over 20% between the end of March and mid August. As a result, the Swiss National Bank announced a series of measures to contain the appreciation of the domestic

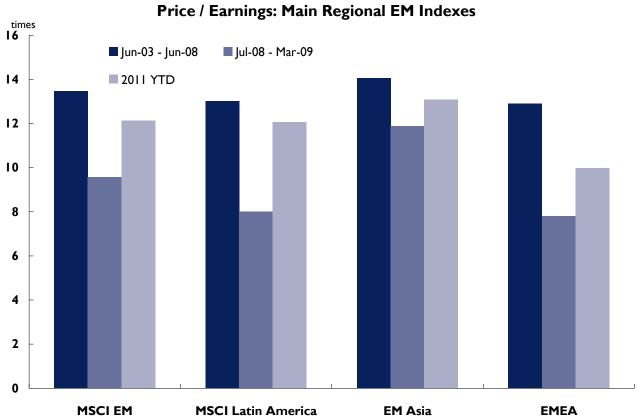
[16] In September, the indices were highly volatile with a downward trend.

**Chart I.13**
**Emerging Economies Stock Markets**



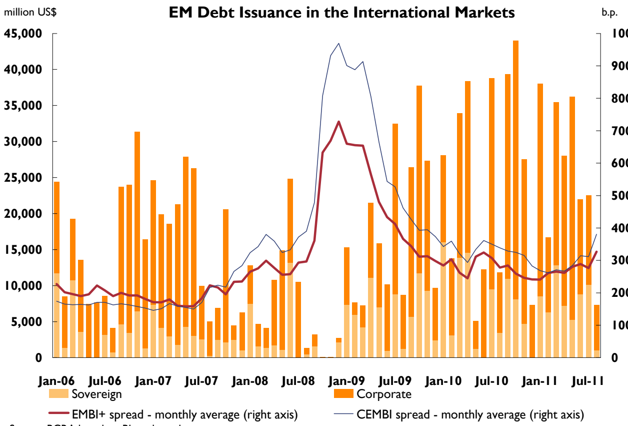

(*) Simple average of implied volatilities for the 10 main companies of the index calculated by Bloomberg
Source: BCRA based on Bloomberg data

**Chart I.14**
**Price / Earnings: Main Regional EM Indexes**




Source: Bloomberg

**Chart I.15**
**EM Debt Issuance in the International Markets**




Source: BCRA based on Bloomberg data

currency[17] until, by the end of September, the monetary authority made the decision to set an objective floor for the Swiss franc/euro exchange rate (below this floor, the central bank commits itself to buy foreign currency unlimitedly).

***In recent months, the financial assets of emerging countries were adversely impacted by the deterioration of international financial markets***

The stock indices of emerging economies have shown a negative trend since the end of April (which worsened markedly in August and September), reverting the profits accumulated in the first months of the year. Thus, share prices of the aggregate of emerging countries went down by nearly 20% from the end of April to mid September —with a similar variation for the specific case of Latin America—, while the expected volatility of the main components of the MSCI EM Index went up markedly in August and September (see Chart I.13). Putting things in perspective, even though the valuation ratios (prices / earnings) for emerging countries in general, and for Latin America in particular, show an important progress against the levels recorded during the 2008-2009 crisis, the average is still below that of the pre-crisis so far in 2011 (see Chart I.14). On the other hand, the flows to investment funds specializing in equities of emerging economies have followed a changing pattern in recent months, characterized by remarkable outflows in August and early September, as a result of which net outflows have accumulated so far in 2011 in contrast with the record inflows of 2010[18].

The risk differentials of the emerging countries' sovereign debt —as reflected by the EMBI+ EM Index— have widened in recent months, within a context of significant reduction in US Treasury bond yields (see Chart I.15). A similar performance was noticeable in 5-year sovereign CDS prices. However, the deterioration was less marked than in other high-volatility periods: during the last 24 months, the EMBI+ stood at a range of 220-440 b.p. —with higher relative peaks in May 2010 and September 2011—, in contrast with the +800 b.p. of the 2008-2009 crisis. Regarding debt issuance by emerging economies in international markets, they have lost momentum in recent months against the rebound[19] observed in the first half of the year (largely due to corporate sector issuance).

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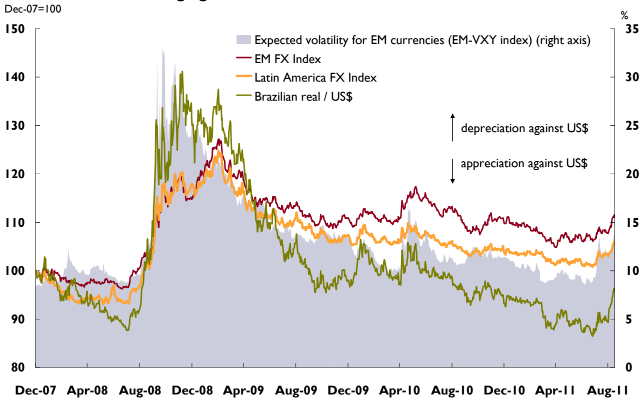
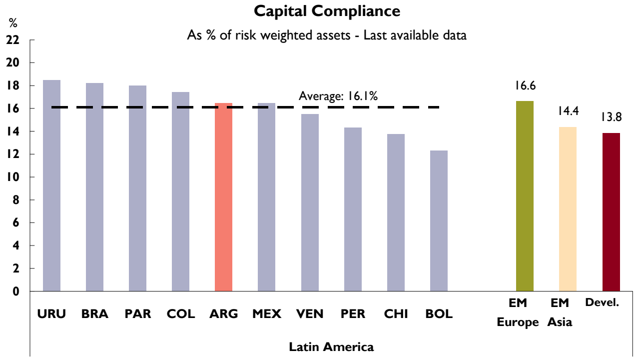
[17] In August, the Swiss National Bank established a decrease in its monetary policy interest rate target range and extended its monetary aggregate target on several occasions.
[18] However, funds specializing in fixed income of emerging countries have managed to keep positive flows so far this year, due to the flow into funds specialized in domestic-currency instruments.
[19] In a context characterized by emerging markets' debt upgrading, some governments managed to finance at minimum rates in historical terms.

**Chart I.16**
**Emerging Economies Currencies *vis à vis* US dollar**



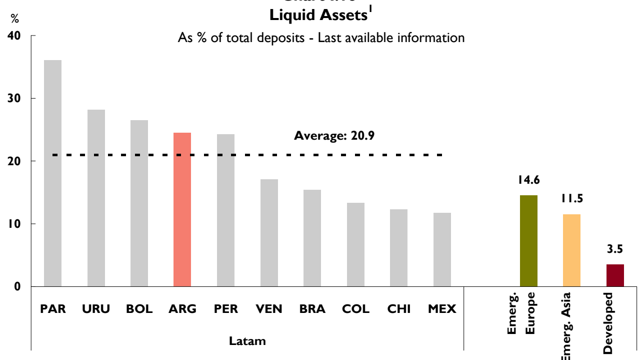

Source: BCRA based on Bloomberg data

**Chart I.17**
**Capital Compliance**
As % of risk weighted assets - Last available data




Data from **2011**: Argentina, Colombia, Brazil, Mexico, Chile, India, Corea, Hungary, Turkey, Australia, Canada, Germany and EEUU. Data from **2010**: Bolivia, Venezuela, Peru, Paraguay, China, Indonesia, Thailand, Bulgaria, Rumania, Russia, Italy, Japan, Spain, United Kingdom. Data from **2009**: France
Source: FMI and BCRA

**Chart I.18**
**Liquid Assets**[1]
As % of total deposits - Last available information




1Note: includes currency in banks and reserve deposits in central banks
Data from 2011: Argentina, Colombia, Bolivia, Venezuela, Peru, Mexico, Brazil, Paraguay, Chile, Hungary, Australia, Canada, Germany, France, Indonesia, Thailand, Bulgaria, Rumania, Russia, Italy, Spain, United Kingdom, India, Korea, Turkey, EEUU and China. Data from 2010: Japan.
Source: BCRA from IFS - IMF data

In the first four months of the year, the emerging countries' currencies kept the trend towards appreciation against the US dollar recorded since 2010, amid a context where financial asset prices (equities, debt) showed a favorable performance while several central banks made progress in the implementation of more restrictive monetary policies. However, the evolution pattern against the dollar started to be more confusing as from May. Thus, in August, together with an increased expected volatility in exchange markets, the emerging markets' currencies began to depreciate, on average, against the dollar (see Chart I.16). Among the Latin American currencies, the case of the Brazilian real stands out since between late March and late July, it appreciated by 5% against the dollar —accumulating an year-on-year appreciation of almost 12% by July—, leading the Brazilian central bank to implement new measures to contain this situation[20]. However, within a more turbulent context in the international markets, from the end of July to the last weeks of September, the Brazilian currency depreciated more than 20%, now leading the central bank to intervene in the market to curb the weakening of the real and limit the exchange rate volatility.

Within this context, the outlook for the emerging economies' assets in the next few months is more uncertain than what it was at the beginning of 2011. Even though the soundness of the macroeconomic fundamentals, commodity prices and the sustained frameworks of high liquidity in the international markets would be signaling a favorable bias, at least in principle, there are important risks of decline vis-à-vis the concrete possibility of a scenario of marked contraction in risk appetite or of a higher-than-expected slowdown of the economic growth pace at global level.

## I.2 Latin American Bank Systems

***Despite a context of higher volatility in international markets, the relative situation of the Latin American financial systems has allowed to continue deepening the financial intermediation activities***

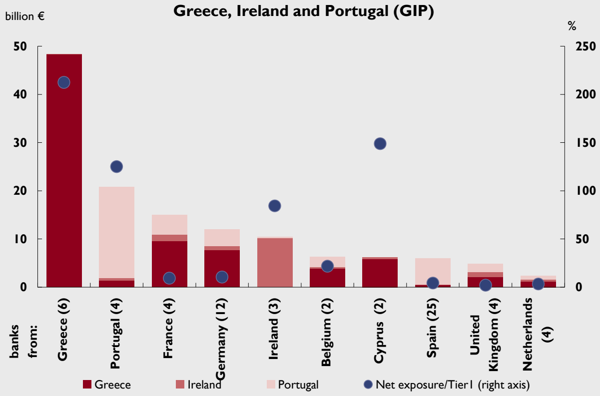
Within a context of increasing turbulence in international financial markets, the Latin American financial systems continued to exhibit a better relative position, accompanying the economic activity performance of the region (see Section I.1). In this sense, the financial systems of Latin America have

[20] For example, minimum reserve requirements for short positions of banks in dollars went up once again.

# *Box 2 / Situation of the Banks in Europe*

**The sovereign crisis in Europe created an increasing concern about the situation of the banks of the region. They exhibit vulnerabilities both in terms of their assets (exposure to highly deteriorated government securities —with higher default probabilities—, potential impact of a lower growth in the region on the loan portfolio) and of their liabilities (high dependence on wholesale funding, vulnerable to the general conditions of the financial market). Thus, even though there are differences among the banking systems of the Euro Zone countries and even among the entities of each individual system, an increase of the perceived risk is noticeable in recent months for all the banks. In this context, a growing concern about the financial stability in Europe and its eventual impact on the world economy still prevails**

Chart B.2.1
Financial Systems with Highest Exposure to Sovereign Debt of Greece, Ireland and Portugal (GIP)




Source: European Banking Authority. Figures between brackets indicate number of reporting banks from each country.

Since the eruption of the debt crisis in Europe, there is an increasing interrelation between sovereign risk and the risks inherent in the banks of the region. This was evidenced by the downgrading of financial entities after the downgrading of the sovereign debt instruments of Greece, Ireland, Portugal and Spain. This interrelation is largely explained by the exposure of banking institutions to the sovereign debt of economies in distress, especially with reference to the countries that required the financial aid of the European Union and the IMF (Greece, Ireland and Portugal, a group that will be referred to as GIP in this box). However, there are large banks of other countries of the region with significant exposures to GIP government securities, such as some financial entities of France and Germany, in addition to smaller countries such as Belgium (see Chart B.2.1). An entity-by-entity analysis reveals that though among the institutions with a higher exposure to GIP countries' sovereign debt there are several large banks, the weight of their exposure in terms of capital is highly heterogeneous[21].

As a result of the exposure of banks, special attention is being paid to the potential effects of a sovereign debt crisis contagion. Thus, what matters for countries outside the GIP group is not only the exposure to the sovereign debt of these countries but also to the debt of their banks and their private sector; for example, a potential default scenario of the Greek government would have a direct impact on the payment capacity of the Greek banks and companies[22]. In the same sense, it is worth mentioning that the exposure to the public debt of other economies of a larger size, whose situation may be at risk if the markets continue deteriorating, such as Spain and Italy, is much higher than that of GIP countries' governments in aggregate terms[23].

Given the ongoing erosion of the sovereign debt markets and the level of exposure of European Banks, there was an increasing concern about the banking sector solvency in the Euro Zone[24]. In this context, a second round of homogenous stress tests for the different countries of Europe was carried out this year and published in July. This exercise indicated that only 8 of 90 financial entities needed to obtain more capital, for a total amount of €2.5 billion. To assess the relevance of these results, it is worth mentioning that the assumptions used did not explicitly include the possibility of a Greek debt default. Nevertheless, the exercise provided a greater transparency about the exposure levels of the banks of the region to the sovereign debt of several countries, thus facilitating the creation of alternative estimates[25].

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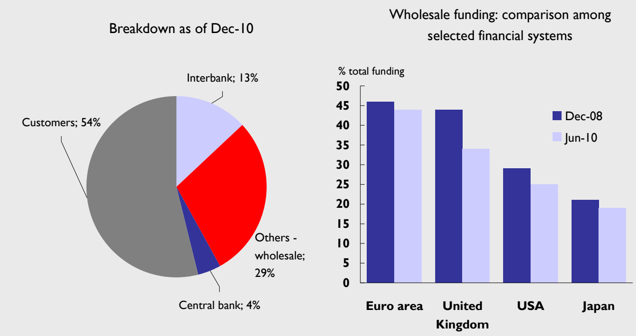
[21] Another heterogeneity factor is the increasing delinquency rate of household and commercial mortgages in economies such as England, Ireland and Spain, which were subject to sharp increases in real estate prices and later revisions.
[22] According to BIS data, the European banks of countries that have not requested financial aid have an exposure to GIP bank debts that is similar to the exposure to GIP government securities. On the other hand, the exposure of the same banks to the debt of GIP non-financial companies is nearly five times their exposure to GIP sovereign debt.
[23] For all banks submitting information in the stress tests, the net exposure to sovereign debt of GIP amounts to almost €136 billion, while net exposure to sovereign debt of Spain and Italy on an individual basis exceeds €260 billion and €280 billion, respectively.
[24] Within a context where European banks have shown a lower deleveraging after the 2008-2009 crisis than those in the United States, for example.
[25] There are several alternative estimations (of investment banks, rating agencies and other economic agents) of the capital needs of European banks. Based on heterogeneous assumptions in terms of the magnitude and scope of any eventual sovereign restructuring, on the one hand, and the target level for solvency ratios, on the other, the estimations provide dissimilar figures in a range between €25 billion and above € 100 billion.

Added to the uncertainty about the quality of the European banks' assets —and their potential solvency problems— there are also doubts over their funding structure. More than 40% of the European banks' funding comes from wholesale sources, including the interbank market, the ECB financing and debt instrument issues. This percentage is higher than that of other developed economies (see Chart B.2.2), added to the fact that most of these sources provide short-term financing, which renders banks more vulnerable to a scenario of sudden deterioration in the financial markets. The likelihood of concrete liquidity problems that may endanger financial stability in Europe and other regions is particularly relevant if we take into account the events of the 2008-2009 crisis[26].

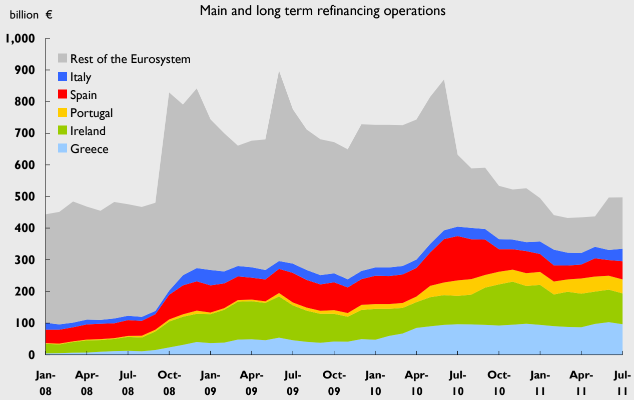
**Chart B.2.2**
**Funding Structure of European Banks**




Source: European Banking Authority (2011 stress tests) and IMF (April 2011 Global Financial Stability Report)

The wholesale funding of banks has exhibited a dissimilar evolution since the end of 2009. Thus, while the uncollateralized interbank market has not managed to recover after the 2008-2009 crisis (currently only large and solvent entities would be operating), the collateralized interbank market —repo market— has shown some improvement, even though it continues to be volatile[27]. The situation of debt issue is similar, since it tended to increase in 2010 and early 2011 but still reveals a performance pattern that is highly sensitive to changing uncertainty levels. For example, in 2011, a sharp reduction in issue terms is noticeable for shorter-term debt. On the other hand, given the refinancing needs of the governments of the largest economies, banks would find it more difficult to issue debt instruments in a more adverse scenario. Beyond the differences among specific banks, the case of GIP entities stands out in relation with the funding structure, since they have kept their dependence on ECB official liquidity lines, while the total balance of these lines has tended to reduce[28] (see Chart B.2.3).

**Chart B.2.3**
**ECB Funding for European Financial Systems**
Main and long term refinancing operations



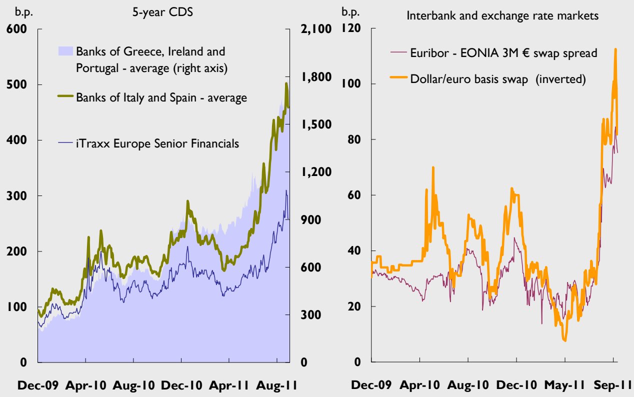

Source: ECB and national central banks

In terms of the perceived risk in the market, a sizable heterogeneity is noticeable. For example, the deterioration of 5-year CDS spreads is sharper for GIP banks than for the remaining entities of the region (see first panel of Chart B.2.4). In general terms, there is some positive relation between the cost of insuring against a default situation of specific banks and their exposure to GIP debt[29]. However, a widespread weakening is observed in the entities of the region, above all in recent months. The higher perceived risk between counterparties is also increasingly evident in the interbank system (see second panel of Chart B.2.4)[30].

[26] The problems observed within the framework of the crisis led to the incorporation of a proposal on liquidity requirements into Basel III.
[27] Part of this volatility is related to the pro-cyclical behavior of the appraisals proposed for government securities used as collateral.

[28] In recent months, a higher use of ECB funding was noticeable by Spanish and Italian banks. Even though the ECB continues to be willing to provide liquidity to financial entities, there are doubts over the capacity to keep an increasing and sizable financing flow vis-à-vis an adverse scenario characterized by problems in the countries (and banks) of a larger size.
[29] Thus, in recent months, the perceived risk for French banks (with a sizable exposure to Greece) has increased markedly. In September, Moody's downgraded the note of two large French banks and gave a negative rating to the outlook of a third financial institution. In this context, the banks announced plans to sell assets to reduce their leverage.
[30] Likewise, in August, there were signs of turbulence in the currency swap markets, since European banks would be trying to get funding in dollars in a synthetic way since they find it difficult to do it directly (a similar phenomenon to that observed in 2008-2009). This led to a joint action in September by the ECB and other central banks (USA, England, Switzerland, Japan) to ensure liquidity in dollars until late 2011.

**Chart B.2.4**
**European Banks: Perceived Risk and Interbank Markets**

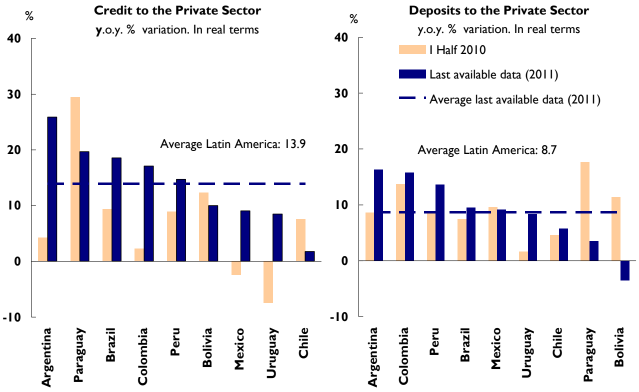



Source: BCRA based on Bloomberg y Reuters data

The vulnerability of the banks of the region continues to create uncertainty, worsening the volatility caused by the debt crisis of the Euro Zone. Given the increasing risks to financial stability in Europe (including non-banking financial entities) and the interconnection among the financial markets, the potential spillover of this instability to other regions of the world is currently a major reason for concern. In this context, additional measures are likely to be adopted to improve the solvency of the banks, to better deal with entities in distress[31] and to consolidate a plan of coordinated measures among the authorities of the different developed economies to prevent a spiral of tension in financial markets at global level.

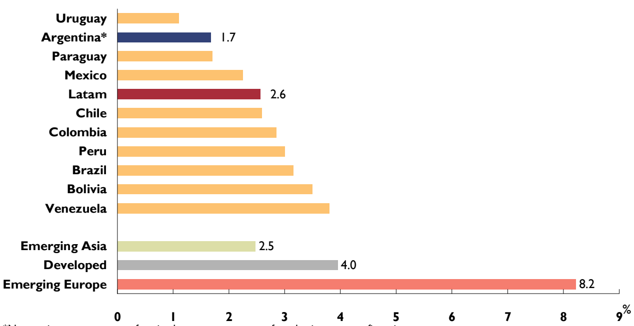
[31] In terms of resource availability to capitalize insolvent banks, the approval of the flexibilization of the European Financial Stabilization Facility (EFSF) becomes particularly relevant. See Box 1.

**Chart I.19**
**Financial Intermediation. Latin America**




Source: FMI (IFS) and BCRA

**Chart I.20**
**Non-Performing Loans. International Comparisson**
Non-performing loans / Total financing (%)




*Note: private setor non-performing loans as percentage of total private sector financing.
Data from **2011**: Argentina, Colombia, Brazil, Mexico, Chile, India, Corea, Hungary, Turkey, Australia, Canada y EEUU. Data from 2010: Bolivia, Venezuela, Peru, Paraguay, China, Indonesia, Thailand, Bulgaria, Rumania, Russia, Italy, Japan, Spain, United Kingdom. Data from **2009**: Germany and France
Source: FMI and BCRA

managed to keep high liquidity and solvency levels. In particular, the financial systems of the region had, on average, a 16.1% capital compliance in terms of risk-weighted assets in early 2011, 2.3 percentage points (p.p.) and 1.7 p.p. above the figures recorded by developed nations and Asian emerging countries, respectively (see Charts I.17), even though they are below the levels of European emerging countries. The average liquidity ratio of the financial systems of the region stood at 20.9%, exceeding by 6.3 p.p. and 17.4 p.p. the average of other emerging regions and developed countries (see Charts I.18)

In this context, an increasing momentum in the financial intermediation activities was noticeable in Latin American countries. In the first months of 2011, the year-on-year expansion rate of credit to the private sector increased significantly against the values of mid 2010 in almost all the countries of the region (see Charts I.19). As a result, credit to the private sector grew by 13.9% on average in real terms in the first half of the year, up 7 p.p. against the end of the first half of 2010. In turn, deposits of households and companies recorded a growth rate similar to that observed in the first six months of last year.

The credit risk faced by the Latin American financial systems continues to be low. As a signal of this fact, the indicators of non-performing loans in the countries of the region stood at low levels (2.6% on average), both from a historical perspective and against the figures recorded by other emerging regions (see Chart I.20). In addition, the high ratios of coverage of non-performing loans with provisions continue to reflect the sound balance sheet position of Latin American banks in the face of credit risk.

Growth forecasts for Latin American economies predict that the financial intermediation activity will deepen in the remaining months of 2011. However, the increasing fragility of advanced economies in recent months has become a potential source of vulnerabilities.

# II. Local Context

## Summary

*During the first half of 2011 the Argentine economy grew 9.5% year-on-year (y.o.y.), a rate higher than that seen during the second half of 2010 (see Chart II.1). This growth was mainly explained by the increase in domestic absorption. Rising employment and wages, together with greater credit offer and higher transfers from the government, boosted household spending. The labor market continued to gain strength and achieved record levels of occupation and activity at the same time as unemployment fell to its lowest levels.*

*Investment recorded an increase of 21.9% y.o.y. in the first half of 2011, rising above the levels at the beginning of 2008, an indication of a growing need for productive capital as demand increases. By the middle of the year capital expenditure stood at over 24% of GDP.*

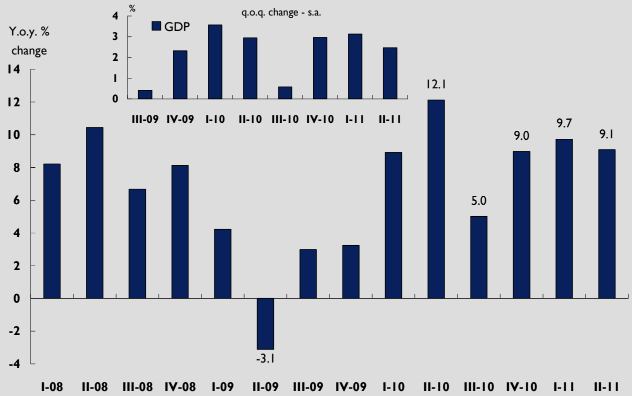
*Inflation slowed at the beginning of 2011. The absence of shocks on the domestic and external fronts from commodity contributed to a lower increase in prices, unlike the situation one year earlier. Service prices posted a slightly higher growth, mainly in the unregulated segment.*

*In the first half of 2011 the Central Bank met its Monetary Program (PM) target, with M2 growth of 12.5% in June compared with December, in line with core banking forecasts. In this period the main expansion factor for peso monetary aggregates was the growth in peso loans to the private sector, followed by Central Bank foreign currency purchases. To make compatible these monetary creation factors with money demand, the Central Bank absorbed half the currency purchases through the issue of Lebac and Nobac and repo transactions. During the first months of the third quarter of 2011 an increase in the demand for foreign currency was recorded, at which time the Central Bank began to intervene in the exchange market, with the aim of lowering the volatility of the exchange rate. To supply primary demand for money and guarantee equilibrium in the money market, it was decided not to renew the full amount of maturing Lebac and Nobac. During these months loans to the private sector continued to be the main factor of growth in the broad monetary aggregate in pesos.*

*Within a framework of greater volatility in international markets, Argentine financial assets tended to weaken, in line with the situation observed in most emerging economies. Sovereign bond prices fell, although yields remained well below the levels seen at the time of the international crisis in 2008-2009. In the case of shares, the Merval has been bearish in recent months, a trend that deepened in August. Financial trusts displayed greater dynamism, even when those trusts related with infrastructure projects are excluded. In the case of corporate bonds, there were a notably high proportion of transactions by banks and other financial institutions. In terms of deferred payment checks, in 2011 record levels have been set for both trading volumes and trading terms.*

**Chart II.1**

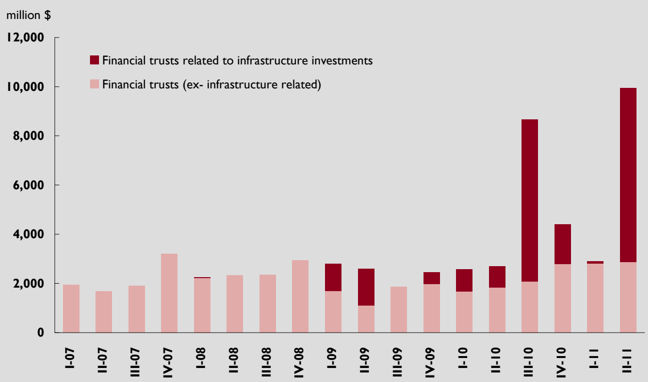
**Real GDP**




Source: INDEC

**Chart II.2**

**Issuance of Financial Trusts**




Source: IAMC, BCBA and BCRA.

## II.1 Macroeconomic context

***Domestic economic activity has risen steadily in the first half of 2011, driven mainly by household consumption and investment growth***

In the first half of 2011 economic activity once again recorded a strong increase in the face of an international scenario showing rising uncertainty and lower growth than that expected at the beginning of the year (see Chapter I). Domestic output of goods and services grew by 9.5% year-on-year (y.o.y.) in the first six months of 2011, exceeding the growth rate for the second half of 2010.

Household consumption continues to be the main support for spending (see Chart II.3), given the increase in labor resources from rising wages and employment, complemented by larger public transfers and growing bank financing. Public transfers included adjustments to family allowances and the Universal Child Allowance for Social Protection (AUH, for which coverage was furthermore extended to expectant mothers), and increases granted to retirees and pensioners in accordance with the Law on Social Security Mobility.

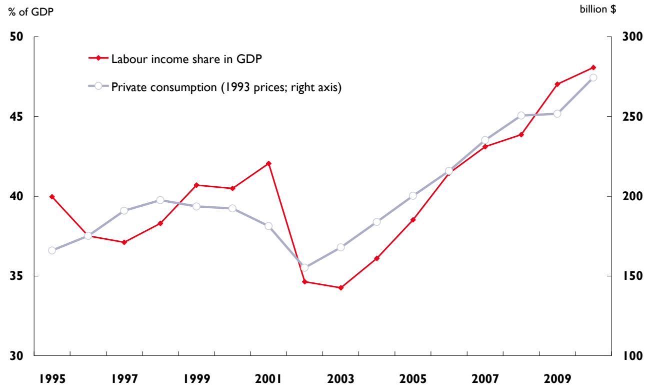
Investment continued to rise in the first half of 2011 and already stands at levels higher than those recorded prior to the deepening of the international crisis that began in 2008. Investments in machinery purchases to raise production levels should be highlighted, within the context of high installed capacity utilization. Spending on construction has also posted significant growth, similar to that of the last half of 2010. As a result, the investment rate for the first half of the year was 24.6% of GDP in seasonally-adjusted terms, more than 2 percentage points (p.p.) above the same period of 2010 (see Chart II.4).

Continued economic growth favored the creation of new jobs as well as improving the quality of employment. The employment rate reached record levels in the second quarter of 2011, following the creation of 279,000 new jobs (2.6% y.o.y.) in the 31 urban agglomerations surveyed by the Permanent Household Survey compared with the total one year earlier. Strong employment expansion was accompanied by a similar rise in the workforce. In the second quarter of 2011 unemployment stood at 7.3% of the labor force (PEA), 0.6 p.p. below the level one year earlier.

Exports recorded strong growth in the first seven months of the year, similar to that seen in the second half of 2010, with increases under all headings except fuel and

**Chart II.3**

**Argentina. Labour´s Share of GDP and Private Consumption**

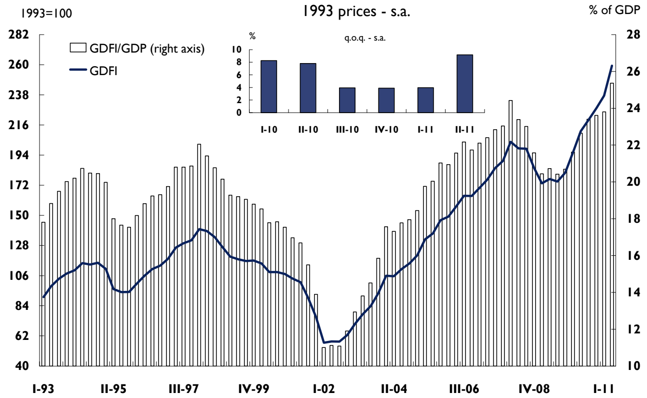



Source: INDEC

**Chart II.4**

**Gross Domestic Fixed Investment**

1993 prices - s.a.

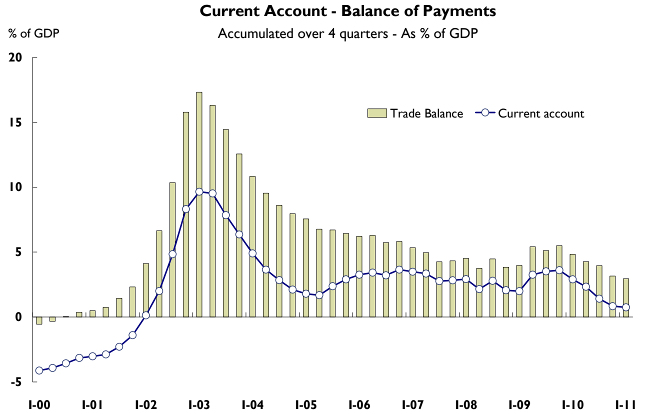



Source: INDEC

**Chart II.5**

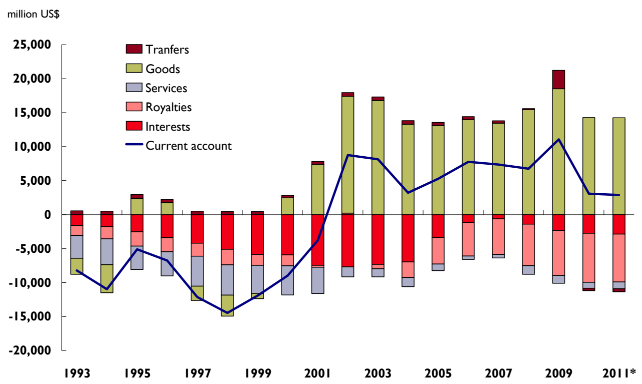
**Current Account - Balance of Payments**

Accumulated over 4 quarters - As % of GDP



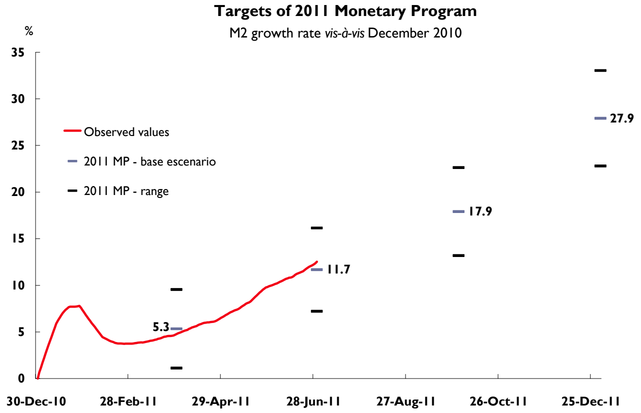

Source: INDEC

**Chart II.6**
**Current Account of Balance of Payments**



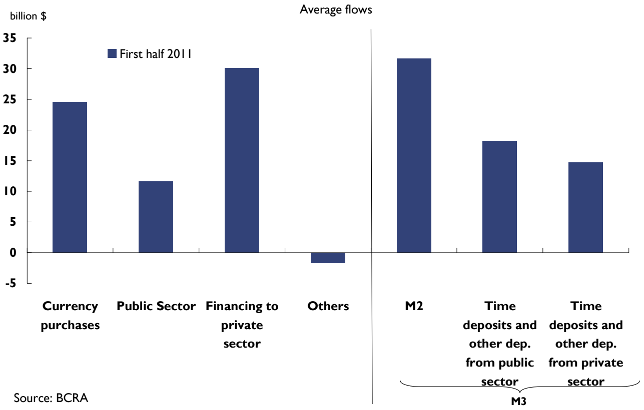

Source: INDEC *accum. over 4 quart. as of I-11

**Chart II.7**
**Targets of 2011 Monetary Program**
M2 growth rate *vis-à-vis* December 2010




Source: BCRA

**Chart II.8**
**Factors Affecting Change of Ample M3 of Monetary Aggregate in 2011**
Average flows




Source: BCRA

energy. While the increases for commodities and manufactured goods of agricultural origin were mainly due to prices, manufactured goods of industrial origin were higher mainly as a result of quantities sold, which for the year to date have shown an increase of 14%.

Imports from January to July continued to increase at a high rate, although not as fast as in the second half of last year, driven mainly by purchases of capital goods, industrial input, and energy. As a result, the trade surplus remained high in historical terms, although posting a decline. For 2011 as a whole it is expected that the trade surplus will again provide the main support for the current account balance, which will tend towards equilibrium (see Chart II.5). This is due to the fact that larger net payments abroad are forecast in the form of profits and dividends from economic growth and the profitability of investments in a context in which interest payments remain low in terms of GDP compared with the past (see Chart II.6).

In the first half of 2011 the various price indexes available recorded a reduction in their year-on-year increase compared with 2010. The more moderate rise in goods prices was mainly due to the absence of domestic and external shocks in meat markets – which account for 10% of the consumer basket – unlike the situation during the course of 2010. At the same time there has been greater growth in service prices, particularly in the unregulated segment.

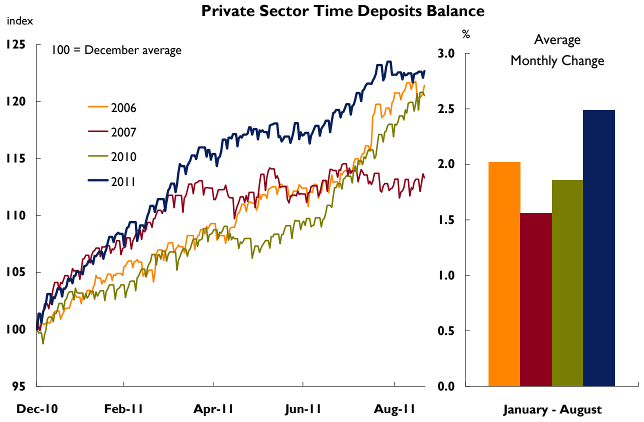
***The Central Bank continues to make efforts to ensure the compatibility of both primary issue of money, mainly related to its intervention in the exchange market, and secondary creation driven by vigorous growth observed in lending, with the rise in money demand, so as to maintain the equilibrium in monetary market***

In the first half of 2011 the target set in the Monetary Program (PM) was complied. At June M2 accumulated 12.5% growth against December 2010, 0.8 p.p. above the base scenario forecasted in the PM and 3.6 p.p. below the upper limit estimated (see Chart II.7). The course followed by private M2 during the first half of the year was also compatible with its annual target.

Savings-related money demand continued to show strength. Particularly, growth for the half-year by private sector peso time deposits reached 17%, and was the highest in the same period for the last six years. The largest increase compared with previous years took place in both the first and second quarters of the year, with the latter period being characterized by a high demand for liquidity by companies to be able to meet

**Chart II.9**

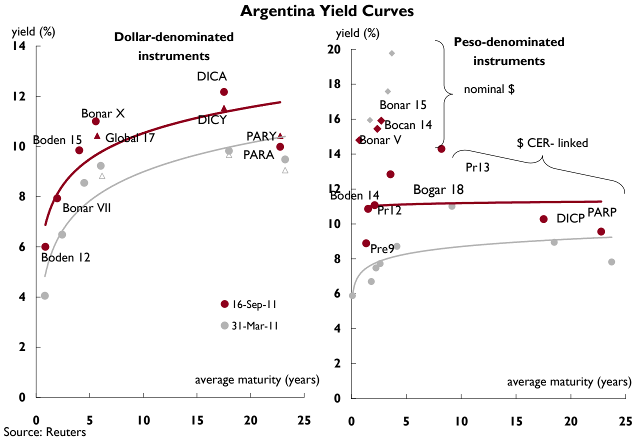
**Private Sector Time Deposits Balance**




Source: BCRA

**Chart II.10**

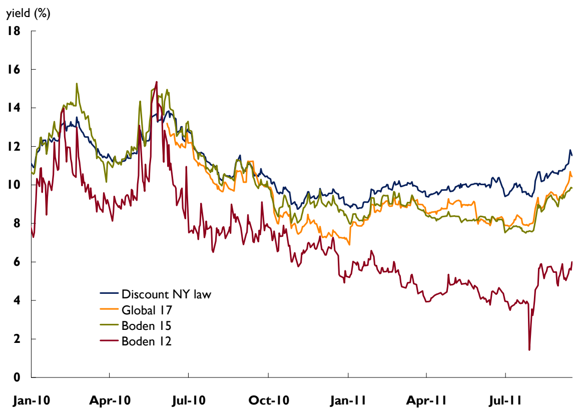
**Argentina Yield Curves**




Source: Reuters

**Chart II.11**

**Argentina Benchmark Sovereign Bonds Yields Dollar-Denominated**




Source: Reuters

tax maturities and pay the semi-annual wage, which normally reduces the rise of deposits.

In this context, the broadest aggregate in pesos, M3, which includes cash held by the public, settlement checks in pesos and total deposits in pesos, recorded growth of 16% for the half-year and 39.7% y.o.y.

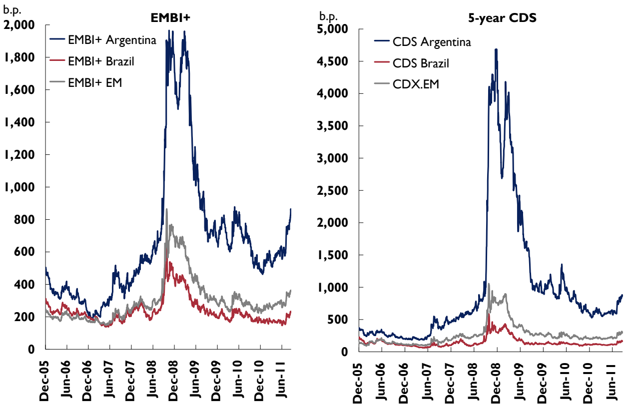
The main monetary aggregate factor of expansion in the first part of the year was the rise in peso loans to the private sector (see Chart II.8), which continued to increase their year-on-year growth rate. Commercial loans in particular continued to record year-on-year growth rates higher than those observed in household credit lines.

In the context of the managed floating exchange rate regime and the prudential reserve accumulation policy, Central Bank foreign currency purchases were another leading monetary aggregate expansion factor. Nevertheless, to balance monetary creation and the money demand, during the first six months of the year the Central Bank absorbed the equivalent to 50% of the foreign currency purchases through the issue of Central Bank bills and notes (Lebac and Nobac), and repo transactions. In the first half of the year Lebac and Nobac interest rates did not alter significantly, and the Central Bank maintained the interest rate on its repos at the levels in force since October 2009 (9.0% and 9.5% for repos at 1 and 7 days, and 11.0% and 11.5% for reverse repos for the same terms).

Nevertheless, in the first months of the third quarter of 2011 an increase was recorded in the demand for foreign currency. In response, the Central Bank began to intervene in the exchange market, selling foreign currency in order to reduce exchange rate volatility. At the same time, to meet primary money demand and ensure equilibrium in the monetary market, it opted not to renew the full amount of maturing Lebac and Nobac, leading to a drop in the total stock of these instruments. Furthermore, as from the last auction in August, a slight increase in shorter-term Lebac interest rates was validated. In the case of the broad monetary aggregate in pesos, the main explanation for its growth continued to be lending to the private sector, which has maintained the dynamism seen in the first half of the year.

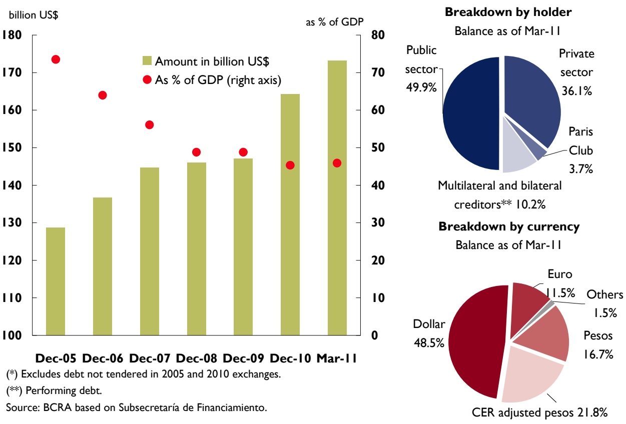
During the first months of the third quarter, private sector peso deposits continued to show an upward trend. In particular, time deposits rose 4% in July and August, accumulating in the first eight months of 2011 the largest percentage increase seen in recent years (21.7%). This growth has been equivalent to a monthly 2.5% rise, compared with an average monthly increase of 1.8% recorded for the same period during 2006, 2007 and 2010 (see Chart II.9).

Chart II.12
Sovereign Risk Spreads



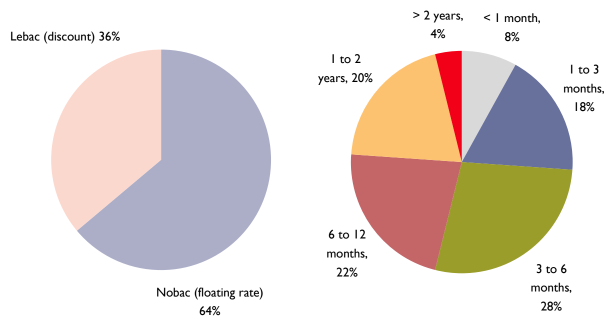

Source: Bloomberg and Reuters

Chart II.13
Public Debt Stock Evolution*




(*) Excludes debt not tendered in 2005 and 2010 exchanges.
(**) Performing debt.
Source: BCRA based on Subsecretaría de Financiamiento.

Chart II.14
Lebac and Nobac Stock Composition
Outstanding stock by type of interest rate and maturity as of Sep-11




Source: BCRA

In mid-September international reserves totaled US$49.42 billion, showing a drop when compared with December 2010. Although over 2011 to date the Central Bank made net purchases of foreign currency for close to US$ 3.6 billion, a drop in reserve stocks took place following the payment of foreign currency public debt servicing using freely-available reserves, as established by Decrees 2054/10 and 276/11 (for a total of approximately US$ 6.85 billion).

In the foreign currency segment, between December and June foreign currency total deposits posted a slight decline, with a drop in public sector deposits that was partly offset by an increase in those from the private sector. As a result, in the first half the broadest monetary aggregate, M3*, which includes cash held by the public, settlement checks and total deposits in domestic and foreign currency (stated in pesos) from the non-financial public and private sectors posted a rise of 14%.

Over the remainder of 2011, the global economic slowdown, particularly in the case of Argentina's leading trading partners, together with a scenario of greater global uncertainty, could lead to more moderate economic growth levels for the country.

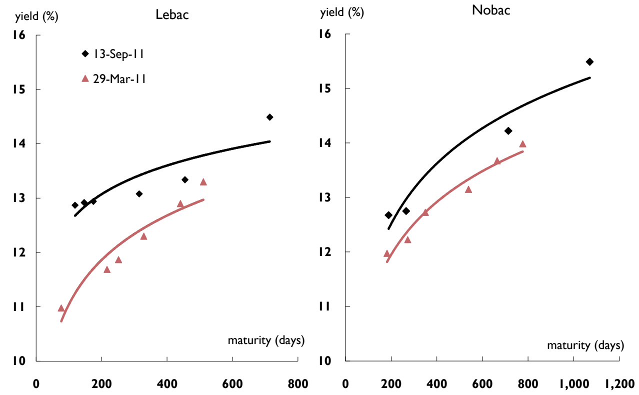
## II.2 Capital markets

Within a framework of high volatility on international financial markets –affected by the debt crisis in Europe and concerns about growth in the United States and globally– the prices of local financial assets deteriorated, compared with the end of March, in line with the situation of most other emerging markets. Nevertheless, the decline has been relatively modest when compared with other highly volatile situations on international markets, particularly in the case of fixed-interest assets. Although macroeconomic fundamentals make the country's assets attractive at a time of low internationally interest rates, the performance of these assets will remain subject to the materialization or not of the abovementioned global risks (see Chapter I).

### *Despite high volatility on international markets, sovereign bonds showed only a relatively modest decline*

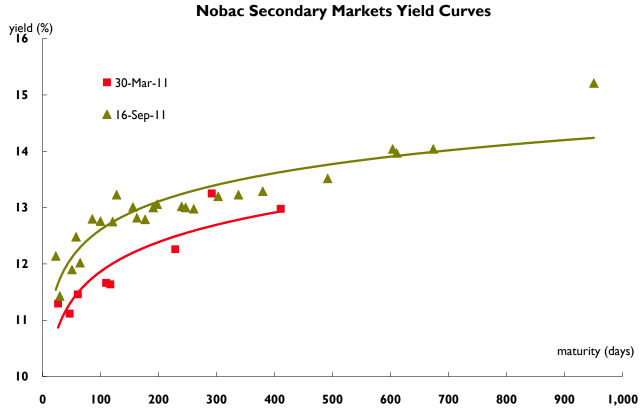
Sovereign bond prices lost a little ground, affected by the negative and volatile international context. In the case of bonds in dollars, this has meant widening yields since the end of March through to the middle of September of 150 b.p. on average (see Chart II.10), rising above 10% since August in the longer part of the yield curve (see Chart II.11). In turn, payment of the

Chart II.15
BCRA Auctions Yield Curves




Source: BCRA

Chart II.16
Nobac Secondary Markets Yield Curves




Source: MAE

Boden 12 coupon in August led to greater demand for bonds in the short part of the dollar curve, causing it to become steeper. In the case of peso bonds with CER adjustment, yields increased on average by 300 b.p. along the whole curve since the end of March, although for the Discount bond the increase was substantially lower (130 b.p.). Bonds in nominal pesos performed differently, with yields at levels very close to those at the end of March (dropping 30 b.p. on average[32]), a behavior consistent with the course followed by the Private Bank BADLAR during the period.

The mentioned contraction in US Treasury bill yields, together with widening yields on Argentine sovereign bonds subject to international legislation led to an increase in Argentina's sovereign risk differentials. Argentina's EMBI+ stood at around 840 b.p. in mid-September, approximately 160 b.p. above the average for 2010. The 5-year contract premium for credit default swaps (CDS) in mid-September was close to 900 b.p., showing a rise of 270 b.p. in the last 6 months, although remaining in line with the average for 2010 (see Chart II.12).

The National Government's main funding mechanism has continued to be the direct placement to intra-public sector entities of bonds and bills, making use of freely-available reserves to make debt payments[33]. There has been a sharp decline in the stock of short-term bills in recent months (to a total of $2.7 billion), as a result of the refinancing of maturities using other instruments for longer terms. This year bonds have been placed directly for a total of $4.7 billion[34]. As a result, by the end of March 2011 public debt totaled US$173.15 billion or 45.9% of GDP[35], showing a year-on-year decline in line with the trend towards lower debt that has been seen for over 5 years (see Chart II.13). It should be noted that out of total public sector debt outstanding, liabilities to the private sector total only 16.6% of GDP (see Chapter III).

### *In recent months there has been growing demand for Nobacs*

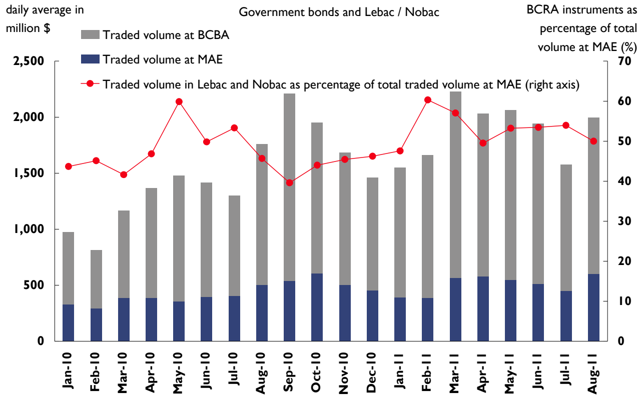
As mentioned, the Central Bank continued its policy for absorbing pesos surpluses, by issuing Lebac and Nobac on the primary market as one of its principal tools. By mid-September, the stock of bills and notes in

[32] Includes Bonar V with fixed coupon and Bonar 14 and Bonar 15 bonds, which accrue a coupon based on the Private Bank BADLAR rate plus a spread.
[33] In view of the terms of Decrees 2054/2010 and 276/2011, as a counterpart to the debt payments to be made using freely-available reserves, during 2011 two Non-Transferrable US dollar 10-year bonds were place with the Central Bank for a total of US$9.6 billion.
[34] Latest information available. 90% is explained by Banco de la Nación Argentina Financing due in 2013, amortizing and carrying a coupon based on BADLAR plus 100 b.p., and the remaining amount by a Discount bond in dollars under local legislation placed with the FGS (Guarantee and Sustainability Fund).
[35] Latest information available.

**Chart II.17**

**Fixed Income Traded Volume**

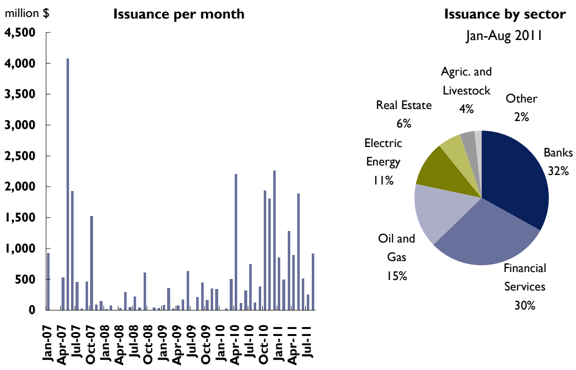
Government bonds and Lebac / Nobac




Source: BCBA and MAE

**Chart II.18**

**Bond Financing to Private Sector**




Source: IAMC and BCBA

**Table II.1**

**Bonds Issued by Banks and Financial Services Corporations**

January to August 2011

| | | | Banks | Non-banks financial entities |
|---|---|---|---|---|
| Total number of operations | | | 18 | 26 |
| Peso-denominated floating rate operations | Number of operations | | 13 | 17 |
| | Average amount (million pesos) | | 79.2 | 65.1 |
| | Maturity range (months) | | 12 to 84 | 9 to 30 |
| | *Spreads* over Badlar - range | AAA | 2.9% to 3.2% | 2.85% to 3.26% |
| | | AA | 2.8% to 4.75% | 3.16% to 4.08% |
| | | A or lower | 3.8% to 5.99% | 3.75% to 6% |
| Peso-denominated fixed rate operations | Number of operations | | 3 | 7 |
| | Average amount (million pesos) | | 23.4 | 25 |
| | Maturity range (months) | | 9 | 9 to 30 |
| | Yield range | AAA | 13.49% to 14.9% | 13.3% to 14.4% |
| | | AA | 13.50% | - |
| | | A or lower | - | 17% |
| Dollar-denominated operations | Number of operations | | 2 | 2 |
| | Average amount (million pesos) | | 626.9 | 412.5 |
| | Maturity range (months) | | 15 to 84 | 18 to 72 |
| | Yield Range | AAA | - | - |
| | | AA | 7% to 8.75% | - |
| | | A or lower | - | 5.25% to 9% |

Source: BCBA and CNV

circulation stood at around $81 billion, in line with the amount outstanding at the end of March, showing an increase of 12% y.o.y. In recent months there have been continued signs of investor preference for variable rate instruments. In mid-September Nobacs accounted for 64% of the total stock of Central Bank instruments (see Chart II.14), 7 p.p. more than in the early months of the year. There has been a notable lengthening of terms for both bills and notes: bills have been issued for residual terms of over 700 days, while terms for Nobacs frequently exceeded 1,000 days. In terms of cut-off rates, Lebacs have shown an increase of 120 b.p. on average compared with bills awarded at the end of March. For Nobacs there has been an average increase of 50 b.p. in cut-off rates for paper for similar terms, compared with the rates accepted at the end of March (see Chart II.15), at the same time as the Private Bank BADLAR rate increased by close to 150 b.p. in the period.

In line with the results of bond auctions, on the secondary market demand favored Nobacs; a lengthening was recorded in the terms of the papers traded, with yields in mid-September averaging 70 b.p. higher than those seen at the end of March (see Chart II.16). Lebac rates traded rose by an average of about 90 b.p. for required yield along the length of the curve, rising to over 160 b.p. on average for those with terms in excess of 150 days.

### *Trading volumes on local bond markets have recorded a slight decline*

Bond trading volumes (including Central Bank instruments) on domestic markets[36] have fallen back slightly in recent months, although recording a year-on-year increase of over 30% (see Chart II.17). Daily volumes totaled $2 billion. Government bonds accounted for approximately half the total traded[37], the balance consisting of Central Bank and other instruments. The bonds most traded in recent months have been the Boden 12 and Boden 15 issues (both in dollars) and the Bogar 18 in pesos adjusted by CER.

### *Financing via capital markets increases*

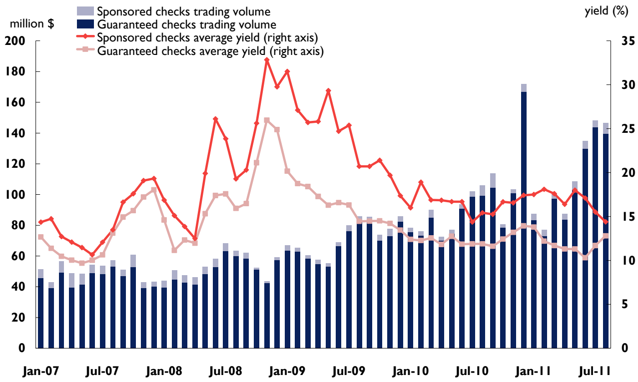
Financing by means of capital market instruments – including financial trusts for infrastructure works- has increased this year compared with 2010, despite the sharp deterioration in the international situation. Total financing during the January-August period of this year amounted to over $25 billion, showing an increase of

[36] MAE and BCBA.

[37] Based exclusively on MAE data.

**Chart II.19**

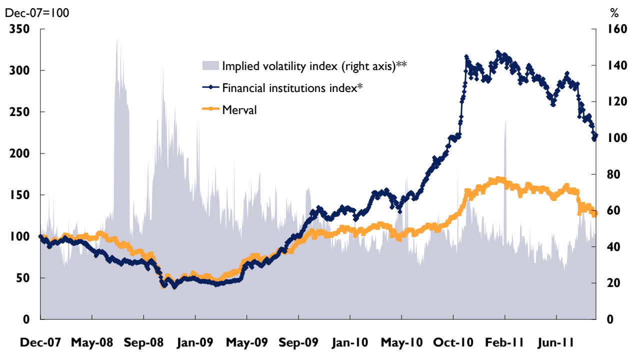
**Trading of Deferred Payment Checks**




Source: IAMC

**Chart II.20**

**Local Stock Market Evolution**




(*) Weighted average based on market capitalization
(**) Simple average of implied volatilities of the 3 main domestic equities in the stock index.
Source: BCRA based on Bloomberg data.

40% y.o.y., partly explained by the volume of financing for infrastructure works.

Continuing the trend in recent years, financial trusts remain the leading financing instruments on the capital market through the securitization of assets in relation to infrastructure works and sundry types of credit (personal loans and credit card coupons). Between January and August this year financing was obtained for highway works, residential housing construction, and electricity generation from the completion of thermal and nuclear power stations, for a total of almost $9.9 billion (see Chart II.2). Financial trusts not related to infrastructure have also continued to increase, with a reduction in yields being observed for placements in the first half of the year. The average weighted rate for senior security placements fell 60 b.p. between December 2010 and June 2011, despite the fact that the Private Bank BADLAR (reference rate for variable rate issues, very representative in this segment) fell 20 b.p. in the same period. Nevertheless, in the third quarter an increase in cut-off rates was observed as a result of an increase in the BADLAR rate.

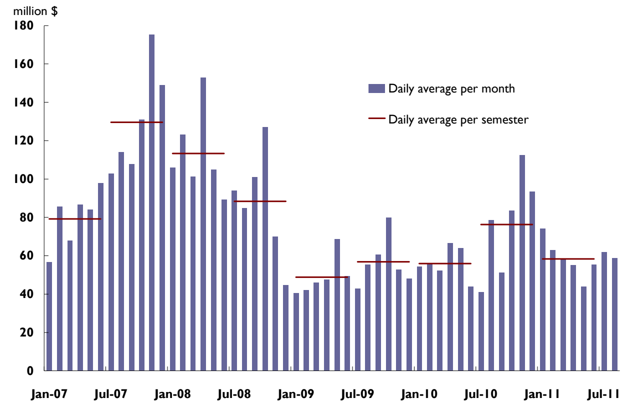
Although the international crisis hindered access by local companies to international debt markets, placements of corporate bonds on the domestic market continued at a sound rate. Companies borrowed more than $7.1 billion by this means in the first eight months of 2011[38] (see Chart II.18). Although some companies succeeded in borrowing on international markets in the first few months of the year, the deterioration in the situation led to some issues being postponed. During the period, deals by companies in the financial sector predominated, accounting for over 62% of the total amount. Domestic transactions included issues in pesos at variable rates for terms of between 1 and 2 years (although there were also transactions for 7 years) with spreads over Private Bank BADLAR of 2.9% to 3.2% for issues of greater credit quality (see Table II.1). In the case of fixed-rate issues in pesos, short-term series predominated, at interest rates of close to 13.5% for better credit quality issuers. There were four issues in dollars for significant amounts.

The volume of deferred payment checks negotiated on capital markets in the first eight months of the year was 28% higher than the amount placed in the same period of 2010 (see Chart II.19). Historically high trading volumes were recorded in several months of this year. Negotiation terms in the guaranteed check segment continued to lengthen, reaching record levels in excess of 180 days. The cost of this financing fluctuated in recent months.

[38] On both domestic and international markets.

Chart II.21

Equity Trading Volume

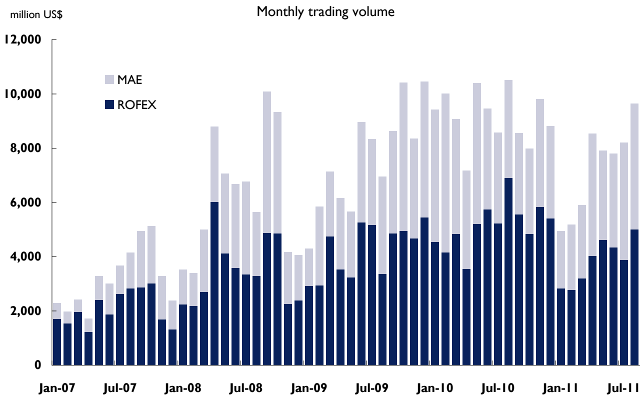



Source: BCBA

Chart II.22

Dollar Futures

Monthly trading volume




Source: ROFEX and MAE

While in the case of so-called sponsored checks rates tended downwards (offsetting the rises seen in the final months of 2010), in the case of guaranteed checks rates declined until the middle of the year, with a subsequent rise in the discount rates[39], so that in August last the differential between the guaranteed and sponsored rates reached its lowest level since April 2008. In addition, new SMEs joined the capital market during the first half of the year.

### *Performance by the Merval index was affected by the international situation*

After having set new records at the beginning of 2011 (in pesos and in dollars), since the beginning of February the Merval index has recorded a negative trend, with a more marked decline in August and September from the impact of the deepening crisis on global markets (see Chart II.20). As a result, through to mid-September the index was down 22% for 2011 in pesos, and 26% in dollars, with a more volatile performance in later months[40]. Declines were widespread across all sectors on the panel of leading stocks. In a context of increasing global uncertainty, trading volumes fell at the beginning of 2011, reversing the trend as from May (although remaining at depressed levels). As a result, in the first half of the year daily average share trading volume was $58 million, in line with the amount in the same period of the previous year, and lower than that in the second half of 2010, when the amount traded averaged $76 million (see Chart II.21).

Bank shares have posted across the board declines in the year to date, in line with financial entities throughout the region, after having recorded a positive performance that was better than that for other sectors in 2010.

### *The market for forward exchange rate derivatives has shown recovery*

After the drop in the first half of the year, in recent months exchange rate derivative volumes have recovered (see Chart II.22)[41]. On the Rofex the implicit rate for forward contracts (2nd. to 4th. maturity) recorded a downward trend until mid-April, when uncertainty on international markets became more acute.

In addition, trading in BADLAR rate futures has risen, with a significant reduction in the proportion of transactions carried out with the intervention of the

[39] In year-on-year terms there was a rise of 90 b.p. in the average weighted rate of guaranteed checks and a contraction of close to 100 b.p. in the case of sponsored checks.
[40] In the primary market there were two share subscription transactions for $210 million, whereas in 2010 five companies issued new shares for some $1.05 billion.
[41] In September to date there has been a sharp increase in the amounts traded on this market.

Central Bank as a neutral counterpart. On the matter of contract maturities, there has been a shortening of the terms traded, although the average term remained in line with the level recorded in the same period of 2010.

# III. Debtors Performance

## Summary


*In the first half of 2011, the economic activity experienced a high growth rate. Manufacturing and construction recorded high expansion levels, and they have stood out in the production of goods. Manufacturing companies showed increasing activity in a context of higher indebtedness level, channeled to the financing of working capital and new investments. In turn, construction companies also increased slightly their indebtedness on the margin, but from relatively low levels.*

*Farming sector recorded slightly lower activity levels against last year, mainly due to a drop in the agricultural yields of soybean and corn, and to a decreased production of bovines. However, the increase in international prices would have allowed preserving a profitability level similar to that of 2010, within a context of indebtedness levels that have kept the decreasing trends noticeable since 2010.*

*Trade, transportation and communications have experienced an improved activity level accompanying the increase in household spending, and keeping low indebtedness levels if compared to other production sectors. It is worth noting that domestic tourist activities were in part adversely affected by the volcanic ash in several regions of the country.*

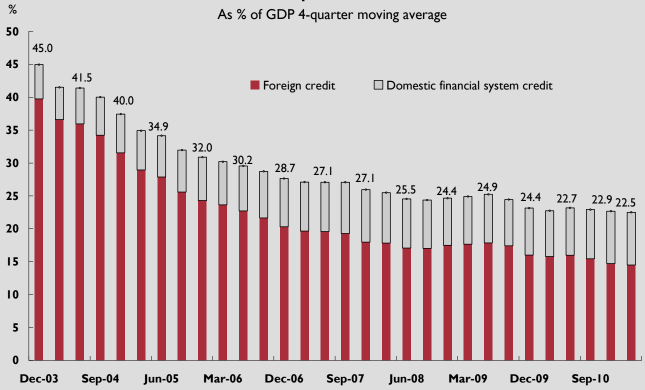
*In this context, during the first half of 2011, a consolidation of the economic and financial position of companies belonging to all productive sectors was noticeable, as evidenced by the adequate payment capacity of the corporate sector.*

*Likewise, households have continued increasing their sources of income, mainly due to the improved conditions of the labor market and to the income policies being implemented by the Argentine government. This framework has contributed to a gradual increase of indebtedness by households, though it is still low in historical terms and according to international standards.*

*Tax revenue and the spending of the non-financial public sector (NFPS) continued rising, while the primary result has kept a positive sign. A similar behavior is expected in the following months, in terms of both public sector revenue and spending, which would allow reaching a primary surplus once again. In turn, the national government has continued with its debt reduction policy with the private sector, meeting its financing needs through the use of intra-public domestic funds, a policy it would maintain in the remaining months of the year.*

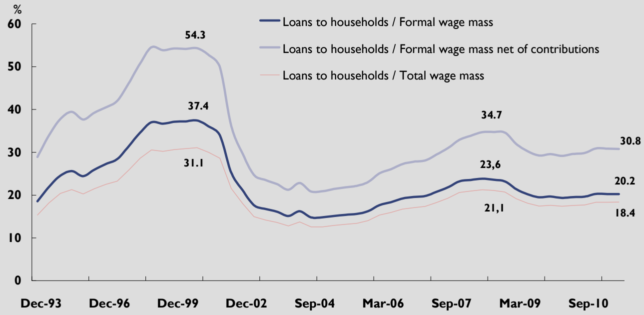
*For 2011, growth forecasts would still hold even though some deceleration is projected, as already signaled by some indicators of the economic activity, in line with the current situation of our main trade partners. In this context, the financial position of the different economic sectors would be sustained.*


**Chart III.1**
**Corporate Debt**
As % of GDP 4-quarter moving average




Note: Data subject to subsequent changes
Source: BCRA and INDEC

**Chart III.2**
**Household Debt Burden**
Wage mass - 4-quarter moving average

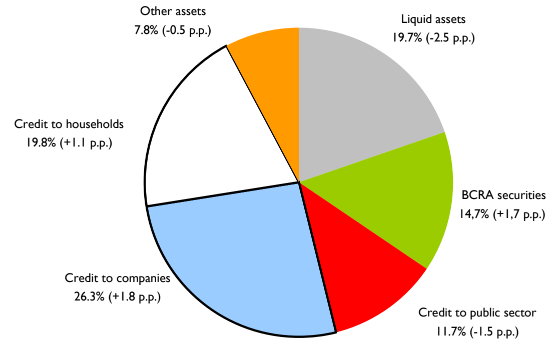



Note: Total wage mass is defined as those received by the labor force (formal + informal)
Note 2: Loans to households include financial system financing, financial trusts for comsuption loans as underlyng assets (credit cards and personal loans) and the stock of non-bank credit cards
Source: BCRA and INDEC

Chart III.3

**Financial System Asset Portfolio**

As % of netted assets - June 2011 - P.p. change respect to June 2010 between brackets

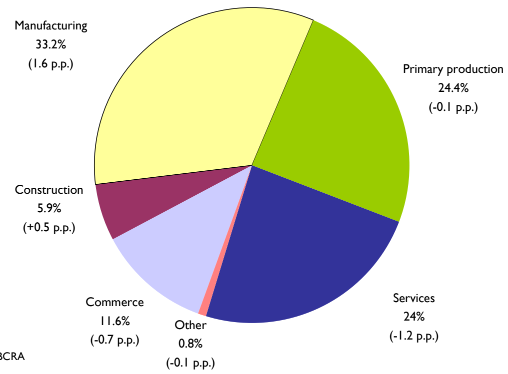



Source: BCRA

Chart III.4

**Composition of Corporate Loan Portfolio**

June 2011 - P.p. change respect to December 2010 between brackets

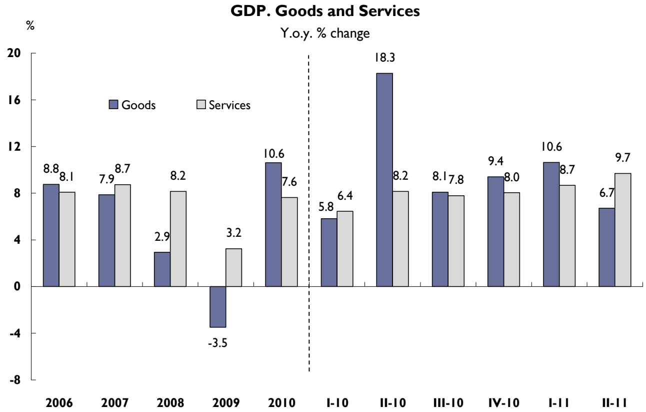



Source: BCRA

Chart III.5

**GDP. Goods and Services**

Y.o.y. % change




Source: INDEC

## III.1 Financial System Debtors

***In the first half of 2011, credits to the private sector have increased their weight on the financial system assets, with a remarkable growth of credit to companies***

In the first half of 2011, a sustained growth of financial intermediation with companies and households was noticeable (see Chapter IV), after the deceleration recorded in 2008/2009 as a result of the domestic impact of the international crisis. The significant momentum evidenced by loans to the private sector resulted in an increased depth in terms of the total assets of financial entities, reaching slightly over 46% (see Chart III.3). Lending to the corporate sector continues to exhibit a better relative performance; its share in the financial system assets has increased by 1.8 percentage points (p.p.) to 26.3% of the total lending, standing above household lending share increase in the same period (1.1 p.p. to 19.8% of the total). Manufacturing sector is consolidating its position as the economic sector receiving the largest part of banking resources, totaling 33.2% of the credit granted to companies (up 1.6 p.p. in the first half of the year) (see Chart III.4), followed by the primary production of goods.

Banks have continued to reduce their liquidity levels (which had gone up during the 2007/2008 international crisis) as well as their exposure to the public sector; as a result, there is now more room available to deepen the financing of household and corporate activities.

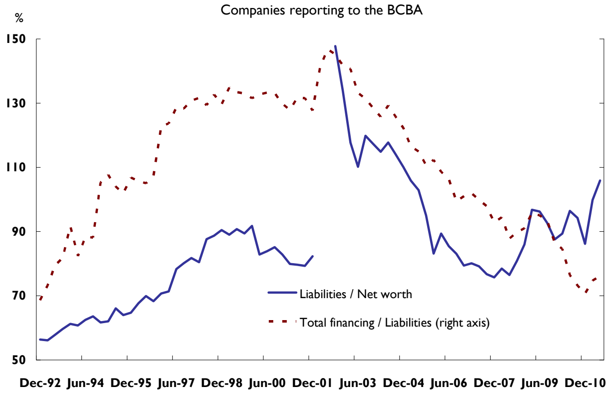
## III.2 Corporate Sector

***The corporate sector has kept its good financial position in 2011, mainly driven by its remarkable activity levels and low indebtedness***

GDP has expanded steadily in the first half of 2011. If we take into account the production of goods, manufacturing and construction have been the main drivers behind this growth. Meanwhile, the activity of the farming sector has been stagnant, since the slump experienced by agriculture has been offset by the increasing activity of the dairy and poultry product sectors.

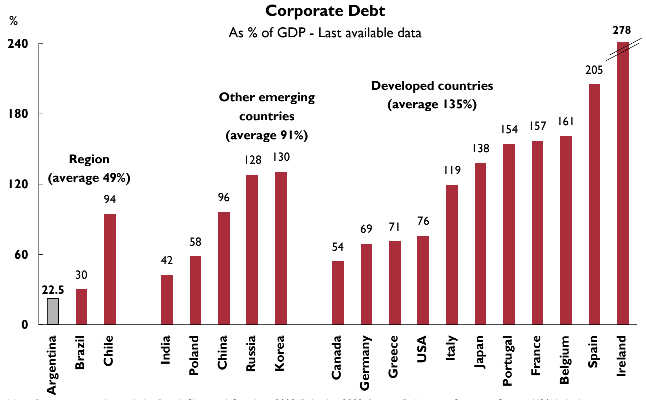
Service production has been on the rise during the first half of the year (see Chart III.5). The soaring manufacturing activity and the growing international trade led to a higher number of transactions, at both wholesale and retail levels, and boosted transport and communications, which added to a renewed momentum of corporate activities related to the real estate business.

**Chart III.6**
**Corporate Debt Burden**
Companies reporting to the BCBA



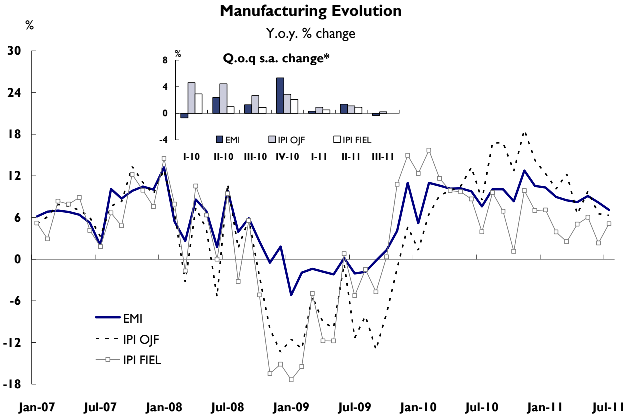

Source: BCRA from BCBA data

**Chart III.7**
**Corporate Debt**
As % of GDP - Last available data




Note: Data corresponding to India, Brasil, China and Canada at 2008; Poland at 2009; Russian Federation, Germany, Greece, USA, Italy, Japan, Portugal, France, Belgium, Spain and Ireland at 2010; other countries at 2011.
Source: IMF (Global Financial Stability Report -April 2011-); McKinsey Global Institute (2008) and Financial stability reports

**Chart III.8**
**Manufacturing Evolution**
Y.o.y. % change




Source: INDEC, FIEL and OJF

* III-11 data up to July

The corporate aggregate indebtedness has dropped gradually in recent months to approximately 22.5% of the output of the sector, down 0.7 p.p. against mid 2010 figures (see Chart III.1), with some heterogeneity among sectors. For the corporate sector as a whole, the non-resident financing sources have kept their declining trend, accounting for 64% of total indebtedness. For the subset of listed companies, a gradual increase in their leverage levels has been noticeable in recent months (see Chart III.6), hand in hand, at least in part, with the increase in liabilities with residents.

For the rest of 2011, the economic activity is expected to continue on the rise, within a context of a lower growth pace at global level in general and of our main trading partners in particular. This evolution, combined with low indebtedness by the corporate sector in both historical and international terms (see Chart III.7), would help to predict a consolidation of its economic and financial position, which will continue to be reflected in companies' good payment capacity.

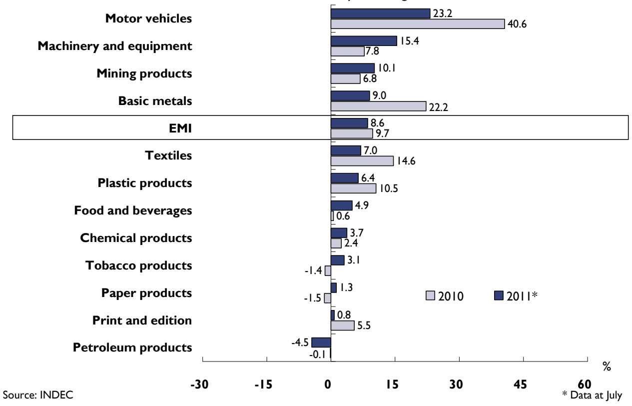
## *Productive Sectors*

***The sustained growth experienced by manufacturing companies would allow keeping a limited relative level of indebtedness, thus contributing to preserve their good payment capacity***

The manufacturing sector grew steadily in the first half of 2011. The rise in household spending and in exports has encouraged industrial companies to continue increasing their production levels (see Chart III.8).

A year-on-year (y.o.y.) growth has been noticeable in most manufacturing sectors during this six-month period (see Chart III.9). The automotive industry was the sector exhibiting the highest rise, reaching record production levels which were largely driven by sales to the domestic market and by exports, mainly to Brazil. The remaining sectors of the metal-mechanical industry have also shown a marked momentum, with an increasing production of machinery and equipment, auto-parts as well as electric and electronic devices. Non-metal minerals have stood among the sectors with the highest growth pace, reflecting the good performance of the construction business. Production has also improved in base metal industries, especially iron and steel, as well as in textiles, though at a slower pace if compared to 2010. In turn, the food industry has kept its positive trend, driven by the increase in grains and oilseed milling activities and in the manufacturing of dairy

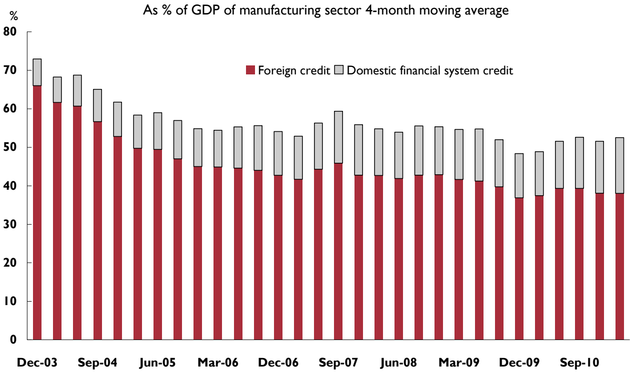
**Chart III.9**
**Industry. Sectorial Evolution**
Y.o.y. % change




Source: INDEC

* Data at July

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




Note: Data subject to subsequent changes
Source: BCRA and INDEC

**Table III.1**
**Grain Production**

| | 2008-09 thousand tns | 2009-10 thousand tns | 2010-11 thousand tns (preliminary) | Change %2010-11 vs. 2009-10 | Diff. in thousand tns 2010-11 vs. 2009-10 |
|---|---|---|---|---|---|
| **Cereals** | **26,740** | **38,027** | **46,630** | **22.6** | **8,603** |
| Corn | 13,121 | 22,680 | 21,900 | -3 | -780 |
| Wheat | 8,373 | 8,750 | 14,720 | 68 | 5,970 |
| Sorghum | 1,752 | 3,630 | 4,470 | 23 | 840 |
| Other | 3,494 | 2,967 | 5,540 | 87 | 2,573 |
| **Oilseeds** | **34,222** | **55,724** | **53,207** | **-5** | **-2,517** |
| Soybean | 31,000 | 52,680 | 48,800 | -7 | -3,880 |
| Sunflower | 2,450 | 2,320 | 3,560 | 53 | 1,240 |
| Other oilseeds | 772 | 724 | 847 | 17 | 123 |
| **Other** | **702** | **1,098** | **1,350** | **23** | **252** |
| **Total** | **61,664** | **94,849** | **101,187** | **6.7** | **6,338** |

Source: BCRA from MAGyP data

products and beverages, while the production of beef meat has gone down once again.

The Use of Installed Capacity (UIC) was on the rise and broke a new record in the first half of the year, supporting the evolution of the manufacturing activity. On a sector-by-sector basis, the metal-mechanical industry, non-metal minerals and automobiles were the activities that recorded the highest increases in UIC in the 2011 accumulated figure, which would be signaling the need for additional investments in these sectors to continue boosting their production rates.

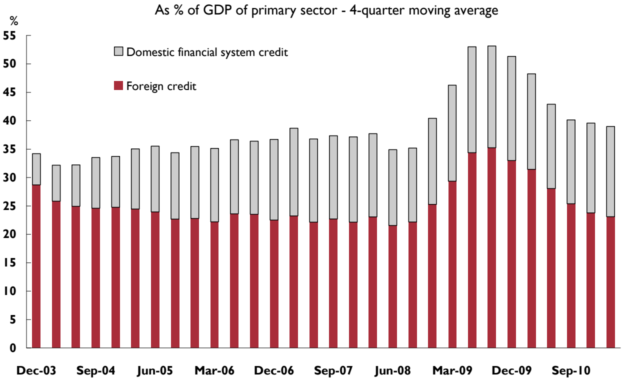
The estimated indebtedness of the manufacturing companies has gone up slightly in recent months, reaching around 52.5% of its output (see Chart III.10), up 1 p.p. against the figure recorded in mid 2010. It is worth mentioning that non-residents financial resources have continued to lose ground and accounted for 72% of total indebtedness, below the values of previous years. This increased total indebtedness is in line with the remarkable performance of manufacturing activities and the rise in UIC, since these factors force companies to require more financing both to meet their working capital needs and to make the investments which are essential to expand their productive capacity.

For the rest of the year, the increase of demand would continue driving manufacturing production, even though the impact of a decelerated world economic activity and of a lower growth in Brazil should not be disregarded. The industrial sector's companies would keep their indebtedness levels in line with the current values or with slightly higher values on the margin, thus preserving their good payment capacity.

***The primary sector activity continues to be on the rise, though with some heterogeneity among sub-sectors. Indebtedness levels are falling on the margin which, added to the favorable perspectives for the remaining months of the year, would sustain the financial position of this sector***

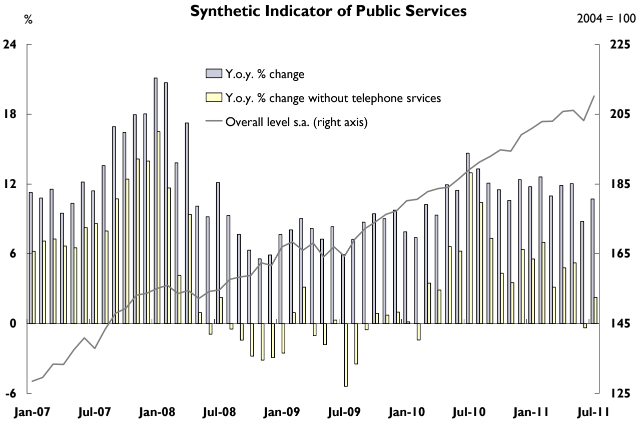
The agricultural production of the 2010/2011 cycle broke a new record and exceeded 100 million tons (see Table III.1). The reason behind the improved performance of this sector is mainly the increase in wheat production (68.2% y.o.y.), after reaching its maximum historical yields. In turn, corn and soybean harvests declined in this cycle against the values of the previous one; the highest impact of this drop on the agricultural sector was noticeable in the second quarter of the year. The unfavorable climate conditions, with rainfall below the regular patterns, adversely affected the yields of these crops. Despite this drawback, the

Chart III.11
Primary Sector Debt
As % of GDP of primary sector - 4-quarter moving average




Note: Data subject to changes
Source: INDEC and BCRA

Chart III.12
Synthetic Indicator of Public Services




Source: INDEC

international price levels continued to favor the profitability and balance sheet position of the sector.

On the other hand, the cattle-breeding sector has had a mixed performance in terms of its activity level. While beef meat slaughtering retreated once again in the first half of 2011, new increases were recorded in the production volumes of dairy and poultry products. The decrease in bovine slaughtering was mainly due to the low number of animals available for the slaughterhouses and to the animal retention process by producers to start the new production cycle and recover the capital stock, within a context of increasing prices. Simultaneously, poultry supply increased by 11% y.o.y. as from the replacement of beef cattle consumption, while dairy products accumulated a 16% y.o.y. increase.

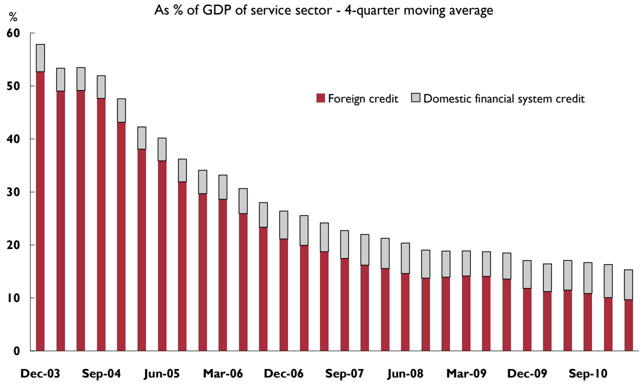
The indebtedness of primary sector companies consolidated its declining trend in the first months of 2011, in line with the trend observed throughout 2010, after the significant rise of late 2008 and a good part of 2009 resulting from the drop in the output of the sector and a higher weight of the indebtedness with non-residents (within a context of an increasing peso-dollar exchange rate at the time). Thus, the indebtedness of this corporate sector reached 39% of the output of the sector (see Chart III.11), with a drop of nearly 4 p.p. since mid 2010. Towards the future, the sector’s leverage might go up slightly due to a greater need for working capital within a still favorable economic and financial context which contributes to the good payment capacity exhibited by primary sector firms.

### *The payment capacity of service companies is improving in line with the thriving activity of this sector and its low indebtedness levels*

The demand for public services has expanded markedly in the first half of 2011, driven by the increase in household spending, a higher manufacturing activity and the good performance of international trade (see Chart III.12).

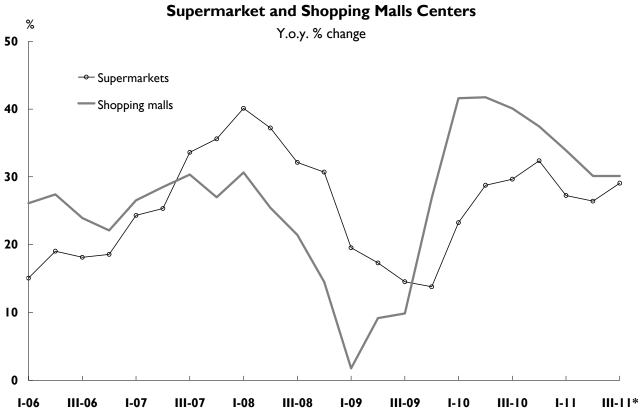
Communications was the sector recording the highest growth rate in this six-month period and became the main driver of the service sector, underpinned by the increase in mobile telephony and, to a lesser extent, fixed telephony. Passenger transportation has risen once again due to enhanced tourist activities, even though some retraction was noticeable in recent months as a result of the volcanic ash effects in several regions of the country. The circulation of vehicles along toll roads gained momentum, with a marked increase in the circulation of light vehicles.

Chart III.13
Service Sector Debt
As % of GDP of service sector - 4-quarter moving average




Note: Data subject to change
Source: INDEC and BCRA

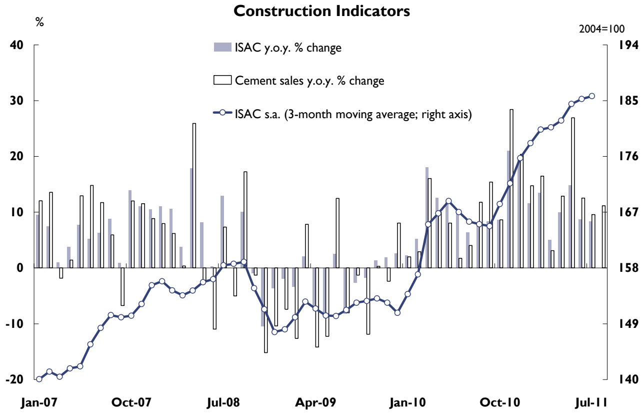
Chart III.14
Supermarket and Shopping Malls Centers
Y.o.y. % change




Source: INDEC

* III-11 data at July

Chart III.15
Construction Indicators




Source: INDEC and AFCP

In turn, cargo transportation went down despite the improved performance of industrial activity. The reason behind the drop might be related to the lower activity level recorded in soybean and corn harvest and in the livestock sector, which resulted in a reduced trading flow of these products to both the domestic and international markets.

Service companies' indebtedness, one of the lowest across all sectors, maintained its downward trend in the first months of 2011, accounting for 15.3% of the sector GDP (see Chart III.13) and down 1.8 p.p. against the values recorded in mid 2010. On a gradual basis, domestic indebtedness continues to increase its share (now accounting for approximately 37% of total indebtedness). These developments, combined with the expected positive performance of this sector in the remaining months of 2011, contribute to consolidate the financial soundness of service companies and consequently their payment capacity.

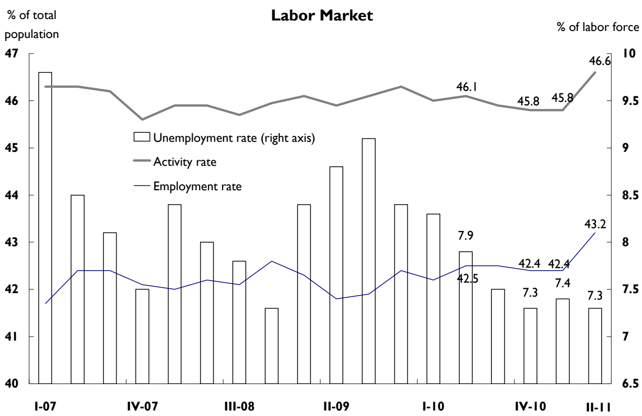
***Commercial companies are sustaining their growth within a context of low indebtedness levels that contributes to consolidate their good economic and financial position***

Sales at supermarkets and malls continued to grow steadily in the first half of 2011, though at a slower pace than in 2010 (see Chart III.14). This positive performance was underpinned by promotion campaigns and financing plans implemented by financial entities jointly with the commercial stores, and by the existing financing options provided by banks. Durable good purchases were also on the rise. In particular, automobile sales to the domestic market grew remarkably in 2011, while the sales of household appliances and home products have also had an improved performance. Within this promising context, the commercial sector companies increased their indebtedness levels moderately in the first months of the year up to almost 17.5% of the GDP of the sector, with similar weightings for domestic and external financing. Thus, the companies of this sector are able to sustain their good financial position.

For the rest of 2011, the retail sector is expected to continue with its remarkable expansion pace, underpinned by the sustained increase of households' income and spending, in a low-indebtedness context that will allow them to keep their already-sound financial position.

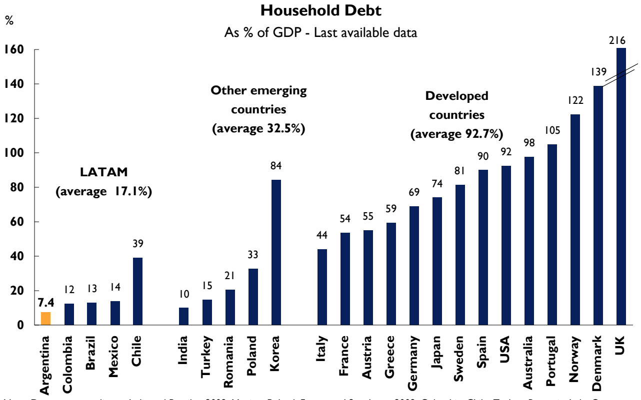
***The construction activity improved remarkably in 2011, with a gradual increase in indebtedness, though from relatively low levels***

Chart III.16
Labor Market



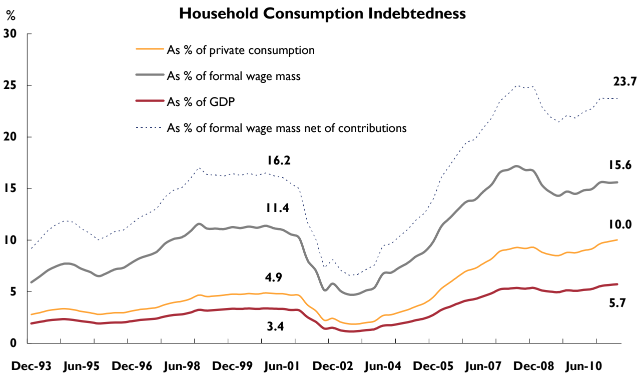

Source: INDEC

Chart III.17
Household Debt
As % of GDP - Last available data




Note: Data corresponding to India and Brazil at 2008; Mexico, Poland, France and Sweden at 2009; Colombia, Chile, Turkey, Romania, Italy, Germany, Japan, Spain and UK at 2010; other countries at 2011.
Source: IMF (Financial Soundness Indicators); McKinsey Global Institute (año 2008); Financial Stability Reports and BCRA

Chart III.18
Household Consumption Indebtedness




Note: Total wage mass is defined as those received by the labor force (formal + informal)
Note 2: Loans to households include financial system financing, financial trusts for consumption loans as underlying assets (credit cards and personal loans) and the stock of non-bank credit cards
Source: BCRA and INDEC

The construction activity gained momentum in 2011 and grew at 2-digit rates, being one of the driving forces of the economic activity during the first half of the year (see Chart III.15). The expansion was widespread and reached all the segments of this sector. Public constructions recorded a significant upward trend. Within private works, oil-related constructions stand out because of their magnitude, but the higher number of housing start-ups and commercial and industrial properties is also remarkable. Building companies continue to have the lowest indebtedness levels (with both residents and non-residents), reaching approximately 15.1% of the output of the sector, though recording a gradual increase in the last quarters.

The favorable performance of the sector is expected to continue in the second half of the year, with a widespread increase of all segments, which would contribute to sustain its payment capacity.

## III.3 Households

***Households' income continued to be on the rise in 2011, underpinned by a robust labor market and active income policies, which have impacted positively on this sector's payment capacity***

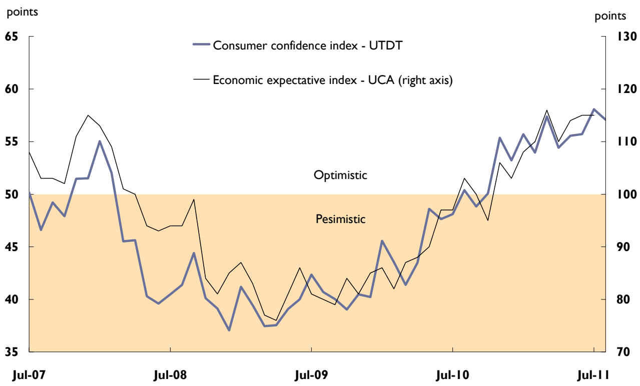
The employment rate has grown sharply in the first half of the year, with an improvement in the quality of job creation: a rise in full-time jobs and a drop in the underemployment rate (see Chart III.16). This context gave support to wage improvements, resulting in a high increase of the wage mass in GDP terms.

Public policies continued reinforcing households' income rises. During this six-month period, transfers for family allowances were also on the rise, including the Universal Child Allowance for Social Protection (AUH), which extended its coverage to pregnant women. At the same time, retirement and pension benefits also recorded increases. Another factor contributing to the improvement of the available income was the increase of the minimum taxable income of the income tax for individuals.

In this context, loans to households continued to grow in this six-month period, resulting in a gradual increase of households' total indebtedness level (see Chart III.2). Thus, by mid year, households' debt accounted for 20.2% of the formal wage mass[42] on average of the last four quarters, which entails a positive variation of 0.7 p.p. in year-on-year terms, even though it has accumulated a slight decline so far this year. In terms of

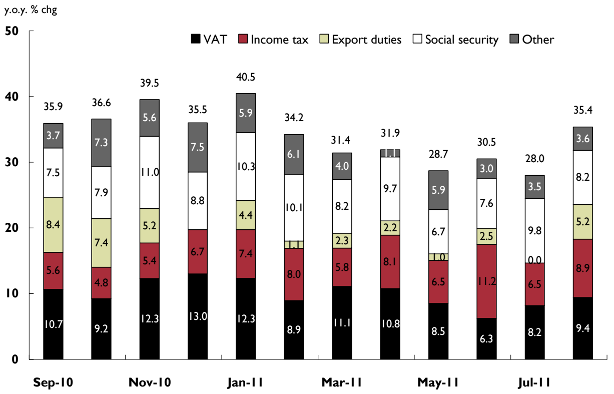
[42] Collected by registered workers.

**Chart III.19**
**Consumer Confidence**



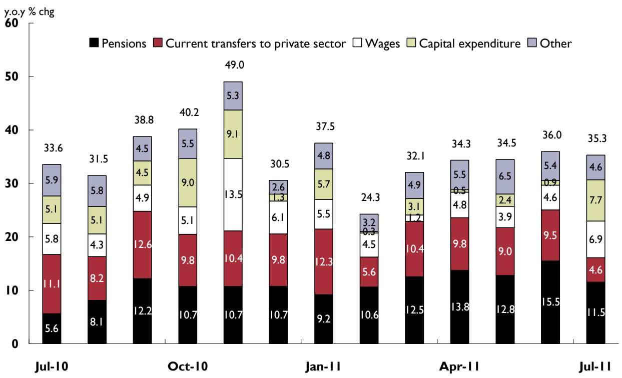

Source: Universidad Torcuato Di Tella (UTDT) and Universidad Católica Argentina (UCA)

**Chart III.20**
**Share in National Tax Revenues**




Source: BCRA from Treasury Secretariat and Indec data

**Chart III.21**
**Contribution to Primary Expenditure Growth of the NFPS***




*Non-Financial National Public Sector
Source: BCRA from Treasury Secretariat and INDEC data

the formal wage mass netted of employees' and employers' contributions to social security, the indebtedness level has reached 30.8%, up 1.2 p.p. in the last 12 months and with a slight decline in the first half of 2011. Despite this slight increase in households' indebtedness levels, they continue to be below the values recorded by late 2008 and, especially, quite below the maximum domestic values recorded throughout the year 2000, and also below international standards (see Chart III.17).

This moderate increase in households' debt levels continues to be driven mainly by the momentum of credit lines for consumption (personal loans and credit cards) (see Chart III.18). They account for approximately 75% of households' total indebtedness, while keeping low delinquency rates (see Chapter V).

The favorable outlook of the macroeconomic conditions for the next months, added to the positive evolution of households' income within a context of low indebtedness levels, both in historical terms and according to international standards, have taken consumers' confidence to one of the maximum peaks of recent years. This would be signaling that consumption will sustain its increasing trend in the remaining months of the year (see Chart III.19), within a context of good payment capacity by households.

## III.4 Public Sector

***Tax revenue and primary spending have kept their rising trend so far this year, while primary result remained with a positive sign***

In the first eight months of the year, tax collection has recorded a 32% y.o.y. nominal increase, mainly driven by the Value Added Tax (VAT), the resources from Social Security and the Income Tax (see Chart III.20). Thus, the tax revenue accumulated in the last 12 months has totaled approximately 29% of GDP[43], breaking a new historical record. Tax revenue from sub-national sources has followed a similar evolution, with an inter-annual variation rate for the yearly accumulated figure over 30%[44]. Tax revenue is expected to continue increasing during the next months at a similar pace than that shown so far this year.

The Non-Financial Public Sector (NFPS) primary spending grew 34% y.o.y. between January and July, slightly exceeding revenue growth (29% y.o.y.). This higher spending was mainly driven by Social Security

[43] For a more detailed analysis of the Public Sector revenue and spending, see the Inflation reports of the second and third quarters of 2011.
[44] On average, there is monthly information available about 16 jurisdictions which surveys around 90% of the total in the last 12 months.

payments, current transfers to the private sector and wages of government employees (see Chart III.21). Thus, primary expenditures accumulated in the last 12 months have reached a historical maximum of 30.4% of GDP[45]. For the remaining months of the year, spending is expected to keep a similar momentum than that recorded in the first seven months of the year.

The NFPS primary result accumulated in the January-July period amounted to $11.28 billion[46] accounting for around 1.3% of GDP in the last 12 months (see Chart III.22). It is expected to keep a positive sign throughout 2011. Meanwhile, interest payments accounted for 1.4% of GDP in the last 12 months.

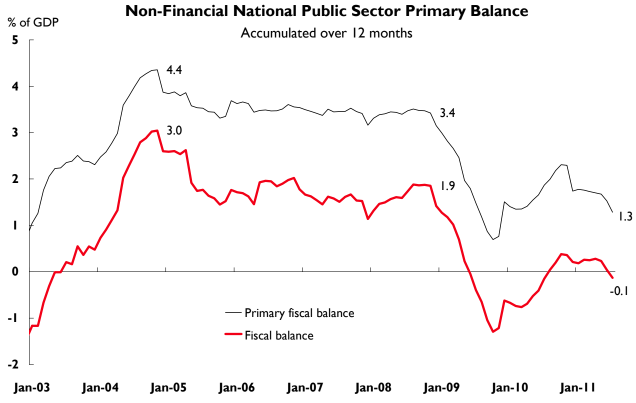
***The national government has strengthened its policy of debt reduction with the private sector***

The National Treasury met its financing needs mainly through the use of intra-public sector domestic funds, a strategy that would be replicated during the rest of the year. Debt maturities with international organizations and private debt holders continued to be serviced with international reserves of free availability and, between January and August, 66% of the funds allocated to meet these obligations were used. The Banco de la Nación Argentina (BNA) has financed the National Treasury (TN) in net terms for $3 billion. In addition, the National Social Security Administration (ANSeS) bought TN debt instruments.

Within this framework, the National Public Debt, which excludes the portion not submitted to 2005 and 2010 swaps (holdouts), reached US$173.15 billion by March 2011, down to 45.9% in GDP terms. Only 36% of the debt (16.6% of GDP) corresponds to obligations with the private sector, a situation that entails a low refinancing risk. The remaining portion of the National Public Debt is mainly related to the debt with the intra-public sector and international organizations (see Chart III.23).

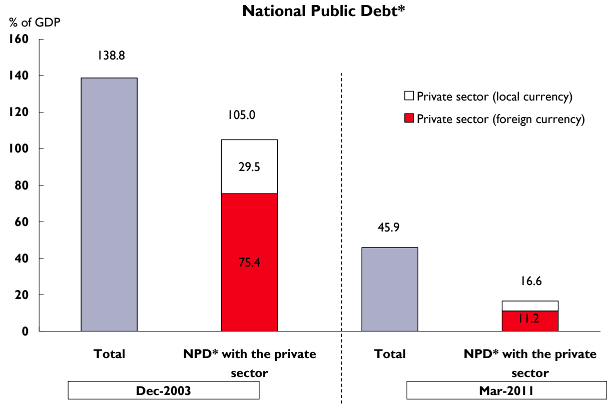
Lastly, in relation with the financial needs of the provinces, the Province of Neuquén has issued instruments in the market (backed by oil royalties) for US$260 million, with an 8% annual yield at a 10-year term, while in July the Province of Buenos Aires made a new issue for US$250 million, with a 10.9% yield at a 4-year term (which added to the issue made in January for US$750 million). Thus, both provinces have issued a total of US$1.26 billion so far this year (see Table III.2),

**Chart III.22**
**Non-Financial National Public Sector Primary Balance**
Accumulated over 12 months




* Cash basis
Source: BCRA from Treasury Secretariat and INDEC

**Chart III.23**
**National Public Debt***




*Excluding holdouts
Source: BCRA from Ministery of Economy and Public Finances, and INDEC data

**Table III.2**
**Debt Placements of the Subnational Juridictions in the Market**
(million US$)

| Date | Jurisdiction | Amount (cash value) | Currency | Yield | Term (year) | Structure |
|---|---|---|---|---|---|---|
| Mar-10 | CABA | 475 | US$ | 12.50% | 5 | Bond |
| Aug-10 | Córdoba | 400 | US$ | 12.37% | 7 | Bond |
| Aug-10 | Chubut | 150 | US$ | 9.75% | 10 | Trust fund |
| Sep-10 | Prov. Buenos Aires | 550 | US$ | 12.00% | 5 | Bond |
| Oct-10 | Córdoba | 196 | US$ | 11.72% | 7 | Bond |
| Oct-10 | Prov. Buenos Aires | 250 | US$ | 11.50% | 5 | Bond |
| Jan-11 | Prov. Buenos Aires | 750 | US$ | 11.25% | 10 | Bond |
| Apr-11 | Neuquén | 260 | US$ | 8.00% | 10 | Bond |
| Jul-11 | Prov. Buenos Aires | 250 | US$ | 10.88% | 4.2 | Bond |

Source: Bloomberg

[45] It includes the Federal Tax-Revenue Sharing Systems, special laws and other concepts automatically related to the provinces.
[46] Between January and July, 2011, the BCRA transferred to the National Treasury $4.97 billion as earnings and contributions.

and some jurisdictions are expected to have access to this type of financing in the remaining part of 2011.

# IV. Financial Sector

## Summary

*In line with the positive financial and economic perspectives of the domestic context, which are opposite to what is going on in the most developed countries, the financial system intermediation activity over the first half of 2011 continued accelerating its expansion pace exhibiting a performance similar to the one observed prior to the international crisis. On the other hand, the volume of the portfolio of institutional investors remained increasing albeit at a pace gradually lower than that of previous periods.*

*Loans to companies over the first part of the year accounted for most of the growth of total lending to the private sector. These loans increased at a higher pace than that of loans granted to households (and even than that of those specifically aimed at financing consumption) for the second consecutive six-month period. The expansion pace of loans related to the manufacturing sector through out 2011 should be highlighted; it was also the activity recording the greatest share in the rise of lending to the corporate sector over the six-month period. The renewed momentum of pledge-backed loans amongst lending to households should be noted.*

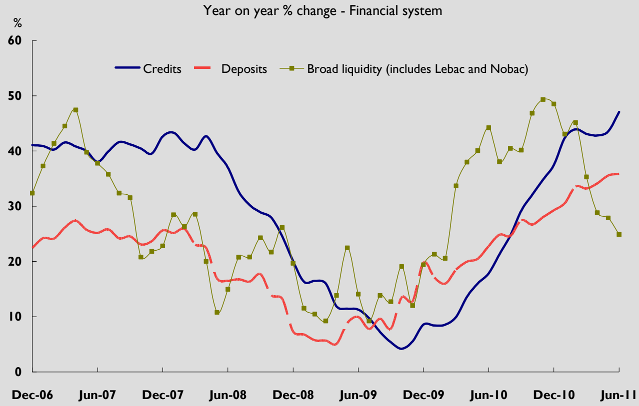
*Total deposits continued growing at a good pace over the first half of 2011. Unlike what happened during the same period in 2010, this rise was led by private sector deposits, which recovered the momentum observed for years prior to the international financial crisis, gaining weighting in total funding. These deposits were boosted both by deposits in pesos and in foreign currency.*

*Financial system kept high solvency indicators over this period. Thus, net worth of the financial system evidenced a growth pace greater than the one recorded during the first part of 2010, influenced by profits mainly and, to a lesser extent, by capital contributions, although the decision to allocate dividends by some entities eased this rise. Within the framework of sustained credit growth, capital compliance in terms of risk weighted assets (RWA) of the financial system fell slightly down to 16.5%. Nevertheless, all bank groups continued exhibiting some surplus in the regulatory capital position.*

*During the first half of the year, the financial system obtained profits in excess of those recorded over the same period in 2010 in terms of assets, and the performance of public banks should be noted. The year-on-year (y.o.y.) increase for the entire financial system was accounted for by fewer operating costs and loan loss provisions in relation to assets as well as by greater income derived from securities. Interest income consolidated its greater share amongst the different income lines of the balance sheet.*

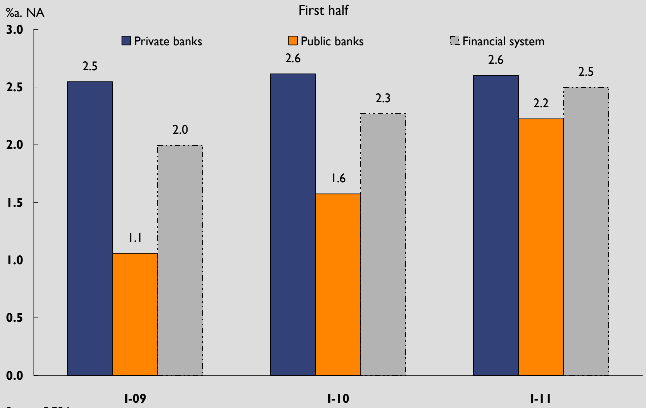
*The financial system is expected to sustain its solvency levels over the second half of the year. Banks would end 2011 with profits coupled with more stable income (income from interest and service) although some volatility in some headings of the income statement, like those from securities, partly affected by the impact of fluctuations in international markets could be observed.*

**Chart IV.1**
**Financial Intermediation with the Private Sector**
Year on year % change - Financial system




Source: BCRA

**Chart IV.2**
**Profitability by Group of Banks (ROA)**
First half




Source: BCRA

## IV.1 Financial entities[47]

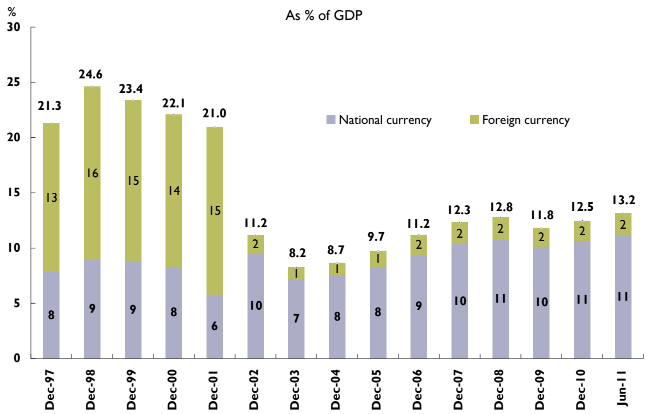
### *Activity*

**Table IV.1**
**Balance Sheet**
Financial system - As % of netted assets

| | Jun-10 | Dec-10 | Jun-11 | Change in p.p. | | Stock variation | |
|---|---|---|---|---|---|---|---|
| | | | | IH - 11 | Y.o.y. | IH - 11 (%a.) | Last 12 months (%) |
| **Assets** | 100 | 100 | 100 | | | | |
| Liquid assets | 25 | 22 | 20 | -2.5 | -5.0 | -1 | 4 |
| BCRA securities | 11 | 13 | 15 | 1.7 | 3.5 | 60 | 70 |
| Credit to the public sector | 14 | 13 | 12 | -1.4 | -2.6 | 0 | 7 |
| Credit to the private sector | 41 | 43 | 46 | 2.9 | 5.1 | 44 | 47 |
| Principal | 40 | 42 | 45 | 3.0 | 5.2 | 44 | 47 |
| Interests | 1 | 1 | 1 | 0.0 | 0.0 | 17 | 25 |
| Other assets | 9 | 9 | 8 | -0.7 | -1.1 | 8 | 14 |
| **Liabilities + Net Worth** | 100 | 100 | 100 | | | | |
| Public sector deposits | 25 | 25 | 24 | -0.6 | -1.1 | 20 | 25 |
| Private sector deposits | 54 | 54 | 56 | 1.8 | 2.3 | 35 | 36 |
| Outs. bonds, sub. debt and foreign lines of credit | 2 | 2 | 2 | 0.4 | 0.1 | 79 | 37 |
| Other liabilities | 7 | 8 | 7 | -0.9 | -0.4 | -3 | 23 |
| Net worth | 11 | 11 | 11 | -0.6 | -0.6 | 13 | 23 |

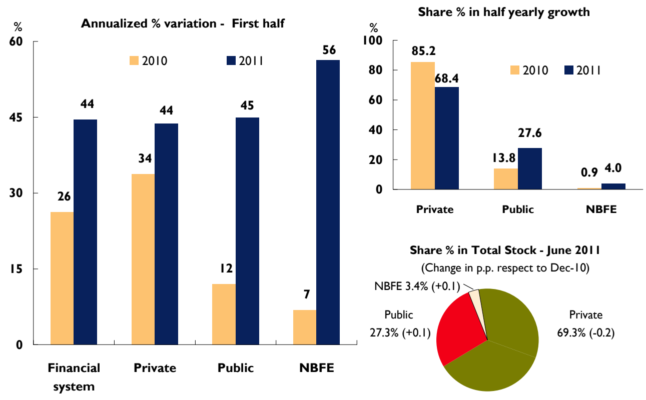
Source: BCRA

**Chart IV.3**
**Credit to the Private Sector**
As % of GDP




Source: BCRA and INDEC

**Chart IV.4**
**Credit to the Private Sector by Group of Financial Entities**




Source: BCRA

***The performance of financial intermediation activity continued improving over the first part of 2011***

In line with the positive financial and economic perspectives of the domestic context, banks' intermediation activity with the private sector over the first half of the year remained accelerating its expansion pace, exhibiting a dynamics similar to the one recorded before the international crisis. Both bank lending to the private sector as well as its deposits raised their growth rate over the last months within a framework where the rise of the portfolio of assets with greater liquidity moderated (see Chart IV.1).

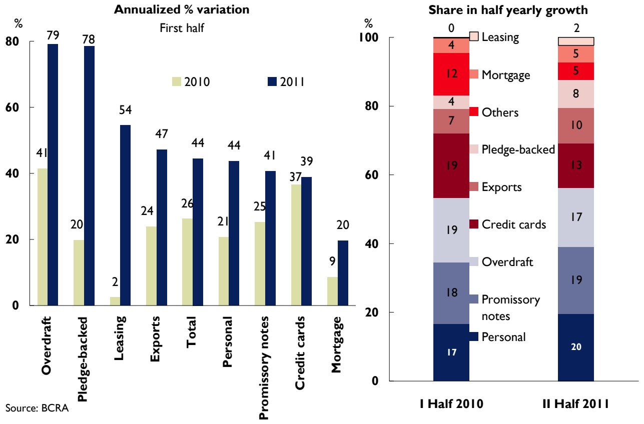
Consolidated and netted assets[48] of the financial system rose 26% annualized (a.) during the first half of the year (30% year-on-year –y.o.y.-), driven both by public and private banks. Lending to the private sector climbed 44%a. over the same period (18 p.p. higher than the figure recorded over the same period last year) and accumulated a 47.1% y.o.y. growth.

Thus, lending to the private sector gained share in financial system assets up to a level of 46%, the maximum value observed in the last 10 years. On the other hand, greater liquidity assets reduced their relative relevance in assets during the first six months of the year (see Table IV.1).

Within this framework, bank lending to the private sector[49] accounted for 13.2% of GDP by mid-2011, 0.7 p.p. higher than at the end of 2010. This ratio –credit to the private sector in relation to GDP– is still below the figure recorded in other countries within the region thereby exhibiting the ample development potential of domestic bank financing to the private sector. At a local level, although credit depth in the economy has risen almost 5 p.p. since late 2003, it is still below the values registered before the 2001-2002 crisis (see Chart IV.3). Nevertheless, unlike the situation observed more than a decade ago, loans in foreign currency remain at reduced levels and are only channeled towards debtors with income in the same currency and this is a significant strength for the domestic financial system as it minimizes peso-dollar exchange rate volatility impacts.

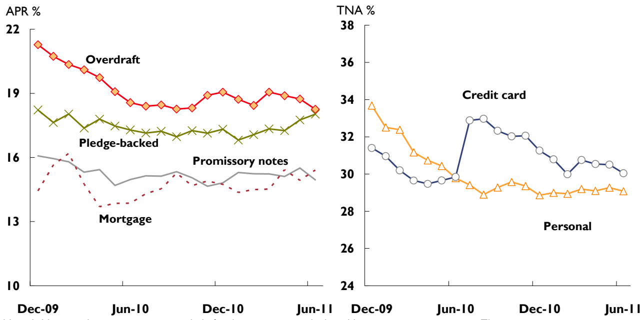
[47] The analysis of this section includes financial entities supervised and regulated by the BCRA exclusively (Law N° 21.526).
[48] Unless otherwise stated, every time reference is made to assets and liabilities in this section, netted and consolidated concepts will be used; netted of accounting duplications generated by repo, forward, and cash transactions to be settled, and consolidated for transactions amongst financial entities.
[49] It includes credit lines in pesos and in foreign currency, as well as leasing.

**Chart IV.5**
**Credit to the Private Sector by Type of Line**



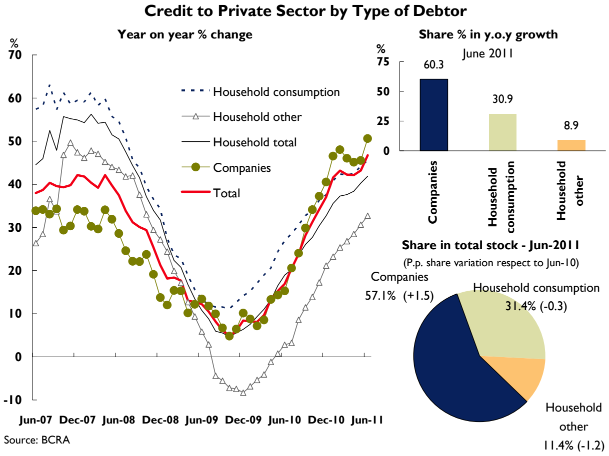

Source: BCRA

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




Note 1: Mortgage loans interest rates include fixed interest rate and adjustable interest rate operations . The promissrory notes includes only those single signature.
Note 2: From July 2010 was conducted a methodological change in the SisCen information source.
Source: SISCEN and BCRA

**Chart IV.7**
**Credit to Private Sector by Type of Debtor**




Source: BCRA

The increase of loans to the private sector during the first half of 2011 was generalized amongst entities (85% of them raised the balance, exceeding the number recorded over the same period last year) which was reflected in a positive evolution in all homogeneous entity groups. Public and private banks evidenced a similar growth rate in credit and, in both cases, it was higher than the one recorded during the same period in 2010 (see Chart IV.4). Private entities were the ones that contributed the most to the increase in the balance of this segment over the first part of the year whilst public banks doubled their share in growth in y.o.y. terms.

The expansion of the total balance of financing to the private sector during the first six months of 2011 was generalized amongst credit lines. Overdrafts, pledge-backed loans, leasing and exports were the lines with the greatest expansion pace over the first half of the year and contributed with 37% of the rise in the total balance of financing to the private sector over the period (see Chart IV.5). Promissory notes and personal loans exhibited growth rates that were slightly lower than the average.

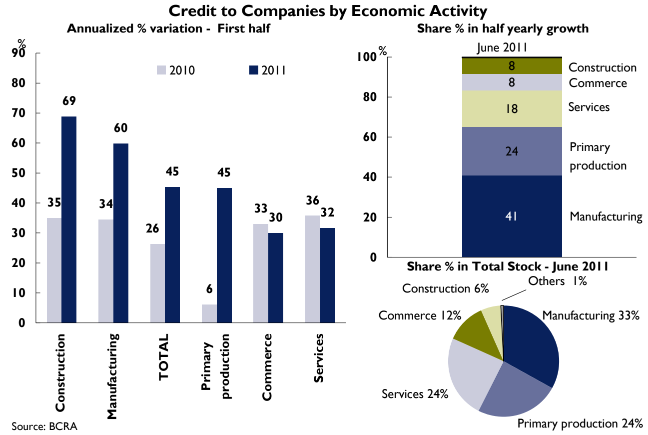
In this context, interest rates charged on loans to the private sector evidenced different performances over the first six months of the year, with a sharp reduction in the cost of credit cards and overdrafts and some rises in the case of personal loans and lending with real collateral whilst promissory notes did not show significant changes (see Chart IV.6).

***Loans granted to corporations continued accounting for the greatest share of the growth of total lending to the private sector over the first half of the year***

Lending channeled to corporations rose 45%a. over the first half of the year exceeding the growth pace of loans to households and even that of credits specifically aimed at consumption, for the second consecutive six-month period. It should be noted that the greatest relative hike of loans granted to corporations against that aimed at consumption is a sustained phenomenon that has been evidenced for the first time since the expansion pattern of lending was recovered following the 2001-2002 crisis. Loans granted to the corporate sector rose 50.6% over the last 12 months accounting for 60% of the y.o.y. expansion of the balance of financing to the corporate sector and even increasing their share up to 57.1% of the total (see Chart IV.7).

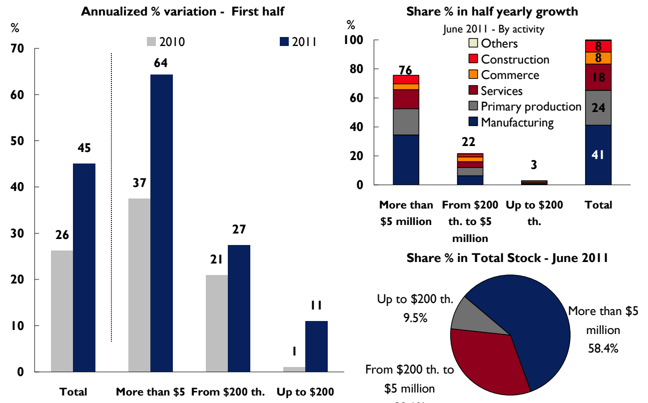
Loans granted to the construction and manufacturing sectors over the first half of 2011 were the most

**Chart IV.8**
**Credit to Companies by Economic Activity**



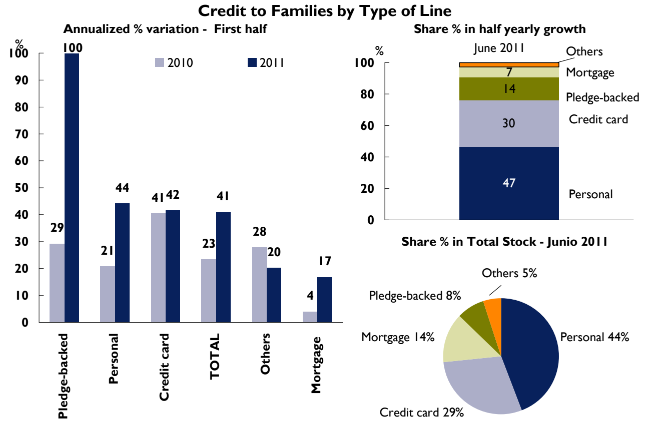

Source: BCRA

**Chart IV.9**
**Credit to Companies by Residual Stock Range**




Source: BCRA

**Chart IV.10**
**Credit to Families by Type of Line**




Source: BCRA

dynamic (see Chart IV.8), in a context where most productive sectors recorded a hike in the growth rate of lending in y.o.y. terms. Manufacturing should be highlighted as the activity with the greatest share in the expansion of lending to corporations over the first six months of the year (see Box 3). Together with primary production and services, they continued being the activities with the greatest share in the total balance of financing to the corporate sector (accounting, as a whole, for 81% of the total).

An increase in the expansion pace of all segments of the residual stock of financing to corporations was observed over the first half of 2011 comparing to the same period of 2010 (see Chart IV.9). Loans of a relative larger amount (in excess of $5 million) were the most dynamic and accounted for almost 76% of the growth of lending to the corporate sector, and they were mainly channeled to manufacturing and the primary sector. The rest of the increase corresponded to the smaller segments, which was distributed similarly amongst the various productive activities.

Within the framework of the Bicentenary Productive Financing Program[50], the purpose of which is to grant funding in pesos to financial entities to generate loans aimed at investments, the BCRA has already conducted 8 fund auctions[51]. By means of this mechanism, a little over $2.9 billion have been allocated so far among 12 financial entities (almost three quarters of the amount correspond to public banks) over a total of $8 billion established for the Program. It already has over 200 projects approved by the assessing units of the Ministries of Industry, Finance and Agriculture, out of which approximately 60% correspond to small and medium-sized enterprises. The most dynamic sectors in the demand for productive financing have been the automotive and spare parts segment, laboratories, the poultry sector and logistics[52]. By the end of August, banks had provided aid to 74 companies having effectively credited almost $900 million over a pledged total of about $1.3 billion[53].

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[50] See Communication “A” 5089.
[51] The interest rate to be paid by financial entities was set at 9% nominal annual on funds allocated. With such funding, entities will grant loans at a total financing cost of 9.9%. Funds allocated to entities are guaranteed through financial assets whose debtor or guarantor is the National State.
[52] Information as per the Industry Ministry.
[53] The difference between both amounts corresponds to the installments of staggered loans that have not been credited yet.

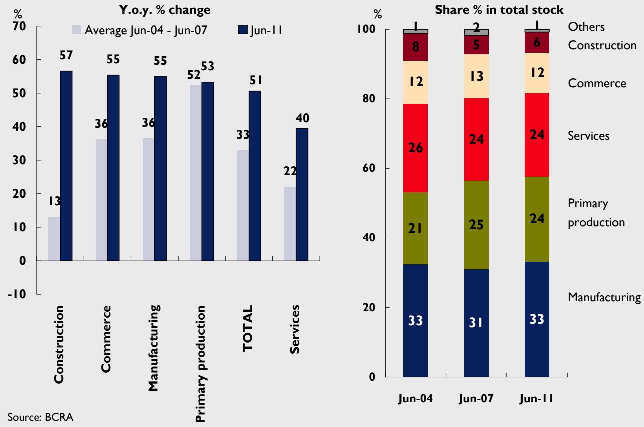
# Box 3 / Intensification of Banking Financing to Manufacturing

**Banking lending to corporations has exhibited a significant rise since mid-2010, especially in the case of loans granted to the manufacturing sector, in line with the dynamics of the sector activity levels. Thus, financing to manufacturing continued gaining share in the balance of lending of the financial system to corporations. This evolution is expected to continue in the coming months together with the positive macroeconomic scenario, which is supplemented with moderate indebtedness levels and low non-performance ratios of the sector**

Bank lending to the private sector has raised its expansion rate significantly over the last 12 months recovering the performance recorded before the international financial crisis that started in mid-2007. Unlike what happened in years before the crisis, the current growth of lending to the private sector is mainly being boosted by financing channeled to the corporate sector. This evolution is affected by the strength of the domestic market and foreign demand, which makes businessmen increase their demand for funds both to finance working capital and to carry out new investments that will raise its productive capacity.

Thus, loans to corporations increased 51% over the last 12 months[54], exceeding the growth of lending to households (42% y.o.y.). In a context where all productive sectors recorded a positive evolution in their financing level, the performance of lending to manufacturing over this period[55] should be highlighted. In fact, the industrial sector is exhibiting a y.o.y. growth pace in its loans exceeding the average observed in the remaining productive sectors and it is also the activity that contributes the most to the expansion of the total balance of lending to corporations. Thus, manufacturing consolidates as the activity with the greatest weighting in total financing to the corporate sector amounting to 33% of the total. It should be noted that financing to the primary sector exhibited a greater momentum than the one recorded by the remaining sectors until the global crisis thereby increasing its share in the total (see Chart B.3.1).

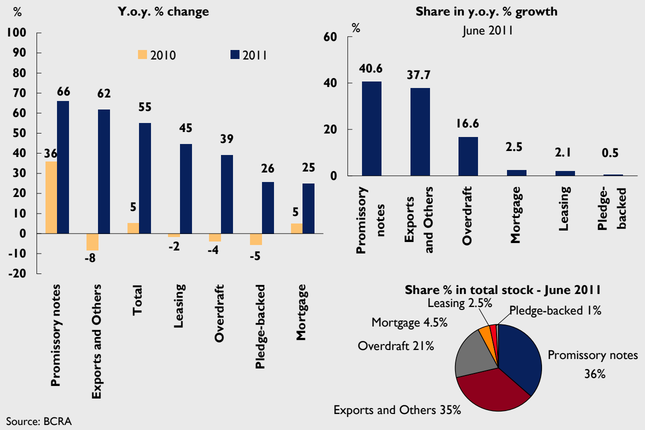
**Chart B.3.1**
**Credit to Companies by Economic Activity**




Source: BCRA

Lending to the manufacturing sector has been boosted by all financial entity groups over the last months, with a growth rate slightly higher in the case of public banks (59% y.o.y., while private banks recorded a 54% y.o.y. rise). Thus, official entities increased their share in the stock of financing to the industrial sector over the last year, amounting to almost 24% of the total. This recent evolution consolidates the dynamics observed over the last 4 years, a period when public banks raised their share in total banking lending to manufacturing by almost 5 p.p.. This trend reflects the higher relative boost of public banks during this period, as well as the countercyclical performance shown by these banks at the worst moment of the domestic impact derived from the international crisis that took place over the 2007/2008 term.

**Chart B.3.2**
**Credit to Manufacturing by Type of Line**




Source: BCRA

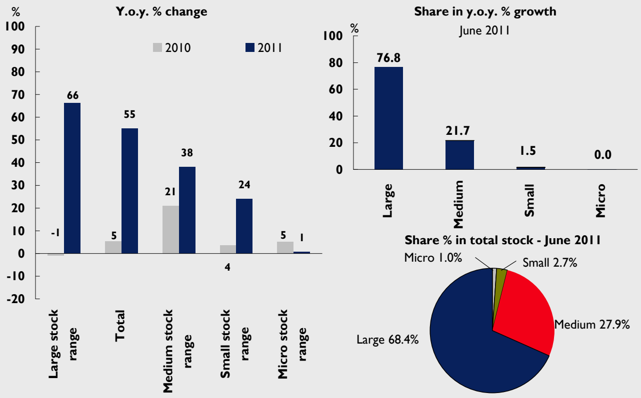
All credit lines aimed at the manufacturing sector recorded increases in the last months (see Chart B.3.2), and the evolution of promissory notes, loans to exports and other credits should be highlighted which, as a whole, contributed with almost 80% of the y.o.y. growth of lending to this sector. Lines with real collateral (pledge-backed loans and mortgage loans) evidenced the

[54] In all cases, information as of June 2011 is considered unless otherwise stated.
[55] The sector classification arising from the Financial System Debtors Database of the BCRA is used.

lowest relative growth, with expansion rates in the order of 25% y.o.y.

The rise observed in credit lines aimed at manufacturing was mainly driven by financing of a larger relative size[56] (see Chart B.3.3). Indeed, financing with residual stock in excess of $5 million climbed 66% y.o.y. during the last 12 months and accounted for a little over 68% of the total balance. On the other hand, the medium segment (from $200,000 to $5 million) and the small tranche (less than $200,000) exhibited rises of 38% y.o.y. and 24% y.o.y. respectively.

**Chart B.3.3**
**Credit to Manufacturing by Residual Stock Range**

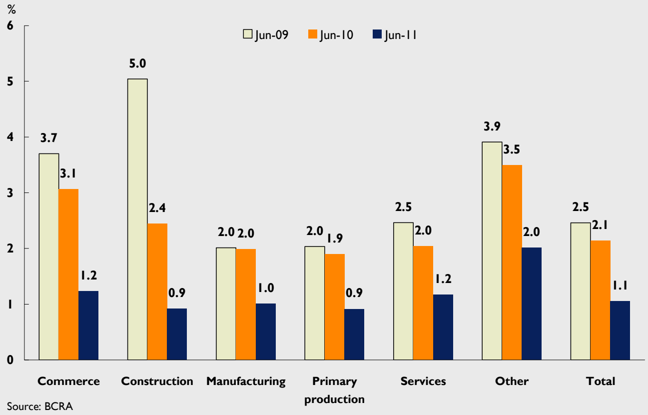



Note: Micro up to $50 thousand; Small: from $50 th. to $200 th.; Medium: from $200 th. to $5 million; Large: more than $5 million
Source: BCRA

The rise of financing to the industrial sector that has been recorded since 2010 is general to the several branches that make it up and accompanies the growth of their corresponding activity levels. Thus, the performance of financing to the metal-mechanic and automotive segments should be highlighted, as it reached maximum production levels by mid-2011 (see Chapter III). On the other hand, although loans to companies producing food, beverages and chemical products have evidenced some slightly lower relative growth than the average registered, they have recorded the greatest share in the expansion of the balance of lending to the industrial sector given that they keep the highest weightings in the total.

The performance shown by financing to manufacturing over the last year has been mainly boosted by the positive macroeconomic scenario and exports, which encourage companies to increase their demand for financial resources in a context of high installed capacity utilization levels (see Chapter III). This evolution was favored by the moderate indebtedness level of industrial companies, which was recently stabilized by a figure slightly exceeding half of the sector GDP[57], below the values recorded over the last years. In this context, improvements in the credit quality of financing to manufacturing were observed: non-performance levels of loans fell 1 p.p. over the last 12 months, standing at about 1% in June 2011, below the level evidenced by all companies (see Chart B.3.4).

**Chart B.3.4**
**Non-performing Financing to Companies by Economic Sector**



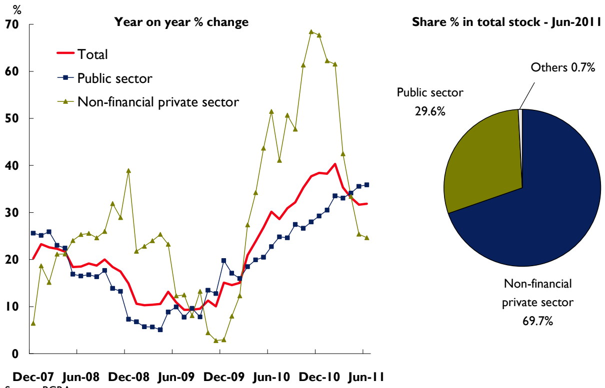

Source: BCRA

The evolution of financing to the manufacturing sector is being reinforced by the financial policy implemented by the BCRA, which has redesigned its goals over the last year and a half in order to boost lending aimed at productive investment. Thus, under the so-called Bicentenary Productive Financing Program[58], this institution has conducted 8 fund auctions for a total amount of de $2.92 billion; these are funds that financial entities must grant to companies to finance investment projects, with an average term that must not be less than two years and a total financial cost of 9.9% annually. More than 75% of loans already pledged by banks within the framework of the Program were channeled to the industrial sector. Its distribution at a regional level has reached 9 provinces, with significant involvement of the segments that mostly create jobs, which include the automotive, spare parts and pharmaceutical[59] sectors.

Good growth perspectives of the industrial sector for the coming months together with the scenario of moderate indebtedness levels and low non-performance levels, as well as the official boost generated by the allocation of funds through lines of the Bicentenary Fund allow anticipating that expansion pace of lending to manufacturing (and companies in general) would continue at a high level for the rest of 2011.

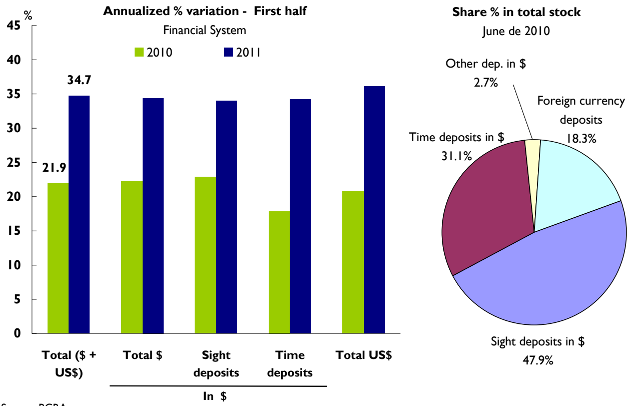
[56] According to information per residual stock stratum.
[57] For a more detailed analysis, see Chapter III.
[58] Communication "A" 5089 and Executive Order 783/10
[59] Investment projects are analyzed and assessed by an Assessment Unit made up by the Industry, Economy and Public Finances and Livestock, Agriculture and Fisheries Ministries.

Chart IV.11
Total Deposits of Financial System
Includes deposits in pesos and foreign currency




Source: BCRA

Chart IV.12
Non-Financial Private Sector Deposits




Source: BCRA

### *The renewed momentum of pledge-backed loans granted to households was outstanding*

Loans to households expanded 41.1% over the first half of the year. Consumption lines exhibited a 43.2%a. growth rate (personal loans increased 44.2%a. and credit cards did so by 41.6%a.) and, given their weighting in the total balance, they accounted for over three quarters of the rise of lending to households over the period (see Chart IV.10). Pledge-backed loans were the most dynamic, growing almost 100%a., contributing with 14% of the rise of lending to households. Regarding mortgage loans, although they continued exhibiting a lower expansion pace, the performance they evidenced over the first half of the year exceeded the one recorded over the same period in 2010.

### *The exposure of the financial system to the public sector continued falling*

The expansion of lending to the private sector during the first half of 2011 was recorded together with a reduction in the exposure to the public sector, which stood at 11.7% of netted and consolidated assets at the end of the period (1.5 p.p. lower than the figure recorded by late 2010)[60], below the values observed before the 2001-2002 crisis and those currently shown by part of financial systems within the region. If funding obtained by the set of entities through public sector deposits is considered (at a consolidated level amongst their jurisdictions), the latter continued exhibiting a net creditor position against the financial system (-12.2% of consolidated and netted assets).

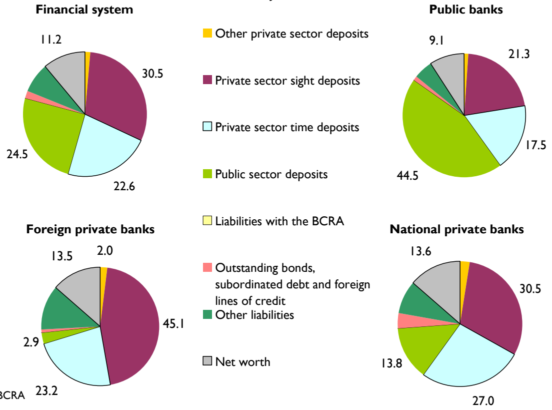
### *Private sector deposits drove the rise of total deposits in the first half of the year in a context of slight reduction in liquidity levels*

Total deposits increased 30.1%a. over the first half of the year. Unlike what happened over the same period in 2010, this rise was led by private sector deposits, which climbed 34.7%a. during the six-month period. Thus, private sector deposits recovered the momentum they had exhibited over the years preceding the international financial crisis and raised their weighting on total deposits up to almost 70% (see Chart IV.11).

The increase of private sector deposits during the first half of 2011 was boosted by deposits in pesos and in foreign currency. Sight and time deposits in pesos increased at a similar rate (34%a. and 34.2%a., respectively), significantly exceeding the pace observed over the same period in 2010 (see Chart IV.12). The

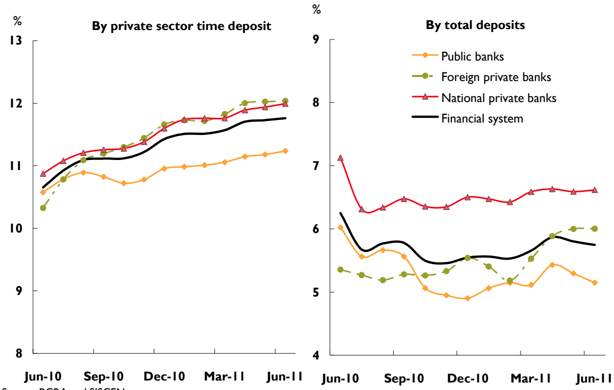
[60] Public sector exposure stood at 10.9% in terms of total assets.

**Chart IV.13**
**Funding Composition by Group of Financial Entities**
In % - June 2011



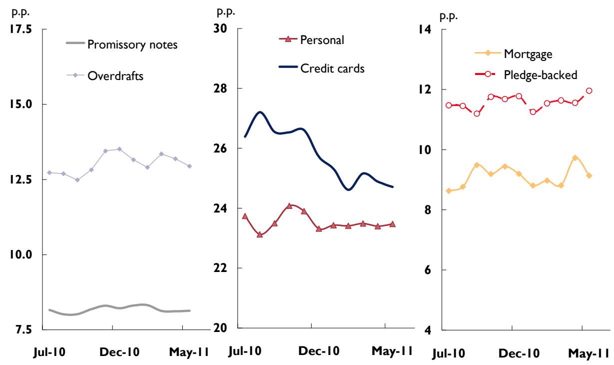

Source: BCRA

**Chart IV.14**
**Estimation of Total Deposits in Pesos Funding Cost**
Traded amount in 2 months and adjusted by legal reserves weighted average




Source: BCRA and SISCEN

**Chart IV.15**
**Interest Rates Spread for Operations in Pesos**
Difference between lending interest rate and deposit cost*




*Note: Mortgage loans interest rates include fixed interest rate and adjustable interest rate operations
Source: BCRA and SISCEN

stock of deposits in foreign currency grew 36.1%a. over this term, about 15 p.p. higher than the figure observed over the first 6 months of the previous year[61]. Private sector total deposits increased in all bank groups in 2011.

On the other hand, total public sector deposits increased 20%a. over the first six months of the year exhibiting a sharp slowdown against the first half of 2010. The rise over the 6-month period was boosted by time deposits which more than offset the fall in the balance of sight accounts.

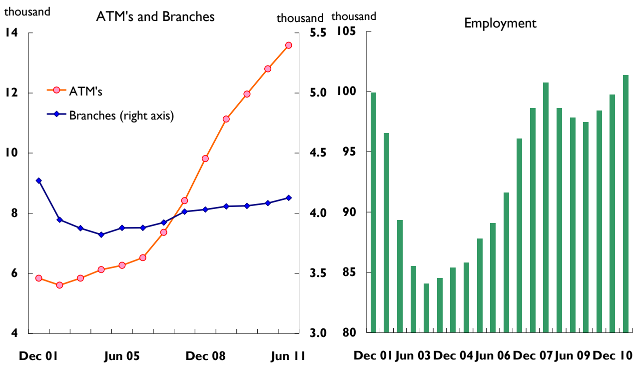
Thus, deposits by companies and households during the first months of 2011 increased their share in total funding[62] of the financial system by 2 p.p. up to a level of 56% (sight deposits accounted for 31.7% and time deposits, 22.4%[63]), whilst public sector deposits decreased slightly, down to 24%. Private sector deposits continued being the main funding source of private banks (both national and foreign) while public sector deposits were public entities' main fund source (see Chart IV.13).

The funding cost estimated for deposits in pesos[64] increased slightly against late 2010 over the first half of the year (see Chart IV.14). This was essentially accounted for by the gradual rise in the share of time deposits in the total balance of deposits in a context of slight rises in the costs thereof. Nevertheless, and in a y.o.y. comparison, the funding cost was below the one recorded the previous year, at almost 0.5 p.p., a move primarily explained by public and private national banks. In terms of spreads among lending interest rates traded in pesos and the funding cost, a y.o.y. drop was observed in the case of promissory notes, personal loans and credit cards whilst the remaining lines exhibited slight increases (see Chart IV.15).

Financial entities evidenced some renewed momentum over the first half of the year obtaining funds from the issue of corporate bonds (ON)[65]. Indeed, 17 financial entities issued ON during the first part of the year, obtaining funds amounting to almost $3.05 billion[66]. This trend towards a rise in funding through ONs continued at the start of the second half of 2011; however, it is very likely that, on account of international volatility, some financial entities may

[61] The change in the original currency of deposits in foreign currencies amounted to 27%a. over the first half of 2011, almost 15 p.p. higher than the figure observed over the same period in 2010.
[62] Liabilities plus net worth.
[63] The difference mainly corresponds to fixed balances and other balances from private sector deposits not registered in specific accounts.
[64] Weighted by the volume traded for the financial system.
[65] For further information about issues in the capital market, see Chapter II, Section 2.
[66] The maturity of issues ranged from 9 months to 7 years. About 59% of issues were in pesos, and most of them at a variable rate. The remaining 41% was issued in dollars at a fixed rate.

Chart IV.16
Financial System Operational Structure




Note: Branches include head office, headquartes, agencies and offices.
Source: BCRA

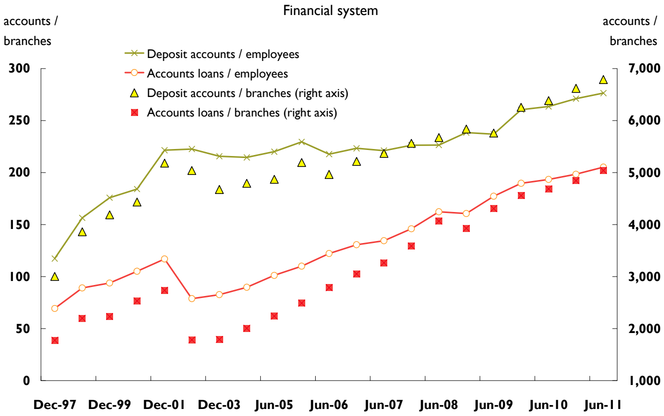
Table IV.2
**Evolution of Employment**
In thousands

| | Financial system | | | | 31 aglomer. EPH |
|---|---|---|---|---|---|
| | Total | Bank | | NBFE | Emplo. - |
| | | Priv. | Pub. | | Underemplo. |
| **IQ-2010 (Min. FS*)** | 97.5 | 56.5 | 37.8 | 3.1 | 9,413 |
| **IQ-2010** | 98.4 | 57.7 | 37.7 | 3.0 | 9,413 |
| **IVQ-2010** | 99.7 | 59.0 | 37.7 | 3.1 | 9,638 |
| **IIQ-2011** | 101.4 | 60.4 | 37.8 | 3.2 | 9,840 |
| Variation - In % | | | | | |
| **IIQ-2011 vs IQ-2010** | 4.0 | 6.8 | -0.1 | 2.4 | 4.5 |
| **IIQ-2011 vs IIQ-2010** | 3.0 | 4.7 | 0.3 | 5.8 | 4.5 |
| **IIQ-2011 vs IVQ-2010** | 1.6 | 2.4 | 0.3 | 3.5 | 2.1 |

* Minimum recorded by the financial system to the international crisis of 2007/2008.

Source: BCRA and INDEC

Chart IV.17
Number of Accounts in Terms of Employees and Branches
Financial system




Source: BCRA

postpone new debt issues over the coming months. Looking ahead, the gradual rise of funding through longer terms instruments, such as ONs, should contribute to stimulating longer term bank credit supply.

***Bank employment increased and the infrastructure to provide financial services in zones with less banking access in the country improved***

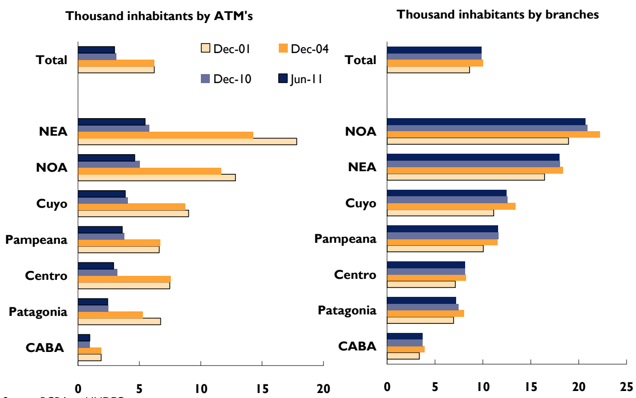
The payroll of the financial system increased 1.6% over the first six months of the year accumulating a 3% y.o.y. hike; therefore, it reached the highest level of the last 10 years (see Chart IV.16). Thus, staffing climbed 4% against the start of 2010, a figure that is aligned with the momentum evidenced by employment in the domestic economy (see Table V.2). Nevertheless, the local impact of the 2007/2008 international crisis had a sharper and temporarily longer effect on employment within the banking sector than the entire economy. On the other hand, the number of automatic teller machines has increased 6.1% so far in 2011 (15 % y.o.y.) and the number of branches expanded 1.1% (1.6% y.o.y.) over the same period.

The expansion of the financial system operating structure took place within a context where the number of accounts (of deposits and loans) continued growing exceeding the increase in number of employees and branches (see Chart IV.17).

Even though the availability of financial services infrastructure continues recording a marked heterogeneity amongst the different jurisdictions in the country, improvements have been recorded over the last months in the provision of financial services in areas with less banking access. As a sign of this, the indicator of inhabitants per automatic teller machine improved in all regions of the country over the last six months, and progress made in the Argentine North East Region (NEA) and the Argentine North West Region (NOA) should be underscored (see Chart IV.18). Therefore, the gap between the region with the most coverage and the one with the least coverage (City of Buenos Aires and NEA, respectively) amounted to 5.7 times, which accounts for a historical minimum.

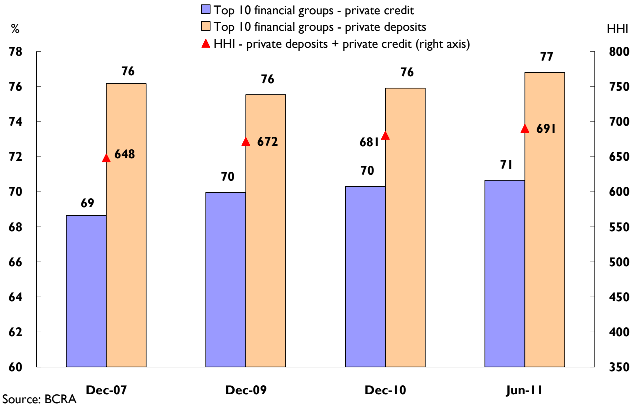
On the other hand, the ratio between the population and the number of branches also recorded some improvement in all jurisdictions in 2011, especially in those areas with less banking access. It should be noted that the Central Bank has authorized the opening of 42 branches in localities with a lower banking levels so far

**Chart IV.18**
**Financial System Regional Coverage**



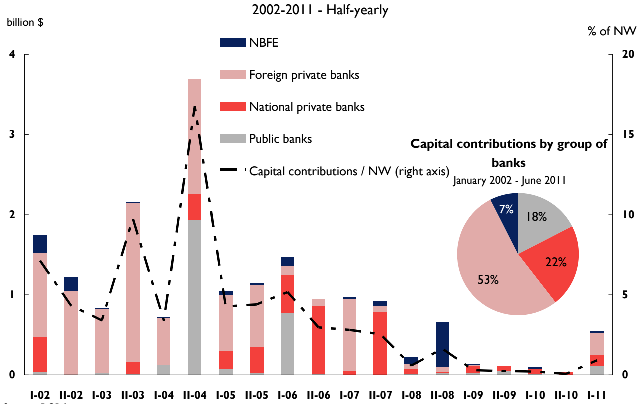

Source: BCRA and INDEC

**Chart IV.19**
**Concentration Level of the Financial System**
Participation in the total balance - Considering financial groups




Source: BCRA

**Chart IV.20**
**Capital Contributions**
2002-2011 - Half-yearly




Source: BCRA

this year[67] while there are other 18 opening applications being studied. Thus, authorizations to open new branches in areas with less financial services presence over the first months of 2011 doubled the figure recorded over the same period last year. The expansion of the provision of bank services in provinces of the country with low availability of banking infrastructure gained relevance with the change of regulations promoted by the BCRA, whereby in those cases where entities decide to apply for an authorization to open branches in a zone with more banking services, this institution will particularly consider that such request is accompanied by a simultaneous proposal of opening the same number of branches in areas with lower availability levels of bank services[68].

An important national private bank was purchased by a foreign private bank in early 2011. Although this event did not significantly affect the concentration level of the financial system (see Chart IV.19), it had some impact on the distribution of the market per type of bank. Indeed, private entities of foreign capital[69] increased their share in private sector deposits by 2.7 p.p. during the first six months of the year up to 36.2%, whilst national private entities amounted to 30.6% and public ones, 33.2% by the end of the first part of the year. Likewise, the ratio of the total balance of credit to the private sector corresponding to foreign private entities climbed 3.9 p.p. over the same period and stood at about 38.1%, while groups of national private and public entities accounted for 34.5% and 27.4% respectively (see Box 4).

## *Capital position*

### ***In a context of growing financial intermediation volumes with the private sector, solvency indicators of the system remained at high levels***

The consolidated financial system net worth over the first part of the year expanded 13.3%a. (22.8% y.o.y.), exhibiting a growth pace higher than of the first six months of the previous year. The rise of net worth was mainly boosted by book profits and, to a lesser extent, capital contributions, although the decision to allocate dividends by some private financial entities partially mitigated the rise.

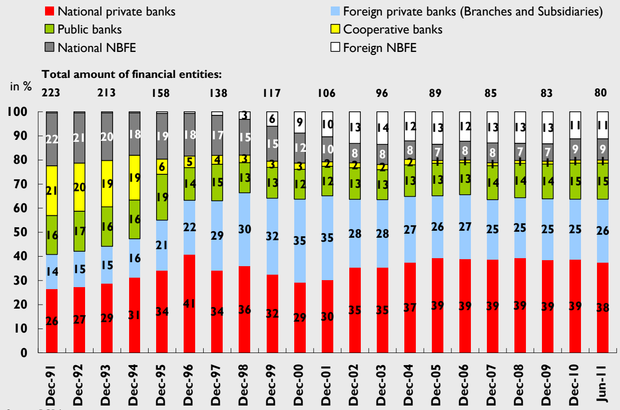
[67] Information as of August 31st, 2011
[68] Communication “A” 5167.
[69] In this paragraph, the concept includes banks and NBFE of foreign capital. Likewise, when reference is made to national private entities, banks and NBFE of national capital are included.

# Box 4 / Argentine Financial System Structure

**The Argentine financial system has evidenced some significant structural changes over the last decades. This evolution reflected the incentives posed by the domestic macroeconomic context, regulatory changes that were implemented, the direction of international capital flows, as well as domestic episodes of crises that impacted on the dynamics of financial intermediation. Thus, the amount of entities fell dramatically over the last 20 years whilst the share of foreign banks –after reaching their maximum weighting during the second half of the 90s- currently stands at levels similar to those of national private banks. This took place amidst a context where the financial system continues exhibiting low depth and relatively little concentration in terms of an international comparison. The challenge for the coming years is to accompany the growth of financial intermediation in a context of competition, promoting the extension of financing of productive activities without neglecting a greater inclusion of the different social strata in the financial system**

Over the last 20 years, the domestic financial system has evidenced a falling trend in the amount of financial entities active in the market, together with merger and acquisition processes of entities and some exits from intermediation activity which more than offset the new incorporations that were registered in the sector. Thus, while there were 223 active financial entities in December 1991 (see Chart B.4.1), the number fell to 147 five years later as a result of the impact of Mexico's financial crisis (commonly known as the Tequila Effect) decreasing to 99 by late 2002 in view of the domestic crisis. This trend to reduce the amount of players in the financial system continued being observed over the last years albeit at a more gradual pace and totaled 80 active financial entities by mid-2011. Although this implied a higher consolidation level, it may be observed that concentration levels of the domestic market stand amongst the lowest in the region[70]. This trend towards greater consolidation is aligned with the one observed at an international level[71], and is generally boosted by merger processes aimed at facilitating income increases and cost reductions.

**Chart B.4.1**
**Amount of Financial Entities and Distribution by Groups**




Source: BCRA

This dynamics of falling in the amount of entities participating in the market, combined with certain sales processes led to a modification in the sector structure amongst the different bank groups. Thus, over the 90s (especially during the first part of the decade), a sustained reduction in the participation of cooperative financial entities was observed, a trend followed, to a lesser extent, by public entities. In contrast, a rise in the relative amount of foreign and national private banks was registered. It should be noted that a series of sales of medium-sized financial entities, which were of national private property, to foreign capitals were observed over the second half of the 90s; this was reflected in a significant rise in the depth of foreign banks both in total assets of the sector as well as in deposits and in lending to the private sector (see Chart B.4.2), until almost accounting for half of the market.

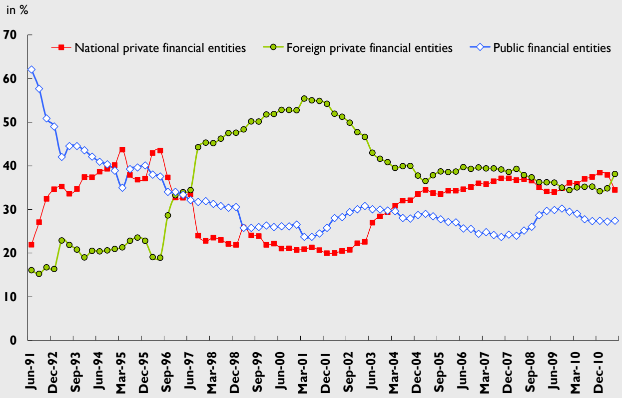
This pattern was shifted with the 2001-2002 crisis. On the one hand, given the initial magnitude of the domestic crisis, some financial entities, foreign ones in particular, decided to withdraw from the domestic market (especially through sales to national financial entities) whilst others went through merger processes. These processes, combined with aggressive expansion policies (institutional) of national capital banks, made this group of entities gain market share over the last years, until reaching 37.9% of the credit stock to the private sector by the end of the first quarter of 2011, a value slightly above foreign capital banks (34.8%) and public banks (27.2%). It is worth mentioning that

70 For example, as per the Herfindahl-Hirschman Index (which is built by adding the square of the shares of every entity in the market of deposits, and which indicates the existence of higher concentration when the value obtained is higher), the Argentine financial system reaches a record of 750, below the average of 1,570 points recorded in the region (considering Mexico, Brazil, Colombia, Ecuador, Chile, Peru, and Uruguay). Argentina's indicator may be understood as the existence of almost 13 entities of the same size while in the case of the average situation in the region, this number would fall to about 6.

71 See, for example, Group of Ten "Report on Consolidation in the Financial Sector", BIS, 2001.

weighting of national private banks over the second quarter of 2011 was slightly below that of foreign banks (34.5% and 38.1%, respectively) as a result of the transfer of a medium-sized national private financial entity to foreign capitals (from the Southern Cone Market).

**Chart B.4.2**
**Share in Loan Stocks to Private Sector**

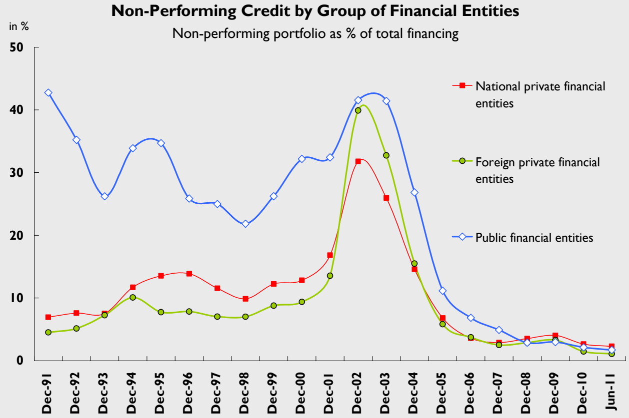



Source: BCRA

Thus, it may be seen that the Argentine financial market currently has a structure with similar weighting levels amongst different bank groups, although there are some distinctive characteristics amongst them. On the one hand, even though total credit to the private sector has reached greater depth in assets of private banks (national and foreign), public banks have evidenced a relatively more countercyclical performance in the worst part of the domestic impact of the international crisis (2008/2009), sustaining their credit expansion path at a moment when the remaining groups of entities had strategies aimed at creating reserves of liquid assets.

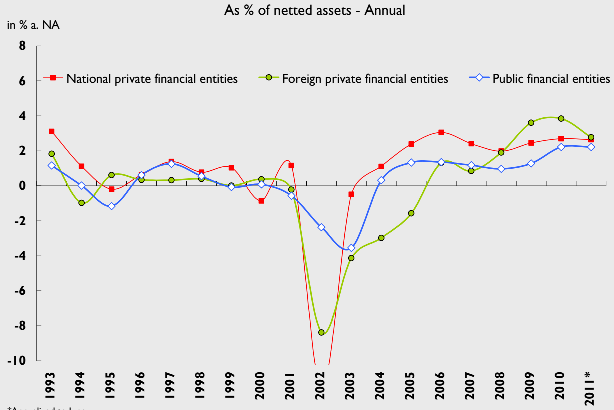
On the other hand, in the case of public banks, financing to corporations in particular has reached about 61% of the loan portfolio, exceeding the values recorded by foreign private banks (59%) and national banks (57%), while as far as lending to households is concerned, greater weighting has been recorded in medium and long term lines in official banks (mortgage and pledge-backed loans) that total almost 38% of such portfolio, while they only account for 26% and 14% in foreign and national banks respectively. It should be noted that all homogenous bank groups currently exhibit very low levels of non-performing loans (see Chart B.4.3), when credits generated by public financial entities a decade ago tended to have higher non-performing levels against private banks. Meanwhile, the different bank groups have tended to evidence rises in their profitability over the last years recovering from the dramatic losses recorded on account of the 2001-2002 crisis (see Chart B.4.4), in a context of gradual increases in the levels of efficiency and solvency.

**Chart B.4.3**
**Non-Performing Credit by Group of Financial Entities**
Non-performing portfolio as % of total financing




Note: Total portfolio until middle of 1995 and private sector from on date
Source: BCRA

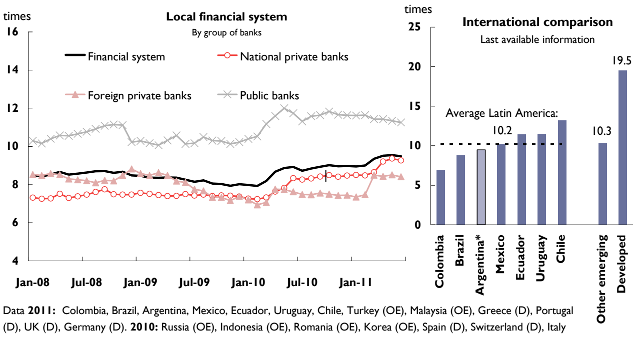
**Chart B.4.4**
**Total Financial System Profitability by Groups of Financial Entities**
As % of netted assets - Annual




*Annualized to June
Source: BCRA

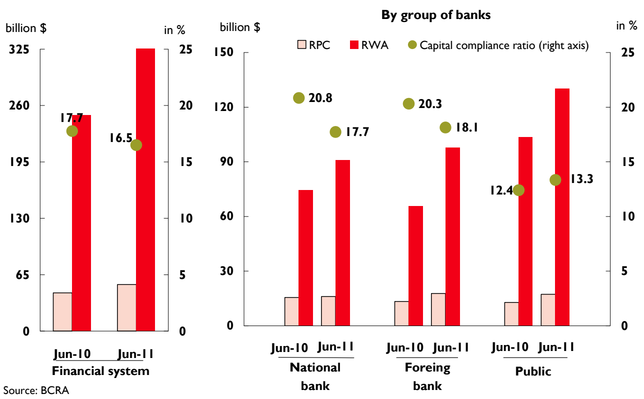
All bank groups are expected to increase their lending to corporations and households in the coming years accompanying the positive macroeconomic context and public policies implemented that favor the growth of activity of all productive sectors.

Chart IV.21
Financial System Leverage
Assets (not weighted by risk) / Net worth



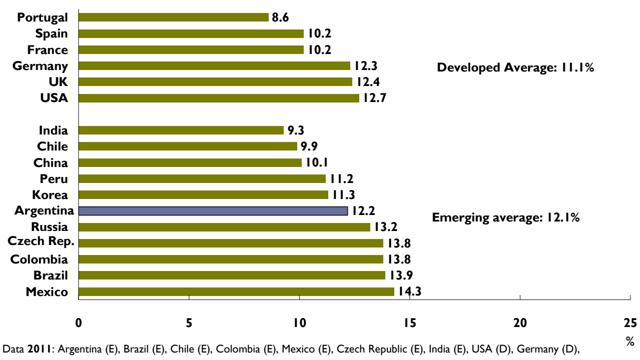

Data **2011:** Colombia, Brazil, Argentina, Mexico, Ecuador, Uruguay, Chile, Turkey (OE), Malaysia (OE), Greece (D), Portugal (D), UK (D), Germany (D). **2010:** Russia (OE), Indonesia (OE), Romania (OE), Korea (OE), Spain (D), Switzerland (D), Italy (D), Canada (D), Ireland (D), Holand (D). **2009:** Poland (OE), France (D). **2008:** Uruguay.
Considering (i) consolidated netted assets; (ii) consolidated net worth
Source: BCRA and FMI (Financial Soundness Indicators)

Chart IV.22
Capital Compliance (RPC) and Risk Weighted Assets (RWA)




Source: BCRA

Chart IV.23
Tier I
As % of risk weighted assets - Last available data




Data **2011:** Argentina (E), Brazil (E), Chile (E), Colombia (E), Mexico (E), Czech Republic (E), India (E), USA (D), Germany (D), Portugal (D). **2010:** Peru (E), Russia (E), China (E), Korea (E), UK (D), Spain (D). **2009:** France (D)
Source: Financial Soundness Indicadors (FMI), Global Financial Stability Report (FMI) and BCRA

Capitalizations received by the financial system accumulated about $540 million over the first part of the year thereby exceeding total capital contributions registered during all 2009 and 2010 (see Chart IV.20). Capital contributions received in 2011 were mostly channeled towards foreign private banks.

During the first 6 months of the year, 17 financial entities allocated dividends for about $3.25 billion, evidencing some rise against last year[72]. It should be noted that, as per a regulation set by the BCRA[73], banks posting profits to be allocated (after applying the existing regulatory filters) may only pay dividends if their regulatory capital, following the corresponding allocation, is at least 30% above the regulatory requirement. The purpose of this measure is to reduce the common characteristic of procyclicality of financial systems, allowing having some capital buffer to face potential financial and/or macroeconomic volatility episodes. Indeed, this macroprudential regulation allows avoiding excessive structural leverage levels, thereby enhancing the system's solvency.

In a context where the rise of assets of the set of financial entities exceeded that of net worth, the leverage level of the sector exhibited some rise against mid-2010. Bank assets accounted for 9.5 times the net worth, and were lower than the average of the region and of other emerging economies, standing way below the figure recorded by developed countries (see Chart IV.21).

It is within this context that the financial system capital compliance ratio fell slightly during the first half of 2011 down to 16.5% of risk weighted assets (RWA), a dynamics mainly explained by private banks (see Chart IV.22). Considering the compliance level of core capital or Tier 1[74] (as a percentage of RWA), the domestic financial system evidenced a record similar to the regional average and slightly above the average registered in developed countries (see Chart IV.23).

### *The financial system profitability in y.o.y. terms improves mainly due to the performance of public banks*

The financial system ended the first half of 2011 with book profits totaling $6.42 billion, exhibiting a 45% rise y.o.y.. Thus, the financial system ROA stood at 2.5%a., 0.2 p.p. higher than during the first half of the previous year although it evidenced a slight decline against the

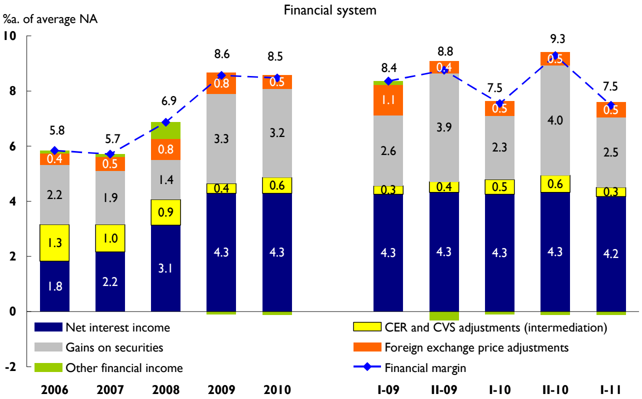
[72] During the first half of 2010, dividends were allocated for a total amount of $2.5 billion.
[73] Communication "A" 5072
[74] Basic net worth without including accounts that may be deducted.

**Table IV.3**
**Profitability Structure: Financial System**
As % of average netted assets

| | 93-00 | 2009 | 2010 | I-10 | II-10 | I-11 |
|---|---|---|---|---|---|---|
| Financial margin | 6.1 | 8.6 | 8.5 | 7.5 | 9.3 | 7.5 |
| Net interest income | 4.9 | 4.3 | 4.3 | 4.3 | 4.3 | 4.2 |
| CER y CVS adjustments | 0.0 | 0.4 | 0.6 | 0.5 | 0.6 | 0.3 |
| Gains on securities | 0.8 | 3.3 | 3.2 | 2.3 | 4.0 | 2.5 |
| Foreign exchange price adjustments | 0.0 | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 |
| Other financial income | 0.3 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Service income margin | 3.5 | 3.9 | 3.8 | 3.8 | 3.9 | 3.8 |
| Operating costs | -6.7 | -6.7 | -6.9 | -6.9 | -6.9 | -6.6 |
| Loan loss provisions | -2.2 | -1.1 | -0.8 | -0.8 | -0.8 | -0.6 |
| Effects of the 2001-2002 crisis (*) | - | -0.3 | -0.2 | -0.3 | -0.2 | -0.1 |
| Tax charges | -0.5 | -1.0 | -1.0 | -0.9 | -1.0 | -1.0 |
| Other | 0.7 | 0.3 | 0.5 | 0.5 | 0.5 | 0.6 |
| Total result before income tax | 0.8 | 3.6 | 4.0 | 3.1 | 4.8 | 3.5 |
| Income tax | -0.3 | -1.3 | -1.2 | -0.8 | -1.5 | -1.0 |
| **ROA** | **0.5** | **2.3** | **2.8** | **2.3** | **3.3** | **2.5** |
| ROE | 3.4 | 19.2 | 24.4 | 19.1 | 29.2 | 23.3 |
| ROE (before income tax) | 5.2 | 29.5 | 34.5 | 25.7 | 42.7 | 32.4 |
| **Adjusted ROA (**)** | **-** | **2.6** | **3.0** | **2.5** | **3.4** | **2.6** |

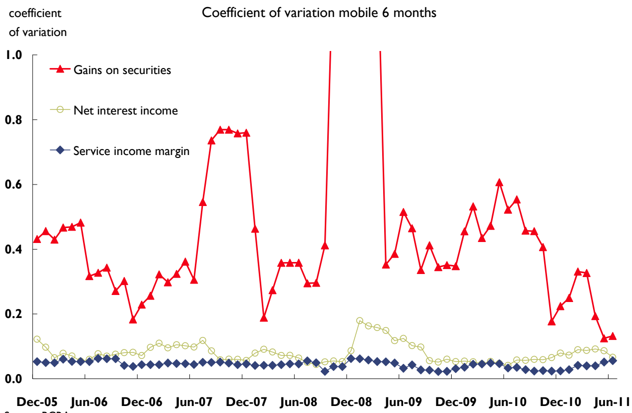
(*) Includes amortization payments for court-ordered releases and adjustment of public sector assets.
(**) Excluding the effects of the 2001-2002 crisis.
Source: BCRA

**Chart IV.24**
**Financial Margin Composition**
Financial system



Source: BCRA

**Chart IV.25**
**Volatility of Major Items of Income Statement**
Coefficient of variation mobile 6 months



Source: BCRA

last part of 2010 (see Table IV.3). The y.o.y. rise was mainly accounted for by fewer operating costs and loan loss provisions, as well as higher income derived from securities. The contribution of public banks should be underscored in the y.o.y. comparison (see Chart IV.2).

The financial margin of the set of entities stood at 7.5%a. of assets during the first half of the year (see Chart IV.24), in line with the figure recorded over the same period in 2010. Fewer profits from interest and CER-adjustments were offset with higher income from securities. Private financial entities slightly decreased their financial margin while public banks exhibited some increase.

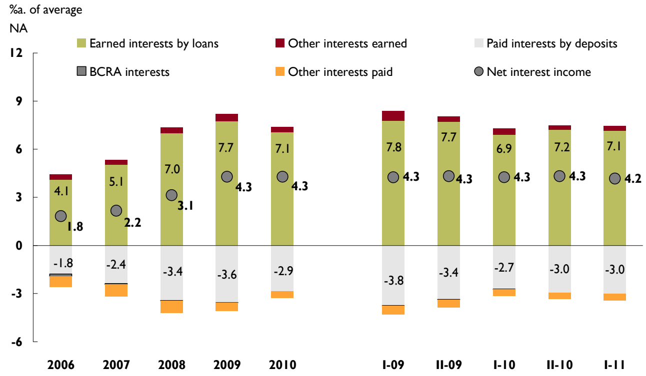
Income derived from securities exhibited a 0.2 p.p. y.o.y. rise of assets up to 2.5%a., although it should be noted that this income was at levels relatively low during the first part of 2010. It is worth mentioning that this income was the one evidencing greatest volatility over the last years (see Chart IV.25).

***In a context of growing momentum of lending to households and corporations, income derived from interest was the main income source***

Income derived from interest continued having the greatest share among all the concepts of the income statement, totaling 4.2%a. of assets over the first half of 2011 and remaining practically stable over the last six-month periods. In a y.o.y. comparison amongst concepts making up income derived from interest, a greater flow of income from loans was observed, which was slightly offset by the rise of spending through deposits (see Chart IV.26). Particularly, the slight reduction observed in lending interest rates was coupled with a rise in the volume of lending (especially in the case of lines aimed at the corporate sector) whilst the scenario exhibiting a minor rise in the funding cost through deposits in the margin was combined with a rise in the balance of deposits (particularly, time deposits).

In a context of growth of the CER index and of the limited mismatching of adjustable headings (in terms of net worth), the positive results from CER adjustments of banks fell 0.2 p.p. of assets during the first half of the year, down to 0.3%a., a dynamics mainly explained by public banks. On the other hand, income accumulated over the first half of the year from exchange rate differences in the financial system remained practically stable against the first half of 2010, at 0.5%a. of assets. These results were recorded in a context of slight peso-dollar nominal exchange rate depreciation within a framework of limited exchange rate volatility and of

Chart IV.26
Net Interest Income
Financial system



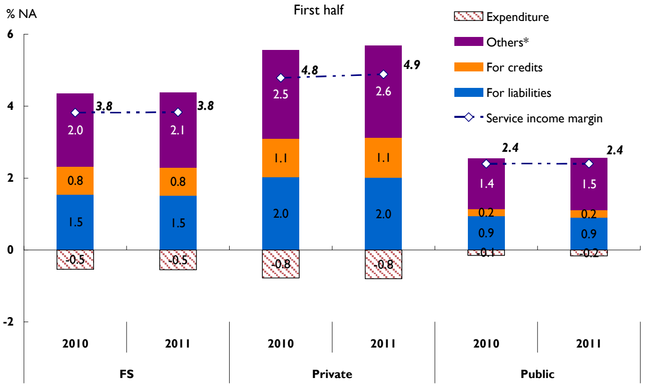

Source: BCRA

Table IV.4
Profitability Structure by Type of Bank
As % of average netted assets - First half 2011

| | Private banks | | | Public banks | NBFE |
|---|---|---|---|---|---|
| | Total | National | Foreign | | |
| Financial margin | 8.4 | 8.3 | 8.5 | 5.9 | 18.2 |
| Net interest income | 5.7 | 5.4 | 6.0 | 1.7 | 17.4 |
| CER y CVS adjustments | 0.1 | 0.1 | 0.2 | 0.6 | 0.0 |
| Gains on securities | 2.0 | 2.5 | 1.6 | 3.2 | 0.5 |
| Foreign exchange price adjustments | 0.7 | 0.5 | 0.8 | 0.4 | 0.5 |
| Other financial income | -0.1 | -0.2 | -0.1 | -0.1 | -0.2 |
| Service income margin | 4.9 | 4.8 | 5.0 | 2.4 | 5.8 |
| Operating costs | -7.9 | -7.9 | -7.8 | -4.8 | -11.1 |
| Loan loss provisions | -0.8 | -0.9 | -0.7 | -0.3 | -2.3 |
| Effects of the 2001-2002 crisis (*) | -0.1 | 0.0 | -0.1 | -0.2 | 0.0 |
| Tax charges | -1.3 | -1.5 | -1.2 | -0.6 | -2.0 |
| Other | 0.6 | 0.7 | 0.6 | 0.5 | 1.2 |
| Total result before income tax | 3.8 | 3.4 | 4.3 | 2.8 | 9.8 |
| Income tax | -1.2 | -1.0 | -1.5 | -0.5 | -3.6 |
| **ROA** | **2.6** | **2.5** | **2.8** | **2.2** | **6.2** |
| ROE | 22.1 | 21.8 | 22.4 | 25.5 | 21.8 |
| ROE (before income tax) | 32.6 | 30.5 | 34.8 | 31.7 | 34.3 |
| **Adjusted ROA (**)** | **2.7** | **2.5** | **2.9** | **2.4** | **6.2** |

(*) Includes amortization payments for court-ordered releases and adjustment of public sector assets.
(**) Excluding the effects of the 2001-2002 crisis.
Source: BCRA

Chart IV.27
Service Income Margin by Group of Banks
First half




*Mostly insurance fees and card issuance
Source: BCRA

gradual reduction of foreign currency mismatching (see Chapter V). Private banks led the variation of this income mostly.

Net income from services over the first six months of the year remained aligned with the figure recorded over the same period last year (3.8%a. of assets). In terms of its structure, revenue related to insurance and the issue of credit cards continue gaining share gradually (see Chart IV.27), especially in private banks.

### *Operating costs and charges on loan loss provisions exhibited a slight y.o.y. reduction in terms of bank assets*

Operating costs accumulated over the first half of 2011 stood at 6.6%a. of assets, 0.3 p.p. below the figure recorded over the first half of 2010; this fall was mainly accounted for by public financial entities. It should be noted that private banks have been accruing higher operating costs in terms of assets when compared to public banks (see Table IV.4), partly due to relatively higher spending on real estate rental, payment of services and fees, amongst others. However, spending on personnel (salaries and social contributions) per group of banks has evidenced a similar weighting in terms of assets and per employee (see Chart IV.28). Spending on personnel in terms of employment within the banking sector has been growing for the last 5 years at a pace that was aligned with the evolution of average salaries of formal employment in the country[75].

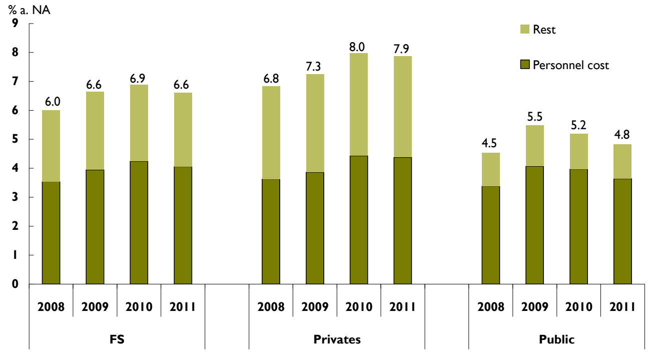
In a context of reduction of financing to the private sector in a non-performing situation (see Chapter V), charges on loan loss provisions gradually lost relevance in the financial system income statement. These expenditures accounted for 0.6%a. of assets over the first half of the year, 0.2 p.p. less than a year ago. All financial entity groups accrued lower charges on loan loss provisions in terms of assets and the fall recorded in private banks should be highlighted (see Chart IV.29). Despite this reduction, financial entities continue raising their coverage of non-performing loans with suitable provision levels (see Chapter V).

### *Financial system efficiency indicators improved*

Simple efficiency indicators[76] improved over the last six-month periods especially in private banks. Particularly, a growth in the volume of business with the private sector in terms of operating costs was observed

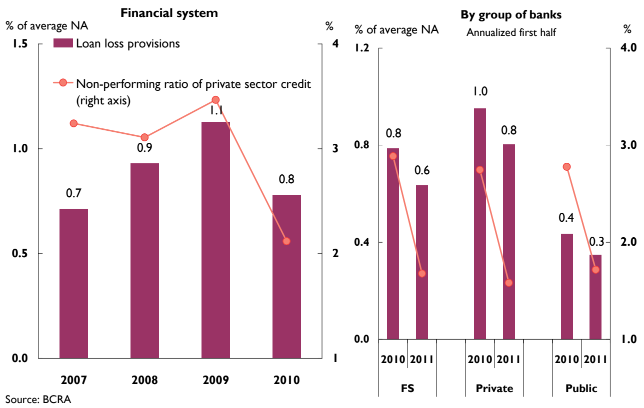
[75] Based on the salary index prepared by the INDEC
[76] Defined, on the one hand, as the balance of loans and deposits (private sector) in terms of operating costs and, on the other hand, as flow accrued from income from interest and services as a percentage of operating costs.

**Chart IV.28**
**Operating Costs**
Annualized first half



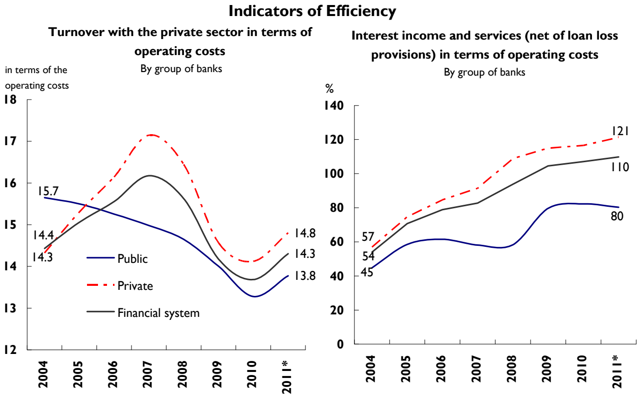

* to june annualized
Souerce: BCRA

**Chart IV.29**
**Loan Loss Provisions**




Source: BCRA

**Chart IV.30**
**Indicators of Efficiency**




* Last 12 months to june.
Source: BCRA

over the last two years. In addition, more stable income remains above operating costs exhibiting a rise in such coverage (see Chart IV.30).

The financial system faced expenditures derived from taxes[77] which accounted for 2%a. of assets over the first half of 2011, exhibiting a 0.3 p.p. rise against the first half of 2010. Although a similar momentum was observed per bank group, these expenditures were more relevant in private banks. On the other hand, valuation adjustments of loans to the public sector and the amortization of court ordered releases (effects from the 2001-2002 crisis) continued losing weight in the income statement and they accounted for only 0.1%a. of assets as a whole over the first half of the year, 0.2 p.p. less than the figure recorded during the first part of 2010; in addition, they were mostly concentrated in public banks.

***In view of the second half of the year, the financial system is expected to keep its solvency indicators high***

The financial system is expected to keep its solvency levels over the second half of the year. Banks would end 2011 with book profits boosted by the more stable incomes. On the other hand, it is possible that income from securities exhibit some variability during the second part of the year partly affected by the volatility effect observed in international markets.

## IV.2 Institutional investors

***The portfolio of institutional investors remains growing albeit at a lower pace***

The portfolios of the three main institutional investor groups at a local level, the Guarantee Sustainability Fund (FGS), insurance companies, and mutual funds (MF) continued with the positive trend they have been recording over the last six-month periods, amounting to an estimated total of $268.3 billion in aggregate terms as of June 2011[78] or 16.3% with respect to GDP[79]. Thus, the value of investments grew 27% in nominal terms against mid-2010. A decrease in the weighting of aggregate fixed income investments was observed over the period in the total portfolio, until they accounted for 58% thereof (these investments accounted for 64% of the total in June 2010).

Regarding the portfolio managed by the FGS, the main domestic investor following the change of the social

[77] Income tax as well as other tax charges are included.
[78] Information as of May 2011 corresponds to the FGS. In gross terms (without consolidating).
[79] The quarterly GDP average of the last 4 periods is considered (as of June 2011 inclusive).

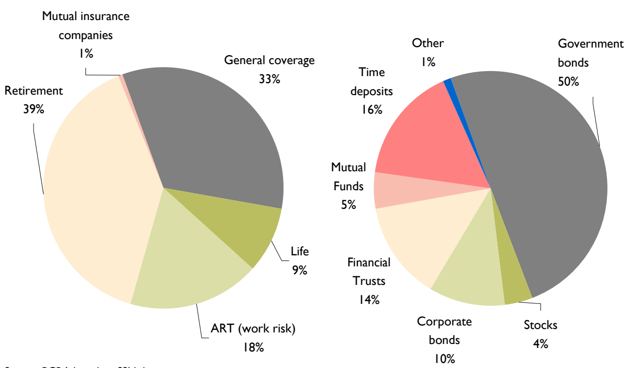
**Table IV.5**
**Evolution of Social Security Fund (FGS) Investment Portfolio**
As of May-11

billion $

| Instrument | May-10 | Dec-10 | May-11 | Y.o.y % change | YTD % change |
|---|---|---|---|---|---|
| **Total FGS** | **146.0** | **178.0** | **189.3** | **30** | **6** |
| Cash and sight deposits | 7.4 | 13.7 | 9.0 | 23 | -34 |
| Time deposits | 11.4 | 14.7 | 20.5 | 79 | 39 |
| Mutual Funds | 1.8 | 3.0 | 3.3 | 82 | 11 |
| Sovereign bonds and others | 94.0 | 101.7 | 110.4 | 17 | 9 |
| Stocks | 14.3 | 23.3 | 21.3 | 49 | -9 |
| Corporate bonds | 2.1 | 1.7 | 1.7 | -18 | -3 |
| Foreign securities | 2.5 | 0.3 | 0.1 | -97 | -77 |
| Production and Infrastructure projects | 12.3 | 19.5 | 22.9 | 86 | 18 |
| Other credits and investments | 0.1 | 0.1 | 0.1 | -30 | -11 |

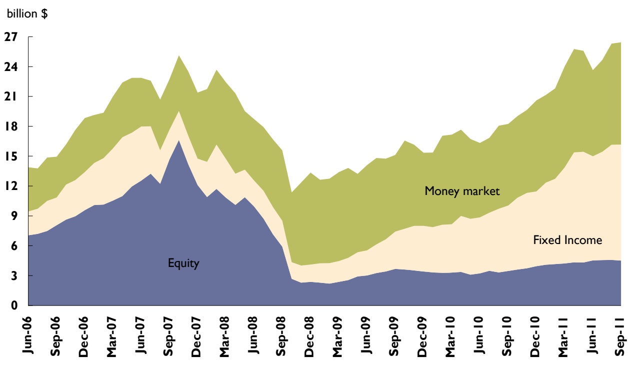
Source: FGS

**Chart IV.31**
**Breakdown of Insurance Companies Portfolio**
Over a total of $55,3 billions in assets as of Jun-11, by market segment and asset class




Source: BCRA based on SSN data

**Chart IV.32**
**Mutual Funds Net Worth Evolution**




Note: Mixed funds are included in equity funds, while time deposits and cash are included in money markets funds.
Source: BCRA based on Cámara Argentina de FCI data

security system announced in October 2008, it amounted to $189.3 billion, based on information available as of May 2011, improving 6% in year-to-date terms and 30% in y.o.y. terms (see Table IV.5). The performance recorded over the course of 2011 is partly accounted for the rise in the value of investments in sovereign bonds and other fixed income instruments (which represent 58% of the total), mainly due to a rise in the holding of securities in a context of modest performance of market prices. On the other hand, the balance of investments in infrastructure and productive projects increased, together with new disbursements of current loans and the start of new projects (with significant weighting of those related to power generation). Thus, and taking into account the latest information available, productive projects account for 12% of the total portfolio and make up the second most important segment after sovereign bonds, displacing local shares. The 39% rise in time deposits observed since December 2010 until May 2011 should also be highlighted. The aforementioned increases in bonds, productive projects and time deposits were opposed to a fall in liquid assets, which accounted for 5% of the portfolio, 3 p.p. less than the figure observed over the previous 6-month period.

Considering information as of June 2011, the investment portfolio of insurance companies amounted to $55.3 billion, up 24% y.o.y.. A 13% rise may be observed against the same period of 2010 in the value of investments in sovereign bonds, an item that accounts for 50% of the portfolio total (see Chart IV.31). Meanwhile, the rise in investments in time deposits and –to a lesser extent— in financial trusts should be highlighted, as they were the most important segments following sovereign bonds. In terms of activity segments, momentum continued being observed in investments of workers' compensation insurers (ART), with a 52% y.o.y. growth; the performance of investments of general insurance companies came second in place (with a 30% y.o.y. climb) , which account for a third of the aggregate portfolio.

Regarding MF, total equity currently[80] amounts to $26.3 billion, exhibiting a 46% y.o.y. hike. Fixed income funds continued gaining weighting and currently account for 44% of total net worth of MF, while they equaled 36% of the total in December 2010 (see Chart IV.32). On the other hand, more conservative funds aimed at money markets lost share, down to 39% of the total, with an 11% rise in their value over the year. Finally, on account of drops in prices in the equity market over the period, variable and mixed investment

[80] Information as of August 31st.

funds fell 13% in year-to-date terms and currently account for 17% of all MF net worth.

# V. Financial System Risks

## Summary

*In the first part of 2011 the financial system continued to record limited exposure to the main risks faced from the nature of its operations, maintaining significant levels of coverage as well as high solvency indicators. Although depth of lending has been rising from low levels, this situation has developed within the context of significant growth in financial intermediation activity.*

*The consolidation of financial intermediation activity has taken place at the same time as a reduction in main bank liquidity indicators. Nevertheless, the financial system shows a limited exposure to this risk, while maintaining ample coverage for short-term liabilities by means of liquid assets and the holding of monetary regulation instruments. In addition, the total amount of interbank repos has continued to rise, driven a greater depth in interbank markets.*

*While lending to the private sector has gradually increased its share of total assets, the financial system maintains a robust position in the face of credit risk. Company and household payment capacity has remained firm based on moderate borrowing levels and a constant rise in income levels. As a result, private sector lending non-performance posted a further decline in the first part of the year, falling to a record low. This positive performance, which included a further drop in the delinquent loan stock, affected both company and household credit lines. Banks maintain high coverage for non-performing loans by means of provisions.*

*The financial system also records limited exposure to foreign currency risk. Active currency mismatching for the banking system fell in the first half of 2011, during a period of low exchange rate volatility arising from the managed float policy being pursued by the Central Bank.*

*Interest rate risk faced by the financial system remained at moderate levels, showing a slight increase, explained mainly by financial intermediation transactions in local currency. The banking system also records limited exposure to the real rate of interest, with a reduction during the first half of 2011 in the mismatching between assets and liabilities adjusted on the basis of CER.*

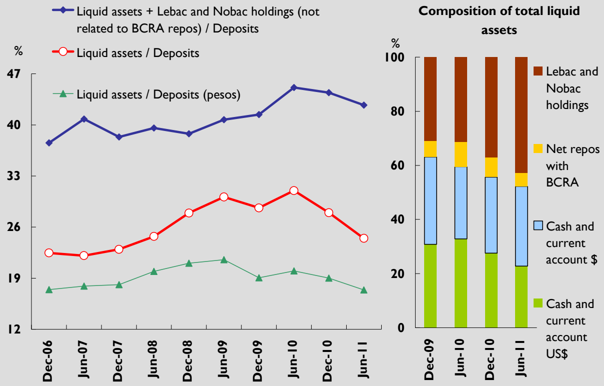
*Banking system exposure to market risk has risen from its low levels, mainly because of the relative increase of certain positions in government securities and monetary regulation instruments marked to market value. There has therefore been a slight increase in the volume of financial assets that could cause some fluctuation in systemic net worth in the event of changes in market conditions.*

*The financial system risk map has seen some minor changes compared with the situation that existed at the time of the previous FSR. Argentina's sound macroeconomic situation, added to high coverage and solvency levels in the sector differs from the conditions observed at international level. In this context, the outlook for the rest of the year is that the financial system should maintain its relative strength at the same time as financial intermediation continues to grow.*

**Chart V.1**

**Liquidity**

Financial system

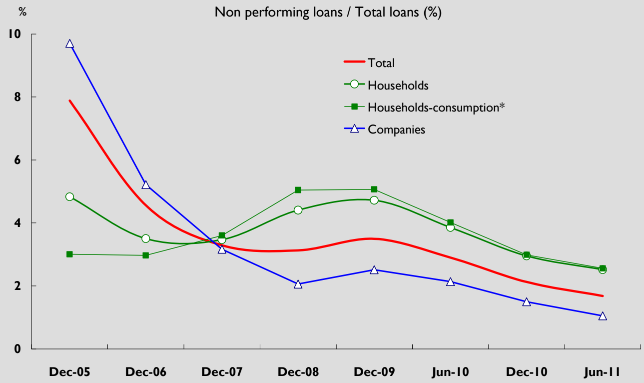



Source: BCRA

**Chart V.2**

**Non-Performing Loans to the Private Sector**

Non performing loans / Total loans (%)

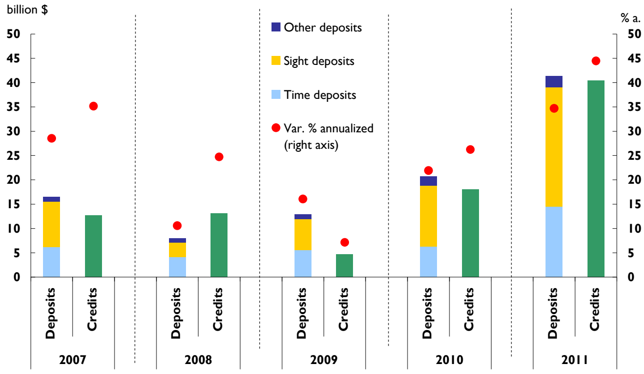



*Note: Includes Personal and Credit Cards.
Source: BCRA

Chart V.3

Change in Deposits and Credits to the Private Sector

Balance sheet data - First half - Financial System

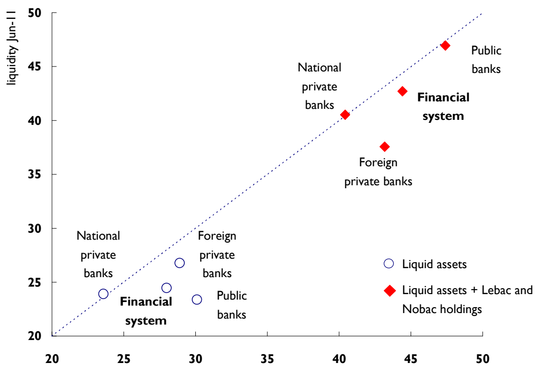



Source: BCRA

Chart V.4

Liquidity by Group of Banks

% of non-financial deposits




Source: BCRA

## V.1 Liquidity risk

### *Financial system liquidity risk exposure remains limited*

In the first part of the year, macroeconomic conditions in the local economy remained favorable (see Chapter II), with a low level of fluctuation in leading interest rates and limited exchange rate volatility. Within the framework of the monetary and financial policy implemented by the Central Bank, with a managed floating exchange rate regime as one of its pillars, that situation has provided a suitable context for the banking system to manage the liquidity risk faced from the nature of its operations in an adequate manner. It should be noted that macro-prudential aspects of the local regulatory framework include requirements for the setting up of cash reserves according to the currency in which the liability is stated, in an effort to provide more appropriate coverage for that risk in view of the characteristics of the Argentine economic and financial system.

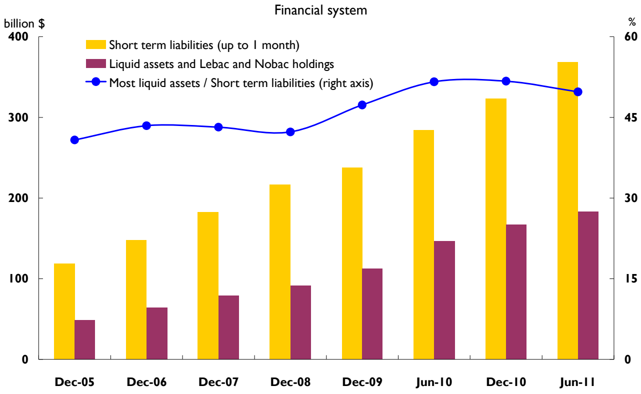
Private sector deposits recorded their largest relative increase in recent years, gaining strength as the main source of funding for financial entities during the first half of 2011. In terms of amounts, growth by this source of funds has been similar in size to the increase recorded in the stock of lending by the financial system to companies and households (see Chart V.3).

Relatively shorter-term financial system funding saw a slight drop in its share of the total in the first part of the year. Although private sector deposits recorded a slight shortening of their maturity in the period, the development of public sector placements more than offset that effect, following a notable performance by time deposits from this sector. At the same time, the incipient gaining of funding by financial entities through the issuance of corporate bonds (see Chapter II) meant that from their previous low levels these instruments have once again become a source of additional funding for the sector (a situation that had not been observed since the first half of 2007).

### *Liquidity risk coverage for the financial system remains at a high level*

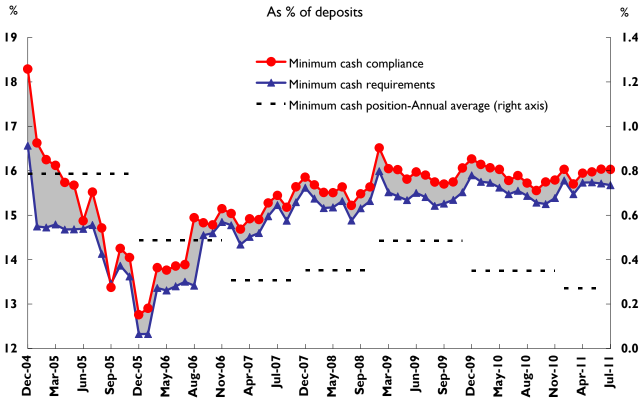
Within the framework of the sharp rise in the levels of financial system intermediation with the private sector during the first part of 2011, there has been a further reduction in the main banking liquidity coverage indicators. Most of these indicators peaked during 2010, in part as a result of the greater volatility of the

**Chart V.5**
**Most liquid asset in Terms of Short Term Liabilities***
Financial system



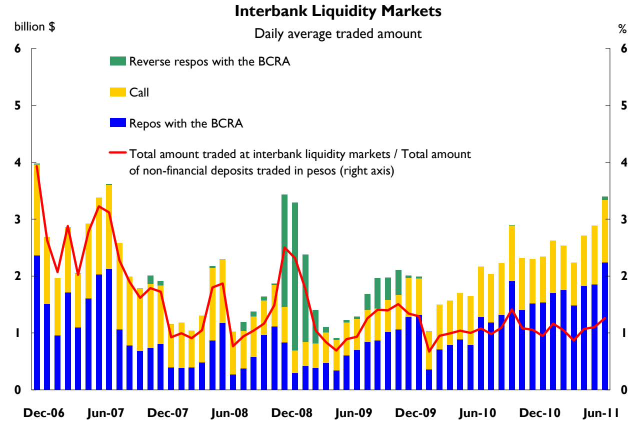

*Note: Residual terms
Source: BCRA

**Chart V.6**
**Liquidity in Pesos**
As % of deposits




Source: BCRA

**Chart V.7**
**Interbank Liquidity Markets**
Daily average traded amount




Source: BCRA

international context following the impact of the international financial crisis.

In the first half of the year banking system liquid assets[81] (in local and foreign currency) continued to decline in terms of total deposits, reaching 24.5% of the total. Domestic currency financial system liquidity fell to 17.4% of deposits in pesos in mid-2011, a reduction compared with the end of 2010 and compared with June of that year. If holdings of Lebac and Nobac not linked to repo transactions with the Central Bank are taken into account, there has also been a drop in the broad bank liquidity indicator, to 42.7% of deposits. As a result, having started from a high level, these indicators are gradually converging to the levels seen prior to the international financial crisis. In terms of their composition, holdings of Central Bank bills and notes increased their share of assets with greater relative liquidity (see Chart V.1). Foreign-capital private banks and public banks saw reductions in their liquidity indicators in the first half of 2011, while private domestic banks held them unchanged (see Chart V.4).

It should be noted that banks continue to post relatively high coverage levels for their short-term liabilities by means of liquid assets and their holdings of monetary regulation instruments. By mid-2011 almost half financial system liabilities with residual terms of less than one month were covered by the most liquid forms of assets, and these levels have been slightly lower than those of the last two half-years, although higher than those of previous years (see Chart V.5).

The financial system has continued to comfortably meet the Central Bank's liquidity requirements. In the case of the domestic currency segment, in mid-2011 banks recorded excess compliance with minimum cash requirements equivalent to 0.3% of deposits (see Chart V.6). Excess liquidity integration for foreign currency obligations was 39.5 at the end of the first half of 2011, having declined gradually following the use of resources to grant loans to the private sector, and because of the reduction in public sector deposits in that currency.

### *Interbank markets have gained in depth, mainly through increasing use of interbank repos*

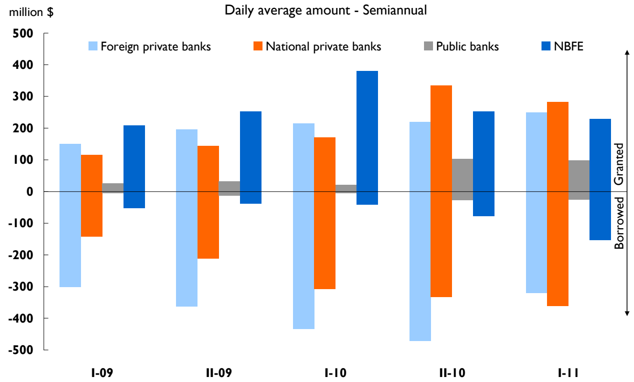
In the early months of 2011 the total value of repos between banks continued to rise, boosting the volume of interbank transactions (see Chart V.7). As in recent periods, during the first half of 2011 non-bank financial

[81] Including cash ("minimum cash reserve" compliance – in cash, current accounts at the Central Bank and in special guarantee accounts – and other items, mainly accounts with correspondents) together with the net creditor balance for financial entities repos with the Central Bank using Lebac and Nobac.

Chart V.8

Call Market

Daily average amount - Semiannual

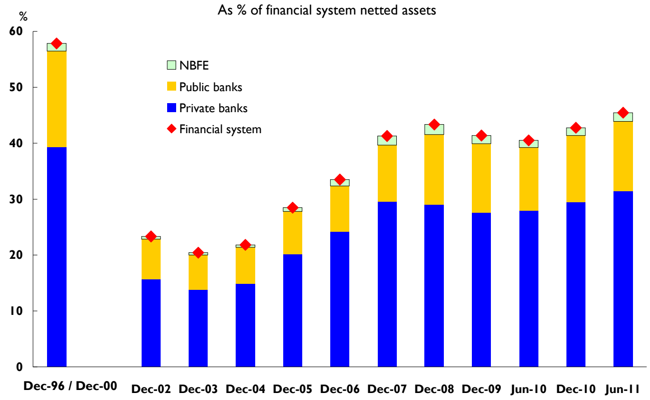



Source: BCRA

Chart V.9

Loans to Non-Financial Private Sector

As % of financial system netted assets




Source: BCRA

entities and public banks were net providers of funds in the call market, while private banks continued to demand resources (see Chart V.8).

Mention should be made of the fact that the local financial system safety net includes a Bank Deposit Guarantee Insurance scheme. In January 2011 this insurance was raised from $30,000 to $120,000 per depositor. This insurance coverage does establish certain coverage limits[82] in relation to amount, beneficiary and interest rate levels. In Argentina this insurance is mandatory and onerous for local financial entities. It forms part of the macro-prudential regulatory framework, incorporating a preventive effect and an additional liquidity risk moderating factor at times of stress.

***Lending to the private sector is expected to continue to grow steadily in a context of solid coverage for the liquidity risk faced by the financial system***

Certain liquidity indicators could continue to decline over the remainder of the year, following a steady increase in bank lending to the private sector. Banks are expected to maintain low exposure to liquidity risk, and to carry adequate cover for it. In addition, the Central Bank has preserved its role as a lender of last resort to deal with any temporary liquidity problems that could be experienced by financial entities.

## V.2 Credit risk

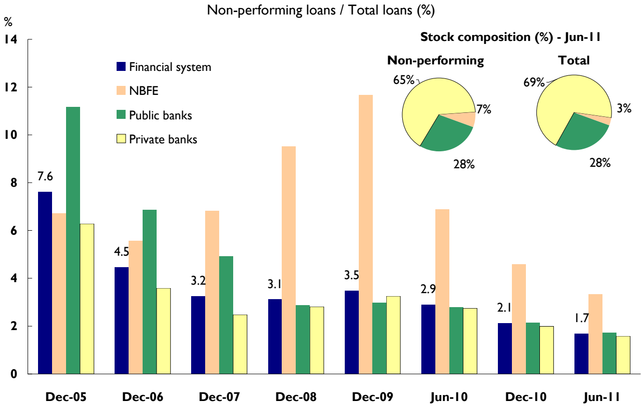
### *V.2.1 Private sector*

***The financial system maintains a sound position in the face of the credit risk it has assumed, at a time during which lending to the private sector continues to gain share of total assets***

Within a framework of sustained credit expansion, in the first half of 2011 gross financial system exposure to the private sector reached its highest level for the last 10 years (see Chart V.9). This performance was driven by both private and public banks. Despite this trend, financial entities as a whole maintained a limited exposure to credit risk. Moderate levels of company and household indebtedness and the steady rise in income levels have limited the repayment risk to the financial system of lending to the private sector. As a result, the

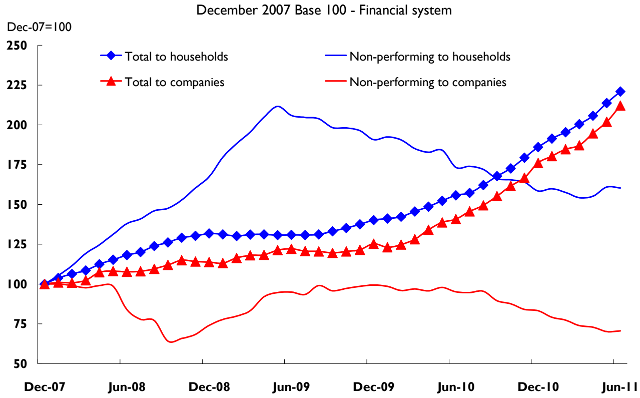
[82] The guarantee mechanism insures deposits in pesos and foreign currency on the same terms for individuals and legal persons. Insurance covers current account, savings account and time deposits. It does not cover deposits for which interest rates have been agreed in excess of the reference rates published periodically by the Central Bank. The guarantee fund is formed by contributions from financial entities, and is managed by a company set up for the purpose: Seguro de Depósitos SA (SEDESA).

**Chart V.10**
**Non-Performing Loans to the Private Sector**
Non-performing loans / Total loans (%)



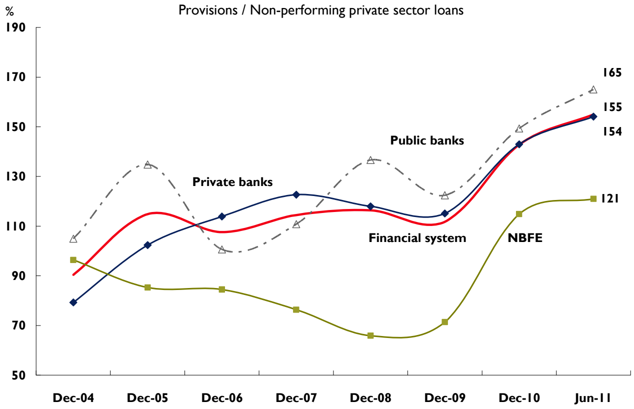

Source: BCRA

**Chart V.11**
**Financing**
December 2007 Base 100 - Financial system




Source: BCRA

**Chart V.12**
**Provisions**
Provisions / Non-performing private sector loans




Source: BCRA

banking system continued to post a reduction in loan non-performance levels, at the same time as coverage levels by provisions were increased.

### *There continue to be signs of improvement in loan quality and cover for credit risk*

Private sector lending non-performance posted a drop of 0.4 p.p. in the first half of the year, setting a new record low of 1.7% of total loans. This improvement was shared by all groups of financial entities (see Chart V.10). Positive performance affected both corporate and household credit lines (see Chart V.2). In the case of both corporate and household lending, this reduction in delinquency ratios was explained by the faster growth rate for loan totals and a drop in delinquent loans[83] (see Chart V.11).

The financial system records a sound coverage of non-performing loans by provisions. By the middle of 2011, the coverage ratio for the banking system stood at 155% (see Chart V.12). All groups of financial entities have recorded an improvement in this ratio, which in all cases has exceeded 100%. Compared with mid-2010 there has been a slight drop in the proportion of loans to the private sector covered by preferred guarantees, to 16% of the total. At June 2011, the level of delinquency in private sector lending without preferred guarantees was almost the same as that for loans with such guarantees.

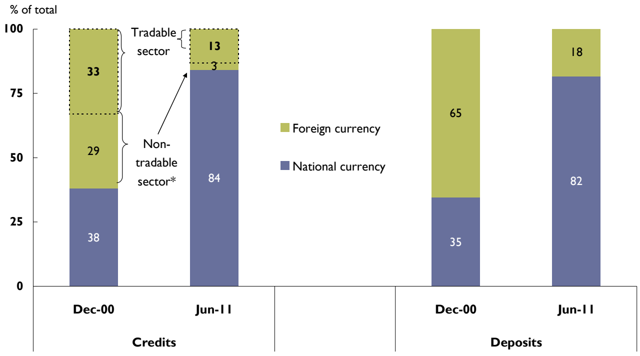
Bank lending in foreign currency remained at moderate levels, and was granted to tradable sectors of the economy (see Chart V.13). Financial system credit risk derived from fluctuations in the nominal peso-dollar exchange rate is virtually nil. This strength for the financial system in particular and the economy in general is a consequence of the macro-prudential regulations designed by the Central Bank to restrict this risk. Regulations establish that banks can offer loans in foreign currency exclusively to borrowers recording income with a positive correlation to the evolution of the exchange rate.

### *Banks are expected to maintain an adequate position in the face of credit risk to the private sector, giving rise to greater depth for lending in relation to total assets, as long as turbulence on international markets has only a limited impact domestically*

For the rest of the year it is expected that both companies and households will maintain their payment

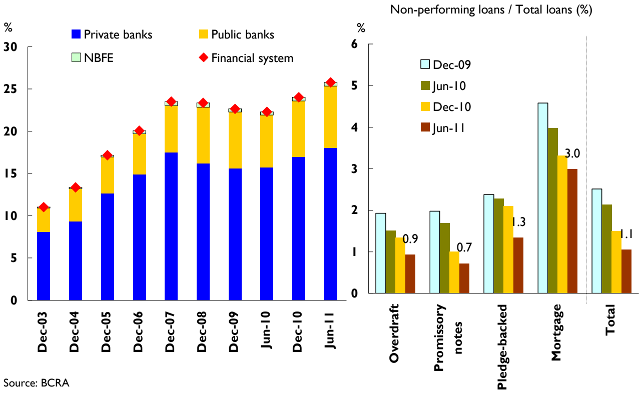
[83] The reduction in the balance of loans in an irregular situation has mainly been due to improvements in debtor payment capacity, although there were other reasons, such as the transfer of loans to the unrecoverable category (in memorandum accounts, excluded from assets).

Chart V.13
Financial Intermediation with the Private Sector by Currency
Financial system



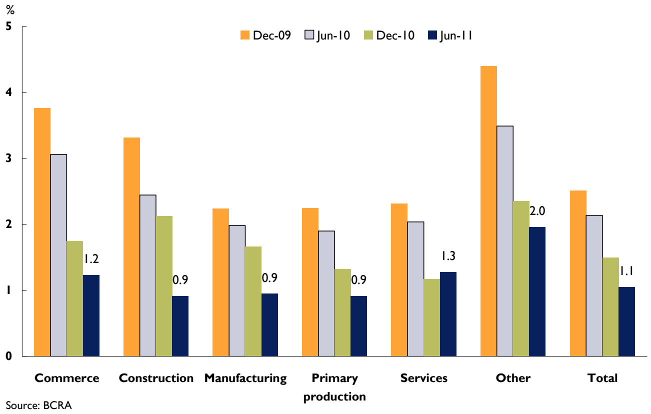

*Note: Non-tradable sector financing estimation considers loans in foreign currency to households, construction sector, gas, water, electricity and other services
Source: BCRA

Chart V.14
Companies Financing




Source: BCRA

Chart V.15
Non-performing Financing to Companies by Economic Sector




Source: BCRA

capacity as the credit market gradually expands. The financial system records a healthy and growing exposure to the private sector from low levels, with delinquency at historical lows and robust coverage by means of provisions. Although the outlook could be affected in part by the volatile international context, the position of financial entities in the face of private sector credit risk would continue to show a favorable balance.

## Companies

***The financial system significantly increased its exposure to the corporate sector while continuing to reduce non-performance levels***

Bank credit growth has been driven mainly by lending to the corporate sector, which increased its share of total assets (see Chart V.14) to its highest level since the local crisis in 2001-2002. The position of the financial system in the face of corporate credit risk was strengthened in the first part of the year on the basis of the improvements in payment capacity of the sector, which benefitted from notable economic activity levels (see Chapter III). At the same time, it should be noted that the corporate sector has continued to record low levels of indebtedness, although showing some variation between sectors.

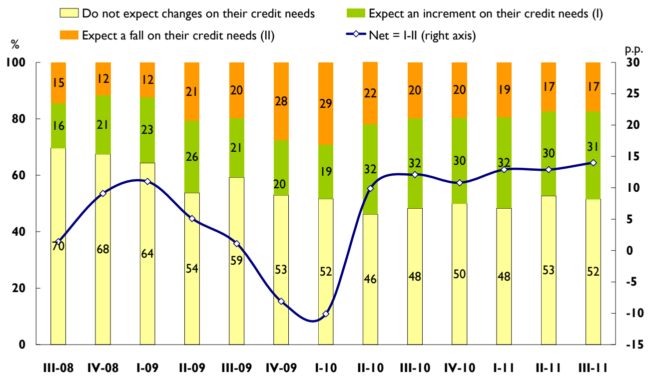
Corporate loans recorded a delinquency level of just 1.1% by mid-2011, a drop of 0.4 p.p. compared with the end of last year. The improvement in quality of loans to the productive sectors of the economy took place in all credit lines, with the best relative performances being seen in the case of overdrafts and promissory notes, the lines with the greatest relative weight. This movement was seen in almost all productive sectors, with a notable decline in non-performance in construction, manufacturing and commerce (see Chart V.15). It should be noted that economic activities with the greatest weighting in lending to companies, manufacturing industry and primary production, recorded non-performance levels of under 1% at the end of the first six months.

***The banking system will continue to increase its exposure to companies in a context of limited credit risk***

Looking forward to the end of 2011, it is expected that high levels of economic activity will be maintained, leading the corporate sector to continue to increase the financing it obtains from the financial system. In line with this trend, companies in the manufacturing sector, which has been making the greatest contribution to the rise in bank borrowing (see Box 3), expect to continue

**Chart V.16**

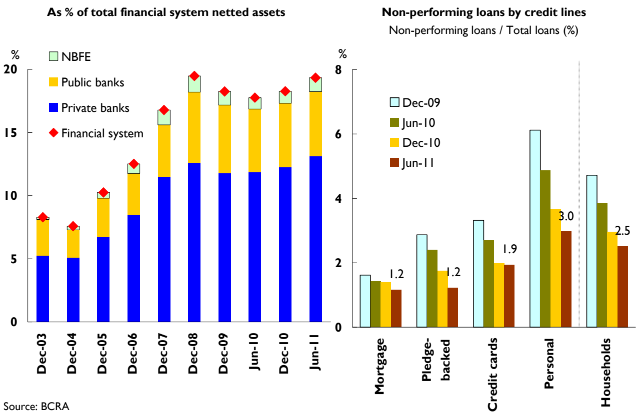
**Quartely Financing Needs Expected for Manufacturing Sector**




Source: EMI - Qualitative information - INDEC

**Chart V.17**

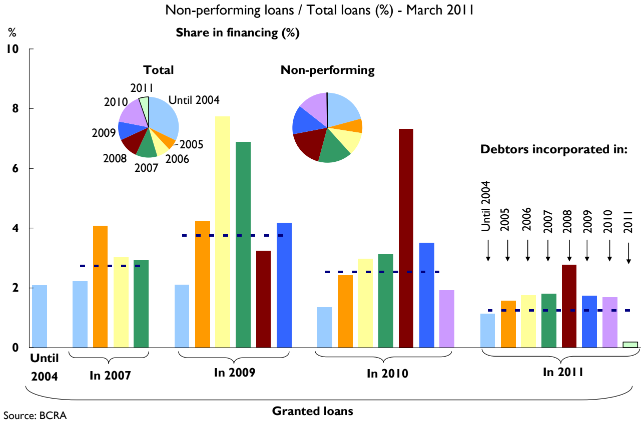
**Household Financing**




Source: BCRA

**Chart V.18**

**Household Loans by Granted Period - Estimation**




Source: BCRA

to increase the funds they obtain from banks in coming periods (see Chart V.16), maintaining moderate levels of total indebtedness (in terms of sector output).

## Households

***Lending to households has continued to increase its share of bank assets, with further improvement in credit performance trends by the sector***

The banking system continued to increase its exposure to households in the first part of 2011 (see Chart V.17), mainly from the boost provided by consumer lending, although the maximum levels seen prior to the recent international crisis have not yet been reached. The sector's payment capacity has been gaining strength in view of the low levels of total household borrowing when compared to past periods, as well as showing one of the lowest levels when compared with international standards (see Chapter III). The non-performance ratio for these bank loans has continued to fall, so that the position of the financial system in relation to household credit risk is maintaining its favorable trend.

At the end of the first half of 2011 lending to households recorded a delinquency ratio of 2.5% of loans, a drop for the year of 0.5 p.p. Delinquency has fallen for all credit lines (see Chart V.17), with the consumer segment continuing to evidence the highest non-performance levels.

It is estimated that lending granted to households in 2009 to borrowers entering the financial system during the recent international financial crisis show a relatively higher delinquency ratio than the average for the segment (see Chart V.18). Note should be taken of the relative share of loans granted to households entering the financial system in the last two-and-a-half years (almost one third of the total volume of lending to households).

***The risk of lending to households would continue to be limited, although it is possible that the consumer loan portfolio may have reached its lowest delinquency level***

During the remainder of the year there are expected to be improvements in labor conditions, in terms of better quality of employment and a moderate drop in unemployment. This situation would contribute to preserving the sector's payment capacity. In addition, total household debt is likely to continue to rise steadily from moderate levels. In this context, banks would

# *Box 5 / Basel III and the Prudential Regulatory Framework of the Argentine Financial System*

**The global financial crisis led to reconsideration of financial regulation and supervision at international level that materialized mainly in the form of the new capital and liquidity recommendations for banks, known as Basel III. As a G-20 member, Argentina will observe these new standards, which will be implemented locally without losing sight of the particularities of the local financial system, with the eventual aim of promoting the productive development of the country**

In 2007 the Central Bank published its road map for the implementation of the capital adequacy requirements issued by the Basel Committee on Banking Supervision (BCBS), better known as Basel II. The first stages were carried out as planned: publication of best practices for risk management, holding of seminars, review of supervision processes on the basis of the best practices being encouraged by the BCBS, analysis of the areas subject to national discretion in the calculation of regulatory capital, and publication of regulations with guidelines for operational risk management. At the same time as this progress was being made, there began to be signs of the magnitude of the sub-prime financial crisis in the United States, which was subsequently to achieve unprecedented depth at a global level.

The situation resulted in a review of financial regulation at international level, including the standards introduced by Basel II. In response to a request from the G20 leaders, national supervisors, the Financial Stability Board (FSB) and the BCBS, together with other issuers of international standards for voluntary adoption, carried out a survey of the deficiencies that influenced the development of the crisis. In this context, the BCBS embarked on a process for the comprehensive reform of current standards, designed to increase the capacity of the system to absorb shocks from stress situations, improve risk management and boost the transparency of bank disclosures. As a result, at the end of 2010 the BCBS published a set of measures known as Basel III[84]. Unlike Basel II, the new standards not only measure risks at the level of each financial entity, they also contain a macro-prudential component, with the aim of determining the impact of the accumulation and contagion of risk at the level of the entire financial system.

In the middle of 2009, in response to the international financial crisis, the BCBS began to make a series of changes to Basel II. As a result, in 2009 adjustments were made that mainly affected the proposed treatment for market risk and securitization, while at the end of 2010, more significant changes were made to ensure a more conservative treatment in relation to the instruments accepted for capital compliance, and improvements were made in the treatment of credit risk.

Basel III incorporates the terms of Basel II, contained in three “pillars.” Basel II’s Pillar 1 provides supervisors with a number of options to quantify capital requirements for credit, operational and market risk, at the same time as defining which components of an institution’s net worth were eligible to satisfy that requirement. Pillar 2 describes the process to be followed by institutions to evaluate the sufficiency of their capital in relation to their risk profile and the review of such evaluation to be made by the supervisor. To encourage market discipline, Pillar 3 establishes minimum information that banks must provide to the general public.

In terms of minimum capital, Basel II established that at least half the capital requirement of 8% of risk-weighted assets should be composed of basic capital (Tier 1), preferably common equity, a category that includes common shares and retained earnings. Basel III establishes more demanding requirements: banks must comply with three minimum ratios in relation to their risk-weighted assets: 4.5% in the case of basic capital (for which qualifying criteria are more restrictive than for Basel II), 6% for Tier 1 capital, and 8% for total capital. This new capital composition ensures there will be greater capacity to absorb losses in stress situations. Although internationally these three requirements will be introduced as from 2013, in Argentina the average current composition of financial entities net worth ensures that the total requirement can be met out of ordinary stock and reserves. At system level, ordinary capital is equivalent to 12.33%[85] of credit risk weighted assets, coverage well in excess of the total Basel III requirement.

Basel III has incorporated a capital conservation buffer, an additional requirement equivalent to 2.5% of risk-

[84] For further details see Box 5 (I-10 FSR) and Box 6 (II-10 FSR).

[85] July 2011 estimated.

weighted assets that must be met by ordinary capital[86]. The purpose of this buffer is to be able to count on sufficient reserves to absorb additional losses generated at times of economic and financial stress. In fiscal years in which ordinary capital is less than 7% of risk-weighted assets (the 4.5% requirement plus the new conservation buffer), rising constraints are established for banks, which will not be able to pay out dividends, award discretionary bonuses or perform share buybacks. In Argentina the financial system operates with a considerable excess of capital and there is a complementing regulatory framework covering profit distribution[87] leading to a capital integration excess in terms of risk-weighted assets of slightly over 2.5%. The new framework also plans for the incorporation of a countercyclical capital buffer, to offset the procyclical nature of the financial system. In times of exceptional credit growth at aggregate level, financial entities will be required to boost the level of their ordinary capital by up to 2.5% of risk-weighted assets.

It should be noted that Basel III complements risk-weighted asset capital requirements with a limit on total leverage. This limit, known as the leverage ratio, is the ratio between basic capital (Tier 1) and total assets without risk weighting, both on and off balance sheet, plus derivatives. This new measurement will begin to operate as a limit as from its incorporation to Pillar 1 in 2018, setting an initial ratio of 3%. In Argentina, financial entities record a significantly lower leverage than the proposed maximum, although it should be considered that the information necessary to make the calculation still needs additional requirement, work that is currently being carried out.

In view of local experience in relation to the potentially adverse effects derived from currency mismatching, the Central Bank duly raised the importance of dealing with such mismatching explicitly in international recommendations. This was a weakness of Basel II (although a capital requirement for market risk existed, there was no cap on the mismatching) and this was not explicitly included in Basel III (although a limit existed through the leverage ratio, regardless of the currency in which the assets are stated), nor is consideration given to mismatching arising from the granting of foreign currency loans to agents whose income is in local currency. Both these dimensions are adequately covered locally by Central Bank regulations. As part of its "macro-prudential" policy Argentina has introduced a mandatory unremunerated 30% reserve requirement on short-term funds from abroad that are not intended for direct investment with a minimum permanence of 1 year to prevent the generation of bubbles produced by speculative short-term capital inflows.

These new international recommendations also established a liquidity coverage ratio (LCR)[88] that will be calibrated so that financial entities can tolerate stress scenarios with duration of one month.[89] It should be noted that liquidity requirements in force in Argentina are stricter than those established by the international standard: liquidity requirements can reach 20% of liabilities, depending on the type of liability covered and its residual term. Liquidity reserves must be held in the currency that the liabilities are denominated in, to mitigate pressure on the exchange market during stress periods.

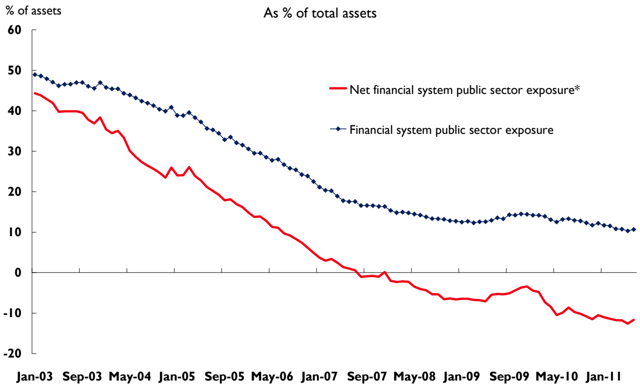
Last, the FSB and the BCBS are working on the design of an appropriate regulatory framework for global systemically important financial entities (G-SIFIs). Alternatives being evaluated include setting more demanding capital requirements than those foreseen by Basel III. In 2012 agreement is expected to be reached on a method for the identification of the institutions that would be included and the volume of additional capital they would need to ensure a greater loss-absorbing capacity.

In line with the commitments assumed, the Central Bank has been working on implementation of the terms of Basel III[90], adapting them to take into account the particular conditions in emerging countries, experience gained from the financial crises suffered locally, the characteristics of our financial system, and current legislation. The incorporation of international standards will serve to ensure the Central Bank continues with its regulatory and supervisory activity designed to encourage credit for production and investment, accompanying a macroeconomic model intended to achieve growth and social inclusion.

[86] Partial introduction in 2016 and full implementation as from 2019.
[87] See regulations on "Profit Distribution"

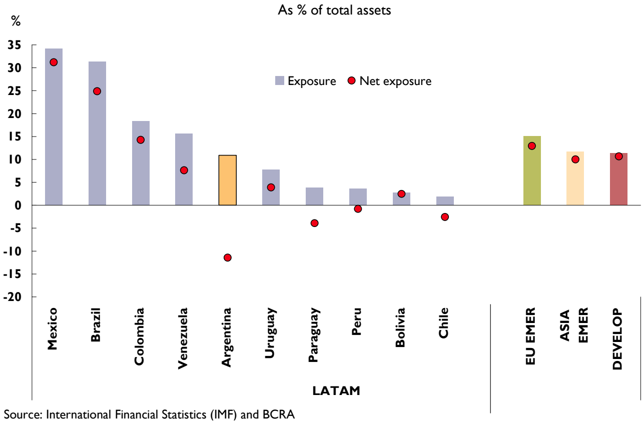
[88] Effective as from January 2015.
[89] Basel III also establishes (as from 2018), a long term liquidity ratio - the net stable funding ratio (NSFR) – that will be calibrated on the basis of structural funding mismatches.
[90] See "Changes to standards and progress toward Basel III" at www.bcra.gov.ar / Regulations / Legal Framework.

**Chart V.19**
**Financial System Exposure to the Public Sector**
As % of total assets



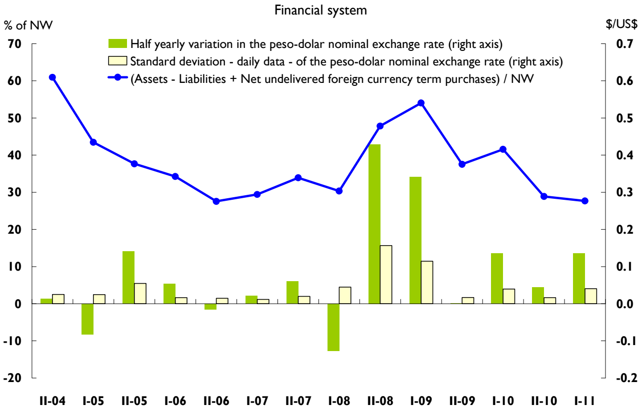

* Note: (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets
Source: BCRA

**Chart V.20**
**Securities and Loans to the Public Sector**
As % of total assets




Source: International Financial Statistics (IMF) and BCRA

**Chart V.21**
**Currency Mismatching and Exchange Rate Volatility**
Financial system




Source: BCRA

continue to gradually increase their exposure to households, maintaining their position in the face of the credit risk assumed.

Towards the end of 2011 the challenge will be to balance growth in consumer lending while maintaining the low levels of delinquency in the segment.

### *V.2.2 Public sector*

#### *Gross financial sector exposure to the public sector continues to decline*

Within the framework of sustained growth in bank exposure to companies and households, there has been a gradual reduction in financial system lending to the public sector. By mid-2011, bank exposure to this sector reached 10.7% of total assets, 2.5 p.p. less than in the same period of the previous year. Furthermore, public sector deposit totals for the various jurisdictions are well in excess of the loans granted to this sector. In mid-2011 the banking system recorded a net debtor position equivalent to 11.7% of total assets (see Chart V.19). It should be noted that these levels of financial system exposure to the public sector are below those of other economies in the region (see Chart V.20).

At a time during which domestic tax revenue is maintaining its high growth rate, the public sector continues to fund its borrowing needs mainly by means of the use of intra public sector funds, being estimated that for the remainder of the year the primary balance will remain in surplus. Financial system exposure to the public sector is expected to remain at a low level, with banks continuing to show a favorable position in the face of public sector credit risk.

## V.3 Currency risk

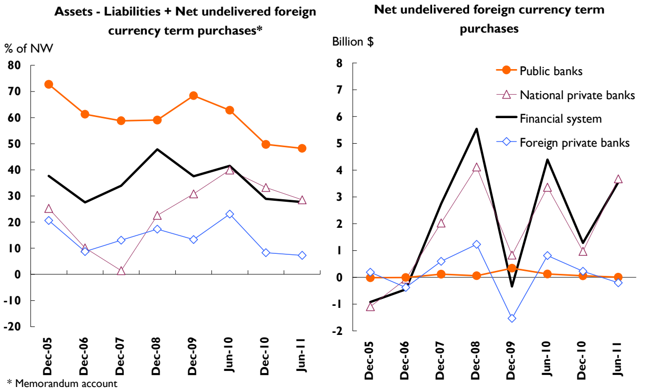
#### *The financial system maintains limited exposure to currency risk*

Financial system active foreign currency mismatching declined slightly in the first half of 2011, in the context of limited exchange rate volatility. As a result, the banking system has recorded low balance sheet exposure to currency risk. Towards the middle of the year, the broad mismatching indicator[91] stood at 27.7% of financial system net worth, 1.2 p.p. less than at the end of 2010 (see Chart V.21).

In the first half of 2011 a decline was recorded in financial system foreign currency assets (mainly banks'

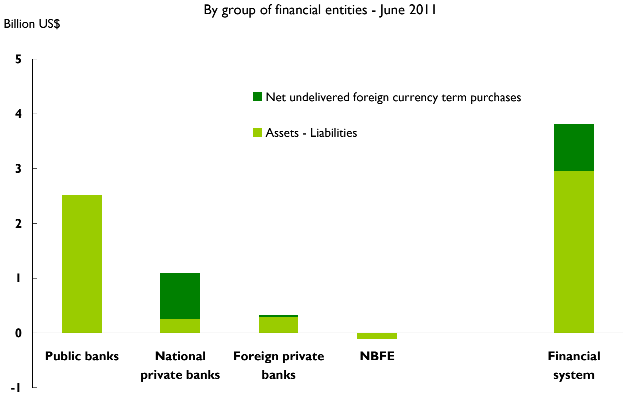
[91] Includes asset and liability items and term foreign currency transactions in memorandum accounts.

**Chart V.22**
**Currency Mismatching**



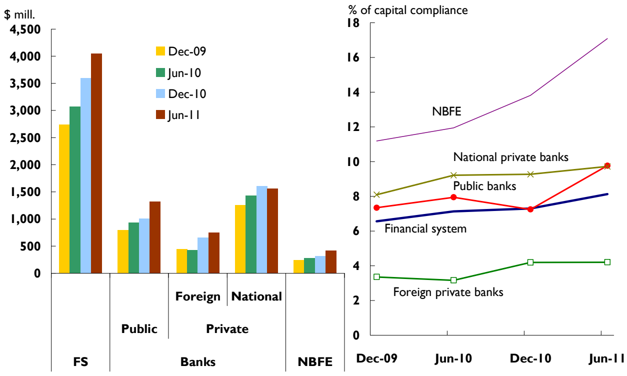

* Memorandum account
Source: BCRA

**Chart V.23**
**Composition of the Foreign Currency Mismatch**
By group of financial entities - June 2011




Source: BCRA

**Chart V.24**
**Minimum Capital Requirements for Interest Rate Risk**
By group of financial entities




Source: BCRA

current accounts and government securities, partly offset by increased lending to exporters) which was added to a slight increase in banking system liabilities (mainly private sector deposits and net corporate bond placements, moderated by a reduction in public sector deposits). These movements were partly offset by increased net term purchases of foreign currency without delivery of the underlying asset (foreign currency derivatives). All groups of banks posted a reduction in foreign currency mismatching in the first part of 2011 (see Chart V.22).

In mid-2011 close to 77% of the broad foreign currency mismatching originated in the difference between assets and liabilities, the rest being made up of net term purchases of foreign currency for settlement in pesos (term purchases of foreign currency in excess of term sales) (see Chart V.23). Public banks accounted for 85% of the aggregate difference for the financial system between assets and liabilities in foreign currency, while private domestic banks recorded 96% of net forward purchases of foreign currency.

In a context of moderate volatility, in the first half of 2011 the nominal peso-dollar exchange rate rose by around 3.4%. As in previous periods, the restatement of bookkeeping items meant that the higher nominal exchange rate generated book profits for the banking system from the active mismatching position recorded[92].

***Exchange rate volatility is expected to remain at moderate levels through to the end of 2011, helping to maintain limited bank exposure to currency risk***

It is likely that the financial system will slightly increase its active foreign currency mismatching in the second half of 2011 from moderate levels, within the framework of the financial turbulence seen on international markets. Nevertheless, exchange rate volatility is expected to remain low from the combination of the managed floating exchange rate regime being promoted by the Central Bank and prudential short-term capital flow management regulations. As a result, the risk of exchange rate fluctuations having a negative impact on bank net worth will remain at a low level.

## V.4 Interest rate risk

***Banking system exposure to interest rate risk remains low***

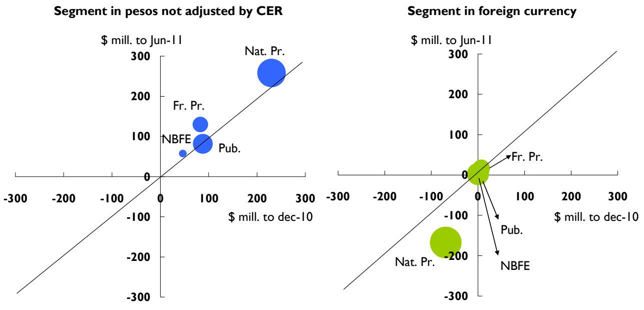
[92] In addition, financial entities post gains or losses from their term foreign currency transactions.

**Chart V.25**

**Difference of Present Values of Assets Net of Liabilities by Intermediation***

**According Minimum Capital Requirement by Interest Rate Risks**

Groups of financial entities in Dec-10 and in Jun-11



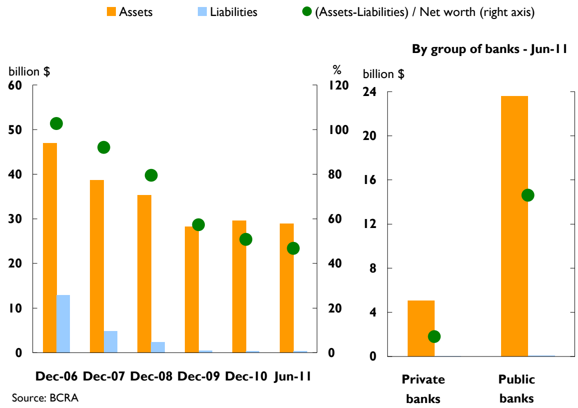

* VAN i,r - VAN i,r'; con: VAN=present value of assets net of liabilities; i=segment, r=interest rate; r'=r+0,01. According to minimum capital regulation. Note: The size of the bubbles represents the total interest rate risks requirement.

Source: BCRA

**Chart V.26**

**CER Mismatching**

CER adjusted items - Financial system




Source: BCRA

From previously low levels, in the first half of 2011 the financial system has seen a slight increase in its exposure to interest rate risk. As a result of this rise, regulatory capital requirements for interest rate risk were increased, particularly in the case of public banks, and to a lesser extent for private foreign banks and non-bank financial entities (see Chart V.24). Despite this growth, interest rate risk has remained at limited levels for the financial system as a whole. Regulatory capital requirements for interest rate risk represented only 8.1% of total capital compliance by financial entities, barely higher than the levels of previous six-month period.

This slight increase in regulatory minimum capital requirement was largely explained by financial intermediation activity in domestic currency not subject to CER adjustment (see Chart V.25). It should be noted that the intrinsic interest rate risk faced by banks results from the lower level of restatement for asset flows than for liability flows when there are changes in interest rates, mainly in the segment of operations in pesos. In the case of transactions mainly agreed at fixed rates, this lower level of asset adjustment in relation to liabilities is due mainly to their longer duration.

***Real interest rate mismatching continued to decline***

The banking system also records limited exposure to the real interest rate risk. The drop in PGN (National Guaranteed Loan) and CER-adjusted government security stocks recorded in the first half of 2011 was responsible for a further reduction in the difference between financial system assets and liabilities subject to CER-adjustment. As a result, towards the middle of the year this mismatching was equivalent to less than half the net worth of the banking system (see Chart V.26).

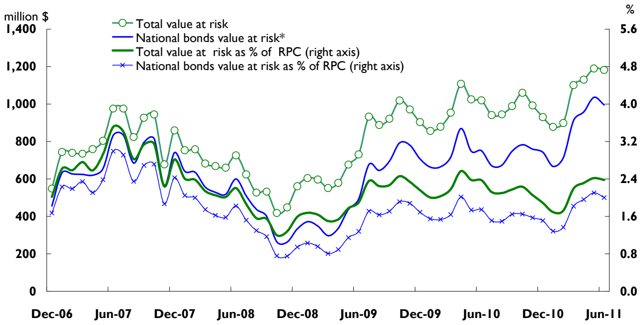
***Bank net worth exposure to interest rate risk would remain at a low level, although the international situation, among other factors, could condition the performance of domestic interest rates***

The outlook for the international scene in coming months appears uncertain, and this will to some extent condition the development of financial assets and leading interest rates. Nevertheless, the strength of local macroeconomic fundamentals will restrict the possibility of any development of a scenario involving significant changes in interest rates. In view of the relatively low exposure to this type of mismatching, there continues to be a very low probability of the materialization of this risk factor faced by the financial system.

**Chart V.27**

**Market Value at Risk**

Total minimum capital requeriments and national bonds minimun capital requirements*

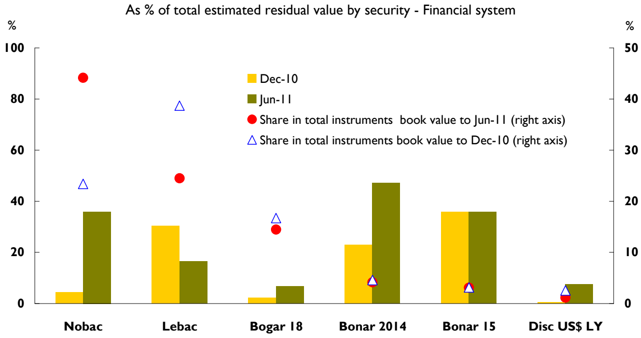



*Included positions: (i) public bonds, Lebac and Nobac considerated in the list of volatilities (issued by this Institution) and recorded to fair market value and (ii) share of MF which concern the securities and instruments mentioned previously.
Source: BCRA

**Chart V.28**

**Main Instruments* with Market Prices****

As % of total estimated residual value by security - Financial system




* Position of government securities and monetary regulation instruments (Lebac and Nobac).
** In Jun-11 we consider "fair market value" holdings, while in Dec-10 we include assets "with market prices" and "available for sale". The book value of the selected sample of securities represented 92% of the overall position of government securities and monetary regulation instruments in Jun-11 (89% at the end of 2010).
Source: BCRA

It should be noted that one of the tools that financial entities can count on to manage this risk is participation in the interest rate futures market. Although there is still significant margin for the deepening of this market, in 2011 there has been an increase in the trading volumes for Badlar rate futures (see Chapter II), a market in which the Central Bank acts as a neutral counterpart.

## V.5 Market risk

### *Financial system exposure to market risk has risen from a low level*

There has been a slight increase in the regulatory bank capital requirement in relation to market risk in the first half of 2011 (see Chart V.27). This increase was mainly driven by the value at risk of domestic bonds[93], a component accounting for 84% of the total requirement. Despite this increase, it should be considered that market risk continues to play a minor role in the financial system risk balance. The regulatory requirement for market risk accounted for only 2.4% of total banking system requirements, and remains at levels lower than those seen at the start of the financial crisis at the end of 2007.

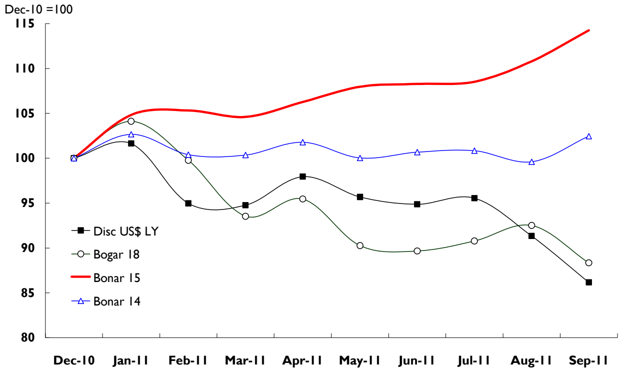
The increase in exposure to market risk recorded in the first half of 2011 was mainly caused by increased positions in government securities and monetary regulation instruments held at fair value by banks (see Chart V.28). As a result, there was a gradual rise in the volume of financial assets that could lead to certain fluctuation in financial system net worth in the event of changes in market conditions.

In March 2011 a simplified system came into effect for the valuation of government debt securities and Central Bank monetary regulation instruments[94]. Consequently, at present only the criteria for recording these items at fair market value or cost of incorporation to the books plus monthly yield (IRR) remain in force. These changes improve transparency in terms of financial entities balance sheet exposure, and facilitate the understanding of regulations associated with the valuation of these financial assets.

This change by the Central Bank did not lead to significant balance sheet fluctuations for the sector, as it was introduced once the process of normalization carried out in recent years following the domestic crisis

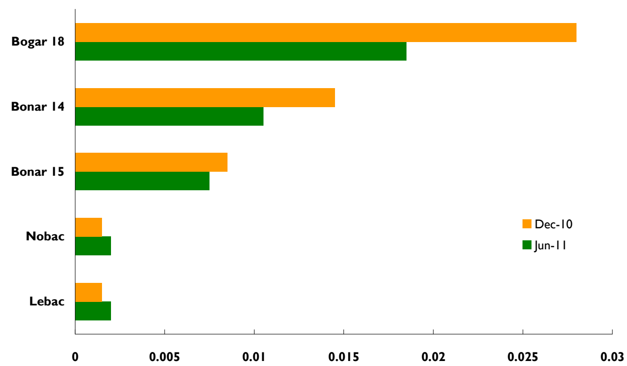
[93] Positions include: (i) government securities and monetary regulation instruments issued by the Central Bank included on the volatility listing published by this Institution, recorded at fair value, and (ii) mutual funds quota shares when they are based on securities and instruments mentioned in the previous point.
[94] Communication “A” 5180.

**Chart V.29**
**Government Securities Prices**
Per 100 residual value - Monthly average of daily data - Index




Source: BCRA

**Chart V.30**
**Daily Volatility for the Calculation of Market Risk Capital Requirement**




Source: BCRA

in 2001-2002 had been concluded. Furthermore, as financial markets in emerging economies are usually subject to relatively significant volatility levels, under the new scheme the Central Bank established mechanisms that enable a medium-term view to be taken, mitigating the procyclicality that could arise from marking such securities to market. In particular, banks have the possibility of setting up a provision equivalent to 10% of their position in instruments recorded at fair market value, to protect their income statements from volatility in security prices. In addition, those banks with liquid assets (such as cash, debt instruments at market value, and Central Bank bills and notes) in excess of 40% of their deposits will be able to record part of their holdings that are regularly listed at amortized acquisition cost. It should be noted that the Central Bank laid down that any initial accounting effects from this change in valuation system could be spread over a term of 60 months, to prevent any possible impact on the bank financial intermediation process.

These developments took place during a period in which the prices of leading government securities recorded an uneven performance (see Chart V.29). In the first part of the year the reduction in volatility of the most notable government securities (see Chart V.30) contributed to offset the increase in bank exposure to market risk.

***Although the performance of the prices of the leading financial assets in bank portfolios is largely conditioned by the international situation, it is expected that the financial system will continue to limit its exposure to market risk***

The existence of areas of global tension could unleash new episodes of volatility, with a potential impact on local bond prices. In such a context, some materialization of market risk faced by banks could be expected, although it would remain at low levels.

# *Box 6 / Commitment in Relation to Assets Laundering Prevention*

**Argentina is permanently committed to achieve improvement in the legal and regulatory framework for the prevention of asset laundering and the financing of terrorism. Progress made in relation to the legal framework in recent years to strengthen the struggle against organized crime through greater control over financial activity reflects the significance of the policy that the Argentine state is pursuing**

As part of the deepening of government policy for the prevention of asset laundering activity and the financing of terrorism, by means of Decree 1936/10 the Financial Information Unit (UIF)[95] was assigned responsibility for coordination and representation of the country at the Financial Action Task Force (FATF), the Financial Action Task Force of South America (GAFISUD) and the Organization of American States Inter-American Drug Abuse Control Commission (LAVEX-CICAD-OAS). In addition, the same decree empowered the UIF to require the collaboration of local control and supervision entities (Central Bank of Argentina –BCRA- the National Securities Commission, and the National Insurance Superintendence), to improve and extend its task of investigating criminal activities.

As a result, in January 2011 the UIF issued Resolution 12/2011 setting out the measures and minimum procedures to be carried out by the Central Bank to prevent, detect and report transactions that could be linked to asset laundering crimes and the financing of terrorism. This Resolution covers the dual role that Law 25,246 on "Concealment and Laundering of Assets of Criminal Origin" assigned to the Central Bank, as both a party obliged to inform the UIF and as the control authority for the financial system and the exchange market.

On the basis of these regulations, the Central Bank began to take various steps to adapt the structure of its organization, its procedures and its policies on the matter. Various actions began to be taken to comply with the new tasks being required from it, at the same time as the tools that had existed in this Institution for preventive use were redesigned. It should be pointed out that the Central Bank has a procedures manual for the carrying out of supervisory tasks in relation to money laundering and the financing of terrorism that is used in inspection performed in financial and exchange institutions. These procedures, inspections and oversight tasks and their conclusions are informed to the UIF.

In June 2011 Congress passed Law 26.683, which among other aspects modified the Criminal Code, confirming the attributes considered in Decree 1936/10, and intended to strengthen the fight against money laundering and the financing of terrorism. Reforms introduced by the law include the classification of asset laundering as an independent criminal act under the Criminal Code, criminalization of self-laundering, compliance with the International Vienna Convention (1988) referring to the fight against drug trafficking, and the Palermo Convention (2000) against organized transnational crime.

In addition, this legislation broadened the scope of the UIF, expressly granting it the power to establish procedures for supervision, oversight and inspection in situ. Furthermore, the law made the UIF primarily responsible for issuing rules and regulations on the prevention of money laundering and the financing of terrorism, so that control authorities such as this Central Bank retained the possibility of issuing rules of a complementary nature.

In August this year the UIF, having participated in a Working Group with the Central Bank, issued Resolution 121/2011 establishing the measures and procedures that the financial and exchange system must adhere to in order to prevent, detect, and report transactions that could originate from or be linked to criminal acts for the laundering of money and the financing of terrorism.

In coordination with the UIF, the Central Bank issued Communication "A" 5218 establishing measures that complemented those of Resolution 121/11, and are appropriate for financial activity. It should be noted that

[95] The Financial Information Unit (UIF) was set up in Argentina at the beginning of 2000 (following the passing of Law 25,246 on "Concealment and Laundering of Assets of Criminal Origin") with the purpose of analyzing and communicating relevant financial information to be able to forestall and prevent asset laundering derived mainly from a series of serious crimes. The UIF was formed under the jurisdiction of the Ministry of Justice and Human Rights, and was granted functional independence. In 2007, as a result of recommendations by the Financial Action Task Force, an inter-governmental body established with the aim of developing and promoting national and international policies to combat money laundering and the financing of terrorism, the role of the UIF was strengthened by Congress (Law 26,268 on "Terrorist Conspiracy and the Financing of Terrorism," which extended its mandate to include analysis of transactions suspected of financing terrorism.

the regulations previously in force were repealed by the Central Bank, preventing overlapping of regulations and creating a clear regulatory system that is easier for financial and exchange entities to understand.

UIF Resolution 121/11 also included the mandatory requirement to identify persons making cash deposits above a certain amount, an aspect that was already covered by specific Central Bank regulations. These changes have extended the "due diligence" measures that financial and exchange institutions must adopt in the matter of identification and knowledge of their clientele, in line with the efforts that banks had already been making in that area. The "know your customer" principle has been made explicit through various actions, including identification of the owners or end beneficiaries of transactions, at the same time as clear rules were laid down on the actions of persons acting on behalf of others, as well as the obligation to perform transactions at a distance only with persons who have previously been registered as customers.

At the time of identifying their customers, banks must confirm they are not included on lists of terrorists or terrorist organization, and they must be requested to sign an affidavit as to whether or not they qualify as a politically exposed person. Financial entities must also pay special attention to the risk represented by commercial relations and transactions with countries or territories that do not apply, or only partly apply, FATF recommendations.

All these regulations reflect the commitment and shared responsibility of the financial system in ensuring compliance with policies on the prevention of money laundering and the financing of terrorism. To this end, each financial entity must designate a Compliance Officer, who should be a full member of the institution's governing body.

Central Bank regulations also lay down the need to keep a database with details on customers carrying out certain transactions, this information being made available during inspections. Limits have also been set on the cash payment of checks and bills of exchange, and it has been established that loan disbursements in excess of a given amount should be credited to a bank account.

There are also additional regulations issued by the Central Bank that contribute to the prevention of asset laundering and the financing of terrorism. These include requirements for opening and maintaining correspondent accounts, as well as for the setting up of branches or subsidiaries abroad.

There are also regulations on the exchange market that require all transactions to be carried out in institutions authorized by the Central Bank[96]. Authorized entities must comply with the regulations in force on the matter of the prevention of asset laundering and the financing of terrorism, and they are subject to the supervision of this Institution. Furthermore, all exchange transactions are recorded with identification of the customer and the amount involved, and entities must observe "know your customer" rules.

Exchange regulations require that all transfers to and from abroad should clearly identify the ordering party, complying with FATF Special Recommendation VII. In a similar manner, there should be correspondence between the customer performing the transaction and the ownership of the local sight account from which the exchange transaction funds are taken or credited, and the parties to the transaction must be duly identified.

Exchange transactions failing to comply with the mentioned regulations will be subject to penalties under the terms of Law 19,359 on Exchange Crimes, and could give rise to immediate suspension on a preventive basis of exchange operations with natural and legal persons.

Regulations in force locally are a clear indication of the commitment of the Central Bank, in coordination with the UIF, to prevent money laundering and the financing of terrorism in accordance with international standards.

[96] For further details, see Working Paper 2011/53, "Foreign exchange regulatory framework and characteristics of the Argentine exchange market regarding the transfer of funds from and to foreign countries" Miguel A. Pesce, BCRA.

# VI. Payment System

## Summary

*Regarding the National Payment System (NPS), the Central Bank continued to deepening payment methods that guarantee clients greater security and efficiency in their transactions, in a context of lower costs, promoting the universal access to banking services by the population. Within this framework, the use of electronic means as an alternative to cash is gradually gaining share.*

*The total amount and number of checks cleared so far this year has increased whilst those bounced remained at limited levels. In line with the trend observed over the last years, the card market continued growing driven by private banks especially. The amount of debit and credit cards in relation to the population showed a slight rise in 2011, still remaining below the levels observed in other emerging and developed economies.*

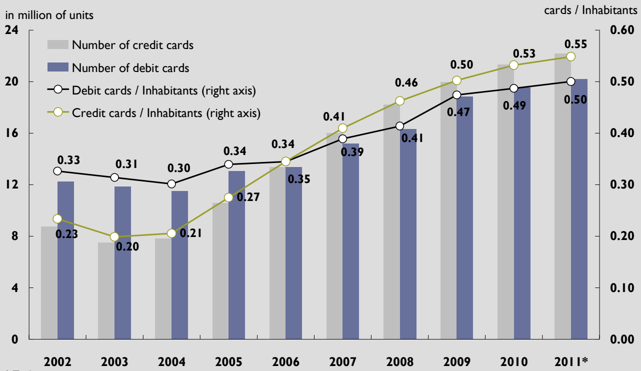
*A monthly rise in the volume of retail transfers carried out through low value clearing houses was registered. This increase is aligned with the aim of the regulation implemented by the BCRA in late 2010, which reduced transfer costs, particularly those of a lower amount. In addition to this measure, this Institution has, since late April 2011, established the immediate transfer option, which, as of August, had accounted for almost 3.8 million transactions.*

*The use of settlement checks continued expanding; the purpose of this tool is to raise security and efficiency of higher value transactions of the population. In addition, in order to achieve a greater level of inclusion in financial service access amongst the different socioeconomic strata, the BCRA implemented the Universal Free Bank Account (CGU) over the last quarter of 2010, which had 77,300 holders by mid-September 2011 (a daily average rise of 300 during 2011). On the other hand, the use of the high value payment system, known as MEP (Electronic Means of Payment) showed an increase in the number of transactions cleared against late 2010.*

*The BCRA continues working actively to modernize the NPS and to improve the security of transactions carried out by companies and households. Thus, this Institution is currently participating in debates about new financial market infrastructure principles promoted by the Committee on Payment and Settlement Systems within the framework of the BIS and IOSCO (International Organization of Securities Commissions). Indeed, with the aim of creating new regional interconnection networks, the BCRA is studying new alternatives to achieve a multilateral connection for low value payments.*

**Chart VI.1**

**Credit and Debit Cards**



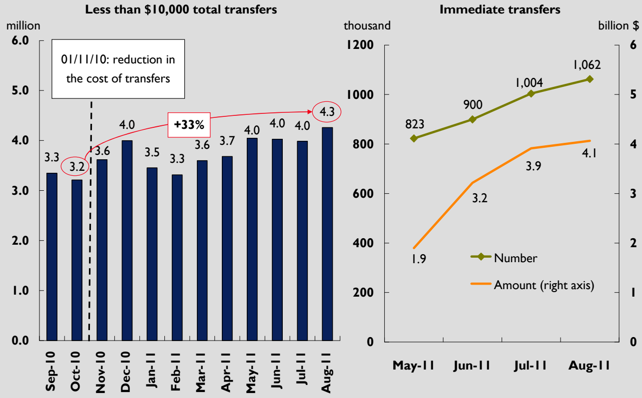

* To June

Note: December each year and last available.

Source: BCRA

**Chart VI.2**

**Banking Transfers**




Source: BCRA

## VI.1 National Payments System

***The National Payments System (NPS) continued gradually deepening payment mechanisms that provide further security and efficiency to transactions carried out by households and companies***

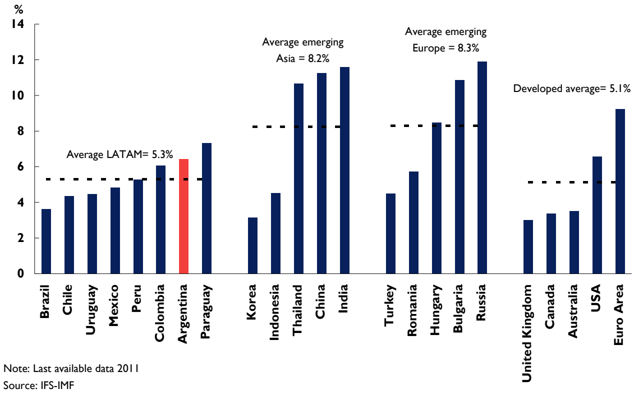
Cash used as an instrument to make transactions by corporations and households accounted for 6.4% of GDP by mid-year, standing at levels similar to those observed by late 2010. Cash held by the public in terms of GDP is slightly above the average level recorded in the region although it is below that of other emerging economies (see Chart VI.3).

Checks for an amount of $500 billion (47.5 million documents) were cleared during the first half of 2011 evidencing a year-on-year rise and over the first half of the year as well. On the other hand, the number and amount of bounced checks remained at limited levels, accounting for 1.8% of the total traded amount and 2.3% of the total number of transactions. The number of bounced checks for nonsufficient funds exhibited a low weighting level on the total cleared (see Chart VI.4). The depth of documents cleared in Argentina's GDP is in line with that of other emerging economies, below that of most developed economies (see Chart VI.5).

***The debit and credit card market continued expanding***

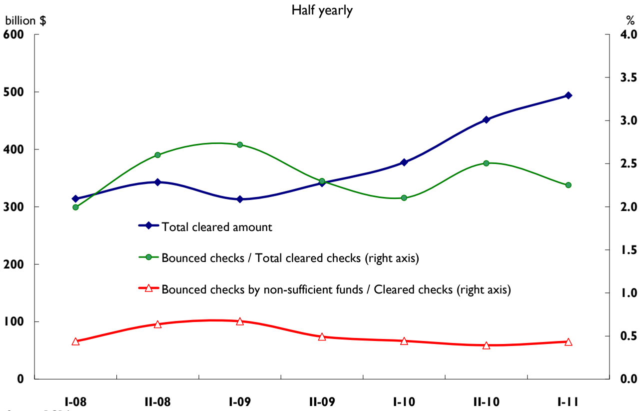
As a sign of the progressive diversification of payment instruments, a rise in means alternative to cash has been observed in the domestic market. The number of credit cards rose 9.3% over the last year, and this dynamics has been boosted by private financial entities which accumulate 80% of total cards in circulation. In addition, the number of debit cards climbed 7.7% over the last 12 months, also driven by private banks mainly, which accounted for almost three quarters of the market. The amount of credit and debit cards in terms of the population has exhibited a slight rise so far this year (see Chart VI.1), still recording a high development potential if compared to other economies (see Chart VI.6). In the case of debit cards, their evolution is partly derived from the expansion in the amount of wage accounts, together with higher formal employment levels of the economy.

Chart VI.3
Cash Held by the Public - International Comparison
As % of GDP



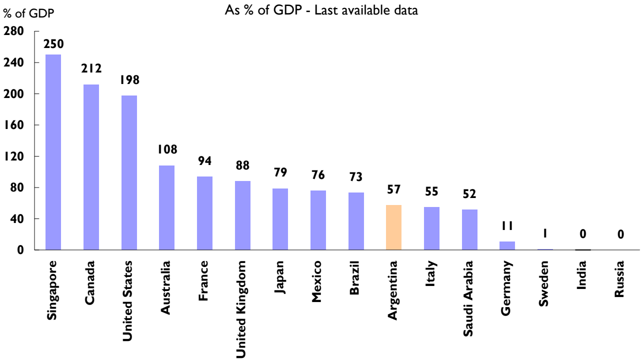

Note: Last available data 2011
Source: IFS-IMF

Chart VI.4
Cleared and Bounced Checks
Half yearly




Source: BCRA

Chart VI.5
Cleared Checks - International Comparison
As % of GDP - Last available data

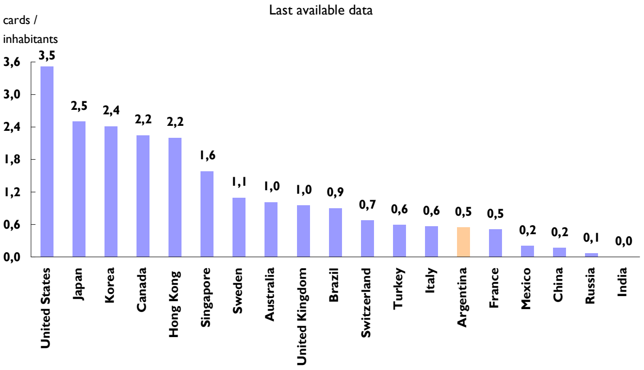



Note 1: Last available data: 2010, except United Kingdom (2009), Saudi Arabia (2009), USA (2009), Japan (2008) and Argentina (2011).
Note 2: In the case of Argentina takes the total of cleared checks in the last 12 months as a % of GDP (average)
Source: IMF, BIS and BCRA

Chart VI.6

Number of Credit Cards Issued - International Comparison

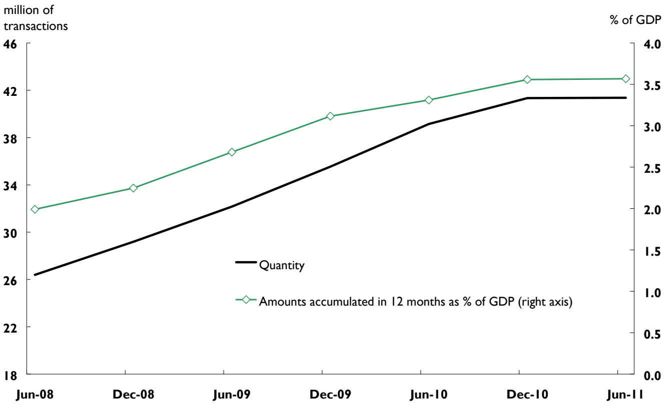
Last available data




Note: Last available data: 2010, except United Kingdom (2009), Saudi Arabia (2009), USA (2009), Turkey (2009), Japan (2008) and Argentina (2011).
Source: IMF, BIS and BCRA

Chart VI.7

Direct Debits




Source: BCRA, IMF and BIS

These accounts have significant advantages for users[97], primarily in terms of costs.

Direct debits (mainly related to the payment of services such as energy, cable television, gas, telephone, amongst others) have not evidenced relevant changes so far this year. The accumulated amount of the last 12 months of automatic debits accounted for 3.6% of GDP (see Chart VI.7), and it was practically aligned with the figure recorded by late 2010. The use of this kind of payment instrument in the domestic market is way below that of other emerging countries.

***In order to promote a higher banking level within the population, the BCRA implemented immediate transfers during the first half of 2011***

A sustained increase in the volume of retail bank transfers through low value clearing houses has been observed over the last months doubling the figure recorded last year. This evolution is aligned with the regulation implemented by the BCRA in late 2010 whereby transfer costs were reduced[98], especially in the case of low amount transfers[99]. Thus, since this regulation became effective until August 2011, a 33% rise was evidenced in transactions not exceeding $10,000 (see Chart VI.2). With a view to supplementing this measure, this Institution ordered the implementation of immediate bank transfers[100] by the end of April. As of August 2011, the amount of immediate transfers had totaled almost 3.8 million transactions.

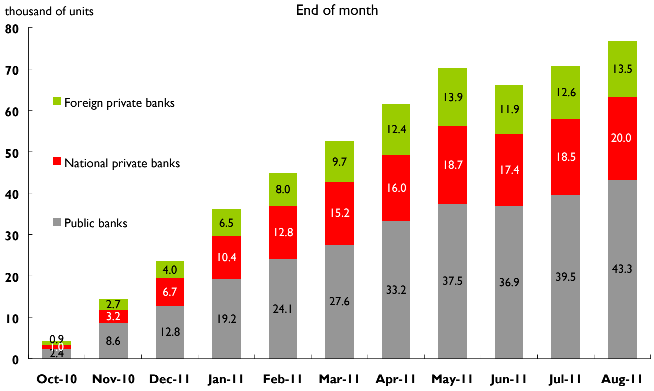
In furtherance of greater inclusion with regards to financial service access by all socioeconomic strata, the BCRA introduced the Free Universal Bank Account[101] (CGU) at the end of 2010 and by late August the number of account holders had reached 77,300[102], with public banks being the group of entities which participated the most in this instrument (see Chart VI.8).

In order to promote more security in financial transactions, the BCRA reintroduced settlement checks in 2010; they are a useful instrument particularly in the case of transactions involving large amounts (for

[97] Those who collect their salary through this medium have, among other advantages, the possibility of withdrawing funds from any automatic teller machine in the country cost-free (irrespective of the financial entity or the network they belong to) and with no limits to the amount of withdrawals.
[98] Communication "A" 5127.
[99] Transfers not exceeding $10,000 effected through automatic teller machines or the Internet are free of charge.
[100] With immediate crediting in the account of the beneficiary on working days, from 8 am to 6 pm. At a first instance, for transactions carried out through automatic teller machines or the Internet. As from April 25th, 2011, for transfers in pesos (up to $10,000 from automatic teller machines and up to $50,000 through the Internet); as from May 31st, 2011, for transactions in dollars (up to US$2,500 from automatic teller machines and up to US$12,500 through the Internet). For further information, see Communication "A" 5194 dated March 18th, 2011.
[101] Those individuals who do not have another account may use this benefit, with no cost and the only requirement to open the account is to submit the National Identity Document (DNI).
[102] Out of which some 8,500 accounts are under validation process until the process to verify all applicants' requirements is over.

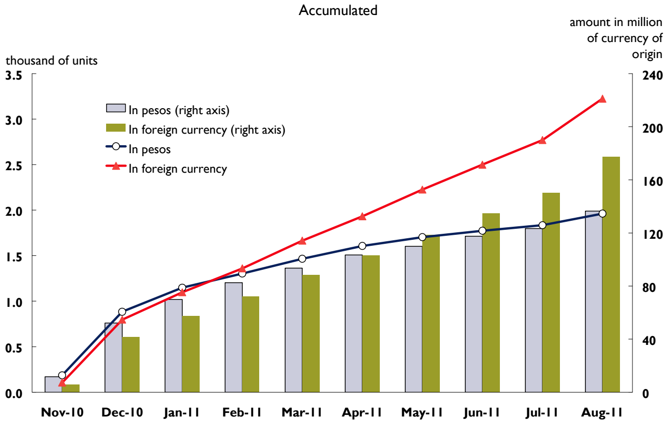
Chart VI.8

Number of Free Universal Accounts
End of month



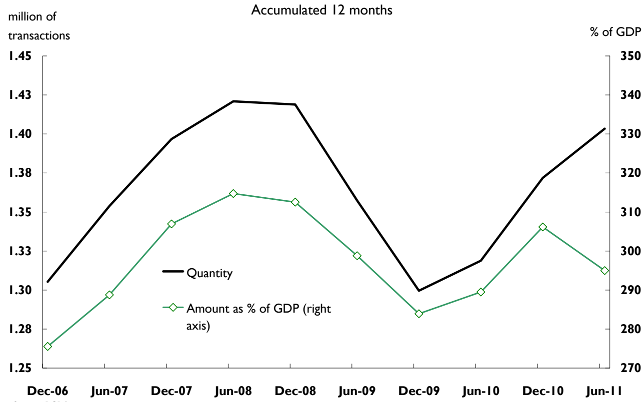

Note: It should be noted that in the context of the analysis and information exchange with financial institutions carried out in early June, some corrections were made in the data submitted by them.
Source: BCRA

Chart VI.9
Settlement Checks Issued
Accumulated




Source: BCRA

Chart VI.10
Electronic Means of Payments - Peso Transactions Cleared
Accumulated 12 months




Source: BCRA

example, when purchasing automobiles or real estate, amongst others). Since the date they became effective and until August 2011, the volume of settlement checks processed in pesos reached $136 million (which equals 1,962 checks) whilst the amount in foreign currency totaled US$177 million (which is equivalent to 3,225 checks) (see Chart VI.9).

On the other hand, through the use of the Electronic Means of Payment (MEP), high value payments system, 1.4 million transactions were recorded (with an amount which is almost equivalent to 300% of GDP) over the last 12 months, exhibiting a 2.3% rise against late 2010 (although the volume in terms of GDP fell; see Chart VI.10).

## VI.2 Payment System Modernization

***The BCRA continues working actively to modernize the NPS and improve the security of transactions carried out by households and companies***

In order to optimize the current electronic mechanisms and to maximize the use of the multiple possibilities offered by technology, the BCRA recently implemented immediate transfers. This project was launched for its debate within the scope of interaction with the financial system, in line with policies already in place in this regard in other Latin American countries like Brazil, Chile and Mexico.

Regarding international standards, the BCRA is permanently trying to adjust its procedures to the basic principles proposed in such scope, as well as its corresponding supervision. In this regard, this Institution is actively discussing new principles about financial market infrastructure promoted by the Committee on Payment and Settlement Systems (CPSS) within the framework of the BIS and the IOSCO (International Organization of Securities Commissions).

Finally, Argentina remains working together with other countries in the region and with the advice of the World Bank and the Center for Latin American Monetary Studies (CEMLA) to create new regional interconnection networks. Thus, several alternatives are being analyzed to achieve multilateral connection for low payment values in order to have standardized systems, agreements and procedures to allow, at a first instance, bilateral and a two-way connection among countries within the region. Therefore, the outcome will be a multilateral connection system amongst all participating countries which will result in a clearing process among such payment systems.

# Statistics Annex – Financial System

## Chart 1 | Financial Soundness Indicators

| As % | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Jun 2010 | 2010 | Jun 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.- Liquidity | 22.8 | 29.1 | 29.6 | 20.1 | 22.5 | 23.0 | 27.9 | 28.6 | 31.0 | 28.0 | 24.5 |
| 2.- Credit to the public sector | 48.9 | 47.0 | 40.9 | 31.5 | 22.5 | 16.3 | 12.7 | 14.4 | 13.1 | 12.2 | 10.9 |
| 3.- Credit to the private sector | 20.8 | 18.1 | 19.6 | 25.8 | 31.0 | 38.2 | 39.4 | 38.3 | 37.5 | 39.8 | 42.9 |
| 4.- Private non-performing loans | 38.6 | 33.5 | 18.6 | 7.6 | 4.5 | 3.2 | 3.1 | 3.5 | 2.9 | 2.1 | 1.7 |
| 5.- Net worth exposure to the private sector | 16.6 | 11.5 | 1.1 | -2.5 | -0.8 | -1.5 | -1.7 | -1.3 | -2.0 | -3.2 | -3.7 |
| 6.- ROA | -8.9 | -2.9 | -0.5 | 0.9 | 1.9 | 1.5 | 1.6 | 2.3 | 2.3 | 2.8 | 2.5 |
| 7.- ROE | -59.2 | -22.7 | -4.2 | 7.0 | 14.3 | 11.0 | 13.4 | 19.2 | 19.1 | 24.4 | 23.3 |
| 8.- Efficiency | 189 | 69 | 125 | 151 | 167 | 160 | 167 | 185 | 165 | 179 | 170 |
| 9.- Capital compliance | - | 14.5 | 14.0 | 15.3 | 16.9 | 16.9 | 16.9 | 18.8 | 17.7 | 17.7 | 16.5 |
| 10.- Capital compliance Tier 1 | - | - | 13.5 | 14.1 | 14.1 | 14.6 | 14.2 | 14.5 | 15.1 | 13.1 | 12.2 |
| 11.- Excess capital compliance | - | 115.9 | 185.1 | 173.5 | 134.0 | 92.8 | 89.8 | 99.8 | 85.8 | 86.5 | 71.8 |

Source: BCRA

## Chart 2 | Balance Sheet

| *In million of current pesos* | Dec 02 | Dec 03 | Dec 04 | Dec 05 | Dec 06 | Dec 07 | Dec 08 | Dec 09 | Jun 10 | Dec 10 | Jun 11 | Change (in %) HI-II / HII-10 | Change (in %) HI-II / HI-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | **187,532** | **186,873** | **212,562** | **221,962** | **258,384** | **297,963** | **346,762** | **387,381** | **442,536** | **510,304** | **568,881** | **11.5** | **28.6** |
| Cash disposal[1] | 17,138 | 27,575 | 29,154 | 20,819 | 37,991 | 46,320 | 58,676 | 71,067 | 87,384 | 93,085 | 95,782 | 2.9 | 9.6 |
| Public bonds | 31,418 | 45,062 | 55,382 | 66,733 | 64,592 | 62,678 | 65,255 | 86,318 | 100,711 | 117,951 | 128,130 | 8.6 | 27.2 |
| Lebac/Nobac | - | - | 17,755 | 28,340 | 29,289 | 36,022 | 37,093 | 43,867 | 61,227 | 76,948 | 89,633 | 16.5 | 46.4 |
| Portfolio | - | - | 11,803 | 21,067 | 25,767 | 31,598 | 25,652 | 34,748 | 45,951 | 61,855 | 78,316 | 26.6 | 70.4 |
| Repo[2] | - | - | 5,953 | 7,273 | 3,521 | 4,424 | 11,442 | 9,119 | 15,275 | 15,093 | 11,317 | -25.0 | -25.9 |
| Private bonds | 332 | 198 | 387 | 389 | 813 | 382 | 203 | 307 | 256 | 209 | 238 | 13.9 | -6.9 |
| Loans | 84,792 | 68,042 | 73,617 | 84,171 | 103,668 | 132,157 | 154,719 | 169,868 | 191,200 | 230,127 | 274,730 | 19.4 | 43.7 |
| Public sector | 44,337 | 33,228 | 30,866 | 25,836 | 20,874 | 16,772 | 17,083 | 20,570 | 23,701 | 25,907 | 29,371 | 13.4 | 23.9 |
| Private sector | 38,470 | 33,398 | 41,054 | 55,885 | 77,832 | 110,355 | 132,844 | 145,247 | 163,186 | 199,202 | 238,913 | 19.9 | 46.4 |
| Financial sector | 1,985 | 1,417 | 1,697 | 2,450 | 4,962 | 5,030 | 4,793 | 4,052 | 4,313 | 5,018 | 6,446 | 28.5 | 49.5 |
| Provisions over loans | -11,952 | -9,374 | -7,500 | -4,930 | -3,728 | -4,089 | -4,744 | -5,824 | -5,878 | -6,232 | -6,425 | 3.1 | 9.3 |
| Other netted credits due to financial intermediation | 39,089 | 27,030 | 32,554 | 26,721 | 26,039 | 29,712 | 38,152 | 33,498 | 37,181 | 39,009 | 38,634 | -1.0 | 3.9 |
| Corporate bonds and subordinated debt | 1,708 | 1,569 | 1,018 | 873 | 773 | 606 | 912 | 1,146 | 1,360 | 1,433 | 1,819 | 26.9 | 33.8 |
| Unquoted trusts | 6,698 | 4,133 | 3,145 | 3,883 | 4,881 | 5,023 | 5,714 | 5,942 | 5,985 | 6,824 | 7,088 | 3.9 | 18.4 |
| Compensation receivable | 17,111 | 14,937 | 15,467 | 5,841 | 763 | 377 | 357 | 16 | 15 | 0 | 0 | -19.0 | -99.9 |
| Other | 13,572 | 6,392 | 12,924 | 16,124 | 19,622 | 23,706 | 31,169 | 26,395 | 29,822 | 30,752 | 29,727 | -3.3 | -0.3 |
| Leasing | 567 | 397 | 611 | 1,384 | 2,262 | 3,469 | 3,935 | 2,933 | 2,969 | 3,936 | 4,893 | 24.3 | 64.8 |
| Shares in other companies | 4,653 | 4,591 | 3,871 | 4,532 | 6,392 | 6,430 | 7,236 | 6,711 | 6,982 | 7,921 | 8,056 | 1.7 | 15.4 |
| Fixed assets and miscellaneous | 8,636 | 8,164 | 7,782 | 7,546 | 7,619 | 7,643 | 7,903 | 8,239 | 8,497 | 9,071 | 9,478 | 4.5 | 11.5 |
| Foreign branches | 3,522 | 3,144 | 3,524 | 3,647 | 2,782 | 2,912 | 3,153 | 3,926 | 3,158 | 3,283 | 3,481 | 6.1 | 10.2 |
| Other assets | 9,338 | 12,043 | 13,180 | 10,950 | 9,953 | 10,347 | 12,275 | 10,337 | 10,075 | 11,943 | 11,853 | -0.8 | 17.7 |
| | | | | | | | | | | | | | |
| **Liabilities** | **161,446** | **164,923** | **188,683** | **195,044** | **225,369** | **261,143** | **305,382** | **339,047** | **392,455** | **452,752** | **507,924** | **12.2** | **29.4** |
| Deposits | 75,001 | 94,635 | 116,655 | 136,492 | 170,898 | 205,550 | 236,217 | 271,853 | 325,484 | 376,344 | 429,335 | 14.1 | 31.9 |
| Public sector[3] | 8,381 | 16,040 | 31,649 | 34,019 | 45,410 | 48,340 | 67,151 | 69,143 | 101,910 | 115,954 | 127,036 | 9.6 | 24.7 |
| Private sector[3] | 59,698 | 74,951 | 83,000 | 100,809 | 123,431 | 155,048 | 166,378 | 199,278 | 220,041 | 257,595 | 298,986 | 16.1 | 35.9 |
| Current account | 11,462 | 15,071 | 18,219 | 23,487 | 26,900 | 35,245 | 39,619 | 45,752 | 52,371 | 61,306 | 71,031 | 15.9 | 35.6 |
| Savings account | 10,523 | 16,809 | 23,866 | 29,078 | 36,442 | 47,109 | 50,966 | 62,807 | 68,753 | 82,575 | 97,444 | 18.0 | 41.7 |
| Time deposit | 19,080 | 33,285 | 34,944 | 42,822 | 54,338 | 65,952 | 69,484 | 83,967 | 90,216 | 104,492 | 119,010 | 13.9 | 31.9 |
| CEDRO | 12,328 | 3,217 | 1,046 | 17 | 13 | 0 | 0 | 0 | 0 | 0 | 0 | - | - |
| Other netted liabilities due to financial intermediation | 75,737 | 61,690 | 64,928 | 52,072 | 46,037 | 46,225 | 57,662 | 52,114 | 54,231 | 60,029 | 64,150 | 6.9 | 18.3 |
| Interbanking obligations | 1,649 | 1,317 | 1,461 | 2,164 | 4,578 | 4,310 | 3,895 | 3,251 | 3,530 | 4,201 | 5,414 | 28.9 | 53.4 |
| BCRA lines | 27,837 | 27,491 | 27,726 | 17,005 | 7,686 | 2,362 | 1,885 | 270 | 268 | 262 | 801 | 205.2 | 198.8 |
| Outstanding bonds | 9,096 | 6,675 | 7,922 | 6,548 | 6,603 | 6,938 | 5,984 | 5,033 | 4,059 | 3,432 | 5,897 | 71.8 | 45.3 |
| Foreign lines of credit | 25,199 | 15,196 | 8,884 | 4,684 | 4,240 | 3,864 | 4,541 | 3,369 | 3,272 | 3,897 | 4,966 | 27.4 | 51.8 |
| Other | 11,955 | 11,012 | 18,934 | 21,671 | 22,930 | 28,752 | 41,357 | 40,191 | 43,102 | 48,236 | 47,071 | -2.4 | 9.2 |
| Subordinated debts | 3,712 | 2,028 | 1,415 | 1,381 | 1,642 | 1,672 | 1,763 | 1,922 | 1,973 | 2,165 | 1,851 | -14.5 | -6.2 |
| Other liabilities | 6,997 | 6,569 | 5,685 | 5,099 | 6,792 | 7,695 | 9,740 | 13,159 | 10,766 | 14,213 | 12,686 | -10.7 | 17.8 |
| | | | | | | | | | | | | | |
| **Net worth** | **26,086** | **21,950** | **23,879** | **26,918** | **33,014** | **36,819** | **41,380** | **48,335** | **50,081** | **57,552** | **60,957** | **5.9** | **21.7** |
| | | | | | | | | | | | | | |
| **Memo** | | | | | | | | | | | | | |
| **Netted assets** | 185,356 | 184,371 | 202,447 | 208,275 | 244,791 | 280,336 | 321,075 | 364,726 | 416,256 | 482,532 | 542,288 | 12.4 | 30.3 |
| **Consolidated netted assets** | 181,253 | 181,077 | 198,462 | 203,286 | 235,845 | 271,652 | 312,002 | 357,118 | 407,671 | 472,934 | 531,211 | 12.3 | 30.3 |

(1) Includes margin accounts with the BCRA. (2) Booked value from balance sheet (it includes all the counterparts). (3) Does not include accrual on interest or CER.

Source: BCRA

## Methodological note (chart 1)

**1.-** (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by Lebac and Nobac repo operations against the BCRA) / 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 nonperforming private sector financing – Private sector financing loss 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 Tier 1 / Risk weighted assets, according to the BCRA rule on minimum capital; **11.**- (Capital compliance minus requirements, included forbearances) / Capital requirements.

# Statistics Annex – Financial System (cont.)

## Chart 3 | Profitability Structure

| Amount in million of pesos | Annual | | | | | | | | | Half Year | | | Change (in %) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002[1] | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | HI-10 | HII-10 | HI-11 | HI-11 / HII-10 | HI-11 / HI-10 |
| Financial margin | 13,991 | 1,965 | 6,075 | 9,475 | 13,262 | 15,134 | 20,462 | 28,937 | 35,490 | 14,726 | 20,764 | 19,208 | -7 | 30 |
| Net interest income | -3,624 | -943 | 1,753 | 3,069 | 4,150 | 5,744 | 9,573 | 14,488 | 17,963 | 8,304 | 9,660 | 10,725 | 11 | 29 |
| CER and CVS adjustments | 8,298 | 2,315 | 1,944 | 3,051 | 3,012 | 2,624 | 2,822 | 1,196 | 2,434 | 1,042 | 1,391 | 850 | -39 | -18 |
| Foreign exchange price adjustments | 5,977 | -890 | 866 | 751 | 944 | 1,357 | 2,307 | 2,588 | 2,100 | 1,043 | 1,057 | 1,410 | 33 | 35 |
| Gains on securities | 3,639 | 1,962 | 1,887 | 2,371 | 4,923 | 5,144 | 4,398 | 11,004 | 13,449 | 4,518 | 8,931 | 6,507 | -27 | 44 |
| Other financial income | -299 | -480 | -375 | 233 | 235 | 264 | 1,362 | -339 | -457 | -182 | -275 | -284 | 3 | 57 |
| Service income margin | 4,011 | 3,415 | 3,904 | 4,781 | 6,243 | 8,248 | 10,870 | 13,052 | 16,089 | 7,459 | 8,630 | 9,853 | 14 | 32 |
| Loan loss provisions | -10,007 | -2,089 | -1,511 | -1,173 | -1,198 | -1,894 | -2,839 | -3,814 | -3,267 | -1,536 | -1,731 | -1,627 | -6 | 6 |
| Operating costs | -9,520 | -7,760 | -7,998 | -9,437 | -11,655 | -14,634 | -18,767 | -22,710 | -28,756 | -13,416 | -15,340 | -16,991 | 11 | 27 |
| Tax charges | -691 | -473 | -584 | -737 | -1,090 | -1,537 | -2,318 | -3,272 | -4,120 | -1,824 | -2,296 | -2,649 | 15 | 45 |
| Adjust. to the valuation of government securities[2] | 0 | -701 | -320 | -410 | -752 | -837 | -1,757 | -262 | -214 | -151 | -63 | -191 | 202 | 27 |
| Amort. payments for court-ordered releases | 0 | -1,124 | -1,686 | -1,867 | -2,573 | -1,922 | -994 | -703 | -635 | -342 | -293 | -136 | -54 | -60 |
| Other | -3,880 | 1,738 | 1,497 | 1,729 | 2,664 | 2,380 | 1,441 | 918 | 2,079 | 1,041 | 1,038 | 1,464 | 41 | 41 |
| Monetary results | -12,558 | 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total results before tax[3] | -18,653 | -4,960 | -623 | 2,360 | 4,901 | 4,938 | 6,100 | 12,145 | 16,665 | 5,957 | 10,708 | 8,930 | -17 | 50 |
| Income tax | -509 | -305 | -275 | -581 | -595 | -1,032 | -1,342 | -4,226 | -4,904 | -1,532 | -3,372 | -2,509 | -26 | 64 |
| **ROA[3]** | **-19,162** | **-5,265** | **-898** | **1,780** | **4,306** | **3,905** | **4,757** | **7,920** | **11,761** | **4,425** | **7,336** | **6,421** | **-12** | **45** |
| ROA adjusted[4] | - | -3,440 | 1,337 | 4,057 | 7,631 | 6,665 | 7,508 | 8,885 | 12,610 | 4,918 | 7,692 | 6,748 | -12 | 37 |
| *Annualized indicators - As % of netted assets* | | | | | | | | | | | | | *change in p.p.* | |
| Financial margin | 6.5 | 1.1 | 3.1 | 4.6 | 5.8 | 5.7 | 6.7 | 8.6 | 8.5 | 7.5 | 9.3 | 7.5 | -1.8 | -0.1 |
| Net interest income | -1.7 | -0.5 | 0.9 | 1.5 | 1.8 | 2.2 | 3.1 | 4.3 | 4.3 | 4.3 | 4.3 | 4.2 | -0.1 | -0.1 |
| CER and CVS adjustments | 3.9 | 1.3 | 1.0 | 1.5 | 1.3 | 1.0 | 0.9 | 0.4 | 0.6 | 0.5 | 0.6 | 0.3 | -0.3 | -0.2 |
| Foreign exchange price adjustments | 2.8 | -0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.8 | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 | 0.1 | 0.0 |
| Gains on securities | 1.7 | 1.1 | 1.0 | 1.2 | 2.2 | 1.9 | 1.4 | 3.3 | 3.2 | 2.3 | 4.0 | 2.5 | -1.5 | 0.2 |
| Other financial income | -0.1 | -0.3 | -0.2 | 0.1 | 0.1 | 0.1 | 0.4 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| Service income margin | 1.9 | 1.9 | 2.0 | 2.3 | 2.7 | 3.1 | 3.6 | 3.9 | 3.8 | 3.8 | 3.9 | 3.8 | 0.0 | 0.0 |
| Loan loss provisions | -4.7 | -1.1 | -0.8 | -0.6 | -0.5 | -0.7 | -0.9 | -1.1 | -0.8 | -0.8 | -0.8 | -0.6 | 0.1 | 0.2 |
| Operating costs | -4.4 | -4.2 | -4.1 | -4.6 | -5.1 | -5.5 | -6.1 | -6.7 | -6.9 | -6.9 | -6.9 | -6.6 | 0.2 | 0.3 |
| Tax charges | -0.3 | -0.3 | -0.3 | -0.4 | -0.5 | -0.6 | -0.8 | -1.0 | -1.0 | -0.9 | -1.0 | -1.0 | 0.0 | -0.1 |
| Adjust. to the valuation of gov. securities[2] | 0.0 | -0.4 | -0.2 | -0.2 | -0.3 | -0.3 | -0.6 | -0.1 | -0.1 | -0.1 | 0.0 | -0.1 | 0.0 | 0.0 |
| Amort. payments for court-ordered releases | 0.0 | -0.6 | -0.9 | -0.9 | -1.1 | -0.7 | -0.3 | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | 0.1 | 0.1 |
| Other | -1.8 | 0.9 | 0.8 | 0.8 | 1.2 | 0.9 | 0.5 | 0.3 | 0.5 | 0.5 | 0.5 | 0.6 | 0.1 | 0.0 |
| Monetary results | -5.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total results before tax[3] | -8.7 | -2.7 | -0.3 | 1.1 | 2.2 | 1.9 | 2.0 | 3.6 | 4.0 | 3.1 | 4.8 | 3.5 | -1.3 | 0.4 |
| Income tax | -0.2 | -0.2 | -0.1 | -0.3 | -0.3 | -0.4 | -0.4 | -1.3 | -1.2 | -0.8 | -1.5 | -1.0 | 0.5 | -0.2 |
| **ROA[3]** | **-8.9** | **-2.9** | **-0.5** | **0.9** | **1.9** | **1.5** | **1.6** | **2.3** | **2.8** | **2.3** | **3.3** | **2.5** | **-0.8** | **0.2** |
| ROA adjusted[4] | -8.9 | -1.9 | 0.7 | 2.0 | 3.4 | 2.5 | 2.5 | 2.6 | 3.0 | 2.5 | 3.4 | 2.6 | -0.8 | 0.1 |
| *ROE before tax [3]* | *-57.6* | *-21.4* | *-2.9* | *9.3* | *16.2* | *13.9* | *17.2* | *29.5* | *34.5* | *25.7* | *42.7* | *32.4* | *-10.3* | *6.6* |
| *ROE [3]* | *-59.2* | *-22.7* | *-4.2* | *7.0* | *14.3* | *11.0* | *13.4* | *19.2* | *24.4* | *19.1* | *29.2* | *23.3* | *-6.0* | *4.2* |

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.
(3) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.
(4) 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 02 | Dec 03 | Dec 04 | Dec 05 | Dec 06 | Dec 07 | Dec 08 | Dec 09 | Jun 10 | Dec 10 | Jun 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-performing loans (overall)** | **18.1** | **17.7** | **10.7** | **5.2** | **3.4** | **2.7** | **2.7** | **3.0** | **2.5** | **1.8** | **1.5** |
| Provisions / Non-performing loans | 72.3 | 76.8 | 97.8 | 115.3 | 108.2 | 115.2 | 117.0 | 115.3 | 125.0 | 147.7 | 160.3 |
| (Total non-perfoming - Provisions) / Overall financing | 5.0 | 4.1 | 0.2 | -0.8 | -0.3 | -0.4 | -0.5 | -0.5 | -0.6 | -0.9 | -0.9 |
| (Total non-perfoming - Provisions) / Net worth | 18.2 | 13.3 | 0.8 | -2.6 | -0.9 | -1.6 | -1.8 | -1.7 | -2.4 | -3.6 | -4.1 |
| **Non-performing loans to the non-financial private sector** | **38.6** | **33.5** | **18.6** | **7.6** | **4.5** | **3.2** | **3.1** | **3.5** | **2.9** | **2.1** | **1.7** |
| Provisions / Non-performing loans | 73.8 | 79.0 | 96.9 | 114.8 | 107.6 | 114.4 | 116.4 | 111.8 | 120.9 | 142.8 | 155.0 |
| (Total non-perfoming - Provisions) / Overall financing | 10.1 | 7.0 | 0.6 | -1.1 | -0.3 | -0.5 | -0.5 | -0.4 | -0.6 | -0.9 | -0.9 |
| (Total non-perfoming - Provisions) / Net worth | 16.6 | 11.5 | 1.1 | -2.5 | -0.8 | -1.5 | -1.7 | -1.3 | -2.0 | -3.2 | -3.7 |

Source: BCRA

# Statistics Annex – Private Banks

## Chart 5 | Financial Soundness Indicators

| As % | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Jun 2010 | 2010 | Jun 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.- Liquidity | 24.8 | 27.6 | 29.2 | 21.5 | 23.7 | 25.7 | 34.1 | 29.8 | 29.3 | 26.0 | 25.4 |
| 2.- Credit to the public sector | 50.0 | 47.7 | 41.6 | 28.5 | 16.3 | 9.5 | 6.3 | 6.1 | 5.0 | 4.4 | 3.5 |
| 3.- Credit to the private sector | 22.4 | 19.9 | 22.5 | 31.1 | 37.9 | 46.6 | 44.0 | 43.3 | 46.8 | 50.3 | 52.5 |
| 4.- Private non-performing loans | 37.4 | 30.4 | 15.3 | 6.3 | 3.6 | 2.5 | 2.8 | 3.3 | 2.7 | 2.0 | 1.6 |
| 5.- Net worth exposure to the private sector | 19.1 | 12.9 | 3.6 | -0.4 | -1.4 | -2.0 | -1.8 | -1.6 | -2.2 | -3.4 | -3.9 |
| 6.- ROA | -11.3 | -2.5 | -1.0 | 0.5 | 2.2 | 1.6 | 1.9 | 3.0 | 2.6 | 3.2 | 2.6 |
| 7.- ROE | -79.0 | -19.1 | -8.1 | 4.1 | 15.3 | 10.9 | 15.2 | 22.9 | 19.6 | 24.5 | 22.1 |
| 8.- Efficiency | 168 | 93 | 115 | 136 | 158 | 152 | 166 | 195 | 169 | 176 | 167 |
| 9.- Capital compliance | - | 14.0 | 15.1 | 17.8 | 18.6 | 19.2 | 18.3 | 22.6 | 20.6 | 20.4 | 17.9 |
| 10.- Capital compliance Tier 1 | - | - | 14.7 | 16.1 | 15.3 | 16.7 | 14.9 | 17.2 | 17.7 | 15.2 | 15.0 |
| 11.- Excess capital compliance | - | 88.2 | 157.1 | 155.0 | 115.8 | 86.9 | 86.4 | 121.3 | 101.7 | 100.4 | 79.1 |

Source: BCRA

## Chart 6 | Balance Sheet

| *In million of current pesos* | Dec 02 | Dec 03 | Dec 04 | Dec 05 | Dec 06 | Dec 07 | Dec 08 | Dec 09 | Jun 10 | Dec 10 | Jun 11 | Change (in %) HI-II / HII-10 | HI-II / HI-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | **118,906** | **116,633** | **128,065** | **129,680** | **152,414** | **175,509** | **208,888** | **229,549** | **245,082** | **280,025** | **320,983** | **14.6** | **31.0** |
| Cash disposal[1] | 11,044 | 14,500 | 15,893 | 14,074 | 22,226 | 29,418 | 37,044 | 43,562 | 45,305 | 49,730 | 54,500 | 9.6 | 20.3 |
| Public bonds | 19,751 | 22,260 | 24,817 | 29,966 | 27,663 | 24,444 | 29,552 | 47,949 | 46,393 | 48,903 | 50,638 | 3.5 | 9.2 |
| Lebac/Nobac | - | - | 8,359 | 15,227 | 15,952 | 17,684 | 23,457 | 31,575 | 32,157 | 34,422 | 36,952 | 7.3 | 14.9 |
| Portfolio | - | - | 5,611 | 12,899 | 14,220 | 15,639 | 12,858 | 27,413 | 26,348 | 31,148 | 31,438 | 0.9 | 19.3 |
| Repo[2] | - | - | 2,749 | 2,328 | 1,732 | 2,045 | 10,598 | 4,161 | 5,809 | 3,274 | 5,514 | 68.4 | -5.1 |
| Private bonds | 273 | 172 | 333 | 307 | 683 | 310 | 127 | 233 | 153 | 184 | 172 | -6.2 | 12.8 |
| Loans | 51,774 | 47,017 | 50,741 | 56,565 | 69,294 | 88,898 | 98,529 | 101,722 | 117,151 | 143,202 | 170,979 | 19.4 | 45.9 |
| Public sector | 25,056 | 23,571 | 21,420 | 15,954 | 10,036 | 6,413 | 6,249 | 1,694 | 1,622 | 1,625 | 1,286 | -20.9 | -20.7 |
| Private sector | 26,074 | 22,816 | 28,213 | 39,031 | 55,632 | 78,587 | 88,426 | 96,790 | 112,123 | 137,308 | 164,270 | 19.6 | 46.5 |
| Financial sector | 644 | 630 | 1,107 | 1,580 | 3,626 | 3,898 | 3,854 | 3,238 | 3,406 | 4,270 | 5,423 | 27.0 | 59.2 |
| Provisions over loans | -7,463 | -5,225 | -3,717 | -2,482 | -2,227 | -2,365 | -2,871 | -3,653 | -3,767 | -3,926 | -4,048 | 3.1 | 7.5 |
| Other netted credits due to financial intermediation | 27,212 | 22,148 | 25,753 | 16,873 | 18,387 | 17,084 | 25,265 | 21,258 | 21,278 | 20,241 | 25,291 | 25.0 | 18.9 |
| Corporate bonds and subordinated debt | 1,514 | 1,394 | 829 | 675 | 618 | 430 | 699 | 734 | 821 | 757 | 965 | 27.5 | 17.5 |
| Unquoted trusts | 6,205 | 3,571 | 2,362 | 2,444 | 2,982 | 3,456 | 3,869 | 4,198 | 4,348 | 4,500 | 4,411 | -2.0 | 1.4 |
| Compensation receivable | 15,971 | 13,812 | 14,657 | 5,575 | 760 | 377 | 357 | 16 | 15 | 0 | 0 | - | - |
| Other | 3,523 | 3,370 | 7,905 | 8,179 | 14,027 | 12,822 | 20,339 | 16,311 | 16,093 | 14,984 | 19,915 | 32.9 | 23.7 |
| Leasing | 553 | 387 | 592 | 1,356 | 2,126 | 3,149 | 3,451 | 2,569 | 2,610 | 3,519 | 4,381 | 24.5 | 67.9 |
| Shares in other companies | 3,123 | 2,791 | 1,892 | 2,416 | 4,042 | 3,762 | 4,538 | 4,067 | 4,258 | 4,934 | 5,021 | 1.8 | 17.9 |
| Fixed assets and miscellaneous | 5,198 | 4,902 | 4,678 | 4,575 | 4,677 | 4,685 | 4,926 | 5,096 | 5,290 | 5,808 | 6,171 | 6.3 | 16.7 |
| Foreign branches | -109 | -136 | -53 | -148 | -139 | -154 | -178 | -202 | -213 | -215 | -225 | 5.0 | 5.9 |
| Other assets | 7,549 | 7,816 | 7,137 | 6,178 | 5,682 | 6,277 | 8,505 | 6,946 | 6,623 | 7,646 | 8,102 | 6.0 | 22.3 |
| **Liabilities** | **103,079** | **101,732** | **113,285** | **112,600** | **131,476** | **152,153** | **182,596** | **198,438** | **213,673** | **243,766** | **283,975** | **16.5** | **32.9** |
| Deposits | 44,445 | 52,625 | 62,685 | 75,668 | 94,095 | 116,719 | 135,711 | 154,387 | 171,258 | 198,662 | 229,581 | 15.6 | 34.1 |
| Public sector[3] | 1,636 | 3,077 | 6,039 | 6,946 | 7,029 | 7,564 | 19,600 | 17,757 | 23,318 | 23,598 | 29,124 | 23.4 | 24.9 |
| Private sector[3] | 38,289 | 47,097 | 55,384 | 67,859 | 85,714 | 107,671 | 114,176 | 134,426 | 146,126 | 173,203 | 198,471 | 14.6 | 35.8 |
| Current account | 8,905 | 11,588 | 13,966 | 17,946 | 20,604 | 27,132 | 30,188 | 35,127 | 39,489 | 46,297 | 52,519 | 13.4 | 33.0 |
| Savings account | 6,309 | 10,547 | 14,842 | 18,362 | 23,165 | 30,169 | 32,778 | 40,999 | 43,654 | 53,085 | 63,330 | 19.3 | 45.1 |
| Time deposit | 11,083 | 18,710 | 22,729 | 27,736 | 38,043 | 45,770 | 46,990 | 54,058 | 57,290 | 67,568 | 75,307 | 11.5 | 31.4 |
| CEDRO | 9,016 | 2,409 | 798 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | - | - |
| Other netted liabilities due to financial intermediation | 49,341 | 42,367 | 45,083 | 32,349 | 31,750 | 29,323 | 39,298 | 34,235 | 33,704 | 34,427 | 44,226 | 28.5 | 31.2 |
| Interbanking obligations | 836 | 726 | 1,070 | 1,488 | 3,383 | 1,979 | 1,160 | 1,668 | 1,845 | 1,903 | 2,362 | 24.1 | 28.0 |
| BCRA lines | 16,624 | 17,030 | 17,768 | 10,088 | 3,689 | 675 | 649 | 41 | 37 | 57 | 193 | 239.5 | 428.4 |
| Outstanding bonds | 9,073 | 6,674 | 7,922 | 6,548 | 6,413 | 6,686 | 5,672 | 4,626 | 3,750 | 2,802 | 4,779 | 70.6 | 27.5 |
| Foreign lines of credit | 15,434 | 9,998 | 5,444 | 2,696 | 2,249 | 1,833 | 2,261 | 1,262 | 1,182 | 1,716 | 2,794 | 62.8 | 136.4 |
| Other | 7,374 | 7,939 | 12,878 | 11,530 | 16,015 | 18,150 | 29,555 | 26,638 | 26,891 | 27,949 | 34,097 | 22.0 | 26.8 |
| Subordinated debts | 3,622 | 1,850 | 1,304 | 1,319 | 1,642 | 1,668 | 1,759 | 1,918 | 1,970 | 2,148 | 1,833 | -14.6 | -7.0 |
| Other liabilities | 5,671 | 4,890 | 4,213 | 3,264 | 3,989 | 4,443 | 5,828 | 7,897 | 6,741 | 8,528 | 8,335 | -2.3 | 23.7 |
| **Net worth** | **15,827** | **14,900** | **14,780** | **17,080** | **20,938** | **23,356** | **26,292** | **31,111** | **31,409** | **36,259** | **37,008** | **2.1** | **17.8** |
| **Memo** | | | | | | | | | | | | | |
| **Netted assets** | 117,928 | 115,091 | 121,889 | 123,271 | 143,807 | 166,231 | 192,074 | 216,100 | 231,852 | 267,364 | 303,658 | 13.6 | 31.0 |

(1) Includes margin accounts with the BCRA. (2) Booked value from balance sheet (it includes all the counterparts). (3) Does not include accrual on interest or CER.
Source: BCRA

## Methodological note (chart 5)

**1.-** (Minimum cash compliance at the BCRA + Other cash holding + Financial entities net credit balance by Lebac and Nobac repo operations against the BCRA) / 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 nonperforming private sector financing – Private sector financing loss 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 Tier 1 / Risk weighted assets, according to the BCRA rule on minimum capital; **11.**- (Capital compliance minus requirements, included forbearances) / Capital requirements.

# Statistics Annex – Private Banks (cont.)

## Chart 7 | Profitability Structure

| Amount in million of pesos | Annual | | | | | | | | | Half Year | | | Change (in %) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002[1] | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | HI-10 | HII-10 | HI-11 | HI-11 / HII-10 | HI-11 / HI-10 |
| Financial margin | 10,628 | 2,575 | 3,415 | 5,253 | 7,778 | 8,960 | 12,964 | 19,724 | 21,837 | 9,584 | 12,254 | 11,936 | -3 | 25 |
| Net inetrest income | -304 | 107 | 1,214 | 2,069 | 2,826 | 4,191 | 7,727 | 10,572 | 12,842 | 5,854 | 6,988 | 8,081 | 16 | 38 |
| CER and CVS adjustments | 1,476 | 1,082 | 900 | 1,215 | 858 | 662 | 651 | 185 | 244 | 108 | 136 | 144 | 6 | 34 |
| Foreign exchange price adjustments | 6,189 | -312 | 666 | 576 | 740 | 990 | 1,620 | 1,646 | 1,493 | 718 | 775 | 970 | 25 | 35 |
| Gains on securities | 3,464 | 1,892 | 959 | 1,259 | 3,154 | 2,888 | 1,637 | 7,343 | 7,464 | 2,947 | 4,517 | 2,907 | -36 | -1 |
| Other financial income | -197 | -195 | -322 | 134 | 199 | 229 | 1,329 | -22 | -205 | -42 | -163 | -166 | 2 | 293 |
| Service income margin | 2,782 | 2,341 | 2,774 | 3,350 | 4,459 | 5,881 | 7,632 | 9,198 | 11,345 | 5,291 | 6,054 | 6,955 | 15 | 31 |
| Loan loss provisions | -6,923 | -1,461 | -1,036 | -714 | -737 | -1,174 | -1,863 | -2,751 | -2,253 | -1,051 | -1,203 | -1,143 | -5 | 9 |
| Operating costs | -6,726 | -5,310 | -5,382 | -6,303 | -7,741 | -9,735 | -12,401 | -14,807 | -18,819 | -8,800 | -10,019 | -11,201 | 12 | 27 |
| Tax charges | -512 | -366 | -393 | -509 | -769 | -1,105 | -1,715 | -2,380 | -2,927 | -1,317 | -1,610 | -1,897 | 18 | 44 |
| Adjust. to the valuation of government securities[2] | 0 | -665 | -51 | -201 | -170 | -100 | -267 | 0 | 47 | 9 | 38 | -40 | -204 | -530 |
| Amort. payments for court-ordered releases | 0 | -791 | -1,147 | -1,168 | -1,182 | -1,466 | -688 | -367 | -441 | -241 | -200 | -62 | -69 | -74 |
| Other | -4,164 | 1,178 | 846 | 1,156 | 1,641 | 1,576 | 916 | 398 | 1,382 | 575 | 807 | 909 | 13 | 58 |
| Monetary results | -10,531 | -20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total results before tax[3] | -15,447 | -2,518 | -973 | 865 | 3,279 | 2,836 | 4,579 | 9,014 | 10,171 | 4,050 | 6,121 | 5,458 | -11 | 35 |
| Income tax | -337 | -295 | -202 | -217 | -365 | -380 | -1,168 | -3,001 | -2,733 | -1,161 | -1,572 | -1,757 | 12 | 51 |
| **ROA[3]** | **-15,784** | **-2,813** | **-1,176** | **648** | **2,915** | **2,457** | **3,412** | **6,014** | **7,438** | **2,889** | **4,549** | **3,701** | **-19** | **28** |
| ROA adjusted[4] | - | -1,357 | 252 | 2,016 | 4,267 | 4,023 | 4,367 | 6,381 | 7,832 | 3,121 | 4,711 | 3,802 | -19 | 22 |
| *Annualized indicators - As % of netted assets* | | | | | | | | | | | | | *change in p.p.* | |
| Financial margin | 7.6 | 2.3 | 2.9 | 4.3 | 5.9 | 5.8 | 7.3 | 9.8 | 9.3 | 8.7 | 9.9 | 8.4 | -1.5 | -0.3 |
| Net interest income | -0.2 | 0.1 | 1.0 | 1.7 | 2.1 | 2.7 | 4.4 | 5.3 | 5.5 | 5.3 | 5.6 | 5.7 | 0.0 | 0.4 |
| CER and CVS adjustments | 1.1 | 0.9 | 0.8 | 1.0 | 0.6 | 0.4 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Foreign exchange price adjustments | 4.4 | -0.3 | 0.6 | 0.5 | 0.6 | 0.6 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 | 0.7 | 0.1 | 0.0 |
| Gains on securities | 2.5 | 1.7 | 0.8 | 1.0 | 2.4 | 1.9 | 0.9 | 3.7 | 3.2 | 2.7 | 3.6 | 2.0 | -1.6 | -0.6 |
| Other financial income | -0.1 | -0.2 | -0.3 | 0.1 | 0.2 | 0.1 | 0.8 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | 0.0 | -0.1 |
| Service income margin | 2.0 | 2.0 | 2.4 | 2.7 | 3.4 | 3.8 | 4.3 | 4.6 | 4.8 | 4.8 | 4.9 | 4.9 | 0.0 | 0.1 |
| Loan loss provisions | -5.0 | -1.3 | -0.9 | -0.6 | -0.6 | -0.8 | -1.1 | -1.4 | -1.0 | -1.0 | -1.0 | -0.8 | 0.2 | 0.1 |
| Operating costs | -4.8 | -4.6 | -4.6 | -5.1 | -5.9 | -6.3 | -7.0 | -7.4 | -8.0 | -8.0 | -8.1 | -7.9 | 0.2 | 0.1 |
| Tax charges | -0.4 | -0.3 | -0.3 | -0.4 | -0.6 | -0.7 | -1.0 | -1.2 | -1.2 | -1.2 | -1.3 | -1.3 | 0.0 | -0.1 |
| Adjust. to the valuation of gov. securities[2] | 0.0 | -0.6 | 0.0 | -0.2 | -0.1 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 |
| Amort. payments for court-ordered releases | 0.0 | -0.7 | -1.0 | -1.0 | -0.9 | -0.9 | -0.4 | -0.2 | -0.2 | -0.2 | -0.2 | 0.0 | 0.1 | 0.2 |
| Other | -3.0 | 1.0 | 0.7 | 0.9 | 1.2 | 1.0 | 0.5 | 0.2 | 0.6 | 0.5 | 0.7 | 0.6 | 0.0 | 0.1 |
| Monetary results | -7.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total results before tax[3] | -11.1 | -2.2 | -0.8 | 0.7 | 2.5 | 1.8 | 2.6 | 4.5 | 4.3 | 3.7 | 4.9 | 3.8 | -1.1 | 0.2 |
| Income tax | -0.2 | -0.3 | -0.2 | -0.2 | -0.3 | -0.2 | -0.7 | -1.5 | -1.2 | -1.1 | -1.3 | -1.2 | 0.0 | -0.2 |
| **ROA[3]** | **-11.3** | **-2.5** | **-1.0** | **0.5** | **2.2** | **1.6** | **1.9** | **3.0** | **3.2** | **2.6** | **3.7** | **2.6** | **-1.1** | **0.0** |
| ROA adjusted[4] | -11.3 | -1.2 | 0.2 | 1.6 | 3.2 | 2.6 | 2.5 | 3.2 | 3.3 | 2.8 | 3.8 | 2.7 | -1.1 | -0.2 |
| *ROE before tax[3]* | *-77.3* | *-17.1* | *-6.7* | *5.5* | *17.2* | *12.6* | *20.4* | *34.4* | *33.5* | *27.5* | *39.2* | *32.6* | -6.6 | 5.1 |
| *ROE[3]* | *-79.0* | *-19.1* | *-8.1* | *4.1* | *15.3* | *10.9* | *15.2* | *22.9* | *24.5* | *19.6* | *29.2* | *22.1* | -7.0 | 2.5 |

(1) Data at December 2002 currency (2) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

(3) As of January 2008, data to calculate financial system consolidated result is available. This indicator excludes results and asset headings related to shares and participation in other local financial entities.

(4) 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 02 | Dec 03 | Dec 04 | Dec 05 | Dec 06 | Dec 07 | Dec 08 | Dec 09 | Jun 10 | Dec 10 | Jun 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-performing loans (overall)** | **19.8** | **15.7** | **8.9** | **4.4** | **2.9** | **2.2** | **2.5** | **3.1** | **2.6** | **1.9** | **1.5** |
| Provisions / Non-performing loans | 71.3 | 73.0 | 89.2 | 102.7 | 114.2 | 123.4 | 118.5 | 115.9 | 122.4 | 143.5 | 154.9 |
| (Total non-perfoming - Provisions) / Overall financing | 5.7 | 4.2 | 1.0 | -0.1 | -0.4 | -0.5 | -0.5 | -0.5 | -0.6 | -0.8 | -0.8 |
| (Total non-perfoming - Provisions) / Net worth | 20.1 | 14.4 | 3.4 | -0.4 | -1.4 | -2.1 | -1.9 | -1.7 | -2.3 | -3.4 | -4.0 |
| **Non-performing loans to the non-financial private sector** | **37.4** | **30.4** | **15.3** | **6.3** | **3.6** | **2.5** | **2.8** | **3.3** | **2.7** | **2.0** | **1.6** |
| Provisions / Non-performing loans | 72.2 | 75.0 | 88.3 | 102.4 | 113.9 | 122.7 | 118.0 | 115.1 | 122.1 | 143.0 | 154.1 |
| (Total non-perfoming - Provisions) / Overall financing | 10.4 | 7.6 | 1.8 | -0.1 | -0.5 | -0.6 | -0.5 | -0.5 | -0.6 | -0.9 | -0.9 |
| (Total non-perfoming - Provisions) / Net worth | 19.1 | 12.9 | 3.6 | -0.4 | -1.4 | -2.0 | -1.8 | -1.6 | -2.2 | -3.4 | -3.9 |

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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