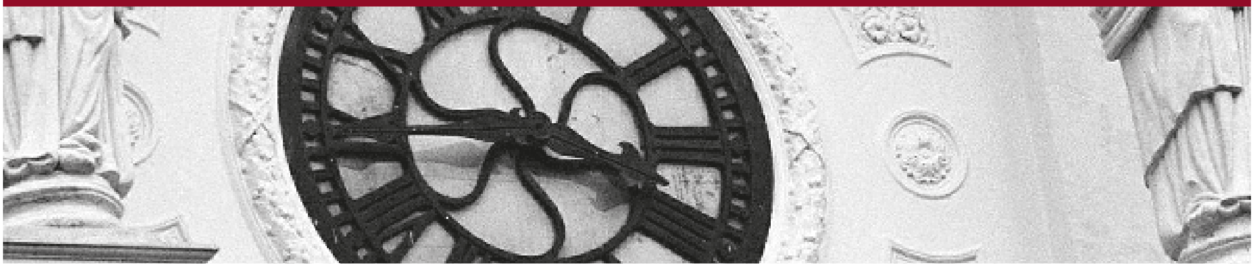

Financial Stability Report

First Half 2013

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Preface

Pursuant to the latest amendment of its Charter, the Central Bank's mandate and objectives were enlarged. Section 3° provides that the purpose of "the Bank is to promote —within the Framework of its powers and the policies set by the National Government— monetary and financial stability, employment, and economic development with social equality".

Financial stability, one of the express objectives of the new mandate, is a critical condition to ensure the financial system contribution towards economic and social development. As widely shown throughout history and ratified by the latest international crisis, there are serious negative externalities which result from an ill-functioning process of financial intermediation. Hence, the protection of financial stability by Central Banks has once more come to the fore.

A transparent communication (public-oriented) strategy has been designed with a view to promoting financial stability and complementing regulatory and supervisory powers. In this sense, the ***Financial Stability Report*** *(**FSR**) gives a comprehensive assessment of the development of financial system conditions. The* ***FSR*** *combines several channels of information on the subject gathered by the Central Bank in a single publication. In addition, the Central Bank discloses —between* ***BEF*** *half-yearly publications— a monthly* ***Report on Banks*** *so as to keep the public informed of the latest developments of the financial system. The Central Bank mainly resorts to these publications to disclose its outlook for the financial sector.*

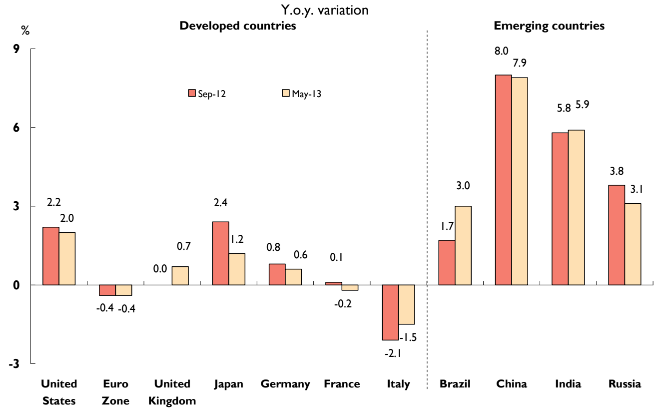
Buenos Aires, June 3, 2013

Contents

Central Bank Outlook

At a global level, economic activity continued to slow down over the last few months of 2012; however, at a regional level, dissimilar performances prevailed. While the Euro Zone plunged into recession, the rest of the developed countries recorded a slight growth, and emerging countries continued evidencing greater relative momentum, although in most cases a deceleration in activity levels against original growth forecasts was observed. This trend was also recorded over the first four months of 2013 and it is likely to continue over the next few months of the year. In turn, world trade volumes keep moderating their growth rates, rendering the recovery forecasted for the second half of the year uncertain.

Chart 1
Evolution of 2013 Growth Forecasts
Y.o.y. variation



Source: FocusEconomics and Banco Central do Brasil

Governments with weaker economies would continue to base countercyclical stimulus entirely on monetary measures, whereas their public finances adjustment policies continue to restrict sustained improvement opportunities in terms of economic activity levels. Japan is an exception to this rule. Over the last few months, Japanese authorities made progress towards the implementation of fiscal and monetary stimulus as a way of climbing out of stagnation and deflation.

Increasing capital flows to mainly, emerging economies have been fueled by expansionary monetary policies implemented by developed economies. This new recovery of financial flows placed, once again, the impact of developed countries' monetary expansion on exchange rate parities of developing economies at the heart of the debate. In this context, emerging countries' governments have continued implementing policies to offset appreciation pressures exerted on their currencies, without neglecting fiscal and monetary measures aimed at strengthening domestic expenditure in order to face the local consequences arising from the slowdown in external demand.

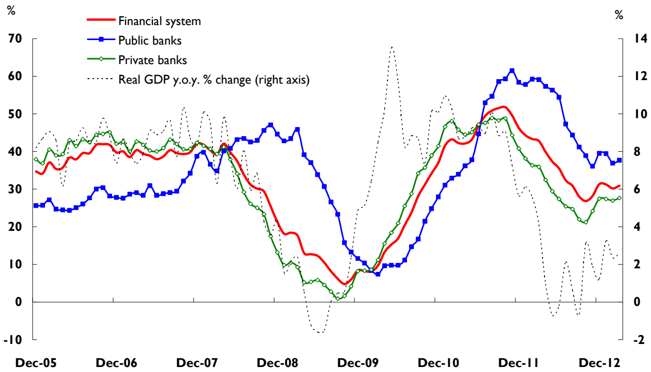
Throughout 2012, economic performance in Argentina was influenced by the economic slowdown recorded by its main trading partners and the adverse climate conditions affecting agricultural harvest. At the beginning of 2013, economic activity gained momentum in a context of gradual increase of production in agricultural and automotive industry sectors —where Brazil's greater dynamism had a particular bearing on the managed bilateral regime— and auspicious performance of the services sector.

The limited impact of climate adverse conditions and a lower demand from trading partners on activity levels,

Chart 2

Credit to the Private Sector

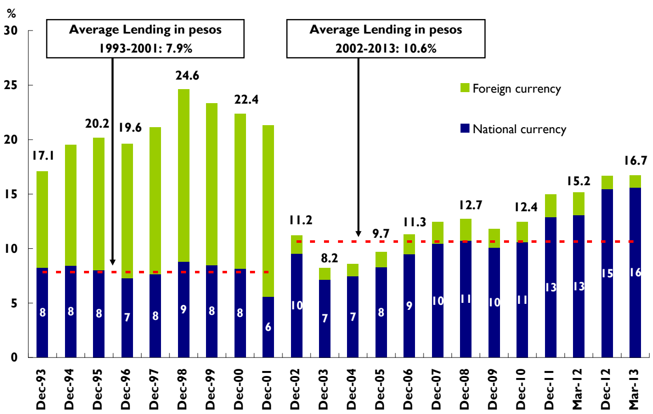
Y.o.y. % – By group of banks



Source: BCRA

Chart 3

Credit to the Private Sector in terms of GDP



Source: BCRA and INDEC

as discussed above, was the result of active policies implemented by the National Government. Over the second half of 2012, bank intermediation levels continued growing both for production and consumption, thus reversing the pro-cyclical performance observed in previous periods, where greater restrictions on financial access had a multiplying effect on economic slowdown. In turn, the new Charter of the BCRA made it possible to recover tools aimed at supporting credit lines to the productive sector, particularly loans to SMEs, which performed as expected.

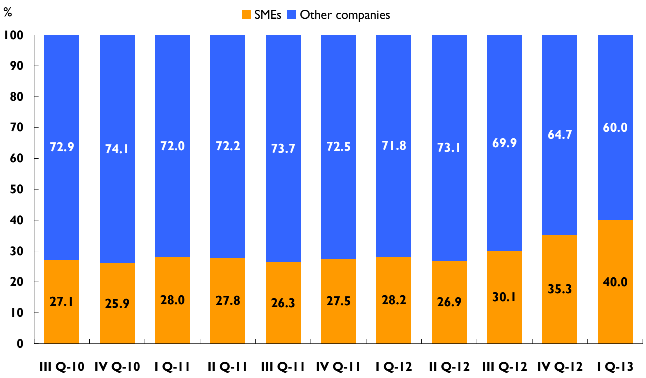
Based on a prominent relative growth pace, bank lending to the private sector continued, increasing its depth in the economy, which implied a rise in its GDP ratio. Thus, over the last 12 months, bank lending increased 1.5 percentage points (p.p.) reaching 16.7% of GDP in March 2013, accumulating a hike of almost 5 p.p. since late 2009.

Likewise, throughout 2012 and the first part of this year the share of bank loans to the private sector in netted assets of the banking system continued to grow, reaching 52% in March 2013, with an year-on-year increase of 2 p.p. In turn, loans to companies accounted for almost 60% of lending growth over the past 3 years. The positive performance of loans was mainly influenced by the dynamism observed in lines in domestic currency, which grew about 42% y.o.y. as of March 2013. The constant and far-reaching contribution of public banks to this performance should be underscored.

In the second half of 2012 —together with the launch of the Credit Line for Productive Investment— loans to companies increased their expansion rate, reaching a 43.4% annualized (a.) increase. Auctions conducted under the Bicentenary Productive Financing Program also contributed to companies' financing.

According to the latest available information, total loans disbursed in the context of the Credit Line for Productive Investment amounted to $16.8 billion by the end of 2012, with more than half of these funds being channeled to micro, small and medium enterprises. In turn, manufacturing and primary production exhibited the greatest share in total loans disbursed. As a result of the positive impact of this measure on loans granted to the private sector, the BCRA renewed this financing tool for the first half of 2013, using as reference 5% of the balance of deposits in pesos granted to the private sector as of November 2012. Thus, a disbursement target of $17.4 billion was set for the first half of 2013.

Chart 4
Share of Granted Amounts in Pesos to SMEs*
Financial system



* Overdrafts excluded. Source: BCRA

Preliminary data show that, as of May, more than half of this targeted amount was already allocated. Moreover, disbursements amounting to $3.1 billion were recorded so far this year, corresponding to remaining loans agreed in 2012 on a phased disbursement schedule. Thus, considering both the projects already funded corresponding to the first half of 2013 and those agreed in 2012 but disbursed on a phased basis, about $12 billion have been effectively granted from January to May 2013 under the Credit Line for Productive Investment. Therefore, estimates indicate that the target set in Communication "A" 5380 will be duly complied with.

Since the implementation of the Bicentenary Productive Financing Program by mid 2010, 23 auctions have been held, awarding $6.9 billion. The 14 participating financial institutions have already awarded a total amount of $4.6 billion to companies. Over 80% of loans allocated through this initiative were channeled through public banks. This program has created more than 17,300 jobs in different economic sectors.

These initiatives have significantly impacted on the amount of loans in pesos granted to SMEs as from the second half of 2012. Relative share of loans in pesos disbursed by the financial system to this group of companies in terms of total volume operated with legal persons has grown 13 p.p. since mid 2012, reaching 40% in the first quarter of 2013. Among loans granted to SMEs, a rise in the proportion of loans with longer terms and lower interest rates is also observed. Considering the growing trend observed in gross operated amounts, the stock of loans in pesos to SMEs already accounts for almost 30% of the total stock of loans granted to companies as of the end of the first quarter of 2013.

In this context of credit strengthening, over the second half of 2012 and the first quarter of 2013, the broad money creation process was explained by the positive performance of loans. In 2012, the ratio of total monetary aggregates in pesos (cash held by the public and total deposits in pesos) to GDP increased 4.3 p.p.

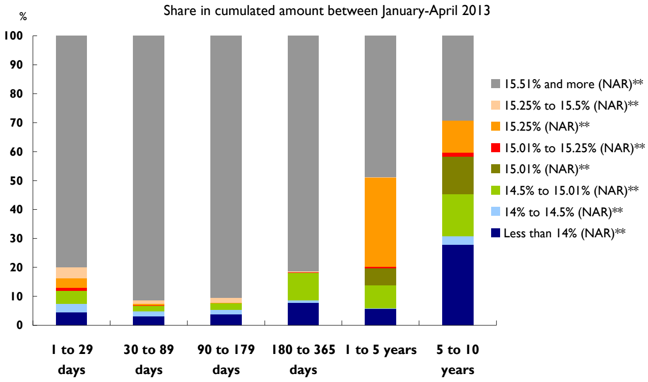
The stock of private sector deposits in domestic currency rose 36.9% y.o.y. in March 2013, up 3.4 p.p. on a y.o.y. basis, reflecting the effect of the growth recorded by time deposits in pesos, which increased 44.2% y.o.y., up 4.1 p.p. against March 2012.

The use of electronic means of payment continued to expand. In 2012, there was an increase in bank transfers made through different channels, with a particularly favorable performance of instant transfers, which increased 71.8% y.o.y., and 120.1% in the cumulative of the second half of the year.

Over the last few months, financial system's exposures and coverages to risks inherent to its activity remained practically unchanged. This sector has a sound position to face risks taken and to continue to boost financial intermediation during the remainder of 2013.

The sustained increase of loans to the private sector that prevailed throughout 2012 and the beginning of 2013 led to a rise in financial system gross exposure to such sector. Despite this growth, the financial system has maintained a low exposure to credit risk from companies and households, partly influenced by moderate sectoral indebtedness levels. Portfolio delinquency remained at a low level, both in national historical terms and compared to other economies; in addition, non-performing portfolios continued to be comfortably covered through loan loss provisions.

Chart 5
Loans in Pesos* to SMEs by Term and Interest Rate
Share in cumulated amount between January-April 2013



* Overdrafts and credit cards excluded. ** Nominal Annual Rate
Source: BCRA

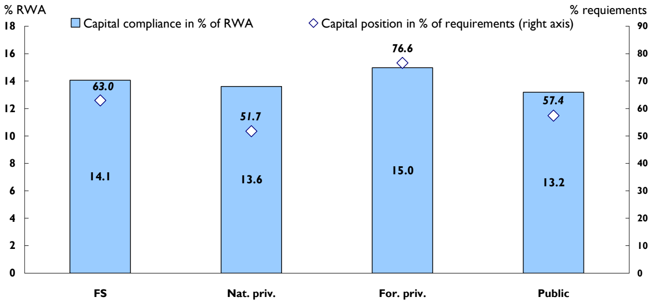
Banks' exposure to liquidity risk remained limited, despite a context marked by increased financial intermediation over the last few quarters. In 2012, there was a lower relative share of shorter residual term liabilities in the total funding of the financial system. In turn, financial system exposure to market risk continued recording a low and falling trend. Particularly, there was a drop in the share of sovereign bonds at market value in the total portfolio. Price volatility of the main bonds held by banks also lessened. The share of assets and liabilities in foreign currency in the aggregate balance of banks continued to contract in 2012 and the beginning of 2013. The sharpest drop of liabilities in foreign currency led to a slight increase of financial system exposure to foreign currency risk, although it remains at historically low levels.

In November 2012, the BCRA amended Minimum Capital regulations applicable to financial institutions as from January 2013 in order to strengthen the financial system, foster loans aimed at supporting economic growth and adapt domestic regulations to international standards. This regulatory change is part of a set of measures adopted by late 2012 and early 2013 in order to facilitate the implementation of the three pillars of Basel II, including changes introduced by Basel 2.5 and Basel III, in line with guidelines duly stated in the BCRA roadmap to Basel III (see Box 3).

Taking into account the regulatory changes mentioned above, capital compliance of the financial system reached, in March 2013, 14.1% of total risk-weighted assets, staying consistent with values recorded by other emerging and developed economies. Excess capital compliance accounted for 63% of total regulatory requirement, a clear sign of banks' capital sound position. This scenario allows them to face all risks inherent to financial intermediation activities on a proper basis.

For the rest of the year, the Argentine financial system is expected to maintain a limited risk exposure, with adequate solvency and liquidity levels. This would take place in a context of increased lending to the private sector, which goes hand in hand with better economic performance and active policies implemented under the new Charter of the BCRA.

Chart 6
Capital Requirements and Capital Compliance by Group of Banks
March 2013*



* According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.
Source: BCRA

I. International Context

Summary

In the second half of 2012, the level of global activity, though heterogeneous across different countries, continued slowing down. Countries in the Euro Zone underwent recession, while the remaining developed countries evidenced a weak pattern of growth. So far this year, several countries have also exhibited a modest economic growth —performing below the rates expected in the previous 6-month period—, whereas activity levels recorded in leading global economies suggest uncertainty in terms of the economic recovery anticipated for the second half of 2013. Throughout 2012 and the first months of 2013, growth evidenced by emerging economies was below market expectations, although above the growth rate recorded by developed countries —a trend that would persist—. In this context, global trade volumes moderated their expansion rate.

Public finance adjustment policies implemented by developed countries continued to limit economic growth. Thus, the countercyclical stimulus fully relied on monetary measures. Even though during the first months of 2013 financial and debt markets in developed countries have shown signs of improvement, uncertainty about political stability in Italy and the consequences of the financial crisis resolution in Cyprus have caused growing concern over the situation faced by the Euro Zone. Meanwhile, Japan continued to implement a meaningful fiscal and monetary stimulus package aimed at overcoming the economic stagnation and deflation of the last few decades.

Within the framework of existing monetary stimulus, the international financial scenario has shown some signs of improvement. Thus emerging economies' financial assets evidenced a changing performance; however, they recorded a positive balance over the last few months. This was accompanied by increased capital flows towards such economies, which renewed discussions on the impact of developed countries' monetary expansion on exchange parities of emerging countries ("currency war"). In this context, developing countries continued implementing policies to counteract pressures towards currency appreciation —although with limited results—, which were accompanied by fiscal and monetary stimulus measures aimed to promote domestic spending, thus seeking to mitigate the domestic effects of slowdown in external demand.

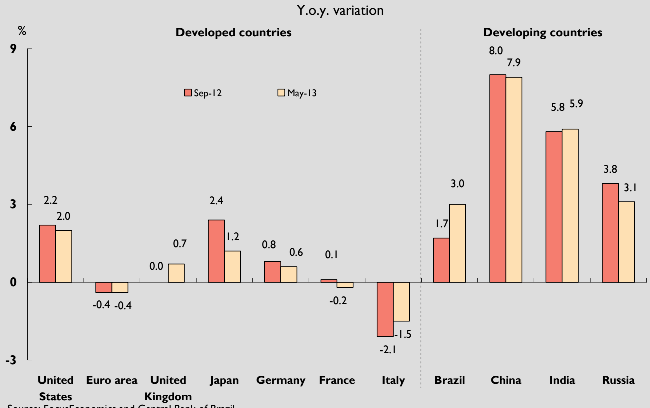
The downward trend in the international price of commodities, which started around mid-2012, persisted. And, so far this year, the price of agricultural commodities continued posting changes —mainly due to the abundant harvest in South America—, just like industrial commodity prices, which were influenced by the feeble world manufacturing activity.

Several downward revisions in global growth forecasts for 2013 have continued to fuel uncertainty regarding improvement prospects in the international arena for the second half of the year. Both developed and large scale economies —like China— run the risk of economic underperformance which might cause a lower global expansion in year-on-year terms.

Chart I.1

Global. Evolution of 2013 Growth Forecasts

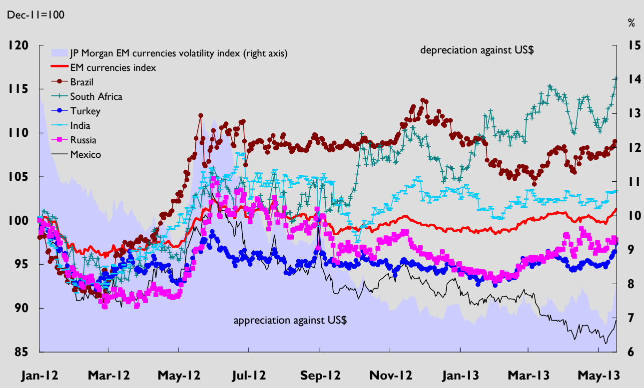
Y.o.y. variation



Source: FocusEconomics and Central Bank of Brazil

Chart I.2

Emerging Economies Currencies *vis-à-vis* US dollar and Volatility



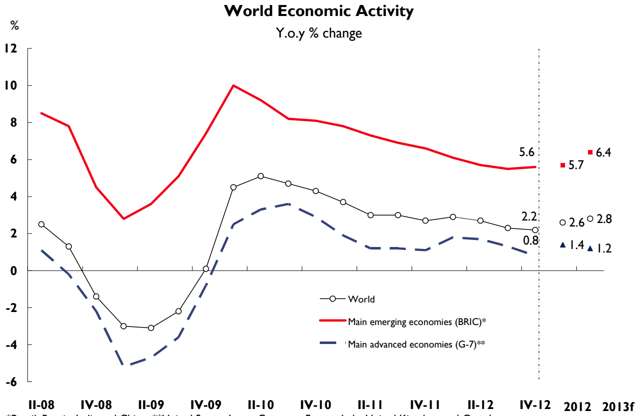
Source: BCRA based on Bloomberg

International Context

World economy grew at a weak pace during 2012 and the start of 2013, with prevailing uncertainty over greater global dynamism

Chart I.3

World Economic Activity



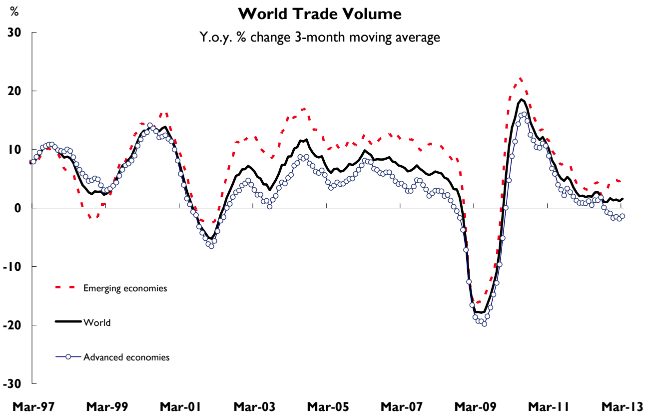
*Brazil, Russia, India and China **United States, Japan, Germany, France, Italy, United Kingdom and Canada
Source: FocusEconomics

During the second half of 2012, world economy continued moderating its growth rate and ended the year with a 2.6% y.o.y. increase. This is the average outcome of heterogeneous performances recorded across regions. Developed countries grew 1.4% y.o.y., with the Euro Zone undergoing recession, and the rest of the economies expanding at low rates. In turn, economic activity levels of emerging economies expanded by 5.7% a y.o.y., evidencing a much higher growth than that of advanced economies, but lower compared to that recorded prior to the onset of the last international financial crisis (see Chart I.3).

In this context, global trade flows posted a 3.2% annual growth rate, representing the minimum expansion in trade reported in the past decade (excluding 2009, when it shrank 10% y.o.y.). In addition, the performance of trade volumes in advanced economies was fairly distinct from that observed in emerging countries; the latter rose —due to the evolution recorded in emerging Asia, and contrary to the prevailing situation in Latin America where foreign trade had a poorer performance—; meanwhile, advanced countries evidenced a decline in commercial transactions (see Chart I.4).

Chart I.4

World Trade Volume



Source: Netherlands Bureau for Economic Policy Analysis

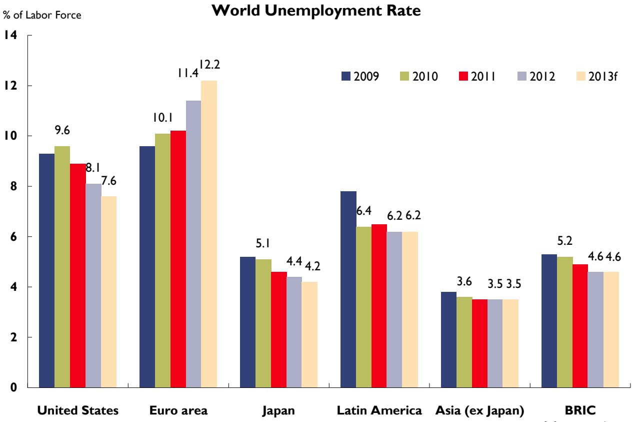
Labor conditions in the Euro Zone continued worsening over 2012 and 2013 to date, while some improvements were observed in other advanced economies (e.g., the United States; see Chart I.5).

Following the weak growth recorded last year, a poor performance has been observed in global economic conditions in year-to-date terms —figures falling below the forecasts made six months before—; this raised certain doubts about the feasibility of the improvements in economic activity that had been anticipated for the second half of 2013. After several downward revisions in growth forecasts (see Chart I.1), there still prevail several uncertainty factors that could worsen the international outlook, amongst which economic activity growth perspective in the Euro Zone and that of financial markets in such region stand out.

With respect to the United States, the most relevant debate of the second half of 2012 centered on the impact on economic growth arising from the scheduled fiscal adjustment of public accounts ("fiscal cliff"). A partial agreement was reached over the first days of 2013, which

Chart I.5

World Unemployment Rate

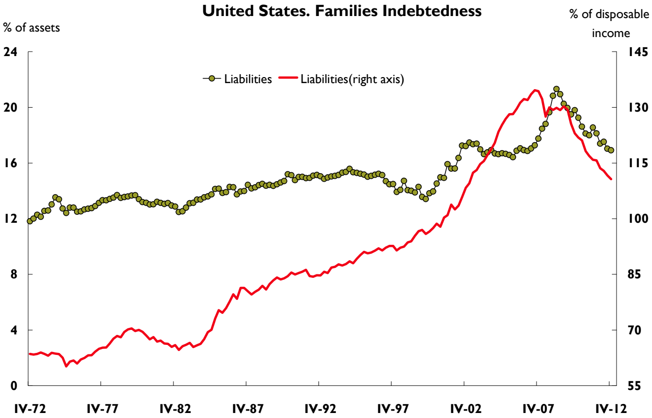


Source: FocusEconomics

f: forecasted

Chart I.6

United States. Families Indebtedness



Source: BCRA based on Federal Reserve

included measures aimed at raising fiscal funds, thus easing off spending cuts estimates. Over the same period, a rise in a set of taxes on capital profits and income for high-income households; the elimination of some tax deductions; a rise in real estate taxes; and the expiration of payroll tax reductions were announced. However, the discussion regarding the debt ceiling remained pending and should be addressed during the last quarter of 2013. There is still uncertainty about the feasibility that contraction effect on economic activity caused by fiscal tightening be offset by a rise in American private sector spending favored by the incipient recovery experienced by the real estate construction sector in a context of improvement in households' wealth (see Chart I.6).

Adjustment measures that continued to be implemented in some countries of the Euro Zone and which impacted on the level of activity in the region were more significant. In contrast, the economic policy change recently implemented by Japan should be highlighted. Its purpose is to coordinate fiscal, financial and monetary efforts so that the economy may overcome stagnation and deflation that have prevailed in the past few decades.

Within this framework, stimulus to economic activity in the main advanced countries was based, once again, on monetary policy. The Federal Reserve announced a new long-term treasuries purchase scheme in December. In addition, it linked its perspective to sustain low interest rates to the performance of the labor market. In turn, the European Central Bank ordered new cuts in the monetary policy rate in May, leaving open the possibility that other measures could be implemented. The already mentioned case of Japan moved in the same direction, announcing significant measures in April[1].

Broad international liquidity and low interest rates in the main financial markets increased capital flows towards emerging economies. As a result, the currencies of these countries appreciated, and debates on a "currency war" gained momentum (see Chart I.7).

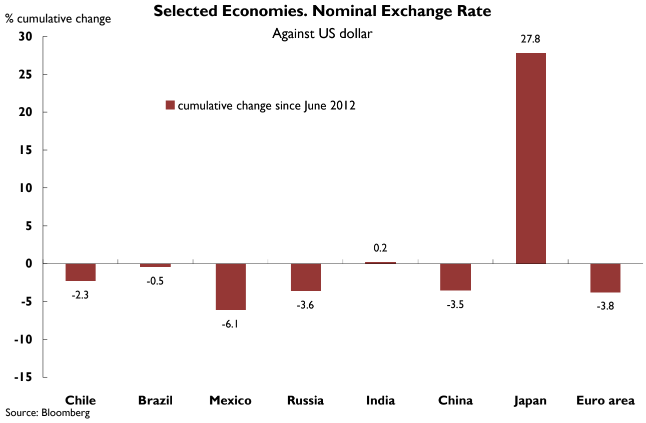
The slowdown in demand recorded by advanced countries, together with foreign exchange appreciation pressures affected growth in developing economies in 2012. As a result, emerging economies continued implementing fiscal and monetary measures to promote domestic demand, which proved to be critical to sustaining economic growth and having sound labor indicators.

[1] The operating target of the Bank of Japan shifted from the interest rate to the monetary base. To achieve a 2% inflation rate in a 2-year horizon, the monetary authority has considered doubling the monetary base by raising asset purchases (basically, sovereign bonds).

Chart I.7

Selected Economies. Nominal Exchange Rate

Against US dollar



Source: Bloomberg

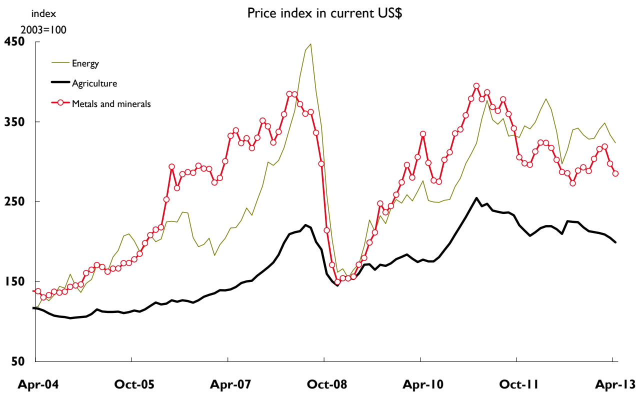
In the case of emerging regions, Asia and Latin America kept on exhibiting better relative economic performance and this trend would prevail in 2013. Economic activity is expected to expand 3.5% y.o.y. in Latin America, even though a significantly poorer foreign demand from advanced countries was observed in the first months of 2013; should this situation continue in the coming months, it could lead to new downward adjustments to growth forecasts. In particular, Brazil's economic activity has been predicted to grow 3%, following a slight expansion in 2012 (0.9%). This rise would be boosted by an ongoing hike in consumption and expected improvements for investment and foreign demand. In this regard, fiscal stimulus measures implemented by Brazilian authorities (basically, through tax reductions and subsidies to interest rates on loans) on certain activity sectors would have a considerable impact. However, the evolution of economic activity will also depend on the growth of the country's trading partners and the impact of monetary policy on economic growth, particularly after the Central Bank of Brazil started a cycle of benchmark interest rate increases in April as a response to a rise in inflation, which exceeded the proposed range set in the inflation target schedule established by the monetary authority.

After achieving levels close to historical maximums, commodity prices have evidenced downward adjustments since early 2011 (see Chart I.8). Agricultural primary products have continued this downward trend so far this year mainly due to an abundant supply of soybean and corn from South America, and other factors such as the avian influenza outbreak in China—which affected prices, as a potential lower demand for grains by the Asian country was anticipated—. This performance was also observed in international prices of industrial commodities, which were influenced by a low growth pace of international industrial production.

Chart I.8

Commodities Prices

Price index in current US$



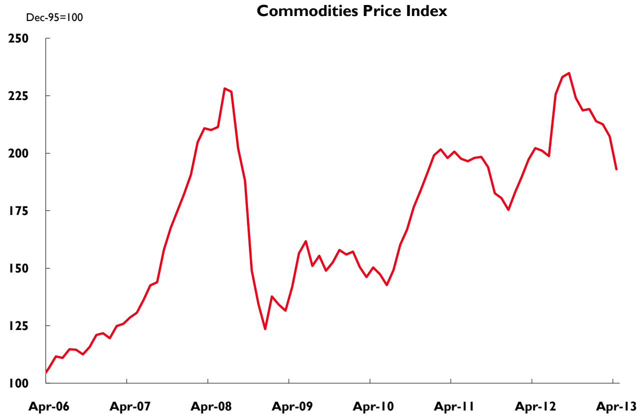
Source: World Bank

In this context, the Commodity Price Index (IPMP), which is prepared by the BCRA and shows the evolution of the most relevant primary products international prices in Argentine exports, grew around 20% y.o.y. on average in the second half of 2012, evidencing a 12% fall in the first four months of 2013, down 4.6% in April in y.o.y. terms (see Chart I.9).

No significant changes in the price of the main export grains have been predicted for the rest of the year; however, they may follow a downward trend if Brazilian harvest shipments to international markets gain momentum and record soybean and corn sowing projections in the United States materialize. In turn, the evolution of industrial commodity prices will depend on the performance of the global manufacturing sector, which is marked by uncertainty as to whether mild expansion will actually be observed

Chart I.9

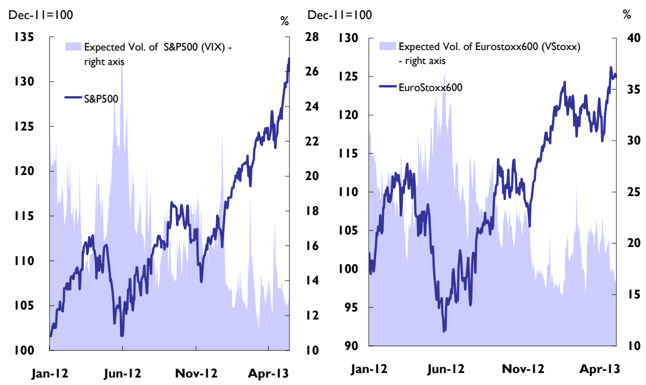
Commodities Price Index



Source: BCRA

Chart I.10

Stock Market Indexes in Dollars and Expected Volatility



Source: Bloomberg

Encouraged by monetary policies and less perceived risks, international financial markets have sustained the recovery trend which started in mid-2012

Even though ongoing weakness is noticeable in global growth pace, by the end of 2012 and early 2013, international financial markets continued following the recovery trend that had begun in mid-2012. This improvement in the prices of financial assets was observed as a result of several factors, including less perceived tension in European debt markets, the launch of new monetary stimulus measures and partial agreements reached in terms of fiscal conditions in the US[2].

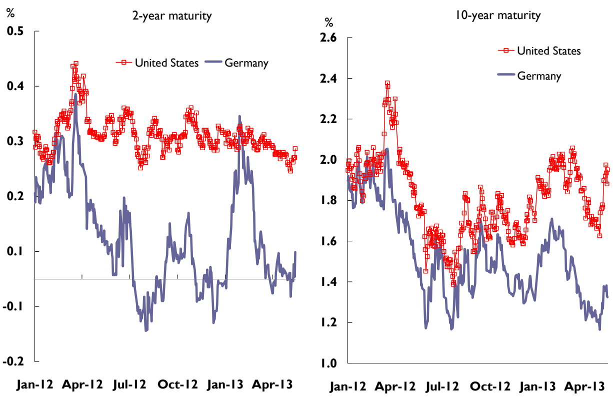
In general, European financial markets maintained a gradual upward trend following the announcement of ECB's debt instrument purchase program, while monitoring the implementation of several measures that had been previously announced (see Box 1). Even though as from mid-February there was growing uncertainty for different factors (Italy's political situation, the potential impact of conditions under which Cyprus received external financial aid, among others), tension somewhat eased compared to previous episodes of volatility. By mid-April, markets picked up, exhibiting a more positive trend; however, the main concern on the evolution of developed countries have not completely vanished. In general terms, even though monetary measures encourage the pursuit of better yields (thus impacting on the prices of financial markets), prevailing uncertainty continues to exert pressure on economic activity and credit performance in a context still marked by the deleveraging trend of the private sector.

Risk asset appetite in a context of less perceived tension and sustained monetary policy stimulus is reflected, for example, in the stock exchange indexes of the United States and Europe, which continued to strengthening over the last few quarters, although in February and March 2013 this upward trend lost some ground, and expected volatility gained some momentum (see Chart I.10). Thus, the American S&P 500 recorded from late September 2012 to mid-May 2013 a rally of almost 16% (posting new historical maximums), whereas the Eurostoxx600 measured in dollars climbed almost 15%. It should be noted that financial sector's stocks, both in the US and Europe, have improved 24-28% in dollars over the period. As regards the expected stock index volatility, a steep fall was observed over the last few months of 2012, a trend that partially reversed over the first months of 2013, particularly in European markets (without reaching the levels recorded in the second half of 2011 and the first half of 2012).

[2] Also to be included within these factors is the submittal of corporate balance sheets that turned out to be better than expected, particularly in the US.

Chart I.11

Sovereign Debt Yields - US and Germany



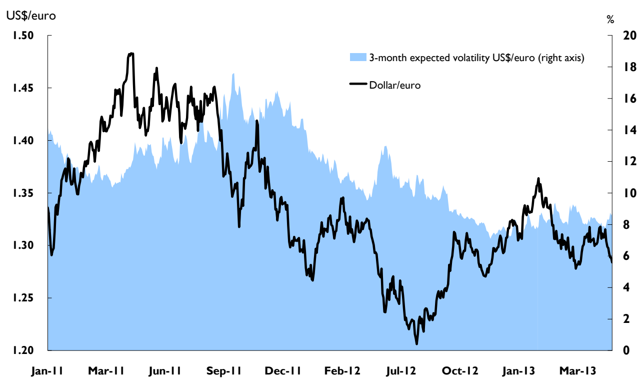
Source: Bloomberg

Yields of sovereign bonds considered to be risk free assets showed a changing performance (see Chart I.11); after failing to exhibit a definite trend in the last quarter of 2012, they widened in January and much of February (despite the new measures adopted by the Federal Reserve) and shrank therefrom to early May[3]. Ten-year US Treasury bond yields posted an increase of over 30 b.p. from September to mid-May, whereas German bonds displayed a decrease of over 10 b.p. (recording new historical minimums).

Until February this year, the easing of tensions in European markets and new monetary stimulus measures in the US caused the dollar to weaken against the euro, a trend which reversed during the rest of the first quarter of 2013 on account of greater caution with regards to Europe. Thus, since late September last year, the US currency accumulated a slight appreciation against the euro (see Chart I.12). The expected dollar/euro exchange rate volatility decreased through much of the period compared to the previous six-month period (reaching over the last few months of 2012 the minimum values recorded since late 2007), while experiencing a partial reversal in the first months of 2013[4]. In turn, the dollar has appreciated 32% against the yen as from the end of the third quarter of 2012 (see Chart I.13), as a result of the expectations raised by a change in the monetary policy of the Bank of Japan.

Chart I.12

Dollar/Euro Exchange Rate and Expected Volatility



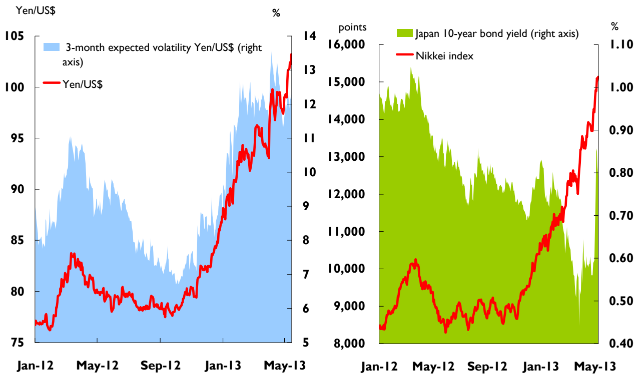
Source: Bloomberg

Stock exchange indexes of emerging economies have shown a fluctuating performance since late September, and recorded a marked improvement between mid-November and early January; subsequently dropping until mid-April, when they recorded an upward trend once again. Stock prices for the aggregate of emerging countries accumulated gains over 4% in dollars from late September to mid-May as per the Morgan Stanley Capital International index (MSCI EM), and expected volatility for the main components of this index for the period was relatively low (see Chart I.14). In Latin America, the regional MSCI grew almost 1% since October; an increase of almost 7% in the Mexican stock exchange and a reduction by more than 7% in the Bovespa index measured in dollars being highlighted. The upward trend in prices observed between October and February was accompanied by significant inflows to emerging economies' investment funds specialized in equity, while this trend was temporarily reversed during March and April (with net outflows from these funds)[5]. However, the 2013 balance so far continues being positive as a result of significant subscriptions during the first months of the year (reaching a historical maximum of inflows in January).

[3] In May, yields increased once again after speculation about a potential reduction in the rate of purchase of assets by the Federal Reserve began to mount.
[4] This took place in a context where non-trading agents changed from a net short position in euros in the last few months of 2012 to a long position on an interim basis in early 2013 (and back to a short position as from late February).
[5] In May, once again inflows went to funds focused in stocks of emerging economies.

Chart I.13

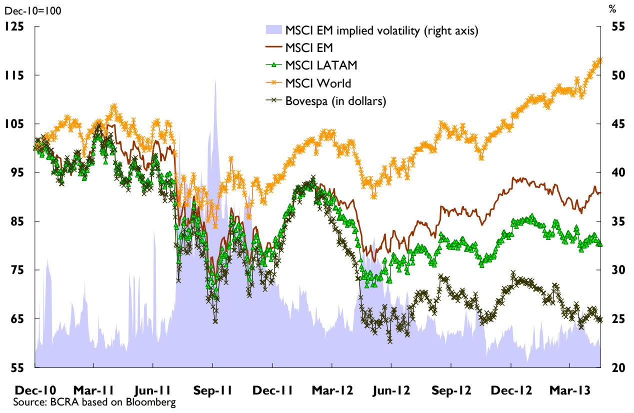
Japan - Exchange Rate and Financial Markets



Source: Bloomberg

Chart I.14

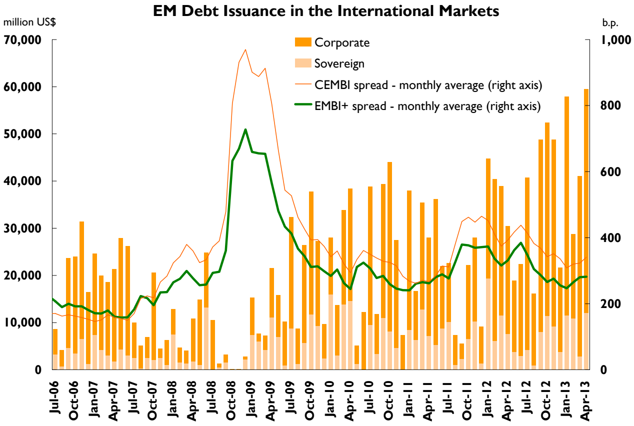
Emerging Economies Stock Markets



Source: BCRA based on Bloomberg

Chart I.15

EM Debt Issuance in the International Markets



Source: Bloomberg

As per the EMBI+, yield spreads for emerging sovereign debt has dropped more than 20 b.p. since late September (even though they contracted more than 50 b.p. between October and January. subsequently expanding). The interest seen in the assets of emerging economies was generally reflected in the amount of debt issued by their governments and companies in international markets. This dynamism has persisted so far in 2013, featuring record monthly issues by companies of emerging economies in international debt markets (see Chart I.15). In sectoral terms, bank issuances should be highlighted, whereas on a region by region basis, emerging Asian companies stood out. In Latin America, Brazilian and Mexican companies accounted for almost 60% of total issues made by companies at a regional level in international markets between October and April 2012, followed by Chilean and Peruvian companies.

Currencies from emerging countries have also posted a changing performance over the last few months, with an accumulated depreciation of more than 2% against the US dollar from late September 2012 to mid-May 2013, in a context of relatively low expected volatility compared to the figures observed in the previous 6-month period (see Chart I.2). This trend, although generalized in regional terms, was more noticeable in the case of Latin America. It is worth pointing out that since the end of September, the Brazilian real has accumulated a slight depreciation against the US dollar. The Brazilian currency weakened against the US currency in October and November last year; however, it then started an appreciation trend which lasted until early March 2013, and subsequently returned, to its depreciation trend. These changes occurred in a context of market interventions by the BCB through exchange rate swaps, either to limit the depreciation of the real or to discourage its appreciation[6].

In spite of the overall positive trend observed in markets over the last few months, there are still risk sources which may bring about new volatility scenarios. On the one hand, concerns prevail over global economic evolution, with further policy responses that might be introduced by central economies. In the United States, negotiations on long-term fiscal issues remain unsolved, whereas uncertainty upholds in terms of rate of asset purchases by the Federal Reserve; meanwhile, in Europe, both financial market performance and the implementation of already announced measures will continue to be monitored. Finally, if monetary stimulus measures adopted by developed economies persist or deepen, and to the extent no new volatility scenarios arise, increasing capital flows to emerging markets will represent, once again, a challenge to the economic policy of such countries.

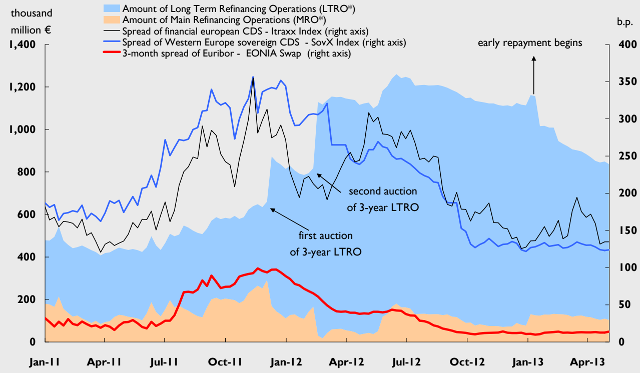
[6] In general terms, BCB's interventions took place when the exchange rate exceeded the range of R$/US$1.95-2.10, as a means to limit price volatility. Its last intervention was in March.

Box 1 / Evolution of Sovereign Debt Crisis in Europe and Policy Responses

The official announcement in September of the creation of a new sovereign bonds purchase program by the ECB helped shape a gradually improving scenario in European financial markets, although volatility episodes continued to be observed —such as fears related to the potential impact of Cyprus' crisis—. Looking ahead, the still fragile situation in European financial markets creates expectations on the potential contagion effect on other markets (including assets from emerging economies). Attention is drawn to the implementation of various measures already announced and their impact on the evolution of the real economy

Chart B.1.2

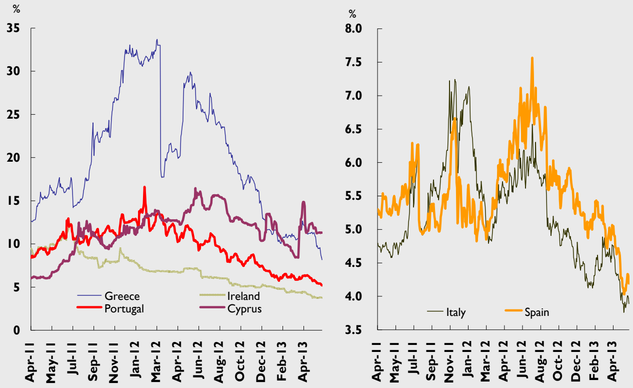
ECB Liquidity-Providing Operations and Risk Spreads



Source: BCRA based on Bloomberg and ECB (*) LTRO includes operations with maturity between 3 months and 3 years.

Chart B.1.1

Long Term Debt Yields of Selected Economies



Source: Bloomberg Note: 10-year yield, except for Cyprus (maturity 2020) and Ireland (maturity 2025).

In 2012, several announcements were made to limit the growing fragmentation observed and the potential contagion of tensions in European financial markets. Given that over the first half of 2012 new risk peaks were recorded in financial markets[7] —despite 3-year liquidity injections carried out by the ECB in December 2011 and February 2012—, European authorities decided to launch new measures. Among such measures, it is worth mentioning the creation of a single banking supervision mechanism for the entire Euro Zone, greater flexibility in the operations of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) and –more importantly— the launch of a program through which the ECB might purchase sovereign bonds from countries officially requesting support (known as the Outright Monetary Transactions [OMT] program[8]). Even though up to the present date no country has officially requested to make use of the OMT program, its announcement has helped to achieve a lower risk scenario over much of the second half of 2012. For example, in the case of large vulnerable economies, like Spain and Italy, 10-year sovereign debt yields, measured from the relative peaks observed in July to year end, contracted more than 200 b.p.[9] (see Chart B.1.1, second panel). Consequently, in the first few months of 2013 Ireland and Portugal were able to return to debt markets for the first time after receiving external financial aid[10], whereas European banks started a process of early repayment of funds awarded by the ECB through Long-Term Refinancing Operations[11] in late 2011 and early 2012 (see Chart B.1.2).

As regards the new external aid offered to economies in the region[12], the Eurogroup reached an agreement with

[7] Based on speculations on a potential Euro Zone break-up (see, for example, the report on "Financial Integration in Europe" published by the ECB in April this year).

[8] See Box 1 of the Financial Stability Report – Second Half 2012.

[9] From late 2012 to mid-May 2013 they further contracted almost 100 b.p. and 60 b.p., in the case of Spain and Italy, respectively, although some upward pressure in the February-March period was recorded.

[10] More recently, in April, a decision was reached to extend the financing term granted to such countries, a measure which should be approved in June.

[11] LTRO. Non-traditional, 3-year operations were carried out to ensure financial institutions' access to funding and to avoid a disorganized deleveraging scenario. Financial institutions offered to make an early repayment of more than €200 billion out of a total amount of almost one trillion euros –in gross terms— involved in the two 3-year LTRO auctions conducted (a part of this amount corresponded to the refinancing of pre-existing loans).

[12] In turn, under the negotiations on new disbursements to Greece, by late 2012, a set of new measures was introduced (including funding rate reductions), conditional upon the success of a debt buy-back

Cypriot authorities by mid-March in order to provide them with funds for up to €10 billion aimed at satisfying fiscal needs and restructuring their financial system[13]. As a condition for the aid, a one-time tax was to be levied on all bank deposits, with differential rates for deposits under or over €100,000 (i.e., with or without deposit insurance coverage). Other measures were also required (increases in other taxes, bank restructuring, the involvement of senior subordinated bond holders, among others). The Cypriot parliament rejected this bailout package, signing an alternative scheme by the end of March.

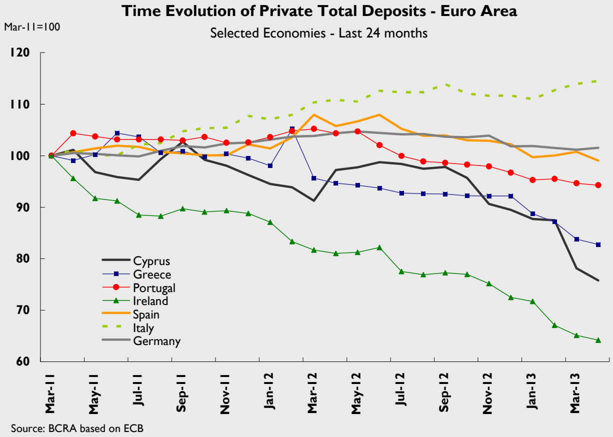
Thus, the final version of the Cypriot program retained the amount of the financial aid, but conditions were changed. According to the agreement reached, the largest bank of the financial system would undergo a restructuring process, splitting into two units: a "good" bank (which would be a part of the Bank of Cyprus, the largest institution of the country) and a "bad" bank. In turn, the Bank of Cyprus would be recapitalized through a conversion of deposits above €100,000 into shares with equity shareholders and bond holders also facing losses. These measures were implemented with the aim of reducing the size of Cyprus's financial sector (which by the end of 2012 accounted for 7 to 8 times the country's GDP), seeking to achieve the European average towards 2018[14]. In turn, several restrictions were implemented to limit cash withdrawals and money transfers.

Speculations as to the feasibility that the measures implemented in Cyprus could turn into a leading case for the treatment of other crisis situations in the region made European markets more volatile towards late March and early April. For example, this was reflected in the performance of sovereign bond yields of vulnerable economies, although the greatest damage was observed in the case of the Cypriot and Italian debts[15] (see Chart B.1.1, first panel). Equity markets also showed high tension; from mid-March to the second week of April, European financial sector shares plunged to a figure that more than doubled the trend observed for other shares of the region, with remarkable drops posted by instruments of Portugal, Spain and Italy. In turn, there was a deep concern about the performance of deposits in vulnerable economies (see Chart B.1.3).

Chart B.1.3

Time Evolution of Private Total Deposits - Euro Area

Selected Economies - Last 24 months



Source: BCRA based on ECB

In a context of weak economic and credit performance, the ECB decided in May to trim the interest rate target on main refinancing operations from 0.75% to a historical minimum of 0.5%[16] (however, future cuts are not ruled out[17]). Thus, the ECB seeks to contribute towards supporting prospects for a recovery later this year. Moreover, it was announced that the fixed rate tender procedure with full allotment of liquidity will continue to be conducted, at least, until the second half of 2014, and that the possibility of promoting the market for asset-backed securities collateralized by loans to non-financial corporations will be studied.

As regards the implementation of the different measures announced, the Single Supervisory Mechanism for Banks attracts special attention, given that —as agreed upon in mid-2012— its implementation is a condition for the ESM to directly recapitalize banks (although discussions on how it will apply in practice continue). In December last year, an official proposal was agreed upon, in which the ECB would become responsible for the overall performance of such mechanism. The ECB will directly supervise large, systemically relevant banks and will be able to implement measures to deal with systemic risks together with national supervisory authorities (which will retain the tasks not transferred to the ECB). This mechanism, which would be implemented this year[18], is considered the first step towards a banking union, which would also include a common banking resolution

operation conducted by the Greek government for an equivalent to more than €30 billion, paying around one third of its nominal value.

[13] At that moment, total funding was estimated at more than €17 billion. In April, such funding needs were re-estimated at €23 billion.

[14] Other measures would follow (tax increases, fiscal consolidation, structural reforms and privatizations).

[15] Over the first few months of the year, Italy's political situation was also affected by uncertainty.

[16] In turn, the interest rate on the marginal lending facility dropped from 1.5% to 1%.

[17] According to statements made by the President of the ECB, if needed, the interest rate on deposit facilities (currently at 0% since July 2012) could even become negative.

[18] The ECB would take on its supervisory role in March 2014 or 12 months after laws on common supervision mechanism become effective.

mechanism for non-viable banks[19] and, in a longer term, a unified deposit insurance scheme.

Despite the recent and gradual improvement trend recorded in European financial markets, the economic situation remains precarious. Activity levels continue to depend on the negative impact of fiscal tightening policies and prevailing uncertainty. In this context, economic indicators performance, financial market evolution and policy responses (including the implementation of measures already announced) continue to be closely monitored.

[19] By mid-year this year, a Bank Recovery and Resolution Directive is to be agreed upon.

II. Local Context

Summary

Economic performance in 2012 was conditioned by adverse climate conditions that impacted on the agricultural harvest season and also by the slowdown observed in countries receiving most of Argentina's exports. Although GDP growth moderated, averaging 1.9% in 2012, economic activity gained momentum in late 2012 and early 2013. Thus, activity expanded 2.7% y.o.y. in the first quarter (see Chart II.1).

Exports of goods and services decreased in 2012 in a general context of slowdown of international trade volumes and unfavorable results from the 2011/12 harvest season. Private consumption expanded 4.4% annually in 2012 and would keep exhibiting a similar pace in the first half of 2013, becoming consolidated as the main driver of domestic demand, while investment remained at high levels in historical terms (at around 23% of GDP) despite a reduction in capital spending recorded in 2012.

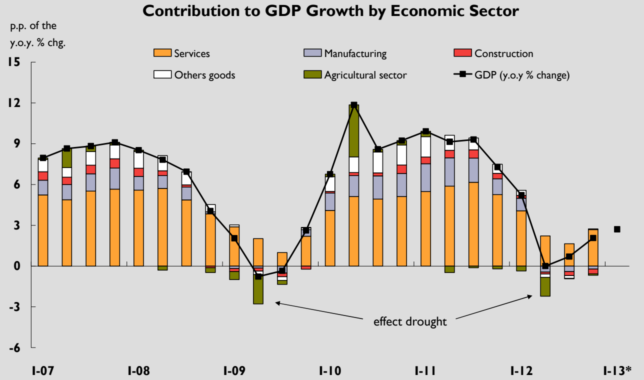
The labor market was sound in 2012 with unemployment rate standing at 7.2% on average, like in the previous year. Wages continued going up and, together with the performance observed in credit and the maintenance of income policies aimed at the lowest-income sectors, they managed to underpin household consumption. Job creation (0.8% y.o.y.) in the first quarter of 2013 was not enough to absorb a greater labor participation rate; therefore, unemployment rate climbed 0.8 p.p. y.o.y., up to 7.9%.

Loans to the private sector continued gaining share in relation to GDP over the past few months, particularly those granted to companies, although they still remain at relatively low levels. The evolution of these loans is driven by policies implemented by the BCRA over the past few years: the Bicentenary Productive Financing Program and the Credit Line for Productive Investment. The ratio between lending to the private sector (in pesos and in foreign currency) and GDP stood at 16.7% in March 2013, accumulating a 4.9 p.p. rise since late 2009; about 60% of such figure was generated by the expansion of financing to companies. The rise of lending in the second half of 2012 and the first quarter of 2013 was the main growth driver of the broadest monetary aggregates in pesos —private and total M3— over the period. In turn, private sector time deposits performed considerably well in 2012, ending the year with a 51.6% y.o.y. hike, one of the highest levels of the past few years.

Financial asset prices in Argentina posted an upward trend mostly over the past few months. Yields of sovereign bonds in dollars (those with the greatest liquidity) have been accumulating sizeable cuts on the domestic market since the end of September although the spread of the Argentine EMBI remained at high levels. In turn, the Merval has recovered almost 50% since the end of the third quarter of 2012. Market financing to the private sector and infrastructure projects evidenced a dramatic rise in terms of volumes operated.

Chart II.1

Contribution to GDP Growth by Economic Sector

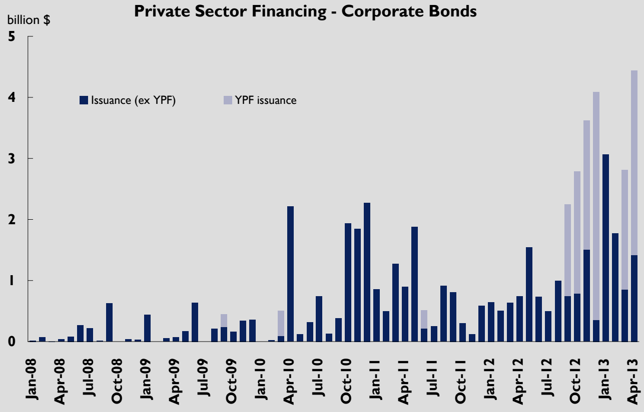


Note: The agricultural sector's contribution corresponds only to the direct effect. Indirect effects are not included eg those related to transport and trade. The difference between the sectoral contribution and the interannual change of GDP is due to taxes and indirectly measured financial intermediation. Source: INDEC

*EMAE data

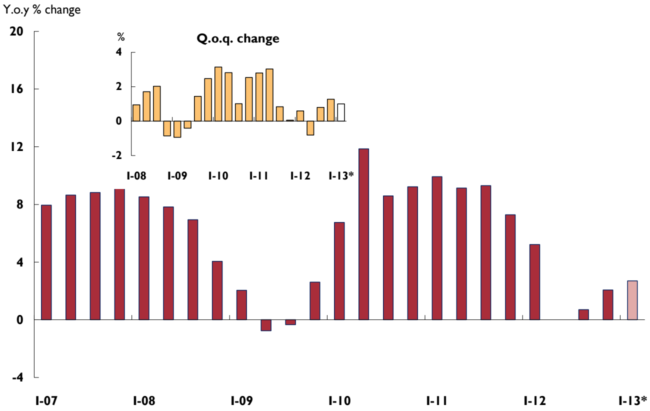
Chart II.2

Private Sector Financing - Corporate Bonds



Source: BCRA based on IAMC, CNV, BCBA and Bloomberg

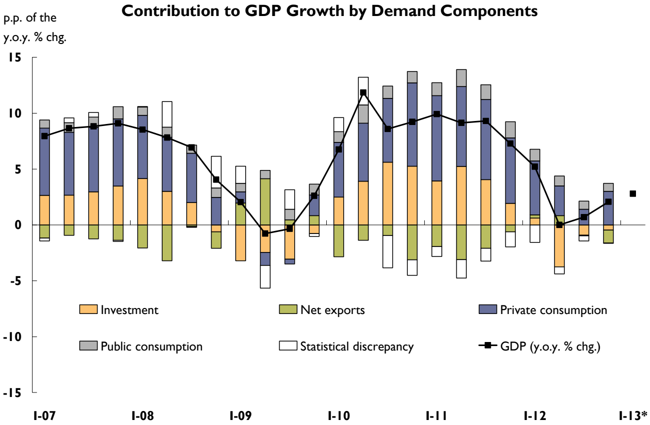
Chart II.3
Real GDP



Source: INDEC

* EMAE

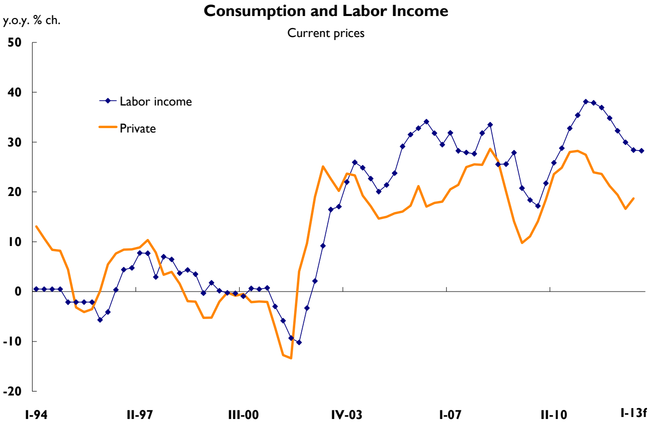
Chart II.4
Contribution to GDP Growth by Demand Components



Source: INDEC

* EMAE

Chart II.5
Consumption and Labor Income
Current prices



Source: BCRA from INDEC data

f: Forecast

II.1 Macroeconomic context

Economic activity moderated its expansion pace in 2012 affected by supply shocks and slowdown in international growth

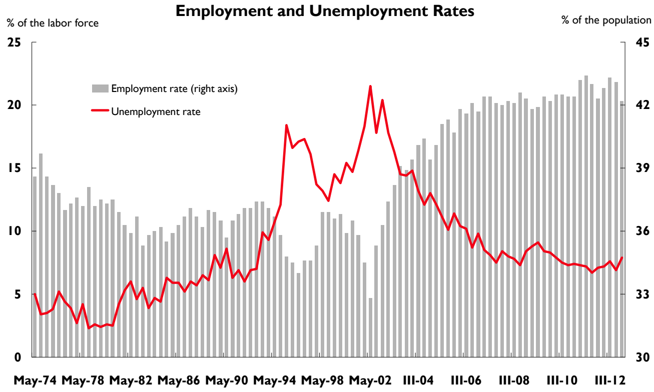
In the second half of 2012, GDP expanded 1.4% y.o.y., down one percentage point (p.p.) from growth recorded in the first half of the year, with a 2% y.o.y. decline in the supply of goods. Nevertheless, over the last months of 2012 and beginning of 2013, a marginal recovery was observed in activity levels of the agricultural sector, industrial segments related to foreign demand and construction, which, coupled with a sustained rise in services, led to a 2.7% GDP expansion in the first quarter of 2013, as anticipated by the economic activity monthly estimator (EMAE) (see Chart II.3).

Private consumption exhibited a favorable performance in the second half of 2012, at a 3.3% y.o.y. growth rate and became the main driver of domestic demand reflecting a trend that would persist over the start of this year (see Chart II.4). Gross domestic fixed investment (IBIF) posted, once again, y.o.y. drops in the second half of the year, although it managed to cut the declines recorded in the first half and stayed at high levels in GDP terms (24.3% in the second half). In contrast, exports of goods and services deepened the fall they had evidenced in the first half of 2012; however, such trend would have been reversed in April 2013, when volumes of goods exported rose 12%. In turn, volumes of goods and services imported gained momentum by late 2012 and accelerated at the start of 2013.

Greater household spending was supported by keeping wage mass at historically high levels (see Chart II.5). This took place in a context of sound labor conditions throughout 2012. As per the Permanent Household Survey (conducted by the INDEC), in the 31 urban agglomerations surveyed 137,000 new jobs were created in 2012; out of which 127,000 jobs corresponded to the second half of the year. Thus, unemployment rate stood at 6.9% at the end of 2012, up 0.2 p.p. against the figure registered in the fourth quarter of 2011, but remaining stable in annual average terms (7.2%). Although new jobs were created in the first quarter of 2013 (+84,000; 0.8% y.o.y.), the unemployment rate climbed to 7.9% as labor force outgrew employment (see Chart II.6). As forecasted by private surveys[20], labor demand would have improved in the second quarter of 2013 in line with greater momentum expected for economic activity (see Chart II.7).

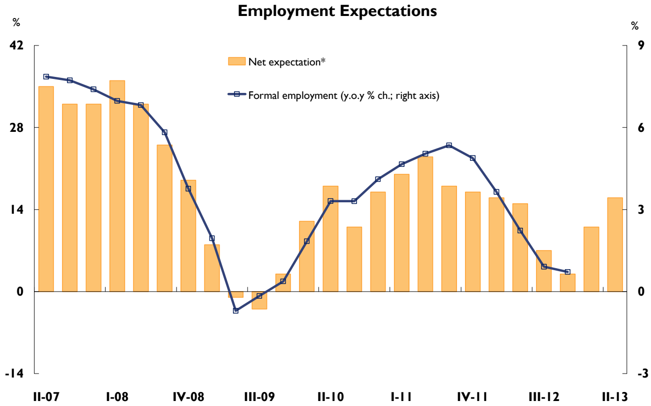
[20] Manpower: Survey on Employment Expectations conducted to a representative sample of 800 employers from all over the country who were asked if they were anticipating changes to staffing in their companies during the current period.

Chart II.6
Employment and Unemployment Rates



The EPH currently covers 31 urbans aglommerates, after a progressive incorporation since the beggining of the series in 1974. Since 1974 up to May 2003 the data corresponds to the discrete survey and then onwards to the continuous survey.
Source: INDEC

Chart II.7
Employment Expectations



*Survey performed based on a representative sample of 800 employers.
Source: Manpower and SIPA

An increasing level of bank financing[21] to the private sector (total y.o.y. expansion exceeding 30% as of March 2013 and surpassing 40% in the case of lines in pesos) and more public transfers to the lowest income sectors also boosted private consumption. The most relevant measures implemented include, within the framework of the Social Security Mobility Law, a rise in pensions granted in September 2012 (11.4%) and an additional rise implemented in March 2013 (15.2%). Furthermore, the Universal Child Allowance and the pregnancy allowance for social protection were raised in October 2012 (25.9%); and an additional 35.3% increase -recently announced- will be paid as from June 2013. In addition, the income tax floor was increased as from March 2013.

Exports posted a poor performance in the second half of the year until early 2013 but this was reversed in April. Thus, total exports of goods fell 5.3% y.o.y. in the second half of 2012 and 4.5% y.o.y. in the first quarter of 2013, whilst they rose 13% y.o.y. in April due to higher agricultural export balances and sales of industrial products. This took place in a context of an agricultural harvest season that would record a 12% hike in grain production against the previous cycle and a recovery in activity by Argentina's main trading partners. Regarding exports of transport material bound for Brazil, a considerable upturn has been observed recently.

Imports of goods curbed their falling pace in the last half of 2012 and started evidencing hikes in the first months of 2013, recording a dramatic rise in April (32% y.o.y. over such month) which spread across all kinds of imports. Imports are expected to be in line with a greater economic growth anticipated for the rest of the year.

Trade balance remained high in 2012, totaling US$12.6 billion (26% higher than the previous year) mainly supporting, once again, the current account, which kept in balance (see Chart II.8). In 2012, the balance of services recorded a deficit of US$3.5 billion, exceeding the figure of 2011, basically on account of the negative result posted by the travel account.

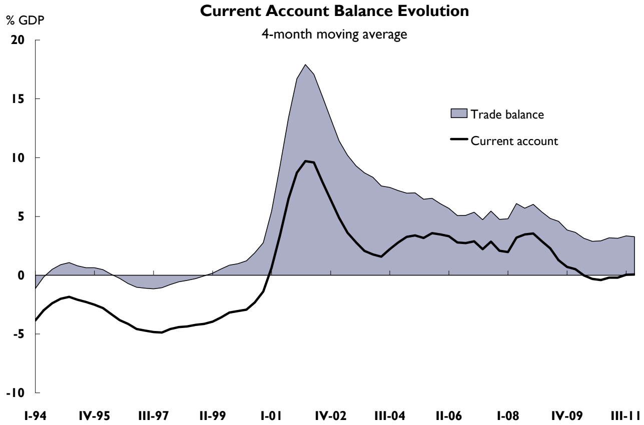
II.2 Monetary context

Long term credit to the productive sector continues expanding at high rates

Loans to the private sector continued gaining share in relation to GDP over the past few months, especially those channeled to companies; however, they still

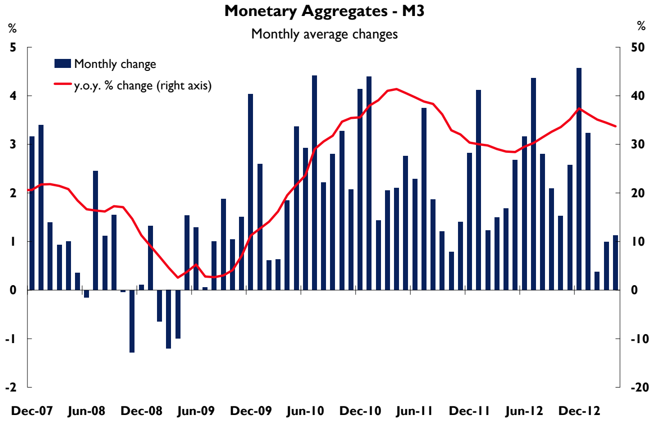
[21] See Chapter IV for further information on the evolution of bank lending to companies and households.

Chart II.8
Current Account Balance Evolution
4-month moving average



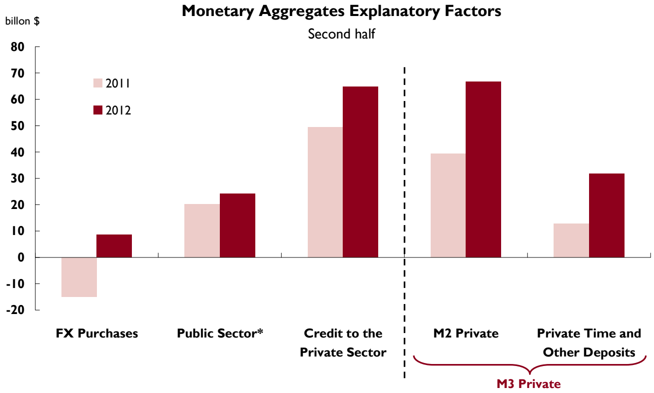
Source: INDEC

Chart II.9
Monetary Aggregates - M3
Monthly average changes



Note: M3 includes cash held by public, settlement checks in pesos and the total amount of deposits in pesos. Source: BCRA

Chart II.10
Monetary Aggregates Explanatory Factors
Second half



*Includes the effect of monetary transactions with the BCRA, the variation of local bank loans and time deposits and other deposits in local banks, in pesos, of public sector.
Source: BCRA

remain at relatively low levels. This evolution is being particularly driven by policies implemented by the BCRA over the last few years especially through the Bicentenary Productive Financing Program and the Credit Line for Productive Investment (see Chapter IV for further information). Indeed, the ratio between lending to the private sector[22] (in pesos and in foreign currency) and GDP stood at 16.7% in March 2013, rising around 4.9 p.p. since late 2009, about 60% of such figure being generated by the expansion of financing to companies. The rise of lending in the second half of 2012 and the first quarter of 2013 was the main growth driver of the broadest monetary aggregates in pesos — private and total M3— over the period [23](see Charts II.9 and II.10).

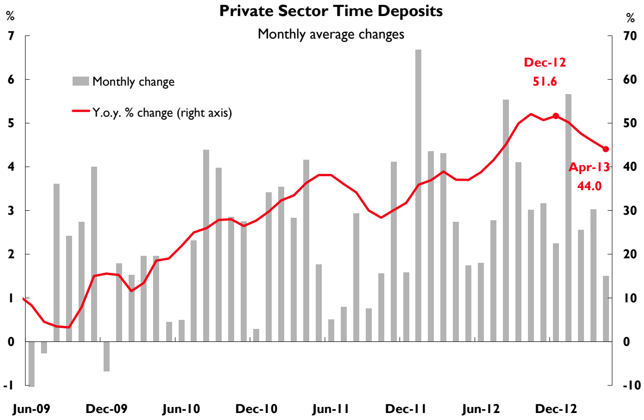
Private sector time deposits performed very well in the second half of 2012, up 22.7% against the first 6-month period and ended the year, growing 51.6% y.o.y. (see Chart II.11), one of the highest peaks on record in the past few years. Rises in the tranche under $1 million (38.4% y.o.y.) and particularly in that of $1 million and more (66% y.o.y.) were observed. Time deposits kept on growing in the first months of 2013 (44% in April) and continued increasing their share within M3 up to around 24% of this aggregate, one of the highest levels recorded in the past few years.

Regarding the foreign currency segment, private sector deposits moderated their falling pace since mid-2012, going down around US$1 billion, about a third of the decline registered in the previous half-yearly period. It should also be noted that, as a result of the macroprudential policies implemented over the past few years, the Argentine financial system exhibits low levels of dollarization and currency mismatch, which allowed an adequate return of deposits on maturity.

As from April 2012, and on account of changes introduced to the BCRA Charter, minimum reserve requirements may only be met through sight deposits with the Monetary Authority. With this measure, it was possible to make a better use of the cash balance at banks, which fell by 0.7% of total deposits in pesos over the year. With a view to avoiding a contraction effect that could lead to a rise in interest rates, the BCRA ordered, in due time, that institutions initially deduct from the monthly requirement an amount equivalent to

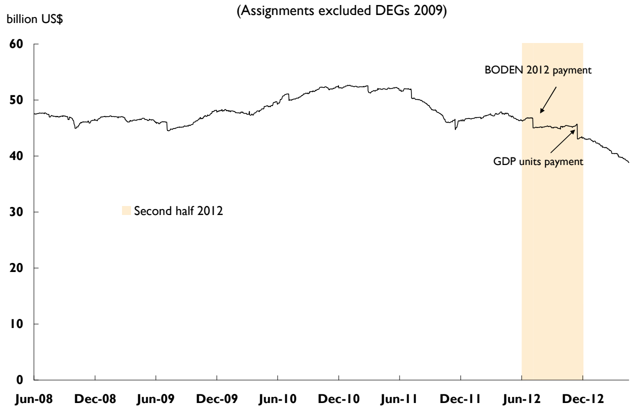
[22] It includes stocks of loans and leasing.
[23] The broadest monetary aggregate in pesos (M3) grew 19.3% in the second half of 2012 against the previous six-month period after accelerating its y.o.y. expansion rate at the end of 2012 and starting to moderate its pace in the first months of 2013. Its share in relation to GDP remained stable in the first months of 2013, at around 31.3%, going up approximately 3.8 p.p. in the last 12 months. Private M3 increased 20.3% in the second half of 2012 compared to the first half of the year.

Chart II.11
Private Sector Time Deposits
Monthly average changes



Source: BCRA

Chart II.12
BCRA International Reserves
(Assignments excluded DEGs 2009)



Source: BCRA

the “eligible cash”[24]. Subsequently, the regulation on minimum cash requirements was amended in October 2012 in order to stimulate SMEs access to lending, expand the system’s geographical coverage and promote universal access to financial services by reducing minimum reserve requirements. Amendments included three components: 1) removal, in three stages, of the “eligible cash” deduction from minimum reserve requirements; 2) gradual decrease of requirement ratios for sight and time deposits according to the zone where the branch taking deposits is placed; and 3) a decrease in Minimum Cash Requirements in terms of the share of lending to micro, small and medium-sized enterprises in the total amount of loans granted to the private sector. Under this new regulatory scheme, financial institutions would have easily complied with the minimum cash position (compliance minus requirement) over the past few months, keeping over-compliance ratios in relation to deposits, at an aggregate level, similar to those registered before.

The balance of international reserves totaled US$38.8 billion as of May 17 (see Chart II.12). The BCRA carried out net purchases of foreign currencies for US$1.8 billion in the second half of 2012. Thus, purchases over the year made enabled to settle public sector debt in foreign currency without significantly affecting the level of reserves.

II.3 Capital markets

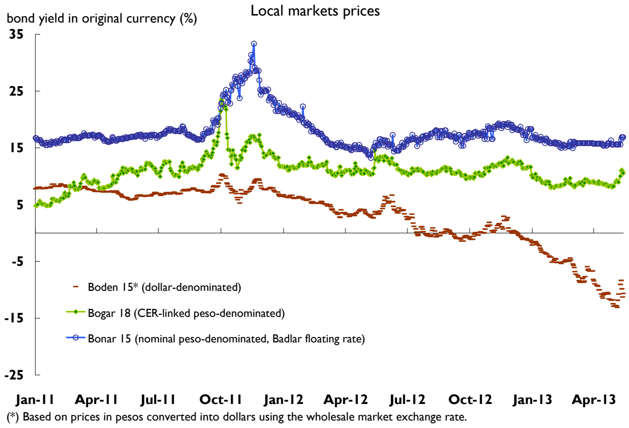
In a context signaled by a recovery trend followed by international financial markets (albeit with isolated volatility episodes), the prices of financial instruments on the domestic market posted widespread raises. Looking ahead, and provided that international markets trend towards recovery consolidates, demand for assets from emerging economies is expected to be benefited, with an impact on domestic financial assets.

Sovereign bond prices improved over the past few months

Prices of sovereign bonds generally rose in domestic markets from late September 2012 to mid-May, even though they recorded volatility episodes related to foreign and domestic factors (such as the different stages of the legal claim filed in US courts by investment funds holdouts which did not take part in the 2005 and 2010 sovereign debt exchange). In this regard, prices of Argentine bonds recovered following the volatility

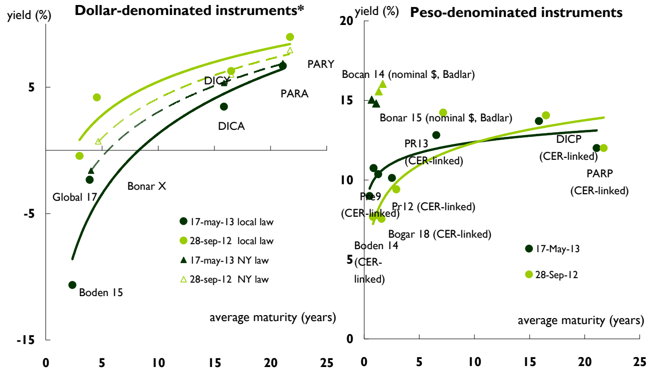
[24] The deduction consists in a bank’s part of cash that, after all other concepts accepted as compliance with the requirement are computed (current account balances with the BCRA and non-bank financial institutions’ current account deposits with banks), would have led to a balanced position (capital compliance minus requirement) of minimum cash requirements corresponding to March 2012.

Chart II.13
Argentina Benchmark Sovereign Bonds Yields
Local markets prices



(*) Based on prices in pesos converted into dollars using the wholesale market exchange rate.
Source: Reuters and Bloomberg

Chart II.14
Argentina Sovereign Yield Curves



(*) Based on prices in pesos converted into dollars using the wholesale market exchange rate. Excludes Bonar VII which matures in September 2013.
Source: Reuters and Bloomberg

peaks registered at the end of October and November 2012 and, more recently, in late February and over March 2013[25] (see Chart II.13). Prices improvement was associated with a dramatic contraction in yields of bonds in dollars, which was sharper in those with shorter terms[26] (see Chart II.14). In the case of bonds in domestic currency, yields were cut by almost 90 b.p. on average in both the CER-adjusted and the nominal pesos segments (in contrast to the performance of the BADLAR rate at private banks, which has been rising since the end of September 2012[27]). Regarding GDP-linked securities, following the payment of the GDP coupon in December 2012[28], they accumulated a positive balance in the domestic market, with sizeable rises in prices in the instruments in dollars (based on prices in pesos).

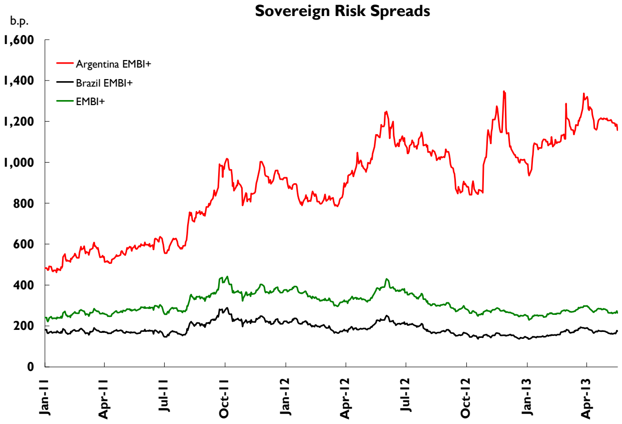
Even though Argentina's debt burden has kept a falling trend in relation to GDP, the country's debt prices in international markets posted a volatile performance with a rather negative trend. This basically derived from the different stages of the legal claims filed with US courts against Argentina within the framework of the "vulture fund" cases. Indeed, there were dramatic hikes in yields of Argentine bonds subject to international legislation in foreign markets, especially at the end of October and November 2012 and between late February 2012 and March 2013, which were only partially adjusted later on. Since these prices are considered in the sovereign spread, as measured by the country's EMBI+ or the 5-year credit default swap (CDS) contract on Argentine sovereign bonds, these indicators exhibited a changing pattern[29] in the last few months (see Chart II.15).

Demand for BCRA bills consolidated in a context of greater stability in the BADLAR rate at private banks

The total balance of BCRA instruments in circulation rose almost 20% between late September 2012 and April 2013, up to $109.4 billion[30]. Demand for bills at BCRA auctions continued growing over such period, especially since the start of this year. Thus, the stock of bills increased over 40% since the end of September 2012, whilst that of notes

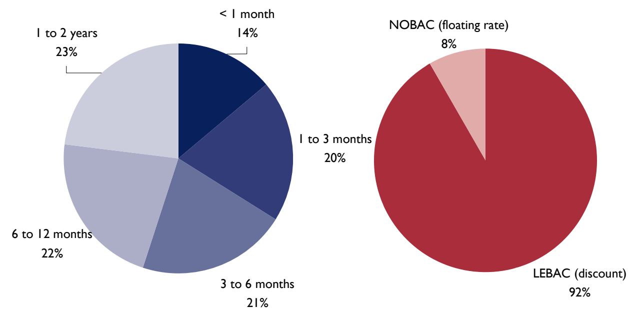
[25] These higher volatility episodes were more marked in the case of bonds in dollars.
[26] Most transactions in the domestic market are in pesos. These prices in pesos are expressed in dollars at the wholesale exchange rate to calculate the relevant yields.
[27] It is used to calculate interest coupons. The BADLAR rate at private banks rose over 100 b.p. in the same period, based on the increase observed in the first months of the year and more recently (April and May).
[28] Till then, prices had been recording an upward trend which was reversed by mid December 2012, after the payment of the GDP coupon corresponding to 2011, which accounted for around 40% of the price for instruments in dollars and 60% for instruments in pesos as at the time of payment.
[29] For example, and in line with what happened in previous months, the EMBI+ spread, prepared by J.P. Morgan for Argentina, remained above 1,000 b.p. during most of the last 7 months. This indicator reached a relative maximum of almost 1,350 b.p. in late November although it was below 1,200 b.p. by mid-May.
[30] It is worth pointing out that the stock recorded at the start of 2013 accounted for about 36% of the monetary base and a little over 24% of private sector deposits, ratios that reached 55% and 35% respectively at the end of 2007.

Chart II.15
Sovereign Risk Spreads



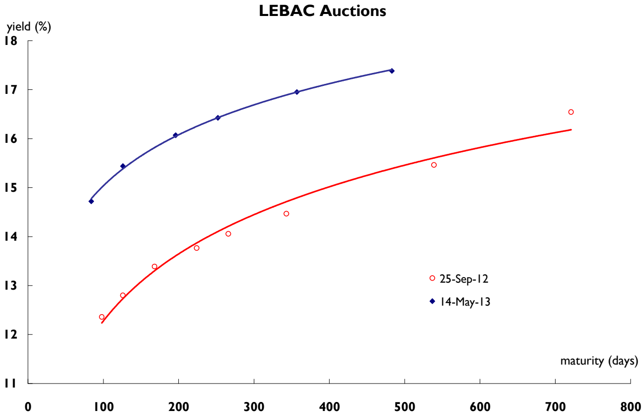
Source: Bloomberg

Chart II.16
LEBAC and NOBAC Stock Composition
Outstanding stock by type of interest rate and maturity as of end of Apr-13



Source: BCRA

Chart II.17
LEBAC Auctions



Source: BCRA

went down almost 55%. Hence, bills accounted for over 90% of the total stock at the end of April 2013 (see Chart II.16) against 75% recorded in September last year. Regarding the duration of instruments in circulation, the average term to maturity fell slightly, standing at around 250 days. Over half of the stock in circulation at present has an average duration of up to 6 months. In turn, cut-off rates on LEBACs by mid-May were 200 b.p. over the figure recorded in the last auctions conducted in September 2012 (see Chart II.17), whilst those on NOBACs rose by 30 b.p. (albeit with fewer transactions) expanding their maturities to around 380 days[31].

A rise in the trading of these instruments was observed on the secondary market, led by LEBACs. Such improvement in the volume was accompanied by a rise in returns exceeding 300 b.p. on average against those traded by late September 2012 (see Chart II.18), mainly explained by rises recorded in May. Meanwhile, low amounts of notes continued to be operated and their yields posted a minor reduction.

The operated volume of fixed-income instrument was on the rise

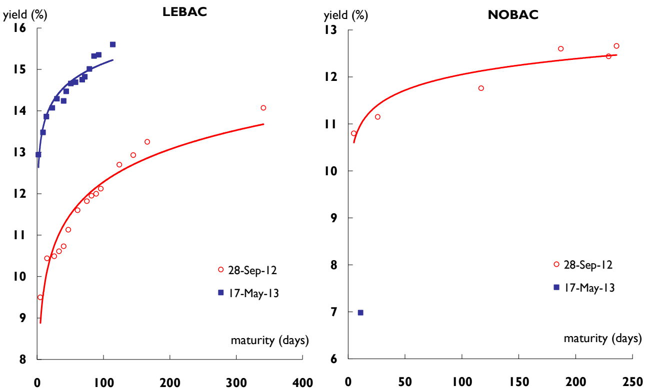
In more general terms, and considering the total volume of fixed-income instruments (which, apart from BCRA instruments, they include sovereign bonds amongst others), transactions continued going up since late September to late April, up 39% against those recorded in the previous 7 months and grew almost 55% against the same period in 2011-2012. This improvement in amount operated gained greater momentum in the first months of 2013, when daily peaks in excess of $3.5 billion were registered. Thus, the daily average amount operated since the end of September amounted to $3.1 billion, almost $850 million higher per day than the figures recorded in the previous 7 months. The share of BCRA instruments remained stable against previous months but rose in y.o.y. terms (accounted for about 60% of the volume operated on the electronic over-the-counter market –MAE-). Regarding transactions with sovereign bonds, most transactions continued involving securities in dollars, especially Boden 15 and Bonar X, whilst in the segment in pesos Bocan 14 and Bonar 15 should be highlighted (in that order; see Chart II.19).

Private sector financing continued climbing, especially due to bond issues on the domestic market

Financing to the private sector and for infrastructure works through market instruments has risen significantly

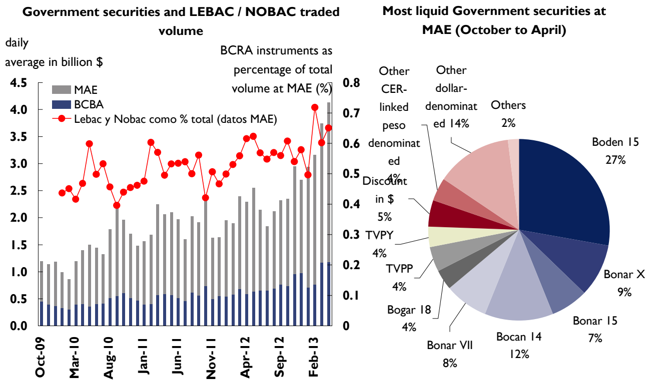
[31] A note at a 371-day term to maturity was allocated in the last auction of April, with a 12.5% yield.

Chart II.18
BCRA Secondary Market Yield Curves



Source: BCRA based on MAE

Chart II.19
Fixed Income Instruments- Traded Volume



Source: MAE and BCBA

since the end of the third quarter of 2012 as a result of a dramatic increase in bond issues on the domestic market. The flow of financing through different instruments exceeded $33.7 billion from early October 2012 to late April 2013, up 80% against the previous 7 months and 159% in relation to the same period in 2011-2012.

There has been a sharp rise in the volume of financing through the primary market of bonds mostly due to several issues by YPF in the last quarter of 2012 and as from March 2013. Thus, bonds were issued for almost $22.6 billion between the beginning of October 2012 and the end of April 2013[32], exceeding, by more than 6 times, the amount issued over the same period in 2011-2012 (see Chart II.2). Regarding the currency of denomination of bonds, 61% were represented in pesos and 32% in dollars but subscribed and settled in pesos[33], whilst the rest (corresponding to refinancing transactions) were in dollars. In the case of transactions in pesos, the rise in the amount was accompanied by an extension in the average term, up 43 months[34]. Interest rates in pesos followed the BADLAR rate at private banks over the period exhibiting an upward trend in the last quarter of 2012, virtually stabilizing until April. With respect to sectors that accessed the market, issues by the oil sector prevailed (on account of the size of issues by YPF), followed by those of the financial sector. These two sectors concentrated 89% of total issues over the period. In the specific case of the financial sector, it received lending for over $5.1 billion over the period (with almost 2/3 of this amount explained by non-bank financial institutions and the rest by banks) with almost all transactions being carried out in pesos at an average term of around 18 months[35]. Furthermore, the issues of SME bonds (see Box 2) kept a good pace, with 9 series for $58 million.

Securitization of loans and assets related to infrastructure works totaled almost $9.9 billion between the end of September 2012 and April 2013, up 16% y.o.y. (see Chart II.20). The amount mentioned above was mainly accounted for by financial trusts associated to the securitization of loans, whilst loans for infrastructure purposes represented a marginal amount (around $160 million). Cut-off rates on trust transactions tended to rise until late 2012 and then started to fall, particularly from February. Thus, the average cut-off rate on senior

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[32] YPF accounted for over half of this amount, with issues exceeding $12.8 billion since the start of October to late April. Some specific refinancing transactions of pre-existing bonds were also recorded. Excluding YPF issues or refinancing transactions, a sharp y.o.y. rise was also observed in the issue of bonds (around 130%).

[33] Method referred to as dollar-linked.

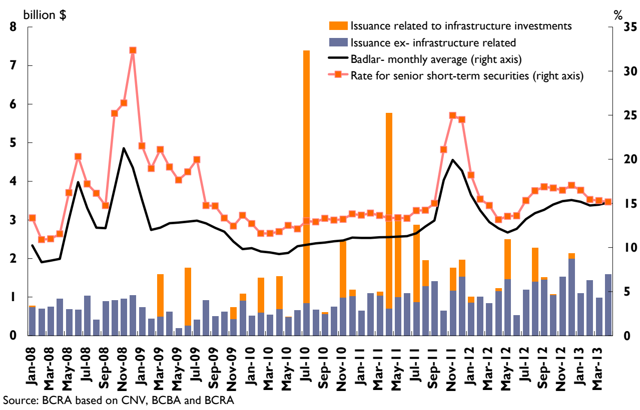
[34] Without considering YPF issues and in line with previous experience, the average weighted term in pesos stood at about 19 months.

[35] The average weighted term for issues is slightly longer for banks (20 months) than for non- bank financial institutions (17 months). In both cases, the average cost of issues at 18 months was close to the BADLAR rate at private banks +400 b.p.

instruments has moved close to the BADLAR rate at private banks as from March[36].

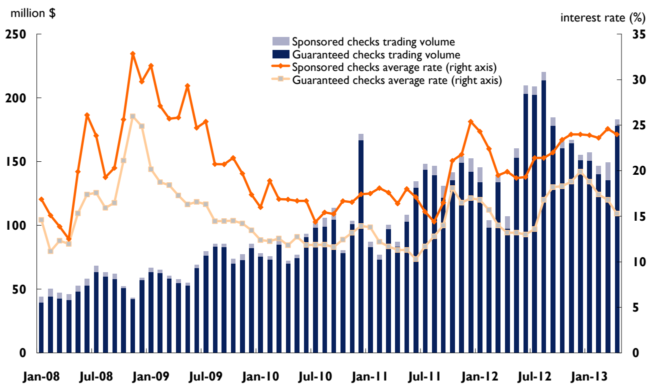
The volume of deferred payment checks operated on the stock exchange was $1.1 billion in the last 7 months, up 19% y.o.y.; however, a drop was observed against record figures of the immediate previous months (see Chart II.21). Terms of transactions were shortened and rates charged in the guaranteed checks segment[37] decreased in a context of some stability in the BADLAR rate at private banks during most of the period under study.

Chart II.20
Issuance of Financial Trusts and Financing Rates



Source: BCRA based on CNV, BCBA and BCRA

Chart II.21
Trading of Deferred Payment Checks



Source: IAMC

Domestic share prices recovered considerably

The Merval index measured in pesos increased over 50% from late September 2012 to mid-May 2013[38], following a drop recorded in previous months. It is worth underscoring that the index upward trend began at the end of November and remained unchanged until the first months of 2013 (see Chart II.22). Considering changes in the stock price in different sectors, the greatest hikes were recorded in banks and the metallurgical segment along with those related to real estate activities, with average rises ranging from 40% to 70%[39]. Regarding the volume of shares operated on the domestic market, although the daily average stood at $47 million from late September 2012 to late April 2013, raising from $40 million recorded in the previous 7 months, it actually fell in y.o.y. terms (from $51 million). Nevertheless, a rise has been observed in amounts operated since late November (up to $56 million on average) with rounds of volumes exceeding $100 million.

Transactions foreign exchange and interest rates derivatives fell

Amounts traded in exchange rate derivatives fell 16% y.o.y. between late September 2012 and April 2013. This took place even though a high volume was recorded in October, with an upturn in February and March 2013 (see Chart II.23). Implicit rates on futures contracts in dollars with the nearest maturity date remained relatively stable, with a slight rise against those observed at the end of September 2012 (85 b.p. up on average to around 18%). Thus, the hike posted by the BADLAR rate at private banks during part of October (which remained at about 15% since then until early

[36] The spread between the BADLAR rate at private banks and the cut-off rate on senior securities is at minimum levels.
[37] It concentrated 96% of the total amount operated in these months.
[38] In turn, if measured in dollars (at the wholesale exchange rate), profits were 35%.
[39] Average return of main listed companies.

Box 2 / Funding available to SMEs through Domestic Capital Markets

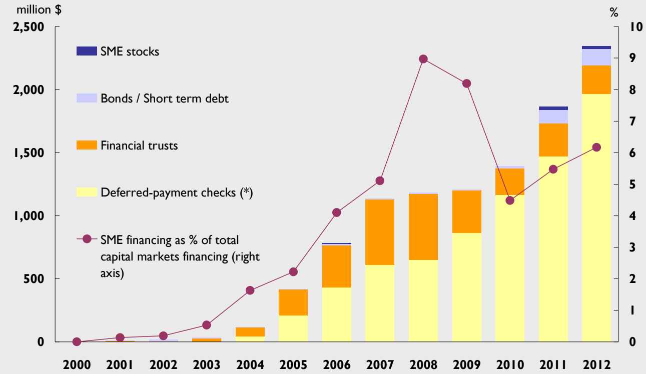
The capital market has a key supplementary role to that of the banking system as a fund source for financing SMEs. Over the past few years, financing granted to SMEs through this market has been clearly led by short term instruments —deferred payment checks— followed by financial trusts and debt instruments, whilst the volume of shares issued by smaller companies was low. The share of SMEs in the volume of financing obtained by companies in markets in 2010-2012 stood at 5% in annual average terms, evidencing that there is still potential for significant growth

The banking system and the capital market supplement each other to provide financing to companies. In the case of SMEs, although a considerable part of external funding comes from the banking sector[40], capital markets also provide instruments that allow smaller companies to diversify their funding sources. Capital markets are initially distinguished by the supply of different clear-cut alternatives (typical debt instruments, structured products, shares) and by more flexibility in the design of instruments (type of structure, guarantees, adjustment mechanisms, etc.)[41].

Different measures were implemented over the past decade in order to expand the set of instruments available for SMEs and adjust the current regulation so that this kind of companies may access more easily to financing through the market. These measures include the trading of deferred payment checks (CPD) in 2003[42], the introduction of a SME panel in the Buenos Aires Stock Exchange (BCBA) in 2006, the implementation of a special regime to create SME Mutual Funds, and a rise in the limit of issue of SME corporate bonds from $5 million to $15 million (these two measures were taken in 2008) and, in 2010, the expansion of parameters so that a company may be considered as SME (with a new expansion in 2013)[43].

Chart B.2.1

SME Financing - Capital Markets



(*) Include guaranteed checks as well as sponsored ones (the latter can be SME related or represent financing of bigger firms).
Source BCRA based on IAMC, BCBA and CNV

These measures led to a rise in financing granted to SMEs through the domestic capital market. Starting from very low annual levels –in gross terms— in the aftermath of the 2001 financial crisis, fund flows went up over $1 billion annually in 2007-2008, exceeding $2 billion last year. Regarding the structure of these amounts, it may be seen that financing was mainly explained by a combination of CPDs and Financial Trusts (FT) as of 2008; however, checks trading gained more relevance in the following years (see Chart B.2.1). Nevertheless, the issue of corporate bonds (ON) and short term securities (VCP) gained more momentum in 2011-2012. In addition, in the last two years, SMEs issued shares for the first time since 2006[44].

More than 80% of financing to SMEs, as a whole, on the markets was accounted for by transactions with CPDs in 2012, with a 10% weighting of FTs and 6% of ON/VCP, while shares explained less than 1%.

Regarding the characteristics of each kind of instrument, the average amount of CPDs in its guaranteed version exceeded $30,000 in 2012, against average transactions surpassing $30 million for FTs (in excess of $700,000 per company on average given that these are joint transactions) and over $8 million in the case of ON/VCP. The average term for checks exceeded 5 months in

[40] For example, financing to SMEs in Argentina through the capital market in 2011-2012 was more marginal and accounted for less than 3% of the credit flow (excluding overdrafts) granted to this kind of companies by banks. A greater weighting of bank financing in relation to that of the capital market for SMEs tends to be explained by several factors (efficiency in the management of information asymmetry in different areas, access costs, knowledge of different alternatives between companies, etc.). It should also be noted that SMEs can access other external financing means (e.g., suppliers' financing).

[41] In this case, it depends on the current demand by the investment base.

[42] In the two methods, guaranteed checks (with the guarantee of a Reciprocal Guarantee Company –SGR-) and sponsored checks (issued directly by the companies drawing the check). While guaranteed checks are exclusively for SMEs, sponsored checks may be from SMEs or larger companies (although, in practice, most check transactions are conducted through guaranteed instruments).

[43] For the issue of corporate bonds and shares of SMEs there is also a Simplified Information Regime.

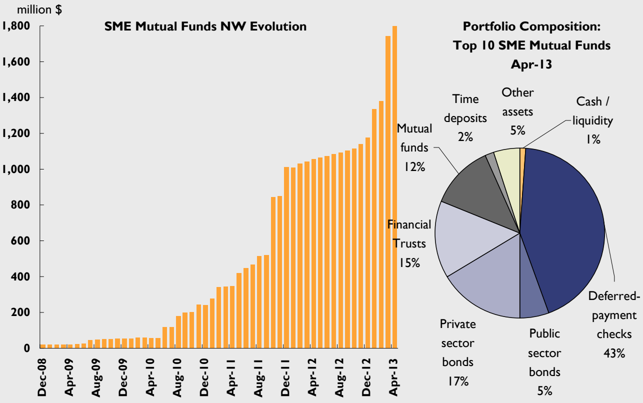
[44] Two transactions had been conducted in 2006.

2012[45], extending to 8 months[46] for FTs and over 40 months in the case of ON/VCP. As regards the currency for transactions, CPDs were only traded in pesos while in the case of FTs in 2012, almost 3/4 issued amounts were in dollars but paid in pesos[47] (and the rest was in pesos). Concerning ON/VCP, ratios are reversed (over 80% of issued amounts last year were in pesos and the rest in dollars but paid in pesos). In the case of FTs, the preponderance of dollar-linked issues was explained by the sector structure: all transactions in 2012 corresponded to the agricultural sector. In this regard, ON/VCP experienced greater diversification, SMEs' issues within the financial sector and those related to the crop-farming and livestock sector (each sector accounted for almost 20% of the total[48]) being underscored in 2012.

A significant part of transactions by SMEs in markets are facilitated by Reciprocal Guarantee Companies (SGR). These companies back guaranteed CPDs (which accounted for over 95% of transactions in checks in 2012) and are usually guarantors in joint FTs of the agricultural sector. In turn, they may also guarantee the issue of debt instruments (they backed some transactions with corporate bonds in 2012).

In turn, SME mutual funds are one of the main investment channels in market instruments from small and medium-sized enterprises. Since their creation in 2008[49], their equity grew exponentially, especially in 2011-2012 (see Chart B.2.2). Thus, aggregate equity of these MFs exceeded $1 billion at the end of last year while a sharp increase was observed in the first months of 2013. Based on the latest information available, it may be seen that assets of the main 10 SME mutual funds (which represent around 90% of these funds' aggregate portfolio) consisted mainly of CPDs (over 40%), with FTs and ONs weighting close to 15% in both cases. The Guarantee Sustainability Fund (FGS) is the major investor in this kind of funds.

Chart B.2.2
SME Mutual Funds - Net Worth and Portfolio Composition



Source: BCRA based on CAFCI and CNV
Note: portfolio composition estimated considering only

The sustained growth in lending to SMEs through the capital market in the last few years went from an almost null weighting in total funding obtained by these kinds of companies at the start of the previous decade to 5% of the total, on average, in the last three years (following the impact of the international financial crisis peaks in 2008-2009). However, this ratio is still relatively low[50] and amounts continue to be marginal in GDP terms and in relation to financing obtained by SMEs through banks. This evidences growth potential in the share of SMEs in markets.

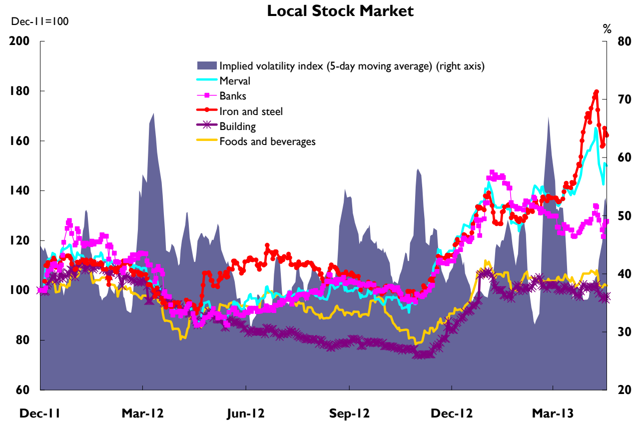
In line with the implementation of the new BCRA Charter in the first half of 2012[51] (and the launch of the Credit Line for Productive Investment; see Chapter IV), the new Law on Capital Markets (Law 26,831) was enacted last year for promoting access by SMEs[52] to the market, among other purposes. The law discusses several issues related to access by this kind of companies to the capital market[53]. Thus, for example, in the case of duties and tariffs charged by markets for their services, it is established that they will be free but subject to the

[45] CPDs may have a maximum one-year term.
[46] FTs may be under a joint or individual method (only joint issues were recorded in 2012). It should be noted that individual FTs prevailed in previous years, with on average, longer issue terms (more than 20 months in 2008, and from 13 to 16 months in 2009-2010).
[47] This method is known as dollar-linked.
[48] Followed by those from the commercial, construction, pharmacy, and food and beverage sectors (each with a weighting in the total ranging between 10% and 15%). The presence of issues with a more marginal weighting from other sectors (manufactures of industrial origin and health) added to this weighting.
[49] CNV General Resolution 534/08.

[50] For example, in the case of bank lending, the percentage of financing granted to SMEs in relation to the flow of lending to legal persons was close to 30% in the last two years (although, as previously mentioned, considering the nature of the banking system, smaller companies' weighting in such system is expected to be greater than in capital markets).
[51] The new Charter extended the powers of the institution and, consequently, reinforced the powers and tools held by the BCRA to influence the lending channel and regulate its conditions. Furthermore, its capacity to set policies aimed at promoting productive investment, small and medium-sized enterprises, and regional economies, among other factors was expanded.
[52] See Box "Capital Market Law" of the Macroeconomic and Monetary Policy Report corresponding to December 2012.
[53] Given that the law further systematizes relevant regulations for the public offer of securities compiling them in a single set of rules, it also includes pre-existing practices. For example, it establishes that the CNV may order the reduction or exemption of supervision and control charges and authorization charges for issues by SMEs and it may order that these companies be exempted from creating the audit committee required for listed companies.

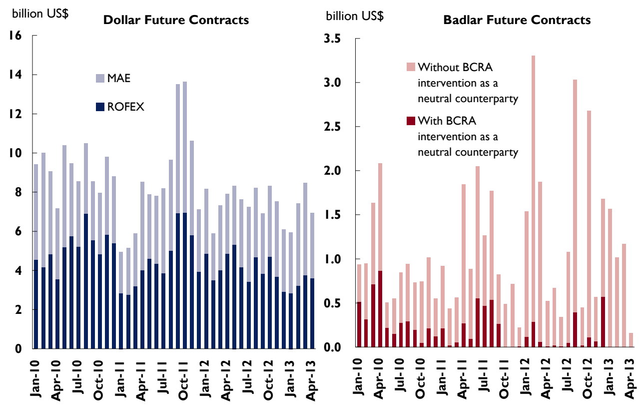
maximum values that will be set by the National Securities Commission (CNV); such figures may take into account the size of companies, among other aspects. In this regard, the regulation and enforcement of this law are expected to contribute to consolidating the growth of financing to SMEs through markets.

Chart II.22
Local Stock Market



Source: BCRA based on Bloomberg

Chart II.23
Financial Derivatives Trading Volume



Source: ROFEX, MAE and BCRA

May) reduced the spread against implicit rates on futures/forwards in dollars. Regarding transactions with interest rate derivatives, they rose 11% compared to the previous 7 months[54], while a fall was recorded in terms of contracts negotiated. Furthermore, it should be noted that no transactions in which the BCRA participates with the so-called "*función giro*" were recorded in the last few months.

[54] While remaining relatively stable in y.o.y. terms.

III. Debtors Performance

Summary

GDP regained momentum in the second half of 2012 and early 2013. Manufacturing and construction posted year-on-year decreases, but they have reduced their decline rate over the last few months. The agricultural sector's activity fell as of the end of last year on account of adverse weather conditions impacting on the 2012/13 wheat harvest. However, soybean and corn have shown a recovery this year. Services have continued evidencing a positive development in recent months, mostly as a result of a good performance in communications and commerce.

As of the end of 2012, the estimated level of indebtedness by Argentine non-financial companies totaled slightly more than 25% of GDP, almost 1 p.p. above the figure recorded by mid-2012. This occurred in a context of greater use of credit lines of the domestic financial system, mainly encouraged by BCRA's effective policy through the Bicentenary Productive Financing Program and the Credit Line for Productive Investment. This indebtedness level continues to stand below the average seen in the region and in other emerging and developed economies.

Manufacturing and primary production of goods have exhibited increased leverage levels over the past few months. As for manufacturing, the increase in indebtedness was mainly due to borrowings from the domestic financial system, whereas the effect of foreign resources prevailed in the primary sector (both because of a rise in amounts lent and a higher exchange rate in the period). Indebtedness levels of trade-related companies expanded slightly (to 19.3% of its sector GDP) while services' total evidenced no changes —18% of the sector GDP (but with greater use of domestic resources and lower external indebtedness). In a context of moderate indebtedness levels in the case of companies and better prospects for activity for the rest of 2013, a sizable payment capacity is observed.

The household wage mass has continued increasing in the past few months in a context of higher employment levels and wages. With lending on the rise, this performance pushed household indebtedness to 30.1% of the formal wage mass —net of contributions— by the end of the first quarter of 2013 (around 9.2% of GDP), a value similar to that of mid-2012.

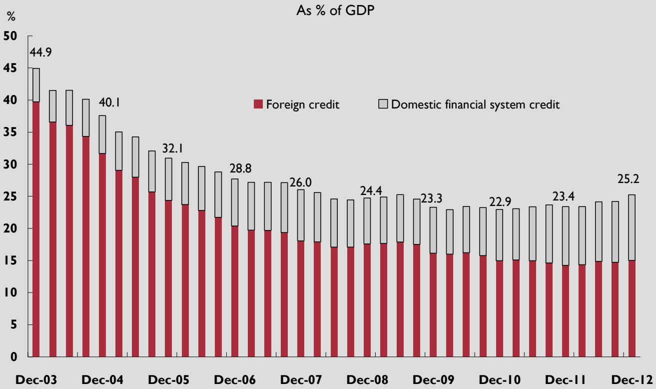
Tax revenue and primary spending of the non-financial national public sector (NFPS) continued growing in 2012, the latter being especially aimed at sustaining domestic demand and improving social equity. The national public debt shrank to 41.5% of GDP by mid-2012 (down 2.6 p.p. against mid-2011).

Improved activity levels are expected for the upcoming months, based on a recovery in the production of goods. This performance is expected in a context of a strong domestic market, a sustained growth in agricultural production and greater momentum in our main trading partners.

Chart III.1

Corporate Debt

As % of GDP

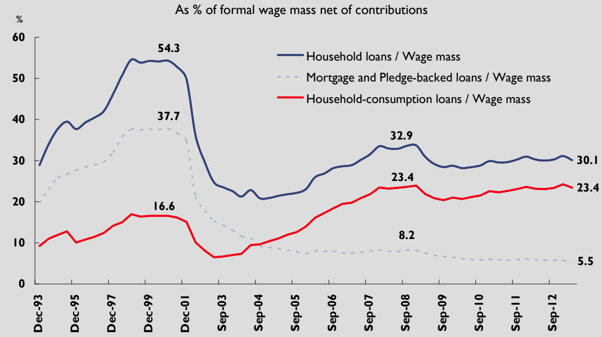


Note: Data subject to subsequent changes.
Source: BCRA and INDEC

Chart III.2

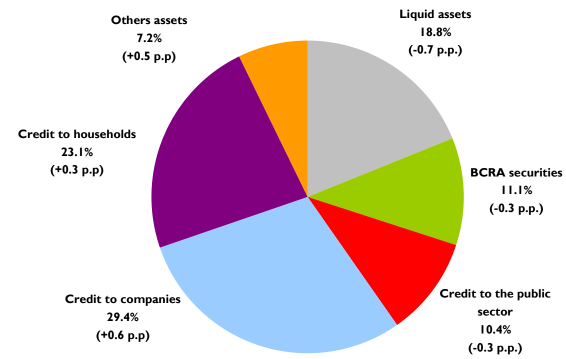
Household Debt Burden

As % of formal wage mass net of contributions



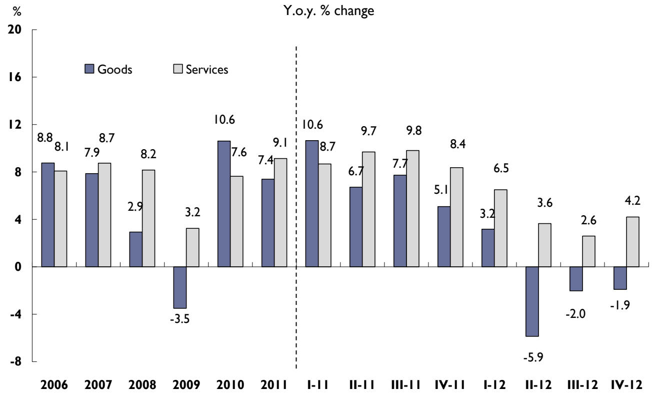
Note: Loans to households include financial system financing, financial trusts for comsuption loans as underlyng assets (credit cards and personal loans) and the stock of non-bank credit cards. Data subject to subsequent changes.
Source: BCRA, INDEC and SIPA.

Chart III.3
Financial System Assets Portfolio
As % of netted assets to March 2013 - (p.p. change respect to june 2012)



Source: BCRA

Chart III.4
GDP. Goods and Services
Y.o.y. % change



Source: INDEC

III.1 Financial System Debtors

Weighting of the financing to the private sector in bank assets continued to be on the rise over the past few months, especially financing related to credit lines to companies.

The share of lending to the private sector in the financial system assets rose as of the end of 2012 and early this year (see Chart III.3). In turn, liquid assets, lending to the public sector and BCRA security holdings reduced their share in bank assets in the period June 2012-March 2013.

III.2 Corporate Sector

Companies' payment capacity remained stable by the end of 2012 and early 2013, with moderate indebtedness levels by the different economic sectors.

GDP regained momentum by the end of the second half of 2012, and the trend continued at the beginning of this year. Manufacturing and construction posted year-on-year decreases, but have recently reduced their decline pace. The agricultural sector's activity shrank in the second half of last year, on account of adverse weather conditions for the wheat harvest in the 2012/13 cycle, but it has recently rebounded thanks to the good performance of corn and soybean.

Service production recorded a positive performance in 2012 and in early 2013, showing an expansion rate by the end of last year, in line with the improvement in the production of goods on the margin (see Chart III.4). Communications and wholesale & retail trade were once again the sectors with the highest growth pace and the most remarkable contribution to the improvement of the economic activity.

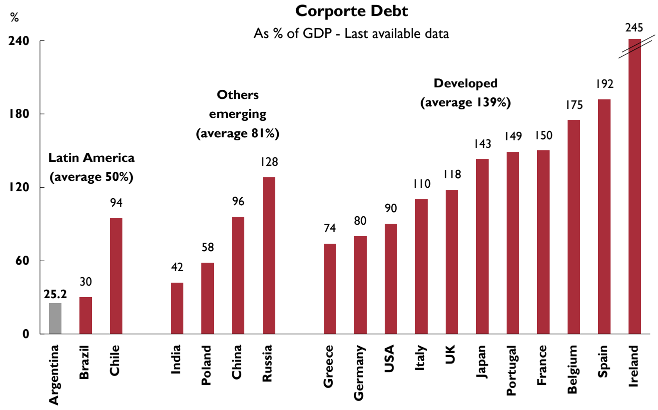
The leverage level[55] of corporations rose by around 1 p.p. in the second half of 2012, accounting for slightly more than 25% of its share in GDP (see Chart III.1). This indebtedness level remains below that of other emerging and developed economies (see Chart III.5). Funds from the domestic financial system accounted for almost 85% of the increase in companies' indebtedness over the first half of 2013, until reaching nearly 40% of the total. By the end of the first quarter of 2013, manufacturing accounted for around 38% of bank financing channeled to companies, followed by services (22.2%) and primary production of goods (19.5%) (see Chart IV.9).

[55] Defined as total indebtedness (with both the domestic and the foreign financial system) in terms of GDP.

Chart III.5

Corporte Debt

As % of GDP - Last available data

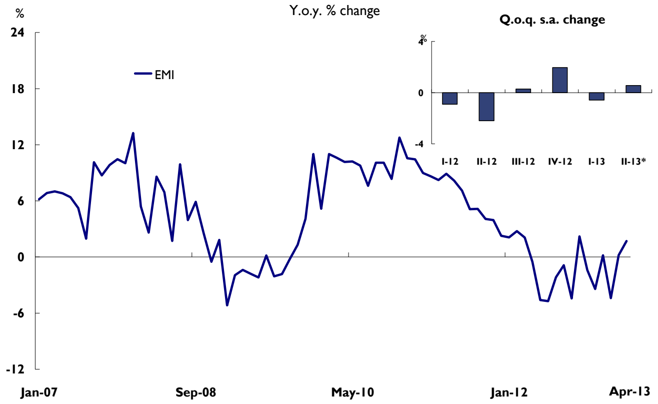


Note: Last available data 2011: except India, Brazil and China (2008); Polonia (2009); Rusia (2010), Argentina (2012).
Source: FMI GFSR and FSI (Financial Soundness Indicators); McKinsey Global Institute (2008); Financial Stablity Reports and BCRA.

Chart III.6

Manufacturing Evolution

Y.o.y. % change

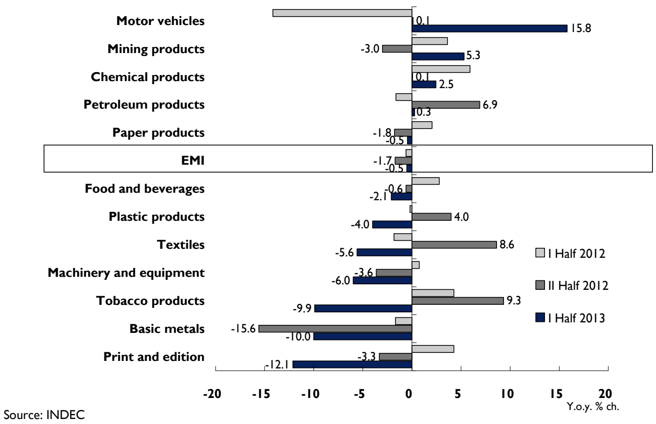


Source: INDEC

*Up to april

Chart III.7

Industry. Sectorial Evolution



Source: INDEC

In 2013, an improvement in activity levels is expected based on a recovery in the production of goods. This development is anticipated in a context characterized by a strong domestic market, greater momentum expected for the main trading partners and increased agricultural production. Companies' indebtedness levels would continue to be moderate throughout 2013, which, combined with the estimated growth of the economic activity, would have a positive impact on the sector's payment capacity.

Productive Sectors

Manufacturing activity posted a decline in the second half of 2012 and the first months of 2013, moderating this development on the margin (see Chart III.6). The automotive sector reversed the negative trend observed in the second half of 2012 and remained on the rise in early 2013 (see Chart III.7). This performance is due to a relative improvement in exports, particularly to Brazil, and to the sustained increase in the sale of domestically-manufactured vehicles in the local market. In turn, chemical products continued having a positive impact on the manufacturing sector's performance, basically based on a rise in pharmaceutical manufacturing.

In line with the sector's performance, the use of installed capacity (UIC) posted a year-on-year drop in the second half of 2012 and the first four months of 2013.

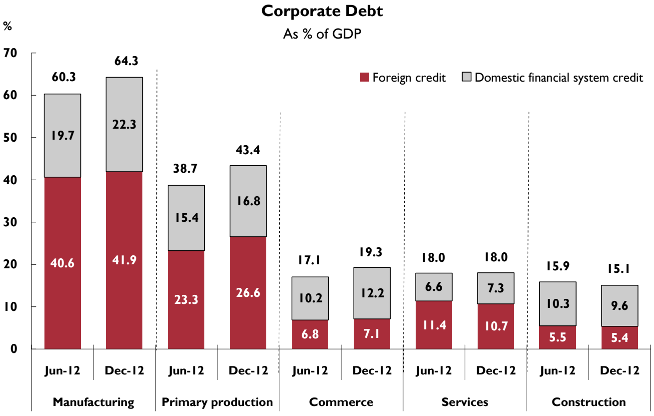
The manufacturing companies' estimated leverage level stood barely above 64% of the sector GDP in late 2012 (see Chart III.8), posting an increase in the second half of the year. This evolution was mostly explained by financing from the domestic financial system, which accounted for almost 35% of the total. It should be noted that external indebtedness, 65% of the total, was mostly associated to lending to trade-related activities —liabilities connected with imports and exports— which accounted for almost 80% of the total. The rest corresponded to financial lines —financial loans and debt securities, among others—.

The agricultural activity decreased over the second half of 2012 as a result of the weather conditions that impacted adversely on fine-grain yields of the 2012/13 cycle. Wheat production reached 9 million tons, declining around 38% compared to the previous cycle. However, crop-farming has recently shown an improvement which is expected to continue as a consequence of a rise in corn and soybean harvest (see Table III.1).

Chart III.8

Corporate Debt

As % of GDP



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

Table III.I

Grain Production - Major Crops

	2008-09 thousands tns	2009-10 thousands tns	2010-11 thousands tns	2011-12 thousands tns	2012-13 thousands tns (e)	% Change 2011-12 vs. 2010-11	Diff. in thousands tns 2012-13 vs. 2011-12
Cereals	**26,750**	**38,277**	**49,709**	**46,201**	**46,496**	**0.6**	**295**
Corn	13,121	22,680	23,800	21,200	25,700	21.2	4,500
Wheat	8,373	9,000	15,900	14,500	9,000	-37.9	-5,500
Others	5,256	6,597	10,009	10,501	11,796	12.3	1,295
Oilseeds	**34,222**	**55,724**	**53,381**	**44,306**	**54,795**	**23.7**	**10,489**
Soybean	31,000	52,680	48,900	40,100	50,600	26.2	10,500
Others	3,222	3,044	4,481	4,206	4,195	-0.3	-11
Rest	**702**	**1,098**	**1,372**	**1,070**	**963**	**-10.0**	**-107**
Total	**61,674**	**95,099**	**104,462**	**91,577**	**102,253**	**11.7**	**10,676**

e: Estimated

Source: MAGyP data

In turn, the livestock sector's activity increased in the second half of 2012 and early this year. Bovine slaughtering posted a hike of more than 5% in the second half of 2012 and a higher rise in the first quarter of 2013. Likewise, poultry slaughtering moderated its growth rate to 6% y.o.y. in the second half of 2012 and to 2% y.o.y. at the beginning of 2013, whereas dairy production recorded a further fall.

The leverage level of primary sector companies grew almost 5 p.p. in the second half of 2012, standing slightly above 43% of the sector GDP (see Chart III.8), especially on account of financing by foreign creditors (which accounted for more than 61% of the total). This development on the margin was caused by both an increase in foreign financing and the accounting effect of a higher nominal peso-dollar exchange rate in the period. It should be noted that the stock of foreign loans for the primary sector is predominantly made up by financial debt —financial loans and debt securities, among others— (amounting to almost 80% of the total), which is mostly concentrated in companies related to oil extraction and mining activities.

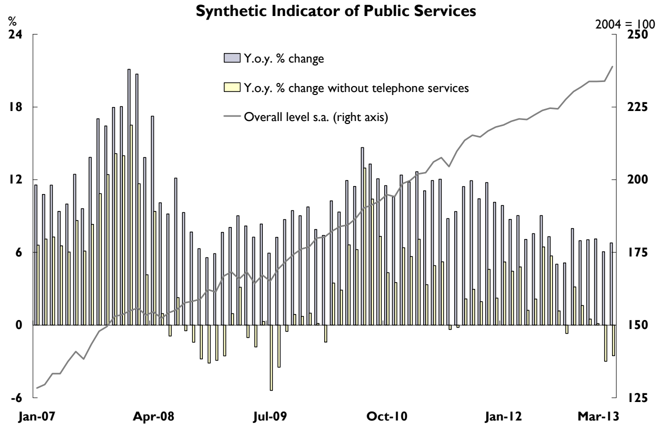
Public services consumption showed positive results in 2012 and early 2013 (see Chart III.9). Telephony posted a high expansion rate and was the sector that contributed the most to growth in services. Mobile phone communications rose as a result of an increase in both text messages and calls. Landline telephone services continued with a negative trend, decreasing in year-on-year terms.

The growth pace of the remaining services as a whole decelerated in the second half of 2012 and slightly shrank in early 2013. The supply of power, gas and water services was the sector with the greatest momentum by the end of 2012, with a remarkable hike in power and water demand, whereas natural gas consumption remained virtually unchanged. Passenger transportation went up in the second half of 2012, but declined in the first months of 2013, as there was a sustained decrease in the number of international commercial flights and urban bus tickets. Cargo transportation significantly decreased in the second half of 2012 and rose in the first months of 2013. Among other factors, such performance was related to the evolution in crop-farming and manufacturing.

Indebtedness levels of service companies remained practically unchanged in the second half of 2012, at around 18% of the sector GDP. However, its composition changed on the margin, with the component related to domestic financing on the rise —to 41% of the

Chart III.9

Synthetic Indicator of Public Services

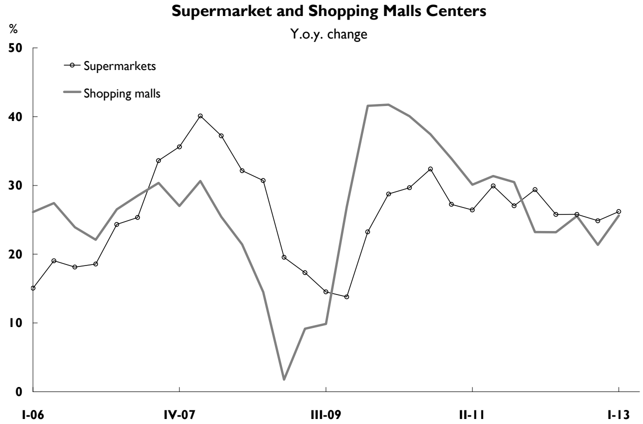


Source: INDEC

Chart III.10

Supermarket and Shopping Malls Centers

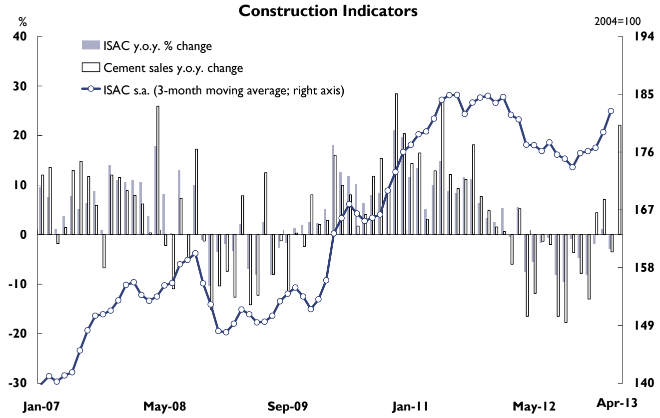
Y.o.y. change



Source: INDEC

Chart III.11

Construction Indicators



Source: INDEC and

total— and the one related to foreign financing on the decrease —59% of the total— (see Chart III.8). Service companies thus continue to be —at an aggregate level— among non-financial firms with the lowest leverage levels in the domestic economy.

Commercial activities kept on rising, even though with heterogeneous performances across segments. Sales at malls maintained their growth pace in the second half last year and in the first months of 2013, while sales at supermarkets lost momentum in the second half of 2012 and in early 2013, compared to the first half of last year (see Chart III.10).

Sales of household appliances and other electronic products also reduced their growth pace. In turn, sales of vehicles in the domestic market fell in the second half, but rebounded in the first four months of 2013.

Aggregate indebtedness levels of commercial companies increased by a little over 2 p.p. in the second half of 2012, to 19.3% of their GDP (see Chart III.8). This trend mainly originated in an increase in the use of funds from the domestic financial system, which amounted to 63% of the total debt.

The activity level in the construction sector declined in the second half of 2012 and at the beginning of this year, but has reduced its year-on-year decrease on the margin (see Chart III.11).

Construction in the oil sector kept its year-on-year growth rate, whereas the rest of the segments included in the sector posted a decrease, even though reducing their decline pace in the first quarter of 2013. Public work constructions, such as infrastructure and road works, recorded the most significant drops last year, but the former reported an increase in the first quarter of 2013. Construction of commercial and industrial buildings, as well as home construction, evidenced lower reductions.

The indebtedness level of companies from this sector moderately decreased in the second half of 2012, to 15.1% of their GDP in December (down 0.8 p.p. against the figure recorded six months before), remaining as the productive sector with the lowest relative aggregate indebtedness level (see Chart III.8). A recovery is expected based on the ongoing implementation of the Bicentenary Credit for Housing Program (Pro.Cre.Ar[56]) and the recent adoption of economic measures aimed at boosting private construction.

[56] See the Macroeconomic and Monetary Policy Report – third quarter 2012.

Chart III.12

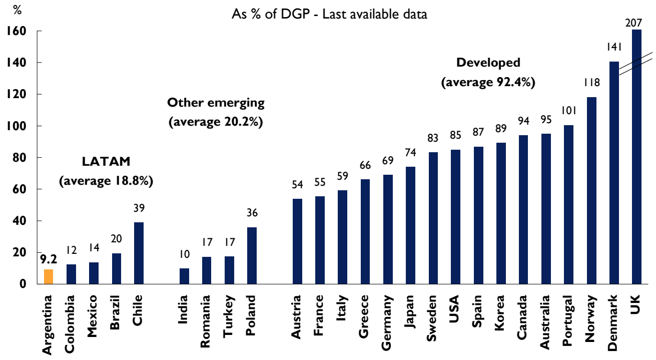
Labor Market

Source: INDEC

Chart III.13

Household Debt

As % of DGP - Last available data



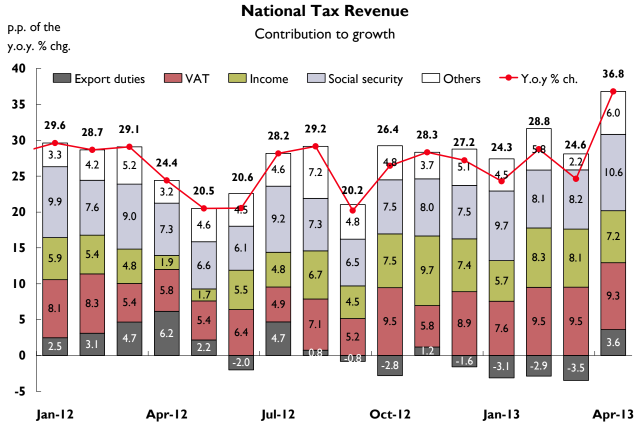
Note: 2008 data for India; 2009 for Mexico; 2010 for Colombia, Chile, Germany and Japan; 2011 for the rest of countries; 2012 for Austria, Brazil, Canada Turkey, Greece, Sweden, Romania, USA, Australia, Portugal and Denmark. 2013 data for Argentina (subject to subsequent changes).

Source: FMI, McKinsey Global Institute (year 2008), Financial Stability Reports and BCRA.

Chart III.14

National Tax Revenue

Contribution to growth



Source: BCRA from Treasury Secretariat and INDEC data

III.3 Households

As of the end of 2012 and early this year, the household wage mass continued going up, in a context where indebtedness levels showed no significant changes. Thus, household payment capacity would exhibit no substantial variations.

Household income continued increasing in the second half of 2012 and in early 2013, in a context of a higher wage mass and consistent public policies targeting lower-income sectors. In addition, household spending benefited from available bank financing.

In the second half of last year, employment continued to be on the rise, with 127,000 new jobs being created. Consequently, the increase in employment levels grew from 0.1% y.o.y. in the first half to 1.3% y.o.y. in the second half. In turn, there was an improvement in employment quality based on the creation of full-time jobs that allowed for the incorporation of unemployed people and people previously working part-time (see Chart III.12). At the beginning of this year, new jobs were still being created but at a somewhat lower pace (0.8% y.o.y.), and they were mostly part-time jobs or cases of underemployment. Employment levels coupled with an increase in wages resulted in a rise in the wage mass in terms of GDP. The unemployment rate remained stable around the average for the second half of 2012 and ended the year at 6.9%; in turn, in the first quarter of 2013, it climbed 0.8 p.p. year-on-year to 7.9% because the growth of the work force could not be absorbed in its entirety by the new jobs being created.

Public policies also contributed to an increase in income in the second half of last year. Government transfers for family allowances, including the Universal Child Allowance for Social Protection (AUH), grew 25.9% in October 2012, and a 35.3% increase effective as of June 2013 has been recently announced. In turn, retirements and pensions posted an increase of 11.4% last September and of 15.18% in March 2013 as a consequence of the Law on Social Security Mobility.

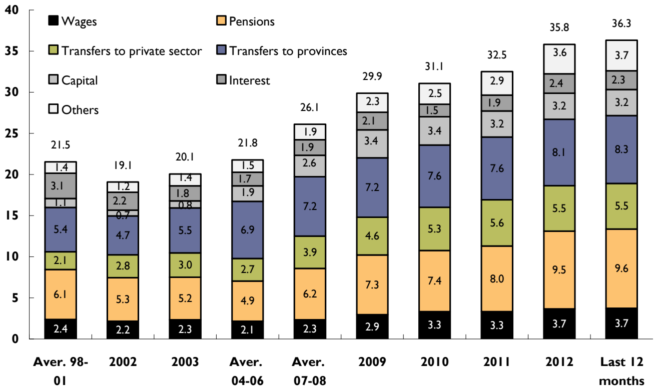
In this context, the growth of bank lending exceeded that of the wage mass as of the end of 2012, a trend that reversed at the beginning of 2013. As a result, household indebtedness rose 1.1 p.p. in the second half of 2012 to 31.1% of the annual wage mass —net of social security contributions— but it shrank later by 1 p.p. in the first quarter of the year (see Chart III.2). Household indebtedness still stands below the figures observed in other countries (see Chart III.13), and is mainly connected with short-term lines.

III.4 Public Sector

Primary spending grew at a rate similar to that of revenue as of the end of 2012, whereas the national public debt kept on falling in terms of GDP

Chart III.15

Non-Financial National Public Sector Primary Expenditure Share



Source: Source: BCRA from Treasury Secretariat and INDEC data.

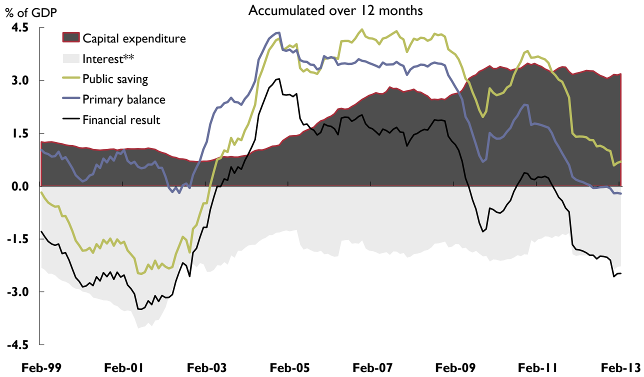
In the second half of 2012, the national tax revenue continued to exhibit high growth levels, basically driven by taxes related to the domestic market: social security funds, income tax and value added tax (VAT). This trend continued at the beginning of 2013[57] (see Chart III.14). Thus, tax funds accounted for a historical maximum of 31% of GDP in 2012.

Spending of the non-financial national public sector (NFPS) expanded at a rate similar to that of revenue. A rise in primary spending was mostly aimed at sustaining domestic demand and increasing social equality by way of policies targeting lower-income sectors. Therefore, social security benefits, current transfers to the private sector and public employees' remuneration continued to be the main drivers of the increase in expenditure (see Chart III.15).

Chart III.16

Income and Expenditure of the NFPS*

Accumulated over 12 months



*Non-Financial National Public Sector. **A negative value implies an interest payment

Source: BCRA from Treasury Secretariat data.

In the second half of 2012, a positive level of public saving made it possible to finance higher capital spending (see Chart III.16) and, to a lesser extent, higher interest payments. Most of the year-on-year increase derived from the payment of 2011 GDP-linked coupons which demanded around $16.2 billion in 2012.

The NFPS primary result ended the year with an imbalance of 0.2% of GDP. Mainly as a consequence of higher interest payments resulting from the settlement of the GDP-linked coupon, the fiscal balance in 2012 deteriorated against 2011 (2.6% of GDP).

The consolidated primary result of provinces in 2012 would have continued evidencing a slight deficit with a reduction in the growth pace of primary spending and a dynamic performance of tax funds[58]. In 2012, debt issuance in the market was a significant source of funding for the consolidated sub-national gap[59]. Bond issuance concentrated in foreign-currency instruments and also in instruments in which debt service payments were to be made in pesos, linked to the US dollar. So far in 2013, there have been two issues by the City of

[57] For a more detailed analysis of public sector revenue and spending, see the Macroeconomic and Monetary Policy Report, April 2013.

[58] It should be noted that the National Government had extended for two years (2012 and 2013) the grace period for the payment of amortization and interest of the debt owed by provinces to the Nation, under the framework of the Federal Program of Debt Reduction of the Argentine Provinces. This measure entails a financial relief of around $13.6 billion for these jurisdictions, as they had to face maturities for around $6.8 billion a year in 2012 and 2013.

[59] Exclusively considering bonds (excluding issues of short-term instruments).

Buenos Aires and one by the province of Mendoza in the domestic market (see Table III.2).

Federal tax revenue received by provinces —federal tax-revenue sharing system, special laws and other automatic distribution funds— recorded a higher expansion pace in the second half of 2012, in line with the evolution of national revenue related to the main taxes (VAT and income tax). In turn, the remaining transfers to subnational jurisdictions remained at levels similar to those of 2011. On the other hand, subnational districts implemented various tax-increase packages. Thus, provinces' total revenue rose by around 25% y.o.y. last year, similarly to 2011.

For the rest of 2013, tax revenue would continue increasing at rates similar to those observed in the past few months, in line with the anticipated evolution of the economic activity and trade flows.

As of June 2012, the national public debt (NPD) totaled US$182.74 billion[60], decreasing in terms of GDP to 41.5%, down 2.6 p.p. against the ratio in June 2011.

The situation of public finance, evidenced in significant fiscal savings, allowed the National Treasury to meet part of its financing needs through financial investments and loans from other public institutions, thus continuing with the strategy implemented throughout 2012. This was accompanied by the financing through temporary advances (TAs) from the BCRA, loans granted by Banco de la Nación Argentina and use of freely available reserves to service public debt maturities with the private holders and international financial institutions.

Since the second half of 2012, the powers conferred by the amended section 20 of the Central Bank Charter (CO) have been exercised. They consist in granting TAs to the National Treasury under exceptional circumstances for an amount equivalent to 10% of the public revenue in cash and for a maximum term of 18 months. This made it possible to lower once again the roll-over risk by reducing debt with the private sector which, as of the end of 2012, would have accounted for only 13% of GDP (see Chart III.17).

Table III.2

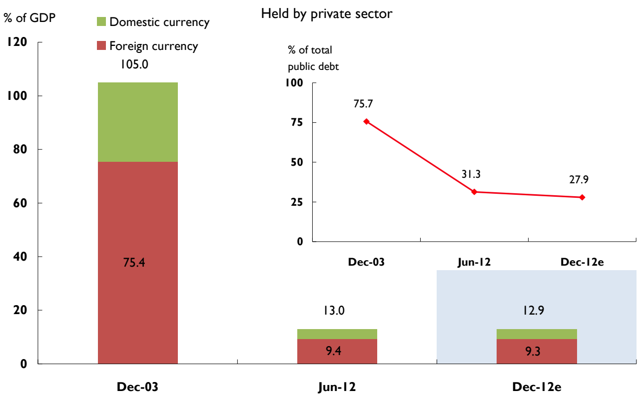
Debt Placements in Foreign Currency and Dollar linked of the Subnational Juridictions in the Market

Date	Jurisdiction	Currency	Market	Amount in million (currency of origin)	Term (years)	Annual rate of return
1-Feb-12	CABA	dollar	international	415.0	5.0	10.0%
16-Mar-12	Salta	dollar	international	185.0	10.0	9.5%
24-May-12	Buenos Aires	dollar linked	domestic	50.3	1.0	9.3%
17-Jul-12	Córdoba	dollar linked	domestic	105.5	1.0	9.5%
8-Aug-12	Buenos Aires	dollar linked	domestic	192.5	1.0	9.0%
8-Aug-12	Buenos Aires	dollar linked	domestic	7.3	1.0	n.d.
22-Aug-12	Neuquén	dollar linked	domestic	52.4	0.3	6.0%
29-Oct-12	CABA	dollar linked	domestic	100.0	1.5	8.0%
12-Nov-12	Córdoba	dollar linked	domestic	94.5	1.0	9.0%
21-Nov-12	Buenos Aires	dollar linked	domestic	84.3	1.0	8.5%
23-Nov-12	Neuquén	dollar linked	domestic	100.0	1.5	8.0%
27-Dec-12	CABA	dollar linked	domestic	85.0	1.5	6.8%
Total 2012				1471.7		
12-Mar-13	CABA	dollar linked	domestic	100.0	5.0	4.0%
1-May-13	CABA	dollar linked	domestic	216.0	6.0	4.0%
23-May-13	Mendoza	dollar linked	domestic	94.6	3.0	3.0%
Total Jan-13/May-13				410.6		

Source: BCRA from Provinces data.

Chart III.17

National Public Debt



Source: BCRA from Ministery of Economy and Public Finances and INDEC data

e: Estimated

[60] Excluding the portion not submitted to the 2005 and 2010 swaps (holdouts).

IV. Financial Sector

Summary

Banks' financial intermediation with companies and households continued increasing during the beginning of 2013. Lending to the private sector gained share in financial system's assets, accounting for 52% of the total (up 2 p.p. against the figure recorded one year ago); this evolution was mainly related to the hike observed in funding through deposits. At an aggregate level, financing to the private sector reached 16.7% of GDP at the end of the first quarter of 2013, up 1.5 p.p. against the figure recorded a year ago and exceeding the value recorded at the end of 2009 by almost 5 p.p.

The growth posted by bank lending to companies accelerated at the end of 2012, evidencing a 43.4% annualized (a.) rise over the 6-month period, thereby exceeding the annualized figure recorded in the first half of the year by 24 p.p. The momentum observed was positively impacted by the initiatives implemented by the BCRA to stimulate lending for productive purposes at reasonable interest rates and longer terms and granted through the Credit Line for Productive Investment and the Bicentenary Productive Financing Program. These measures boosted the growth of loans given to small and medium-sized enterprises (SMEs), which gradually raised their share in total lending in pesos granted to legal persons. Indeed, considering bank loans channeled to SMEs, those with a longer relative term gained relative relevance in a context of lower agreed-upon interest rates.

Loans granted to households also continued expanding, going up 36.1%a. in the second half of 2012. Loans for consumption purposes (personal loans and credit cards) remain as the main drivers of this evolution.

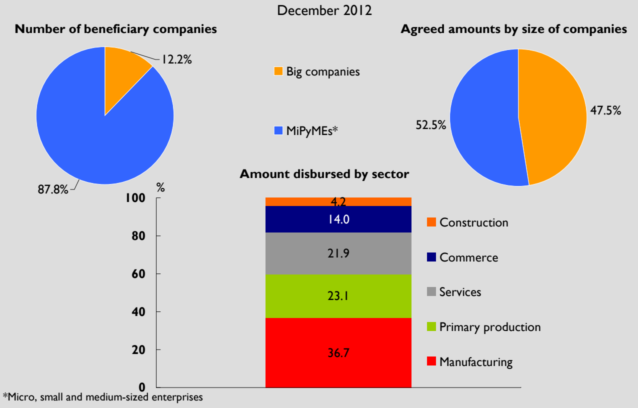
Total balance sheet stock of deposits (in pesos and in foreign currency) evidenced sustained growth over the past few months mainly due to a rise in private sector deposits which, in y.o.y. terms, climbed 30.3% at the end of 2012 and 27.3% in the first quarter of 2013. Within this framework, the evolution of private sector time deposits in pesos stood out, going up 44.2% y.o.y. in March 2013.

Banks' solvency levels continued to improve in the past few months mainly as a result of book profits. Financial system net worth increased 29.6% in 2012, exhibiting similar momentum in the first half and the second half of 2012 and also in the first quarter of 2013. The sector leverage went down on the margin, standing below the levels recorded by other emerging and developed economies.

The BCRA recently amended the local regulation on minimum capital requirements to adapt it to international standards (see Section IV.1.2 for further information). Under the new regulation, banks' regulatory capital compliance reached 14.1% of total risk weighted assets in March 2013 and, therefore, capital position accounted for 63% of the regulatory requirement.

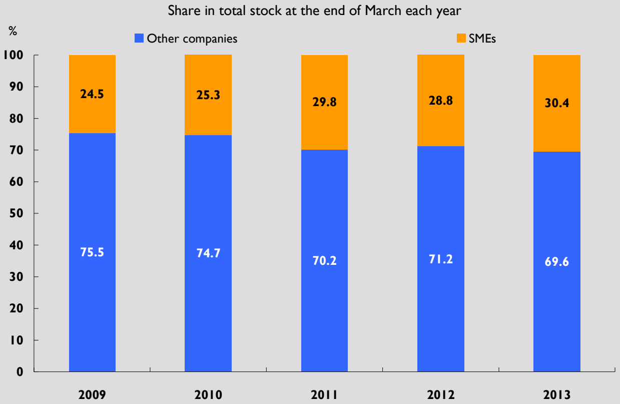
The financial system accrued book profits totaling 2.9% of assets throughout 2012, a level similar to that observed in the first quarter of 2013. In line with the growth path recorded by financial intermediation with the private sector, income derived from interest continued consolidating as financial institutions' main income source.

Chart IV.1
Credit Line for Productive Investment
December 2012



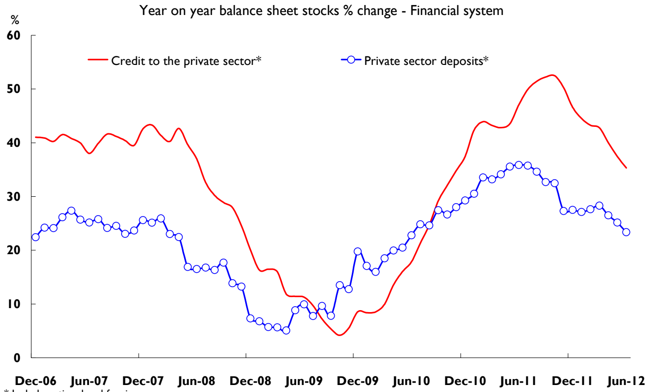
*Micro, small and medium-sized enterprises
Source: BCRA

Chart IV.2
Credit in Pesos to Legal Persons
Share in total stock at the end of March each year



Source: BCRA

Chart IV.3
Financial Intermediation with the Private Sector
Year on year balance sheet stocks % change - Financial system



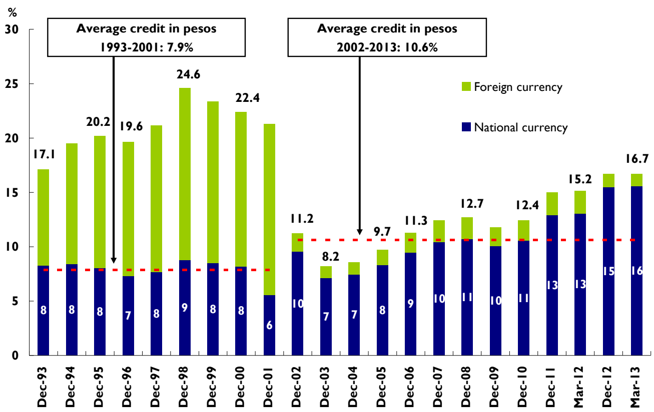
* Include national and foreign currency.
Source: BCRA

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

	Dec-11	Mar-12	Dec-12	Mar-13	Change in p.p.		Stock variation	
					Dec-12 vs. Dec-11	Mar-13 vs. Mar-12	I Q - 12 (%a.)	I Q - 13 (%a.)
Assets	100	100	100	100				
Liquid assets	19	21	21	19	1.8	-1.8	63	-28
BCRA securities	10	11	9	11	-0.8	0.1	71	123
Credit to the public sector	11	11	10	10	-1.2	-0.5	4	23
Credit to the private sector	51	50	52	52	1.4	2.4	19	17
Other assets	8	7	7	7	-1.2	-0.1	-12	39
Liabilities + Net Worth	100	100	100	100				
Public sector deposits	22	22	22	21	-0.3	-0.4	18	5
Private sector deposits	56	56	57	57	1.0	1.0	29	17
Outs. bonds, sub. debt and foreign lines of credit	3	3	2	2	-0.4	-0.5	20	-6
Other liabilities	8	8	8	8	-0.4	-0.5	34	13
Net worth	11	11	11	12	0.1	0.5	31	34

Source: BCRA

Chart IV.4
Credit to the Private Sector in Terms of GDP



Source: BCRA and INDEC

IV.1 Financial institutions[61]

IV.1.1 *Activity*

Intermediation activity with the private sector continued increasing in the second half of 2012 and the beginning of 2013

Financial system raised intermediation levels with the private sector during the second half of 2012 and the first part of 2013. The stock of loans and deposits of households and companies grew at high rates, even though some slowdown was observed in the first quarter of 2013 as a result of seasonal factors (see Chart IV.3).

Financial system assets[62] increased 27.9% y.o.y. by the end of 2012, mainly boosted by lending to the private sector. This expansion continued in early 2013, albeit at a more moderate pace, going up 15.4%a. in the first quarter of this year. Loans to the private sector recorded a 52% share in netted assets in March 2013, up 2 p.p. against a year ago (see Table IV.1). In contrast, a reduction in the share of liquid assets and lending to the public sector was noticeable. Meanwhile, private sector deposits accounted for 57% of total funding, up 1 p.p. against March 2012.

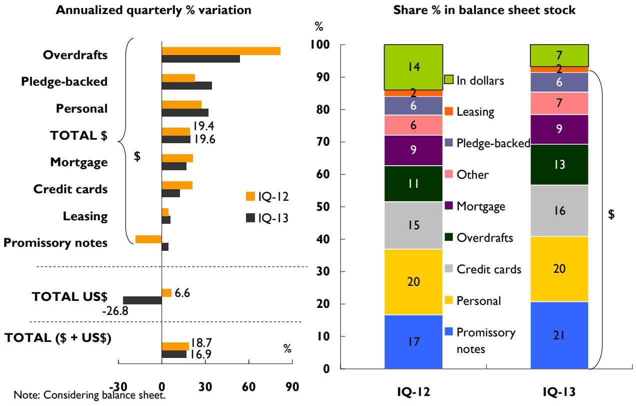
Lending to the private sector continued gaining momentum in the economy

Bank lending[63] to companies and households in relation to GDP stood at 16.7% in March 2013, up 1.5 p.p. against the value recorded a year ago and exceeding the figure recorded at the end of 2009 by 4.9 p.p. (see Chart IV.4). Although these figures still remain below those recorded in the 1990s, loans in pesos during the time of the Convertibility regime only accounted, on average, for 40% of the total (7.9% of GDP), while the current value stood at 93% of the total (15.6% of GDP) in the first quarter of 2013. This improvement resulted from a set of macroprudential policies implemented to reduce levels of currency mismatching and dollarization of assets and liabilities, which have resulted in a sounder financial system.

Total financing to the private sector in 2012 and early 2013 continued on the rise, reaching a 16.9%a growth (30.5% y.o.y.) by the end of March 2013. Particularly, loans in pesos rose by 19.6%a. (41.5% y.o.y.), slightly exceeding the figure recorded a year ago, and with

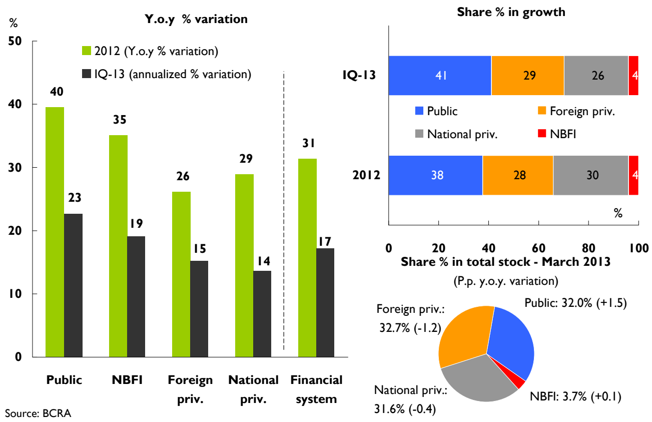
[61] The analysis of this section includes financial institutions supervised and regulated by the BCRA exclusively (Law N° 21,526).
[62] Netted and consolidated assets are taken into account. In other words, assets are net of accounting duplications generated by repo, forward, and cash transactions to be settled, and consolidated for transactions amongst financial institutions.
[63] Defined as the addition of the stock of loans to the private sector and the stock of goods subject to leasing.

Chart IV.5
Credit to Private Sector in Currency of Origin



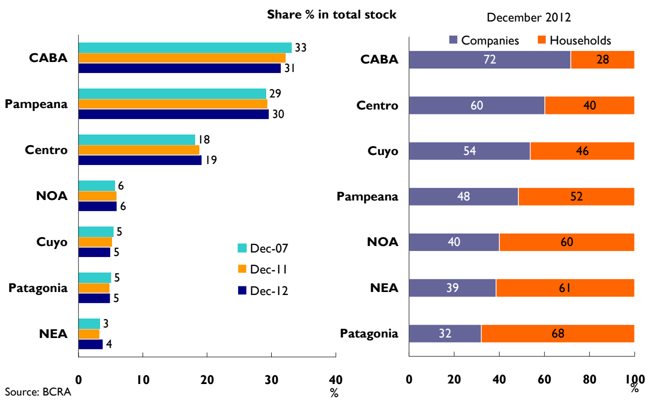
Note: Considering balance sheet.
Source: BCRA

Chart IV.6
Credit to the Private Sector by Group of Financial Entities



Source: BCRA

Chart IV.7
Credit to Private Sector by Region and Sector
AFIP´s taxpayer register



Source: BCRA

overdrafts, pledge-backed loans and personal loans as the most dynamic components (see Chart IV.5). In turn, loans in foreign currency went down 26.8%a., reducing their share and accounting for only 7% of the total stock.

Financing to the private sector granted by public banks continued to be the most dynamic component

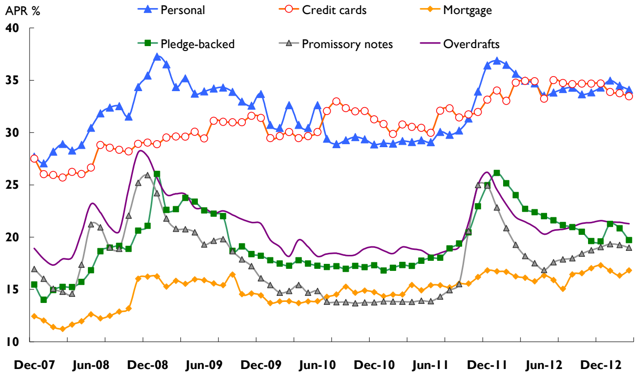
In early 2013, and following the trend recorded in 2012, public banks' loans granted to companies and households were the most dynamic, going up 23%a. in March 2013 (37.7% y.o.y.; see Chart IV.6). Thus, the share of this group of financial institutions in the total stock of financing to the private sector increased by 1.5 p.p. y.o.y. , accounting for 32%.

The level of geographical concentration of bank financing to the private sector fell slightly over the last 5 years. Particularly, while the relative share of the City of Buenos Aires went down in the total stock of loans granted to households and companies against the end of 2007, the Argentine Central and North East Regions raised it at similar levels (see Chart IV.7). In turn, lending to the productive sector accounted for half of the total stock in the City of Buenos Aires and the Centro y Cuyo regions, while loans to households prevailed in the remaining areas.

Lending interest rates operated in pesos rose slightly in the second half of 2012; however, they remained below the values recorded by late 2011 in almost all credit lines. This rise started to be in the months of 2013, especially in credit cards and mortgage loans, evidencing falls of 1.2 p.p. and 0.5 p.p. respectively against December 2012 (see Chart IV.8). It should be noted that, as from mid-2012, the BCRA established that banks may not apply interest rates on financing through credits cards that exceed by over 25% the average of the rates the institution applied over the previous month on personal loans (without real collateral)[64]; the institutions breaching the provisions of the Law on Credit Cards regarding financial aspects of this operation may be punished. In addition, a new information regime was implemented in early March 2013 in relation to the total financial cost of personal loans[65], by means of which it would be possible to obtain more accurate information on this kind of loans and prevent potential abusive actions against bank clients.

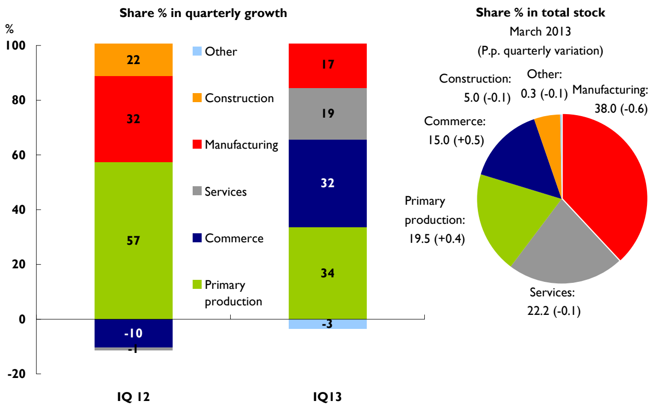
[64] Communication "A" 5323.
[65] Communication "A" 5402.

Chart IV.8
Lending Interest Rates in Pesos
Credit to the private sector - Financial system



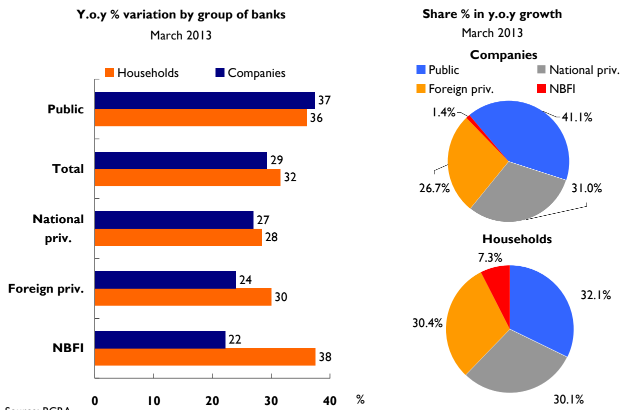
Note: Data are subject to change for March 2013. Source: BCRA

Chart IV.9
Credit to Companies



Source: BCRA

Chart IV.10
Credit to Private Sector



Source: BCRA

Considering the accounting balance of financing granted to households and companies by residual term[66], a slight rise was observed in the stock of loans with a longer relative maturity (more than 2 years) in the last 5 years, which was mainly explained by public banks. Particularly, between the end of 2007 and 2012, this group of financial institutions raised by 11 p.p. the share of loans with a longer relative term up to 55% of the total stock of loans granted to the private sector (15.2% in private banks). Thus, total lending to the private sector with a term to maturity exceeding 2 years accounted for 5.1% of GDP at the end of 2012 where 3.3 p.p. corresponded to public banks.

Loans granted to companies accelerated their growth pace at the end of 2012

Loans granted to companies accelerated their expansion pace in the second half of 2012, up to 43.4%a, 24 p.p. higher than the value recorded in the first half of 2012. This performance moderated in early 2013 (12.9%a.) as a consequence of seasonal factors. Particularly, lending to companies in the first quarter of the year increased in almost all economic sectors; especially relevant has been the momentum shown by primary production and commerce since these sectors accounted for two thirds of the quarterly hike, while in the same period of last year primary production and manufacturing explained almost all the growth recorded (see Chart IV.9). In turn, manufacturing continued to show the highest relative share in the stock of loans to the companies, standing at 38%. Public banks accounted for 41.1% of the y.o.y. rise posted by financing to companies until March 2013, followed by national private banks, which explained 31.0% of such growth (see Chart IV.10).

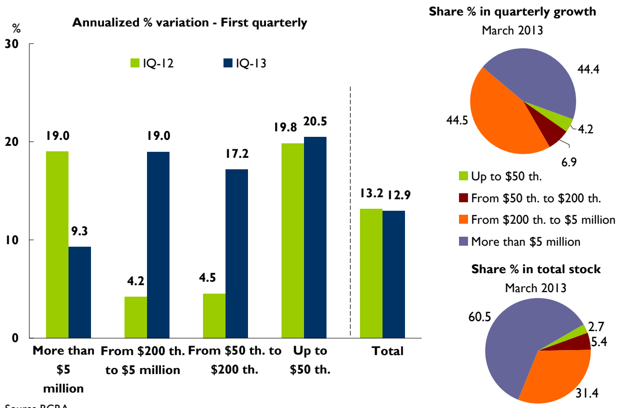
Loans to companies with a lower residual stock (less than $5 million) exhibited an increased momentum in the first quarter of 2013 in y.o.y. terms (see Chart IV.11). Particularly, loans with a residual stock between $200,000 and $5 million climbed 19%a. in March — up 14.8 p.p. against the value recorded a year ago— accounting for 44.5% of the quarterly hike.

Loans granted to small and medium-sized enterprises gained momentum

Within the framework of the amendment of the BCRA Charter, this Institution implemented a set of measures aimed at promoting productive investment and lending to micro, small, and medium-sized enterprises (MiPyMES). Thus, the "Credit Line for Productive

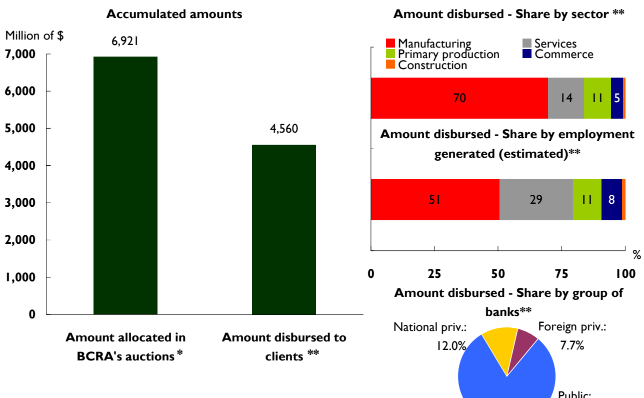
[66] It includes total lending to the private sector falling within the scope of the regulations on "debtor classification" (loans, other credits through financial intermediation, loans through leasing contracts, miscellaneous credits and potential liabilities).

Chart IV.11
Credit to Companies by Residual Stock Range



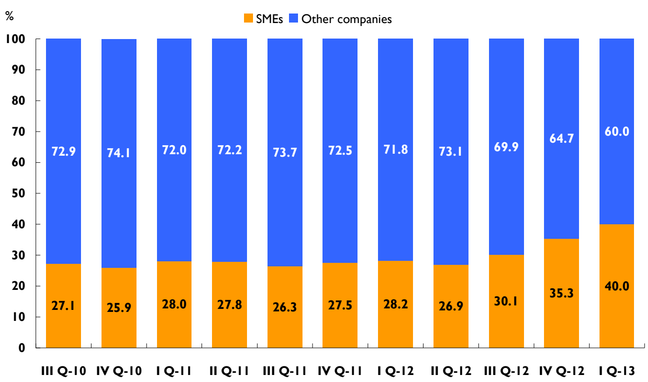
Source BCRA

Chart IV.12
Bicentenary Productive Financing Program



* Includes 23 first auctions. **Amount disbursed up to April 30th,2013.
Source: BCRA

Chart IV.13
Share of Granted Amounts of Credit in Pesos to SMEs*
Financial system



* Overdrafts excluded. Source: BCRA

Investment"[67] was launched in early July 2012. Financial institutions with more relative relevance in the financial system and institutions operating as financial agents for the national, provincial, and municipal governments had to allocate an amount equal to at least 5% of the stock of private sector deposits in pesos corresponding to June 2012 to finance investment projects with productive purposes. The financing term was of at least 3 years, at a 15.01% maximum fixed interest rate and half of these funds had to be granted to micro, small, and medium-sized enterprises. Loans had to be agreed upon and disbursed fully by the end of 2012 with the possibility of extending this term in the case of financing that called for more than one disbursement.

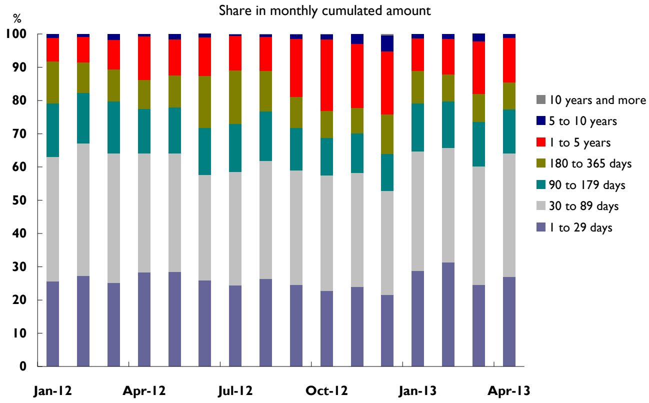
Total loans disbursed through this line amounted to $16.8 billion by the end of 2012 and over half of such funds were granted to micro, small, and medium-sized enterprises (see Chart IV.1). Manufacturing and primary production recorded the highest share in the total amount of loans disbursed.

As a result of the positive impact that this measure had on access to lending by many companies, the BCRA renewed this tool for the first half of 2013[68], taking as benchmark 5% of the stock of private sector deposits in pesos as of November 2012. Hence, a target for disbursements totaling $17.4 billion was set for the first half of 2013, with more than half of such value having been actually disbursed until May. Furthermore, preliminary data show that disbursements amounting to $3.1 billion have been recorded this year corresponding to the remaining loans from 2012, which were duly granted on a staggered basis. Thus, taking into account projects already financed over the first half of 2013 and disbursements of previous staggered loans, lending totaling around $12 billion was actually paid between January and May 2013 within the framework of the Credit Line for Productive Investment. Consequently, it has been estimated that the target set in Communication "A" 5380 will be properly complied with.

In addition to the development of this new credit line, the BCRA continued granting bank funds through the Bicentenary Productive Financing Program[69]. Since its implementation, by mid-2010, 23 fund auctions for a total amount of $6.9 billion were made until the end of April 2013. According to the latest information available, the 14 financial institutions participating in the program granted companies a total of $4.6 billion

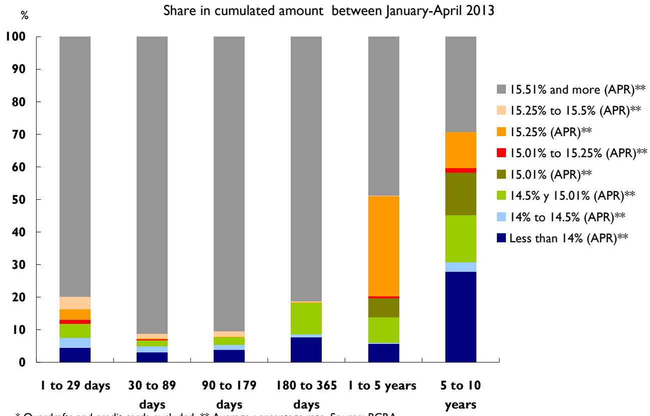
[67] Communication "A" 5319 and 5338.
[68] Communication "A" 5380.
[69] Communication "A" 5089.

Chart IV.14
Granted Amount of Loans in Pesos* to SMEs by Term
Share in monthly cumulated amount



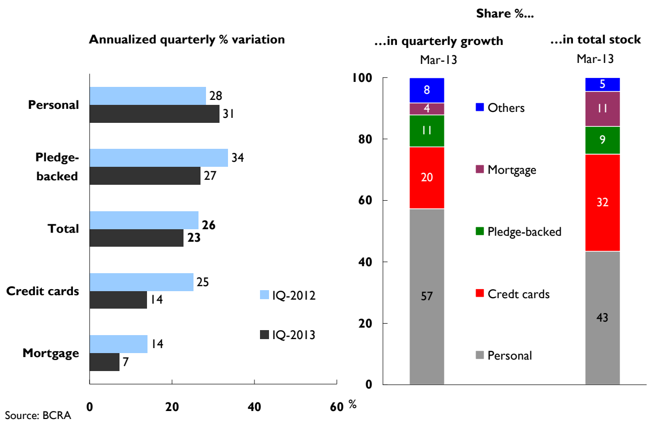
* Overdrafts and credit cards excluded. Source: BCRA

Chart IV.15
Loans in Pesos* to SMEs by Term and Interest Rate
Share in cumulated amount between January-April 2013



* Overdrafts and credit cards excluded. ** Average percentage rate. Source: BCRA

Chart IV.16
Credit to Families by Type of Line



Source: BCRA

(over 80% of such figure corresponded to loans given by public banks; see Chart IV.12). It has been estimated that, apart from promoting investment, this Program comprises projects that will give support to over 17,300 jobs amongst different economic sectors.

Indeed, as a result of the implementation of the new Charter, the minimum cash requirement[70] regulation was amended in October 2012 with a view to stimulating access by SMEs and promoting the involvement of regional economies (see Chapter II).

All the abovementioned measures, particularly the new "Credit Line for Productive Investment", contributed to the growth of credit channeled to SMEs during the past few quarters. In particular, the y.o.y. expansion in the amount of loans in pesos[71] granted to SMEs reached 103.4% y.o.y. in the first quarter of 2013, widely exceeding the figure recorded over the same period of 2012. As a result of this evolution, a gradual rise in the relative share of amounts granted to this group of companies has been observed (see Chart IV.13). Similarly, there was a rise in the share of loans to SMEs in the total stock of loans given to legal persons (see Chart IV.2), accounting for over 30% by the end of March 2013.

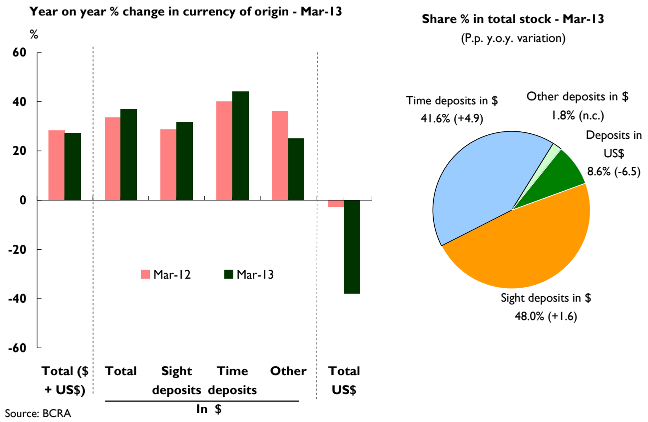
Within the segment of loans granted to SMEs, a rise was also recorded in the share of credits given at a longer relative term—especially in the tranche from 1 to 5 years— (see Chart IV.14). In turn, and in line with the stimulus provided by the "Credit Line for Productive Investment", it has been observed that in the segment of loans granted at longer terms, credits disbursed at lower interest rates had a relatively higher share (see Chart IV.15).

Loans to households in 2012 continued expanding and reached a 36.1%a. growth rate in the second half of the year, up 7.9 p.p. against the first half. Meanwhile, these loans moderated their expansion pace at the beginning of 2013, going up 22.9%a. in March (31.1% y.o.y.; see Chart IV.16). The quarterly rise of lending to households was primarily accounted for by loans for consumption purposes (personal loans and credit cards), being particularly driven by private banks.

Private sector deposits continued to be the main funding source of financial institutions. The performance of private sector time and sight deposits in pesos should be especially underscored

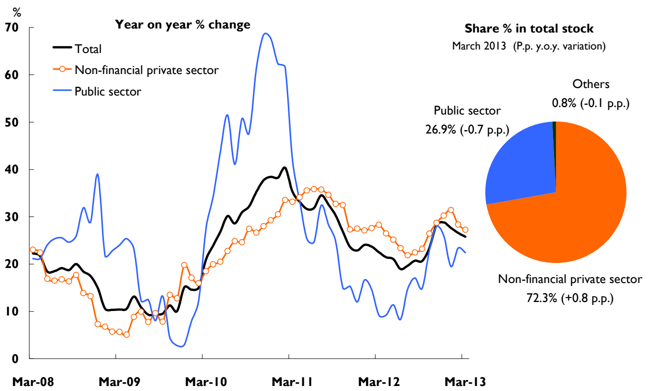
[70] Communication "A" 5356.
[71] Overdrafts are excluded.

Chart IV.17
Non-Financial Private Sector Deposits in the Financial System



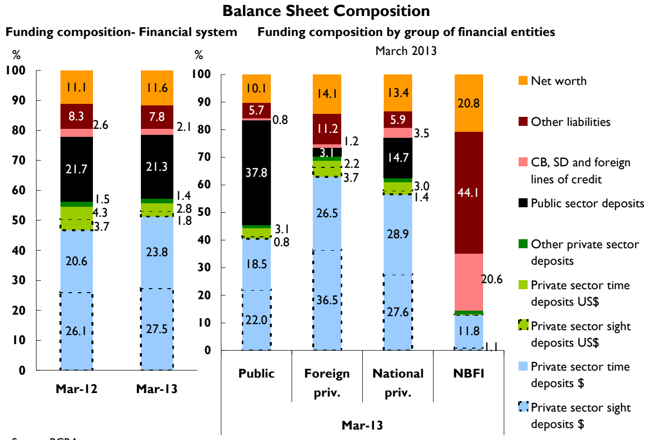
Source: BCRA

Chart IV.18
Total Deposits of Financial System
Includes deposits in national and foreign currency



Source: BCRA

Chart IV.19
Balance Sheet Composition



Source: BCRA

Private sector deposits in pesos expanded 36.9% y.o.y. in March 2013, up 3.4 p.p. y.o.y. (see Chart IV.17). Time and sight accounts in pesos pertaining to this sector evidenced a better relative performance. Particularly, time deposits in pesos grew 44.2% y.o.y. (up 4.1 p.p. against March 2012) whilst sight deposits in pesos climbed 31.6% y.o.y. (up 3 p.p. against the first quarter of 2012). Both segments taken as a whole accounted for almost 90% of the total stock of private sector deposits in March 2013, raising their weighting in the total compared to values recorded a year ago. Private sector deposits in foreign currency went down 37.8% y.o.y. (considering changes in currency of origin) in the first quarter of the year, falling 49.7% since October 2011. Thus, private sector total deposits rose by 30.3% y.o.y. Private sector deposits continued rising (27.3% y.o.y.) by the end of the first quarter of 2013.

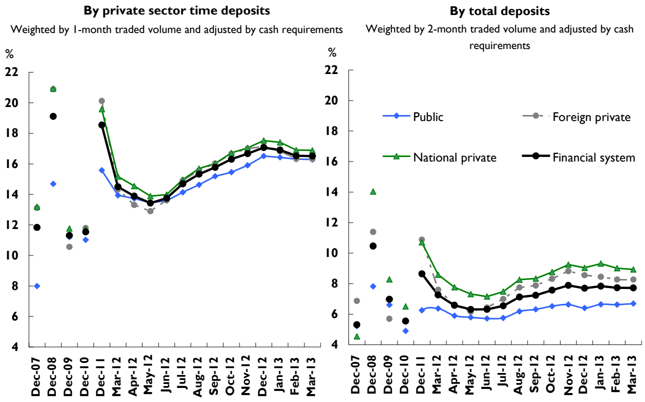
In turn, the momentum of public sector deposits was on the rise in the second half of 2012, widely exceeding the y.o.y. expansion pace recorded in the first half of last year. Particularly, deposits by this sector climbed 26% y.o.y. by the end of 2012, up 14 p.p. against the figure recorded in late 2011. Some slowdown was observed in the growth of these deposits at the beginning of 2013, although they kept evidencing a positive performance.

As a result of the boost given by private sector deposits in pesos, the balance sheet stock of total deposits (in domestic and foreign currency) grew at a good pace in the second half of 2012 and in early 2013. These deposits expanded 28.8% y.o.y. by the end of 2012, up 5.9 p.p. y.o.y. (see Chart IV.18).

In line with the performance recorded in the first part of 2012, private sector deposits continued to be the main funding source of banks (both private and public), accounting for 57.2% of the total —liabilities plus net worth— in March 2013 at an aggregate level (see Chart IV.19). Particularly, the share of deposits in pesos by households and companies went up in total funding by 4.6 p.p. y.o.y., explaining 51.3% of the total, while those in foreign currency went down by 3.4 p.p.

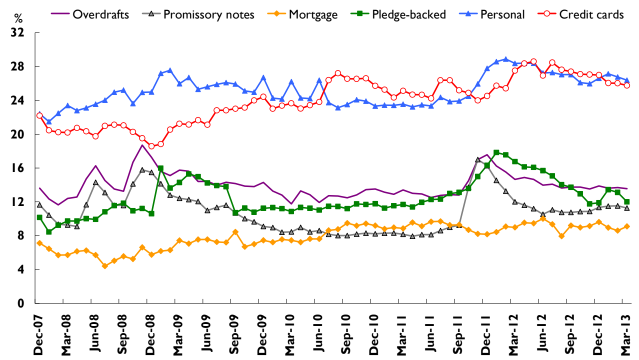
Financial institutions continued obtaining funds through the issue of corporate bonds and short-term securities in 2012. Particularly, 17 financial institutions issued corporate bonds and short-term securities in the second half of 2012, obtaining funds for a total of $2.55 billion. In turn, funds obtained through this method in the first quarter of 2013 amounted to $1.38 billion. It should be noted that most issues recorded since mid-2012 have been made in pesos.

Chart IV.20
Estimation of Average Funding Costs by Deposits in Pesos



Source: BCRA

Chart IV.21
Interest Rates Spreads for Operations in Pesos
Difference between lending interest rate and deposit cost*



*Traded amount in 2 months and adjusted by legal reserves weighted average
Source: BCRA

Table IV.2
Evolution of Employment
In thousands

	Financial system				31 aglomer. EPH
	Total	Banks		NBFI	Emplo. -
		Priv.	Pub.		Underemplo.
IQ-10 (Min. FS*)	97.5	56.5	37.8	3.1	10,467
IQ-12	103.4	62.1	37.9	3.4	10,664
IQ-13 (Max. FS)**	104.5	63.2	38.0	3.4	10,748
Variation - In %					
IQ-13 vs IQ-10	7.3	11.8	0.4	9.5	2.7
IQ-13 vs IQ-12	1.1	1.7	0.1	1.8	0.8

*Considering the period IQ-08 to IQ-13.
**Considering the post crisis period 2001-2002.
Source: BCRA and INDEC

In the second half of 2012, the funding cost[72] estimated for deposits in pesos rose in all groups of banks, a performance that moderated in early 2013 (see Chart IV.20). Given the evolution of lending interest rates in pesos, spreads increased modestly in the second half of 2012, reversing this performance in the first quarter of 2013 (see Chart IV.21). Thus, current levels of interest rate spreads were lower than those observed at the end of 2011 and early 2012 in all groups of financial institutions, with public banks and Non-Bank Financial Institutions (NBFI) exhibiting the highest relative reductions.

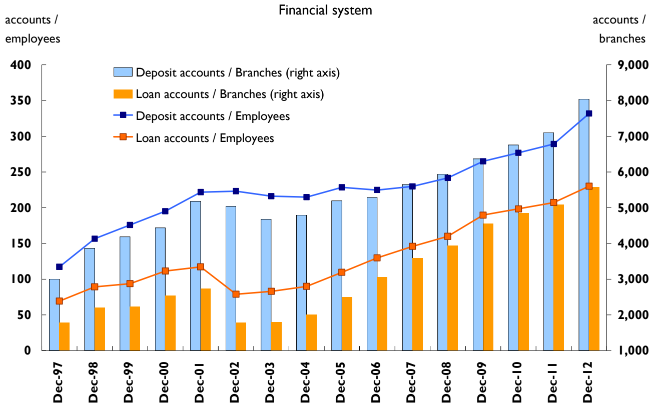
Access to financial services continued expanding within a framework of greater productivity levels in the sector

Staffing and the operating structure of the financial system continued increasing in the past few quarters. Particularly, the number of employees rose almost 1% in the second half of 2012 against the first half, going up 1.1% y.o.y. in the first quarter of 2013 and exceeding the change recorded for employment in the economy at an aggregate level (see Table IV.2). In turn, the amount of branches grew 2.9% y.o.y. in January 2013, while the number of automatic teller machines (ATMs) climbed 7.6% y.o.y. The improvement in banking infrastructure was accompanied by higher productivity levels, which is reflected in a rise in the average number of deposit accounts and loan operations per branch and employee (see Chart IV.22).

Significant improvements in the provision of financial services in all geographical areas of the country were observed in the past few years. Particularly, the number of inhabitants per branch and ATM fell considerably over this period, especially in the areas with less bank services (Argentine North West region –NOA– and Argentine North East region –NEA–; see Chart IV.23). Thus, while the number of inhabitants per bank branch totaled 9,900 at an aggregate level by the end of 2009, such number fell to 9,500 in early 2013. Although the availability of branches rose gradually, on an international comparison basis the amount of inhabitants per branch at country level stood above the average recorded in other emerging and developed countries, and slightly below the average of Latin American economies (see Chart IV.24). In turn, the population/ATM ratio decreased by almost 29% in the last 3 years, with the Argentine financial system having an effective coverage if compared to the average in Latin America and the average of other emerging countries.

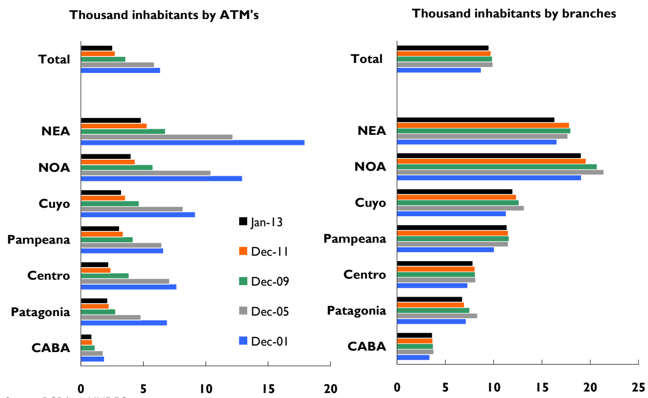
[72] Both sight and time deposits in pesos of the private and public sectors are considered. The volume of deposits over two months is weighted and adjusted based on the minimum cash requirement.

Chart IV.22
Number of Accounts in Terms of Employees and Branches
Financial system



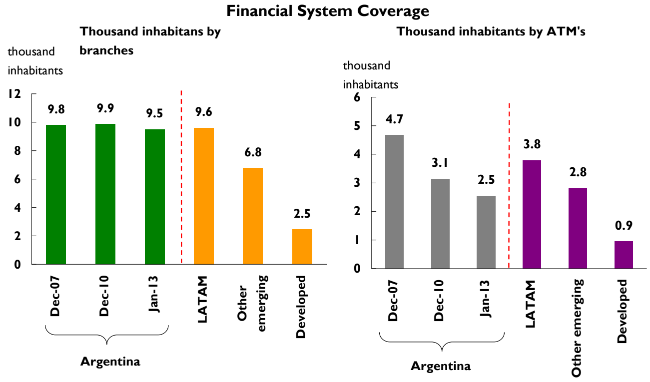
Source: BCRA

Chart IV.23
Financial System Regional Coverage



Source: BCRA and INDEC

Chart IV.24
Financial System Coverage



Note: Simple averages were considered. LATAM: Paraguay, Bolivia, Mexico, Brazil, Chile and Uruguay. Other emerging: India, Indonesia, South Africa, Thailand, Russia, Czech Republic and Croatia. Developed: UK, France, Germany, Spain, USA, Korea and Portugal. Last available data 2011, except Czech Republic, UK and Germany to 2010.
Source: INDEC, Financial Access Survey (IMF), World Economic Outlook (IMF) and BCRA

In line with several measures implemented by the BCRA to promote territorial expansion of the banking system infrastructure[73], the mechanism to set up new branch facilities[74] was improved in late September 2012. The general criterion of the regulation establishes that financial institutions willing to set up branches in areas with a greater level of banking services must previously offer financial services in regions with less banking coverage. Taking this method into account, the BCRA authorized the opening of 92 new branches in areas that have less banking services as of the first quarter of 2013.

The Argentine financial market evidenced a growing trend in levels of banking concentration over the past few years even though they stand below the levels recorded following the crisis of 2001 (see Chart IV.25). Despite this rise, the levels seen in the Argentine banking market have remained at values ranging from moderate to low on an international comparison basis.

IV.1.2 *Capital position*

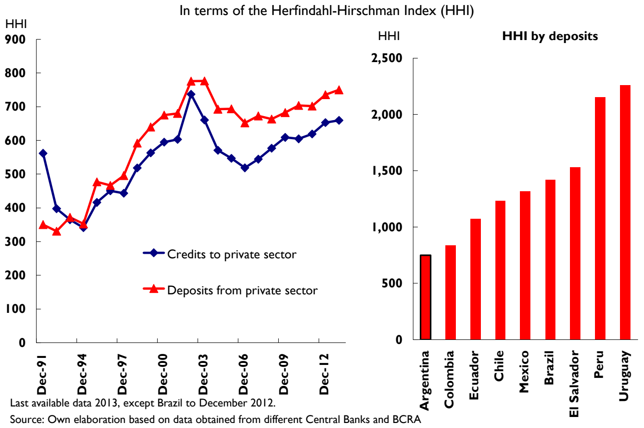
Solvency levels of the financial system continued to improve

The consolidated financial system net worth expanded 29.6% in 2012, evidencing similar momentum in both halves of the year and also in the first quarter of 2013. This growth was mainly boosted by book profits and, to a lesser extent, by capital contributions. The banking sector obtained capitalizations for almost $1.2 billion in 2012, which were mainly channeled to public financial institutions (see Chart IV.26). Similarly, the ensemble of banks received capital contributions for $910 million in the first quarter of 2013, which were primarily channeled to the ensemble of public and foreign private banks[75]. In turn, dividends totaling almost $800 million were distributed in 2012.

As a result of the higher relative growth observed in banks' net worth in relation to their assets, the financial system leverage level fell slightly in 2012, a trend that has been more marked in 2013 to date, mainly on account of private banks' performance (see Chart IV.27). Thus, netted assets accounted for 8.7 times the financial system net worth in March 2013, and continued recording a leverage level below the average of the region and of other emerging and developed economies.

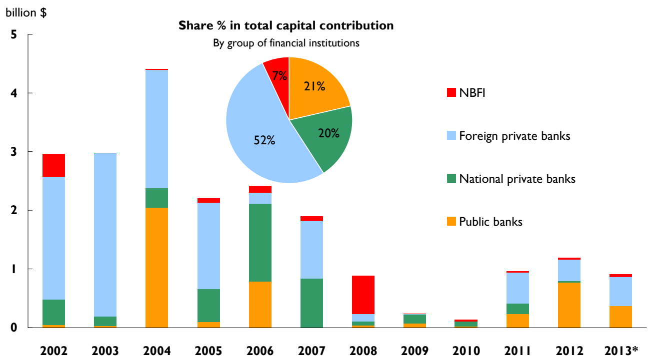
[73] Such measures include the method to divide the national territory into different zones to open new branches and the authorization to open special offices in districts with less than 30,000 inhabitants.
[74] Communication "A" 5355.
[75] Agreed upon within the framework of a sale process of foreign financial institution.

Chart IV.25
Concentration Level of the Financial System
In terms of the Herfindahl-Hirschman Index (HHI)



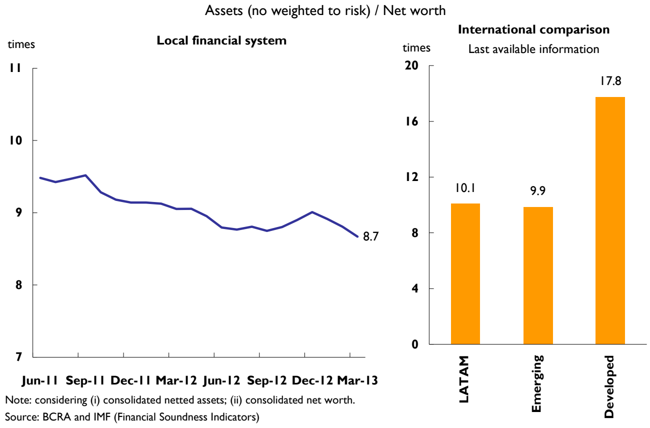
Last available data 2013, except Brazil to December 2012.
Source: Own elaboration based on data obtained from different Central Banks and BCRA

Chart IV.26
Capital Contributions
2002-2013



* to february.
Source: BCRA

Chart IV.27
Financial System Leverage
Assets (no weighted to risk) / Net worth



Note: considering (i) consolidated netted assets; (ii) consolidated net worth.
Source: BCRA and IMF (Financial Soundness Indicators)

With a view to enhancing solvency and adapting the local regulation to international standards, the BCRA has recently modified the minimum capital regime

The BCRA modified the minimum capital regime[76] in November 2012, effective as from January 1, 2013 (see Box 3). The purpose of these amendments is to enhance the financial system, encourage loan granting to sustain economic growth and adapt the local regulation to international standards.

In order to establish the minimum cash requirement, weighting factors to calculate the requirement per credit risk for lending in pesos to the public sector, loans to natural persons, and micro, small, and medium-sized enterprises, and mortgage loans for single housing units were redefined. In addition, a specific treatment for securitization was introduced. The new regulation also introduces a requirement for counterparty credit risk, which is truly innovative if compared to the treatment previously given to exposure resulting from derivatives. In addition, it was set forth that non-performing loans will have a weighting factor that decreases as loan loss provisions increase. Based on existing recommendations at an international level and within the framework of the of Basel standards, the regulation on the interest rate risk was considered in Pillar II.

Regarding minimum capital compliance, it should be noted that the concepts considered in the different segments making up banks' regulatory capital were redefined based on the capacity to absorb unexpected losses. In addition, new intermediate minimum limits were added in terms of a broader definition of risk-weighted assets (RWA), which comprises credit, market and operational risk.

Following these amendments to regulations, it was necessary to change the methodology with which capital compliance indicators used for analytical purposes are prepared. In other words, the new indicators presented in this report cannot be compared to those included in previous publications. Particularly, the capital compliance ratio (total and Tier 1) currently consists of a broader definition of risk-weighted assets[77].

Hence, although the new compliance indicator for the aggregate financial system is based on a lower level, the regulatory capital surplus position is kept (see Chart IV.28).

[76] Communication "A" 5369 and "P" 50116.
[77] See indicators 9 and 10 in Charts 1 and 5 of Statistics Annex.

Box 3 / Recent Progress Made in Regulations in the Context of Basel II and III

Argentina keeps moving forward in the convergence with international standards regarding banking regulations; these efforts are aligned with the road map raised in September 2011 for the implementation of Basel III in the Argentine financial system[78]

The Basel Committee on Banking Supervision (BCBS) published the report entitled International Convergence of Capital Measurement and Capital Standards[79] (also known as Basel II) in June 2006 with a view to enhancing international banking system stability and soundness. Basel II laid down capital requirements that are significantly more sensitive to risk than the framework commonly referred to as Basel I[80], especially with regard to securitizations, and improved the treatment given to credit risk coverage. In addition, it introduced a new capital requirement for operational risk, amongst other innovative measures.

Basel II is based on three pillars: i) Pillar 1 (or Minimum Capital Requirements) establishes quantitative guidelines to calculate the minimum capital requirement for measuring credit risk, market risk and operational risk of financial institutions; ii) Pillar 2 (or Supervisory Review Process) provides guidance for the management of bank risks, puts forth the need for banks to conduct their own assessment of their overall capital adequacy and gives supervisors more discretionary powers to raise minimum capital requirements; and iii) Pillar 3 (or Market Discipline) sets minimum disclosure requirements to be followed by institutions regarding solvency and risk management so that depositors, investors and third parties may be well informed about an institution's risk profile.

An innovative standard introduced by Basel II is that banks, with the authorization of their supervisors, may use their own estimates to calculate capital levels for credit and operational risks. Following this line, Basel II incorporated the amendment made in 1996 to the original recommendations of Basel I, which considered the possibility of using banks' internal systems to calculate the capital they need in order to cover market risk.

[78] www.bcra.gov.ar/pdfs/marco/Hoja%20de%20Ruta%20Basilea%20III.pdf

[79] "International Convergence of Capital Measurement and Capital Standards - A Revised Framework", BCBS, 2006.

[80] "International Convergence of Capital Measurement and Capital Standards", BCBS, 1988.

As an immediate response to the magnitude of the international crisis, regulations were reviewed in July 2009 and the BCBS finally published two documents with significant changes to the framework set in Basel II (changes subsequently known as Basel 2.5). Changes to the first document[81] aimed at enhancing the framework of Basel II: require a further weighting for resecuritizations and liquidity facilities (Pillar 1), supplement the guidance provided for risk management (Pillar 2) and review Pillar 3. The second document[82] was geared to preventing the regulatory arbitrage amongst portfolios subject to market and credit risks and to reducing procyclicality of market risk capital requirement. To this end, it introduced an incremental risk charge to cover some risks not addressed by Basel II and a capital requirement within the internal models approach to prevent stress situations (stressed value-at-risk).

Next, and to provide a more comprehensive response to the effects caused by the international financial crisis, the BCBS published an integral set of reforms to enhance the three pillars of Basel II, generally referred to as Basel III[83], in December 2010. The purpose of these measures was to improve the system's ability to absorb economic shocks and to set better global liquidity standards, improve risk management and strengthen transparency. It was a comprehensive reform not limited to minimum capital requirements since it comprised macro and microprudential measures.

In this context, the BCRA started to implement the international standards by mid-2011 through Communication "A" 5203[84], which set the parameters for risk management of financial institutions, and Communication "A" 5272, which implemented a minimum capital requirement for operational risk.

However, the most relevant improvement was introduced in late 2012 and early 2013 with the passing of Communications "A" 5369, "A" 5398 and "A" 5394, that put into practice the three pillars of Basel II, including the amendments introduced by Basel 2.5 and Basel III[85], in line with proposals made in the road map

[81] "Enhancements to the Basel II framework", BCBS, 2009.

[82] "Revisions to the Basel II market risk framework", BCBS, 2009.

[83] "Basel III: A global regulatory framework for more resilient banks and banking systems", BCBS, 2010 and 2011 (revised version); "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring Tools", BCBS, 2013.

[84] Available at www.bcra.gov.ar / Regulation

[85] For further information on local improvements made in international recommendations on Basel over the past few years, see

for the implementation of Basel III in the Argentine financial system. Particularly:

Pillar 1

Communication “A” 5369, published in November 2012, introduced two major changes: a) provisions related to capital compliance, and b) the approach used to measure credit risk. Regarding the former, it incorporated the provisions of Basel III, which establish that financial institutions should have more and better capital. Although the total requirement has been kept at 8% of risk-weighted assets, no less than 4.5% must be complied with through common shares and results accrued. The rest may be complied with through subordinated debt provided it is subject to absorbing losses —if a financial institution’s solvency is affected— by way of a debt reduction or its conversion into common shares.

In order to measure credit risk, the provisions relative to Basel II Standardized Approach were incorporated. This approach keeps the application of pre-established ratios to weight credit risk exposure but it is more sensitive to risk given that the range of alternatives to be considered, regarding exposure and their coverage with guarantees and credit derivatives, is significantly larger. Additionally, it was decided that reference to external ratings would be removed because this kind of assessment is not used in the Argentine market and, especially, because G20 Leaders committed to reduce references to these ratings in their laws. Considering that references to an external rating mentioned in the international standards have been removed, risk weight factors have been adopted to ensure that local capital requirement is rigorous and prudent. Provisions of Basel 2.5 were also incorporated, which introduced more stringent requirements for securitizations, as well as those of Basel III, which increased weight factors to be applied to counterparties in complex financial derivative operations.

Pillar 2

The BCRA published Communication “A” 5398 in February 2013 supplementing the guidance for risk management published in Communication “A” 5203. The new version completes the requirements set forth in Pillar 2, by incorporating also the provisions of Basel 2.5 and III. With respect to risk management, it includes the chapters considered in Communication “A” 5203 about credit, liquidity, market, operational and interest rate risks, as well as stress tests, in addition to the chapters on securitization, concentration, reputational and strategic risks. In this context, it has been clearly established that risk management falls within the responsibility of financial institutions’ board of directors and top management positions. In addition, it is of utmost importance that institutions have an internal, comprehensive and global process to assess the adequacy of their economic capital based on their risk profile (“Internal Capital Adequacy Assessment Process” - “ICAAP”) together with a strategy to keep their capital levels throughout time. It was also specified that the BCRA expects financial institutions to operate above the minimum limits established in the regulations and that, if necessary, the Superintendence of Financial and Exchange Institutions (SEFyC) may require to keep the regulatory capital above such minimum amounts.

Pillar 3

Finally, the BCRA published Communication “A” 5394 in early 2013, which contains the provisions of Pillar 3 regarding market discipline. The purpose of such measures is for financial institutions to disclose sufficient information so that market participants may be well-informed about exposure, risk assessment internal processes and capital adequacy.

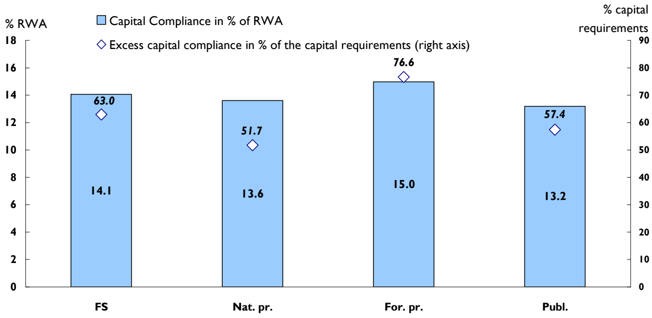
Apart from the requirements set forth in the communication, financial institutions are responsible for disclosing their risk profile to market participants. Therefore, they must provide all additional information they may deem as relevant to ensure transparency in their management and risk assessment as well as in their capital adequacy.

The information published must be accurate to fulfil such objective and must be consistent with the information used by the board of directors and the corporate top management to assess and manage risks.

Thus, Argentina keeps making progress in the implementation of international recommendations without neglecting its own context as an emerging economy, the experience gained in previous financial crises and the specific characteristics of the Argentine law and financial system. The purpose of this process is to strengthen the financial stability domestic context, which will allow intensifying lending channeled to productive investment, a pivotal pillar for the country’s economic development.

Box 3 from Financial Stability Report I-12 and Box 5 from Financial Stability Report II-11,

Chart IV.28
Capital Requirements and Capital Compliance by Group of Banks
March 2013*



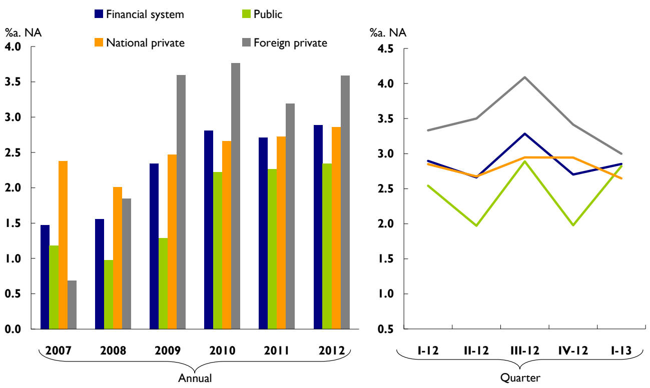
* According to Communication "A" 5369, since February 2013 methodological changes in minimum capital requirements were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk.
Source: BCRA

Table IV.3
Profitability Structure: Financial System
Annualized indicators as % average netted assets

	93-00	2009	2010	2011	2012	IQ-13a.
Financial margin	6.1	8.6	8.5	8.0	9.2	9.5
Net interest income	4.9	4.3	4.3	4.6	5.7	5.8
CER and CVS adjustments	0.0	0.4	0.6	0.3	0.3	0.3
Gains on securities	0.8	3.3	3.2	2.6	2.6	2.7
Foreign exchange price adjustments	0.0	0.8	0.5	0.6	0.6	0.7
Other financial income	0.3	-0.1	-0.1	0.0	0.0	-0.1
Service income margin	3.5	3.9	3.8	3.9	4.2	4.1
Operating costs	-6.7	-6.7	-6.9	-6.7	-7.0	-7.0
Loan loss provission	-2.2	-1.1	-0.8	-0.7	-0.9	-1.0
Effects of the 2001-2002 crisis (*)	-	-0.3	-0.2	-0.1	-0.1	-0.1
Tax charges	-0.5	-1.0	-1.0	-1.1	-1.3	-1.5
Other	0.7	0.3	0.5	0.5	0.4	0.3
Total results before income taxes	0.8	3.6	4.0	3.9	4.3	4.4
Income tax	-0.3	-1.3	-1.2	-1.2	-1.5	-1.6
ROA	**0.5**	**2.3**	**2.8**	**2.7**	**2.9**	**2.9**
Adjusted ROA (**)	**-**	**2.6**	**3.0**	**2.8**	**3.0**	**2.9**
ROE	3.4	19.2	24.4	25.3	25.7	25.1
ROE (before income tax)	5.2	29.5	34.5	36.5	38.8	38.9

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

Chart IV.29
Profitability by Group of Banks
As % of netted assets



Source: BCRA

Profitability levels of all groups of banks were on the rise in 2012 in y.o.y. terms, especially in the case of foreign private banks

As a result of the rise in lending, the financial system book profits in the second half of 2012 totaled $10.6 billion, up 20.2% against the first half, ending the year with profits amounting to around $19.4 billion. Banks' ROA levels stood at 3%a. in the second half of 2012, up 0.2 p.p. against the first half and primarily due to a rise in results derived from services and securities. Thus, the financial system ended 2012 with ROA levels at 2.9%, up 0.2 p.p. y.o.y. (see Table IV.3). The annual profitability levels of all groups of banks were on the rise especially in the case of foreign private banks (see Chart IV.29). Recorded profits totaled 2.9%a. of assets in year-to-date terms, evidencing a figure similar to that of the same period in 2012.

Banks' financial margin stood at 9.3%a. of assets in the last 6 months of 2012, up 0.3 p.p. against the first part of the year. The financial margin stood at 9.2% of assets, climbing 1.2 p.p. in 2012 against 2011, a change mainly boosted by net income derived from interest (see Chart IV.30). Private banks (both national and foreign) accounted for the increased y.o.y. momentum. In the first months of 2013, this indicator stood slightly above the figure recorded last year.

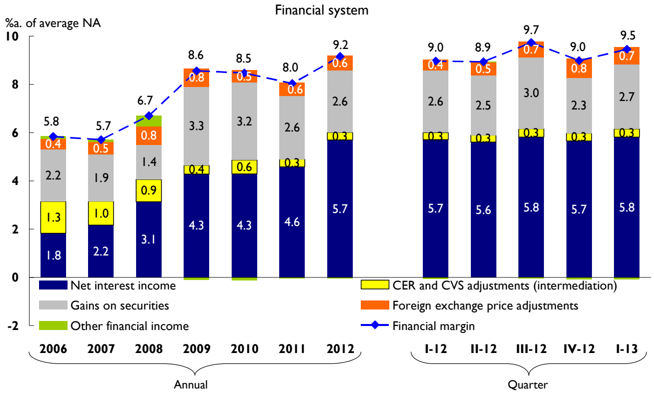
In a context of growth of financial intermediation with the private sector, results derived from interest were the main funding source that boosted profitability

Net income derived from interest was the main reason behind the y.o.y. rise in financial system results in 2012, mainly due to the increase observed in income from loans (see Chart IV.31). Banks' net income statement also evidenced a positive performance in this segment in the first quarter of the year.

Income derived from securities rose slightly in the second half of the year, ending 2012 at 2.6% of assets, in line with the level of the previous year. Between January and March 2013, this income stood slightly above the figures recorded in 2012, particularly in the case of public banks.

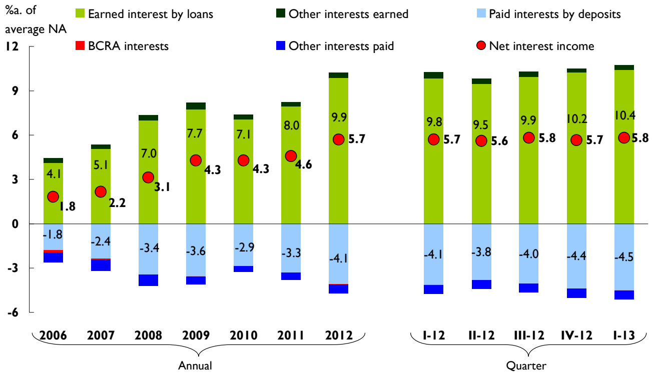
Net income resulting from CER-adjusted items remained at low and stable levels between 2012 and 2011, at about 0.3% of assets, especially in public banks. The low weight of this income in the financial system income statement is consistent with a lower mismatching between assets and liabilities adjusted by

Chart IV.30
Financial Margin Composition
Financial system



Source: BCRA

Chart IV.31
Net Interest Income
Financial system



Source: BCRA

Table IV.4
Profitability Structure by Type of Banks
2012 - Annualized indicators as % average netted assets

	Private banks			Public banks	NFBI
	Total	National	Foreign		
Financial margin	10.2	9.5	10.8	7.6	13.5
Net interest income	7.4	7.0	7.8	3.0	13.4
CER and CVS adjustment	0.1	0.0	0.2	0.6	0.0
Gains on securities	2.0	2.2	1.7	3.5	0.3
Foreign exchange price adjustements	0.7	0.4	0.9	0.6	0.1
Other financial income	0.0	-0.1	0.1	-0.1	-0.2
Service income margin	5.4	5.4	5.3	2.5	6.8
Operating costs	-8.2	-8.4	-8.1	-5.3	-9.7
Loan loss provisions	-1.2	-1.3	-1.1	-0.5	-2.7
Efects of the 2001-2002 crisis (*)	-0.1	0.0	-0.1	-0.1	0.0
Tax charges	-1.7	-1.9	-1.5	-0.8	-1.9
Others	0.5	0.7	0.3	0.1	1.3
Total result before income tax	4.9	4.0	5.7	3.5	7.3
Income tax	-1.6	-1.1	-2.1	-1.2	-2.5
ROA	**3.2**	**2.9**	**3.6**	**2.3**	**4.8**
Adjusted ROA (**)	**3.3**	**2.9**	**3.6**	**2.5**	**4.8**
ROE	26.4	25.7	27.0	24.9	22.4
ROE (before income tax)	39.8	35.7	43.1	37.7	33.9

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

CER coefficient in terms of net worth (see Chapter V). In turn, income derived from foreign exchange rate differences remained unchanged in 2012 against the previous year and stood at 0.6% of assets, with private foreign banks having the highest relative weighting in these results (see Table IV.4). Income resulting from CER-adjustments and arising from foreign exchange rate differences did not evidence significant changes within the financial system income statement in the first quarter of 2013.

The momentum of net income from services improved in 2012, mainly driven by private banks

Net income from the financial system services ended 2012 at around 4.2% of assets (see Chart IV.32), up 0.3 p.p. against 2011. The increase in this income was mainly boosted by national and foreign private banks. A slight rise in income was observed in the first quarter of 2013 in year-on-year terms.

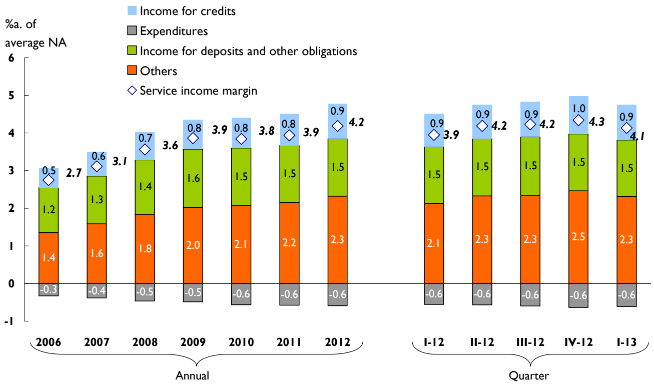
As a result of the increased lending, among the different funding sources that make up the financial system income statement, the net income considered more stable, i.e. income from interest and services, gained share throughout 2012 (going up 5 p.p. up to 73% of the total) (see Chart IV.33). In contrast, net income with higher relative volatility, i.e. income from securities and foreign exchange differences, lost share (-2 p.p. down to 23%). These levels remained unchanged in the first quarter of 2013.

Higher expenditure levels were observed in terms of operating costs and loan loss provisions over the past few periods

Operating costs stood at 7% of assets in 2012, up 0.3 p.p. against the previous year. The increase in these expenses was similar in both halves of the year and at public and private banks (see Chart IV.34). They were mainly driven by staff-related items (remuneration and social security contributions), which account for over 60% of total expenditures at a systemic level; in addition, in the first quarter of the year, they reached levels similar to those of 2012 measured in terms of assets.

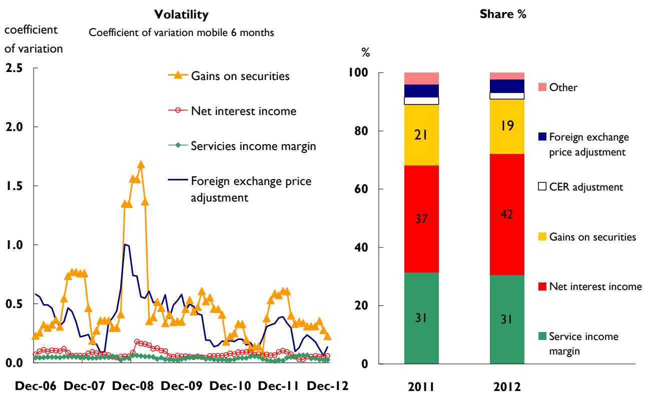
Financial system loan loss provisions stood at 0.9% of assets in 2012, up 0.2 p.p. y.o.y. This performance was in line with the evolution of the quality of the private sector credit portfolio (see Chapter V). Even though the annual rise encompassed all groups of banks, it was particularly relevant in private financial institutions (national and foreign). Loan loss provisions recorded

Chart IV.32
Service Income Margin
As % of netted assets



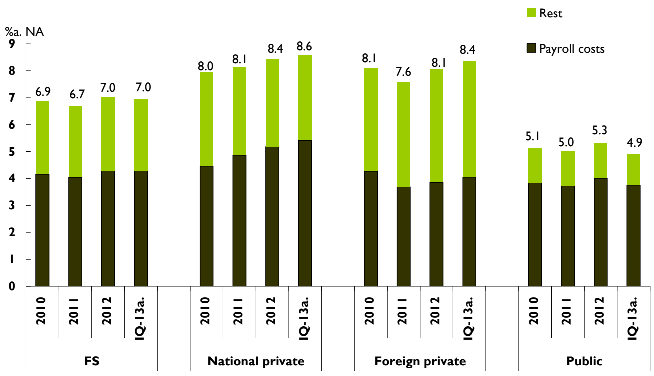
Source: BCRA

Chart IV.33
Major Sources of Financial System Income



Source: BCRA

Chart IV.34
Operating Costs
As % of netted assets



Source: BCRA

from January to March 2013 in terms of assets were slightly above the levels recorded throughout 2012, also resulting from private banks' performance.

The more stable net income widely exceeds the financial system's main expenditures

The coverage level of operating costs with income from interest and services (net of loan loss provisions) stood at 128% for the ensemble of banks in 2012, up 11 p.p. against a year before, evidencing a similar momentum by group of banks. A rise in this indicator was observed in public banks and a reduction in the case of private banks in the first quarter of 2013 if compared to 2012.

Tax-related expenditures (income tax and other taxes) amounted to 2.8% of assets for the financial system in 2012, up 0.5 p.p. against 2011, evidencing a growing trend that continued in the first months of 2013. In this context, public and private banks posted a similar performance.

IV.2 Institutional investors

Portfolios managed by institutional investors continued growing

The three main groups of domestic institutional investors, the Guarantee Sustainability Fund (FGS), insurance companies and mutual funds, managed an asset portfolio exceeding $365 billion in aggregate terms, based on information as of December 2012[86] (16.9% of GDP). This amount revealed a 1.3 p.p. rise in terms of GDP and a 27% increase in nominal terms in 2012. Fixed income instruments accounted for 60% of the total, exhibiting a rise in their share against a year before.

The portfolio managed by the FGS —the main domestic institutional investor after the change introduced in the social security regime in October 2008— totaled $244.8 billion in late 2012[87], up 14% over a 6-month period and 23% y.o.y.[88] (see Table IV.5). National sovereign bonds and, to a lesser extent, productive and infrastructure projects —the two most relevant components— are among the most dynamic elements in the portfolio and accounted for a significant part of the Fund's rise in 2012[89]. Shares, the third relevant item, posted a minor decline, reducing their share in the portfolio total.

[86] In gross terms, without consolidation. The Mutual Funds portfolio amounted to $45.1 billion by late December.
[87] Latest information available.
[88] This performance includes a $4 billion surplus of the ANSeS to the FGS in December 2012.
[89] The momentum shown by sovereign bonds is mainly accounted for by new values of exchange rates while a rise was observed in holdings of bonds as a result of refinancing and new financing to the National Government. Regarding productive and infrastructure projects, the rise is mainly due new disbursements for current projects.

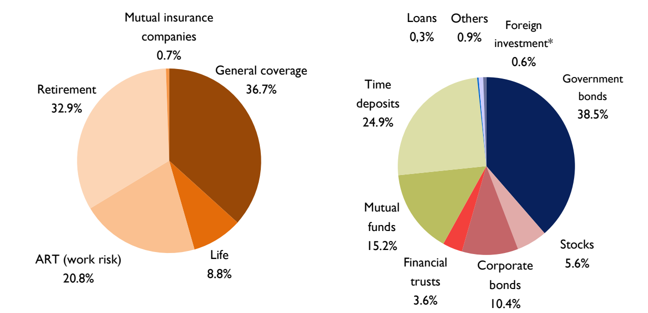
Table IV.5
Evolution of Social Security Fund (FGS) Investment Portfolio

in million $

Instrument	Dec-11	Jun-12	Dec-12	Change in the semester (%)	Y.o.y (%)
Total FGS	**199,490**	**215,135**	**244,799**	14%	23%
Cash, sight deposits and other*	14,356	22,020	22,631	3%	58%
Time deposits	23,437	19,142	14,908	-22%	-36%
Sovereign bonds	115,131	126,069	151,111	20%	31%
Stocks	16,462	14,804	15,905	7%	-3%
Corporate bonds and subsovereign government bonds	2,278	2,205	8,323	277%	265%
Productive and Infrastructure projects	27,827	30,895	31,921	3%	15%

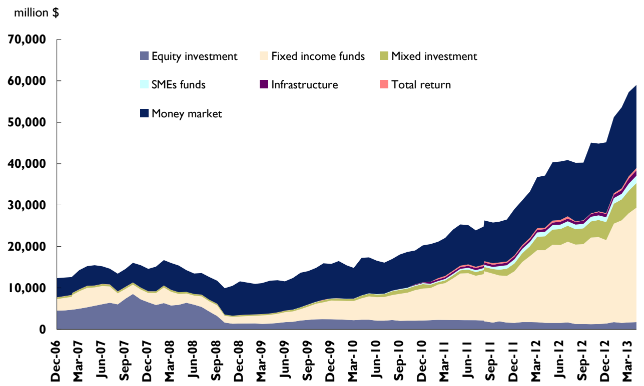
(*) "Other" includes Mutual Funds, *Fondos de Inversión Directa*, Foreign Securities, Futures and Options, among others.
Source: FGS- ANSeS

Chart IV.35
Breakdown of Insurance Companies Portfolio
December 2012



(*) Foreign investment includes Government and corporates bonds, stocks, mutual funds, time deposits and other equity investments.
Source: Superintendencia de Seguros de la Nación

Chart IV.36
Mutual Funds Net Worth Evolution



Source: Cámara Argentina de Fondos Comunes de Inversión

Investments in corporate bonds and provincial sovereign bonds rose considerably in 2012. In turn, an unwinding of positions in time deposits was observed in 2012 (the amount lost 36% y.o.y.). Such deposits accounted for 6.1% of the financial system total against a share of almost 12% last year.

Based on data corresponding to December 2012[90], insurance companies' investment portfolio totaled $75 billion. Thus, an 11% rise was observed over the 6-month period and a 27% hike was evidenced in year-on-year terms. Sovereign bonds, which have been losing share steadily in the portfolio over the past eleven quarters, currently account for 38.5% of the total and represent the main item (see Chart IV.35). Performance in 2012 was largely explained by a rise in investments in domestic mutual funds, corporate bonds and time deposits, which accounted for over 70% of the portfolio increase. Particularly, in the case of investments in corporate bonds (which had a 10.4% share in the portfolio as of last December), such increase would be related to the application of the new regulation on financing of investments in productive or infrastructure projects[91]. The rise observed in shares in 2012 should also be underscored, as they gained share in the total portfolio. Finally, investments abroad continued to shrank; their share in the total went from almost 3% in December 2011 to only 0.6% in December 2012.

Regarding mutual funds, a sharp rise was recorded in their net worth, which amounted to $59 billion by the end of April 2013 (see Chart IV.36). This sum evidences a 31% rise over a 6-month period and almost 60% y.o.y. When breaking down funds, those investing in fixed income continued representing almost half of the total net worth of mutual funds. In turn, the funds investing in money market assets —the second largest segment in terms of net worth managed— grew 17% over the 6-month period and 59% y.o.y. In turn, variable income funds, which lost share against the previous year, accounted for 3% of the total portfolio. Finally, funds related to assets issued by domestic SMEs continue evidencing a significant momentum even though they only represent 3% of the total portfolio[92].

[90] Latest information available.
[91] Resolution 37,163 passed by the National Superintendence of Insurance in October 2012.
[92] See indicators 9 and 10 in Charts 1 and 5 of Statistics Annex.

V. Financial System Risks

Summary

The year 2012 and the beginning of 2013 have witnessed a steady increase in lending to the private sector, mainly boosted by public banks and devoted to provide funds to the productive sector. As a result, financial system gross exposure to the private sector has also increased. In this context, credit risk faced by the group of financial institutions remained at moderate levels. Portfolio delinquency rate remained at low levels, both when compared to other economies and against local historical data. Despite these low levels, increases were recorded in the non-performance ratio of household loans and construction credit. Nevertheless, non-performing portfolios continued to be covered in excess by accounting provisions. In the period under analysis, corporations and households continued posting low aggregate debt levels and a positive income trend, which enabled them to sustain their repayment capacity.

Despite the growth observed in financial intermediation over the last few quarters, the financial system showed a reduced exposure to liquidity risk. In particular, throughout last year, few significant changes were recorded both in the share of shorter residual term liabilities within total funding and in total deposits concentration. In this context, the ensemble of banks kept a sizable coverage for this risk, in line with the levels recorded by other economies of the region.

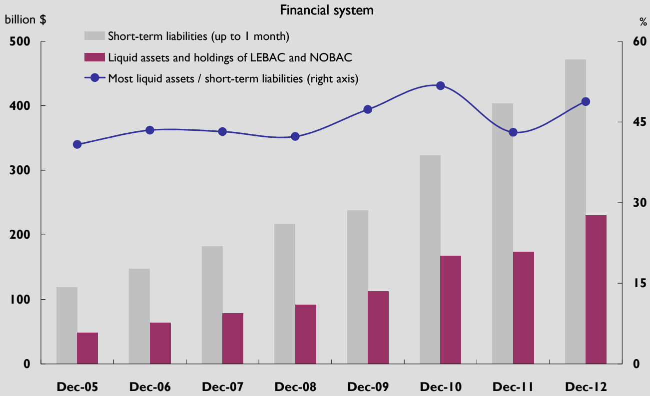
The growth of financial intermediation levels is linked to an increased activity in the sector which, in turn, may directly or indirectly expose the sector to potential events of operational risk. Over the last two years, there has been a rise in income from interest and services earned by the financial system —activity level proxy—, which widened the basis used to estimate the regulatory capital requirement in order to cover operational risk. This requirement became effective in February 2012, with a gradual adjustment schedule planned to be completed by the end of 2013.

Bank exposure to market risk continued to stand at limited and declining levels. Over the last few months, there was a drop in the share of sovereign bonds at market value in the total portfolio —mainly Central Bank bills—. Moreover, the price of the main bonds on bank balance sheets was less volatile.

Rising from low levels, throughout last year and in early 2013, the exposure of financial institutions to currency risk, as measured by the active mismatching of foreign currency, recorded slight increases. Over the period, a drop in bank liabilities denominated in foreign currency was observed (especially due to a drop in deposits); however, it was higher than the drop recorded in assets (mainly loans) and forward net purchases of foreign currency.

Over the last few quarters, interest rates exhibited a limited volatility, thus favoring interest rate risk management, which is an activity inherent in the banking activity. As from 2013, interest rate risk regulatory treatment started to be addressed within the context of Basel Standards' Pillar II. This change falls within the initiatives undertaken by the Central Bank on regulatory structure for minimum capital requirements (see Box 3).

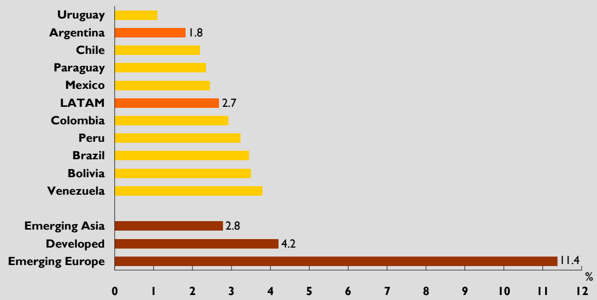
Chart V.1
Most Liquid Asset in Terms of Short Term Liabilities*
Financial system



* Note: Depending on the residual term.
Source: BCRA

Chart V.2

Non Performing Loans. International Comparision
Non-performing loans / Total financing (%)



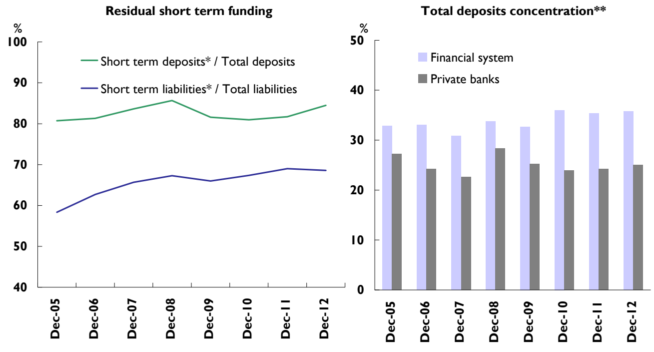
Emerging Europe: Turkey, Russia, Romania, Bulgaria and Hungary. Emerging Asia: China, Thailand, India and Indonesia. Developed: Korea, Spain, USA, UK, France, Japan, Italy, Canada, Australia and Germany.
Data for 2012, except Colombia and Chile to 2013; China, Korea, Bulgaria, Germany and the UK to 2011; and Bolivia, Venezuela, Thailand and Uruguay to 2010. Source: IMF and BCRA

V.1 Liquidity risk

The financial system exhibited a reduced exposure to liquidity risk, with a slight coverage increase on the margin

Throughout 2012, the indicators of the financial system's gross exposure to liquidity risk showed a heterogeneous performance. On the one hand, there was a slight drop in the share of short-term liabilities in total funding (liabilities plus net worth) (see Chart V.3). This indicator was in line with the average recorded by the region. On the other hand, slight increases were observed in total deposits concentration at an aggregate level.

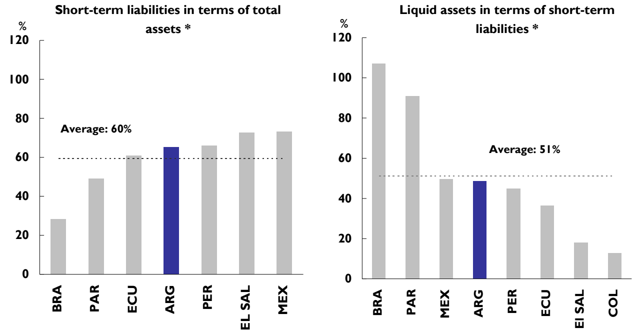
Chart V.3
Liquidity Risk Exposure
Financial system



*Residual term less than 1 month. **Balance of the 110 largest customers of each entity as a percentage of total deposits.
Source: BCRA

Moreover, throughout 2012, there was an increase in the coverage of short-term bank liabilities[93] with more liquid assets[94]. Over this period, the coverage indicator rose by 5.7 p.p. to 48.8% in December 2012 (see Chart V.1), a figure similar to the average recorded by other countries in the region (see Chart V.4). Nevertheless, preliminary data recorded for the first quarter of 2013 show a slight reduction in this liquidity risk coverage indicator.

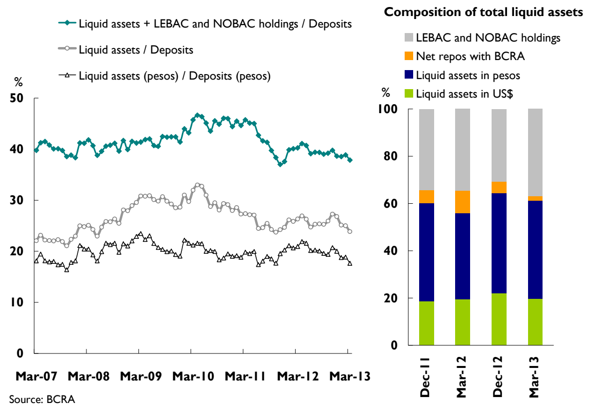
Chart V.4
International Comparison of Liquidity Indicators



* Latest information available.
Note: Data for 2012: Argentina, Brazil, Paraguay, Peru, Mexico, El Salvador and Colombia. Data to 2011: Ecuador
Source: Financial Soundness Indicators (FMI) and BCRA

Over 2012, financial system liquid assets have recorded a higher growth than deposits. The liquidity indicator that only takes into account liquid assets in pesos and dollars, as well as the one that includes LEBAC and NOBAC holdings in terms of the evolution of deposits, have both recorded increases compared to the end of 2011 (see Chart V.5), a trend that was observed across all groups of banks (see Chart V.6). Last year, liquid assets increased their share to the detriment of LEBAC and NOBAC holdings. However, during the first quarter of 2013, a slight drop in both liquidity ratios was observed.

Chart V.5
Liquidity
Financial system



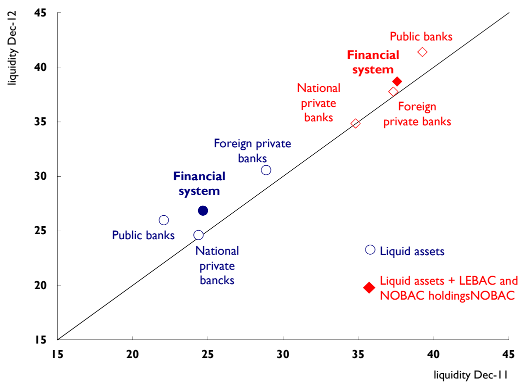
Source: BCRA

Banks met in excess minimum cash compliance requirements

Liquidity regulatory requirements for financial institutions continued to be met in excess over the period. Towards December 2012, the financial system compliance level for minimum cash in pesos exhibited a surplus amounting to 0.2% of deposits[95] (see Chart V.7). By the end of the first quarter of 2013, minimum cash position reached 0.3% of deposits for the financial

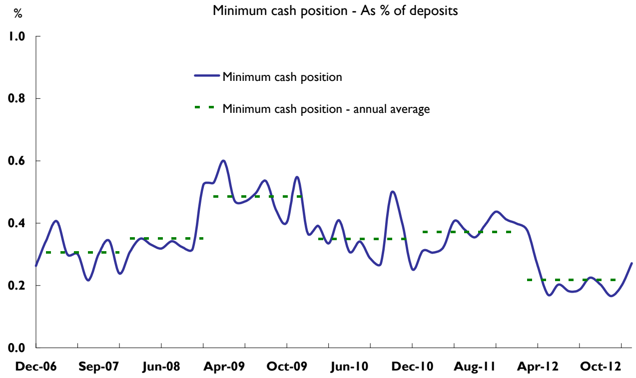
[93] Short-term liabilities are herein defined as those with a maturity term under a month.
[94] Including liquid assets in a broad sense, considering domestic and foreign currency. The definition includes liquid assets (cash in banks, compliance with the "minimum cash" requirement and other concepts, accounts with correspondents mainly) plus the net credit stock of repo transactions of financial institutions against the BCRA using monetary regulation instruments of this Institution plus LEBAC and NOBAC holdings not related to repo transactions.
[95] Considering average data.

Chart V.6
Liquidity by Group of Banks
% of non-financial deposits



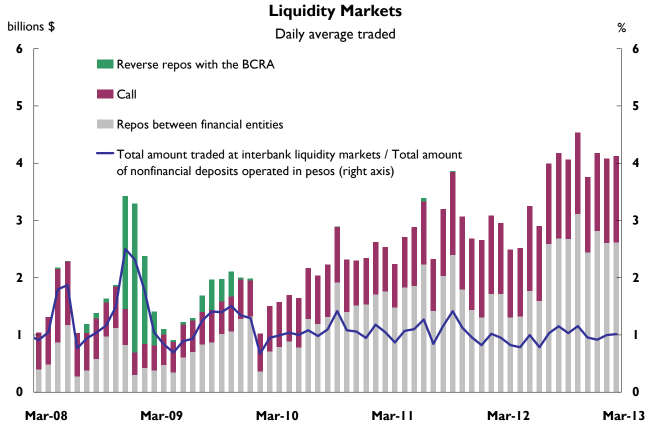
Source: BCRA

Chart V.7
Liquidity in Pesos
Minimum cash position - As % of deposits



Note: Decembers reflect requirements, integration and position of the quarterly period (December to February).
Source: BCRA

Chart V.8
Liquidity Markets
Daily average traded



Source: BCRA

system as a whole. It should be highlighted that in March, the final stage of the minimum cash regime[96] adjustment schedule —which started in October 2012— was implemented. Thus, an additional reduction of the minimum reserve requirement ratios was implemented in March, and the "eligible cash"[97] deduction was eliminated (see Chapter II for further details on Minimum Cash Regime).

The volume traded within call money markets continued to be on the rise

Over 2012 and at the beginning of this year, there was a slight increase in the volume traded in the call market, as well as in the volume of total repo transactions among financial institutions in relation to the end of 2011 (see Chart V.8). Repo transactions continued accounting for more than half of inter-financial transactions. Over this period, the Non-Banking Financial Institutions (NBFI) and public banks were, once again, net fund lenders in the call market whilst private banks were fund borrowers (see Chart V.9). In turn, interest rates charged on the call market recorded a slight increase over the period, a trend that persisted through the first few months of 2013.

Moreover, it should be noted that the secondary market for monetary regulation instruments gradually gained depth (see Chapter II), favoring liquidity risk management by financial institutions. In the first quarter of 2013, the volume traded in the secondary market for LEBACs and NOBACs —through the Electronic Over-the-Counter Market (MAE)— slightly exceeded the volume traded in the call market, whereas in the same period of 2012 it represented almost 60% of such amount.

V.2 Credit risk

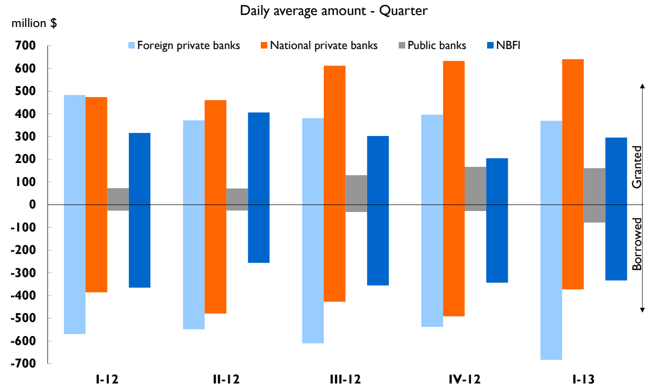
V.2.1 Private sector

The share of credit to the private sector in total banking assets continued to grow amidst a context of low net worth exposure levels to credit risk taken

Throughout 2012 and the beginning of 2013, an increase was recorded in financial system gross exposure to the private sector (see Chart V.10), mainly driven by the performance of public banks. This sector's credit risk remained at low levels, in a context where companies

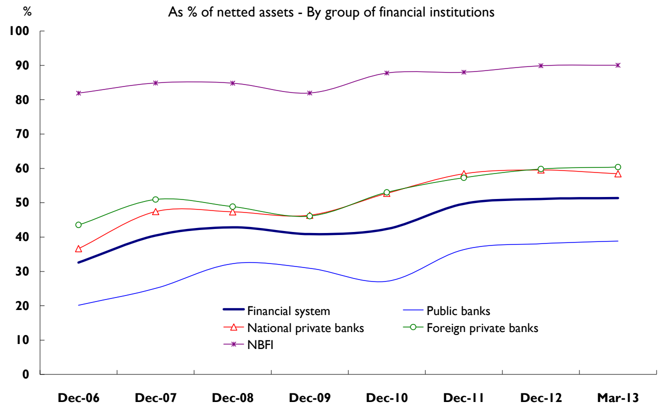
[96] Communication "A" 5356.
[97] "Eligible cash" shall mean cash used by financial institutions to meet minimum reserve requirements in March 2012 and which as from April 2012 and until February 2013, may be deducted from the requirement in pesos.

Chart V.9
Call Market
Daily average amount - Quarter



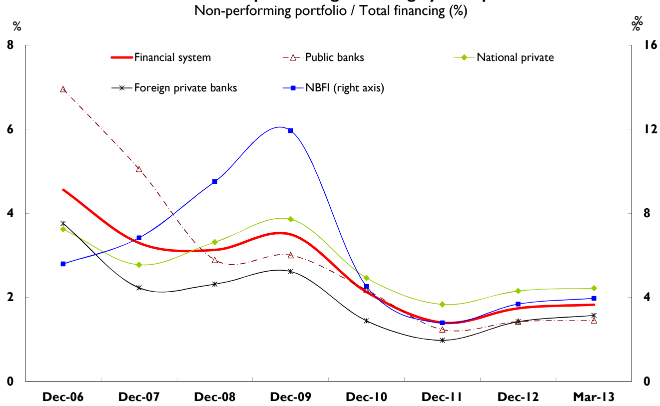
Source: BCRA

Chart V.10
Financial System Gross Exposure to the Private Sector
As % of netted assets - By group of financial institutions



Source: BCRA

Chart V.11
Private Sector Non-performing Financing by Group of Banks
Non-performing portfolio / Total financing (%)



Source: BCRA

and households evidenced a positive performance in terms of their incomes and did not record any relevant changes in their indebtedness levels. Rising from historical minimums, portfolio delinquency has recorded a slight increase on the margin, which forced financial institutions to provide a sound coverage by means of loan loss provisions.

Private sector lending non-performance stood at a historical minimum

The private sector lending non-performance ratio stood at 1.8% in March 2013, evidencing a slight increase compared to late 2012[98]. Current non-performing records evidence a positive performance both in relation to previous years and when compared to other emerging or developed economies (see Chart V.2).

The moderate increase in delinquency levels of lending to the private sector was reflected across all groups of financial institutions (see Chart V.11) and it was mainly linked to credit for household consumption (see Chart V.12). Even though the increase in delinquency levels was observed across all regions, except for the Cuyo region (see Chart V.13), a more prominent hike was recorded in the NEA and Centro regions of Argentina.

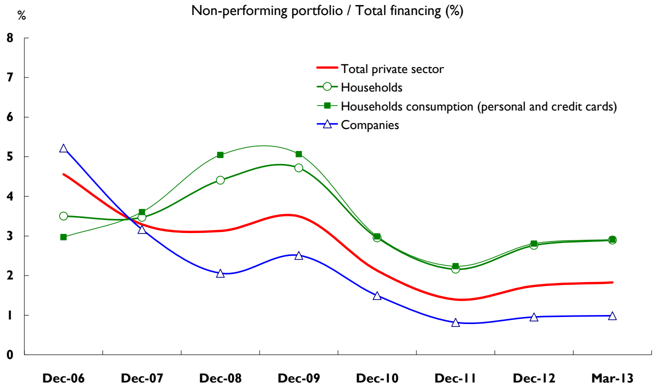
Banks continued covering in full the non-performing portfolio by means of loan loss provisions

As of March 2013, loan loss provisions of the financial system stood at 137% of the non-performing balance of loans to the private sector. Except for Non-Banking Financial Institutions (NBFI) —which only account for 2.1% of total financial system assets—, all groups of banks evidenced a coverage ratio in excess of 100% (see Chart V.14).

According to a macroprudential approach of the current regulatory system, loans which may be generated from deposits in foreign currency are limited to lines in such same currency offered to agents with income earned in said currency —or related to the evolution of the foreign exchange rate—; thus, currency mismatching risks for borrowers and financial institutions are lower. As a consequence of this regulatory framework, the financial system is currently recording very low dollarization levels. Over the first quarter of 2013, only 7% of the outstanding balance of loans to the private sector of the ensemble of banks was denominated in foreign

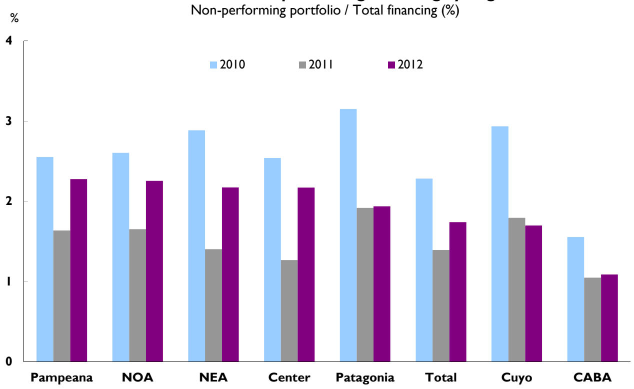
[98] The ratio of loans to the private sector covered by preferred guarantees reached 16.6% in March 2013, standing slightly above the values recorded at the end of 2012, and 0.5 p.p. above those recorded at the end of 2011. Delinquency in lending to the private sector without those guarantees recorded a slight increase during 2012 and early 2013, reaching 1.9% by the end of the third quarter of 2013.

Chart V.12
Private Sector Non-performing Financing
Non-performing portfolio / Total financing (%)



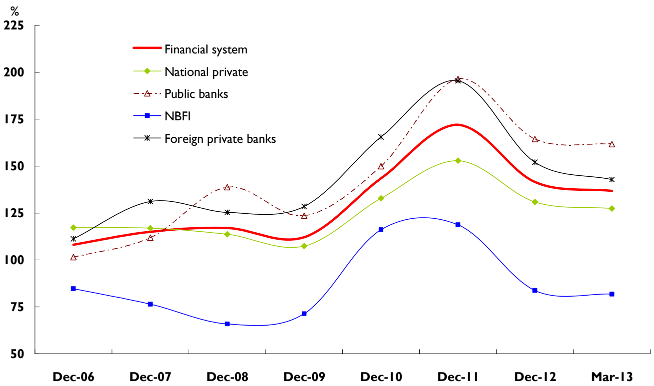
Source: BCRA

Chart V.13
Private Sector Non-performing Financing by Region
Non-performing portfolio / Total financing (%)



Note: Last month available data for each year.
Source: BCRA

Chart V.14
Provisions by Group of Financial Institutions
Provisions / Non-performing loans



Source: BCRA

currency, i.e., less than half the figure recorded by the end of 2009 and quite below the one recorded in 2000 (see Chart V.15). In terms of funding, as of March 2013, 9% of private sector deposits were made in foreign currency.

Companies

The financial system continued increasing its gross exposure to the productive sector, mainly boosted by public banks

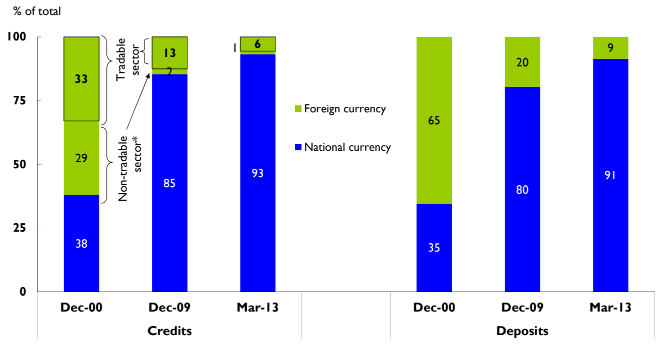
Unlike what happened during the peaks of the international financial crisis, over the last few quarters, bank lending to the productive sector has kept growing, mainly driven by the measures implemented by the Central Bank (see Chapter IV). Over the first quarter, the share of lending to companies in financial system netted assets stood close to 29%, remaining practically unchanged against the end of the previous year. Throughout 2012, gross exposure to companies increased 0.7 p.p. of netted assets (see Chart V.16), with an outstanding performance by public banks, which recorded an increase of 1.2 p.p. Even though there has been some rise on the margin in the indebtedness shown by companies, it continued to be low —both in historical and international terms— which helped to limit the sector's repayment risk (see Chapter III).

Non-performing loans to companies stood at low levels

At the end of the first quarter, non-performing loans to companies stood at 1% of the total portfolio, a level similar to that recorded by the end of 2012. The lines with the largest share in the segment of corporate credit —overdrafts and promissory notes— continued evidencing lower delinquency levels (see Chart V.16). All productive sectors, except for construction —which accounted for only 5% of total corporate loans at the beginning of 2013—, have kept their delinquency levels unchanged over the first quarter of the year. Taken as a whole, the manufacturing, commerce and primary production segments accounted for 72% of loans to companies, recording delinquency ratios below 1% in March 2013 (see Chart V.17).

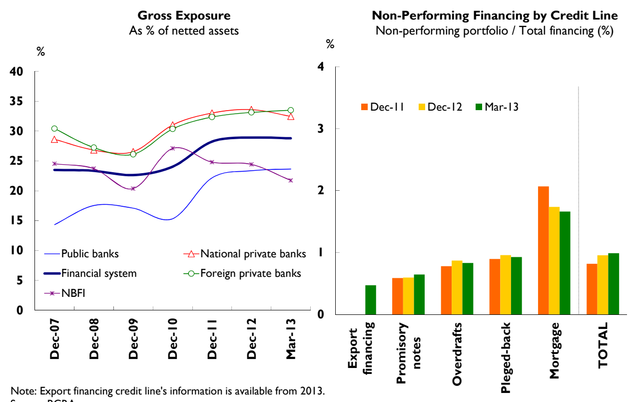
It is estimated that more than 70% of the outstanding stock of corporate loans as at December 2012 corresponded to loans granted over the last two years. It should be noted that loans to companies granted over this period would evidence delinquency levels below the average (see Chart V.18).

Chart V.15
Financial Intermediation with the Private Sector by Currency
Financial system



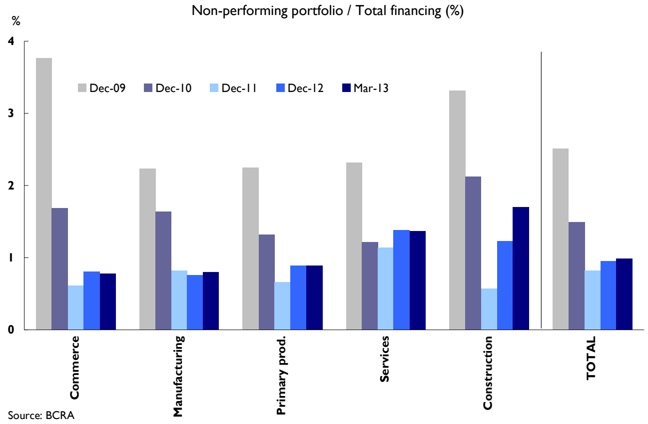
*Note: Non-tradable sector financing estimation considers loans in foreign currency to households, construction sector, gas, water, electricity and other services.
Source: BCRA

Chart V.16
Companies Financing



Note: Export financing credit line's information is available from 2013.
Source: BCRA

Chart V.17
Companies Non-performing Financing by Activity
Non-performing portfolio / Total financing (%)



Source: BCRA

As a result of the economic performance expected (see Chapter II), it is estimated that the corporate sector will keep its repayment ability for the rest of 2013.

Households

Financing to households also increased its weighting in bank assets, driven by lending for consumption purposes

In the first quarter, the aggregate financial system gross exposure to households stood close to 23% of netted assets (see Chart V.19). This exposure expanded, not only at the beginning of the year, but also in the cumulative of 2012, by 0.4 p.p. and 0.7 p.p. respectively. Over 2012, all groups of financial institutions exhibited an increase of lending to households in the share of assets, particularly foreign private banks and non-banking financial institutions. This growth was driven by lending for consumption purposes —credit cards and personal loans— which accounted for 80% of the increase in household loans. This momentum was accompanied by a framework of low levels of household debt in relation to their income (see Chapter II), which helped them retain their repayment ability (see Chapter III).

Household lending non-performance reached 2.9% of the total portfolio by the end of the first quarter of 2013, slightly above the level recorded in December 2012. Throughout last year, consumption lines accounted for most of the rise in the segment's non-performance (see Chart V.19) as a result of their relatively high share in the total stock of household loans —close to 75% of the total—.

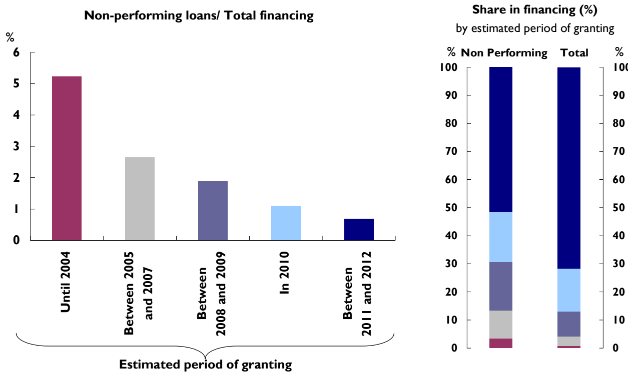
V.2.2 Public sector

Financial system gross exposure to the public sector has continued to decline

The financial system gross exposure to the public sector stood below 10% of total assets in March 2013, reaching similar levels to those recorded at the end of 2012. This indicator evidenced a drop of 0.8 p.p. of assets against late 2011. When taking into account public sector jurisdictions at an aggregate level, their balance of deposits in the financial system continued to be higher than bank lending to such sector. Thus, the public sector continued to be a net creditor of the financial system, accounting for 10.5% of total bank assets (see Chart V.20).

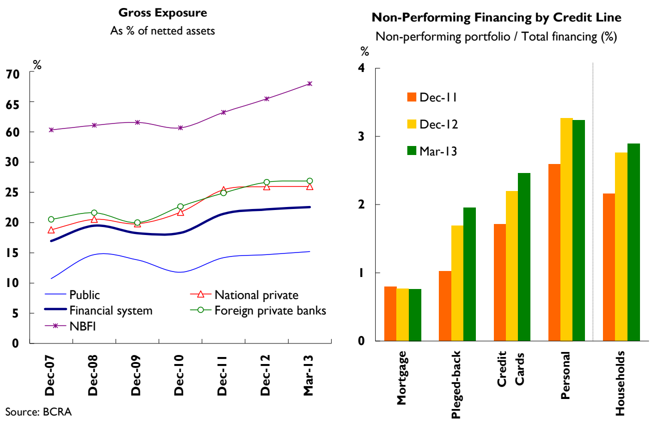
V.3 Operational risk

Chart V.18
Companies' Credit Non-performing Ratio
By estimated period of granting - December 2012



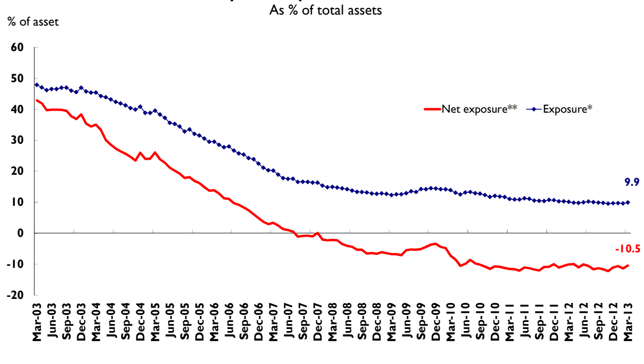
Source: BCRA

Chart V.19
Households Financing



Source: BCRA

Chart V.20
Financial System Exposure to the Public Sector
As % of total assets



* (Position in government securities (not including Lebac or Nobac) + Loans to the public sector / Total Assets .
** (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets
Public sector includes all jurisdictions (national, provincial and municipal). Source: BCRA

Capital requirement to cover operational risk has slightly increased throughout last year

As a result of the significant improvement recorded in the levels of financial intermediation with the private sector, and in a context of slight expansion of transaction spreads, the sector's income derived from interest and services improved throughout 2012 and early 2013 (see Chapter IV). These items of the income statement were the main drivers of the increase in bank gross income, which is the basis used for calculating capital requirement to cover operational risk[99], as it is considered a proxy of the activity volume (it is assumed that a rising level of activity exposes financial institutions to a higher probability of suffering from operational risk events).

With a gradual implementation schedule according to the size of the financial institution, the minimum capital requirement to cover this risk became effective as from February 2012[100]. By late 2012, large financial institutions (Group "A") reached full effectiveness levels in terms of such requirement compliance. Meanwhile, smaller institutions (Groups "B" and "C") will reach full implementation by December 2013. Based on information available as of March 2013, the capital regulatory requirement to cover operational risk accounted for 19.3% of total regulatory capital requirement, and 10.2% of the financial system's capital compliance[101] (see Chart V.21).

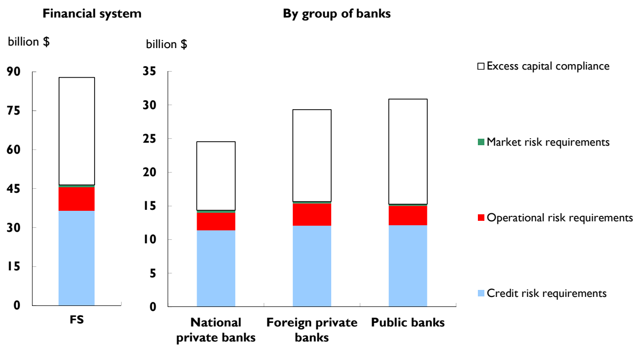
V.4 Market risk

Banks' net worth exposure to market risk continued to stand at low levels

Minimum capital requirements to cover market risk undertaken by financial institutions continued to be explained mainly by the value at risk from government securities. Starting from low levels, this requirement contracted during the second half of 2012 (see Chart V.22), a trend that was consistent across all groups of banks. Thus, it continued losing relevance within total capital requirement, reaching 1.3% by the second half of 2012, down 0.9 p.p. against the first six-month period. Likewise, in terms of capital compliance (RPC), the regulatory requirement to cover market risk stood 0.9% below the figures recorded in previous periods. In turn, during the first quarter of the year, there was a slight increase in market value at risk—primarily in local

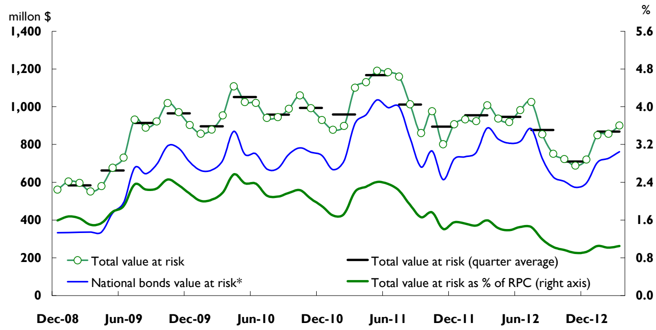
[99] Basel II sets forth three methods for calculating operational risk capital charges: (i) the Basic Indicator Approach (BIA); (ii) the Standardized Approach, and (iii) Advanced Measurement Approaches (AMA). As per the Argentine legislation, only the first approach is authorized. At a local level, capital requirement is equivalent to 15% of the positive gross income average of the last three years (Communication "A" 5201).
[100] Communication "A" 5346.
[101] If the requirement were to be considered at a 100%, this ratio would amount to 12.3% of capital compliance.

Chart V.21
Capital Requirements and Capital Compliance
March 2013



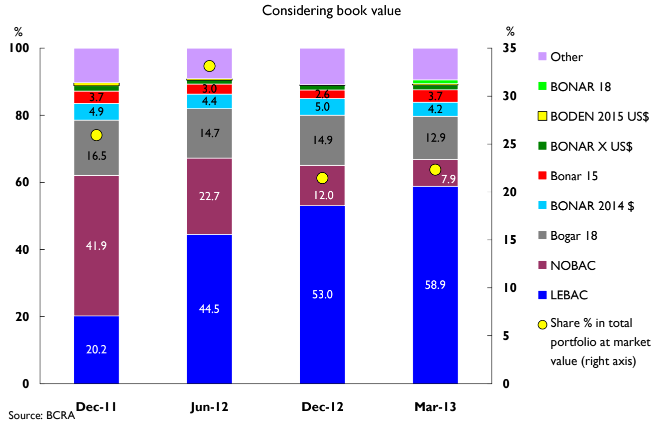
Note: Both capital requirements and capital compliance are adjusted by exemptions.
Source: BCRA

Chart V.22
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.23
Share of Major Government Securities in Bank Portfolios
Considering book value



Source: BCRA

private banks—, even though it remained below the level recorded over the last 3 years for the same period.

The contraction observed in the exposure of the ensemble of banks to market risk during the second half of 2012 was partly explained by a lesser weighting of government securities at market fair value in the financial system's total portfolio (see Chart V.23). This occurred in a context where the total portfolio of bonds held by private banks evidenced a moderate nominal growth over the period. In terms of the financial system's government securities composition, there was a higher share of Central Bank bills. Within this group, a significant drop of bills recorded at market value was observed (see Chart V.24).

In turn, the reduction in volatility of the most notable bonds that make up banks' balance sheets contributed to cut down banks' exposure to market risk. This took place during a period of moderate improvements recorded in the prices of the leading government securities (see Chapter II).

V.5 Currency risk

Rising from low levels, the financial system exposure to currency risk increased slightly during last year and the beginning of 2013

By the end of the first quarter of 2013, the broad mismatching[102] of foreign currency of the group of banks stood at 43.9% of the net worth, after increasing 2 p.p. against the end of last year (see Chart V.25).

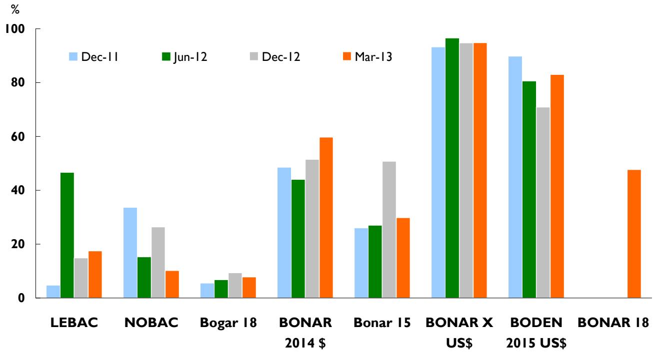
The increase in the broad mismatching of foreign currency observed over the last few months resulted from a drop of liabilities in foreign currency (mainly private sector deposits) which exceeded the reduction of assets (particularly loans to the private sector and liquidity). This effect was partly offset by a decline in net undelivered foreign currency forward purchases (foreign currency derivatives). The increase recorded in currency mismatching compared to late 2011 was mainly explained by private banks (see Chart V.26).

Bank balance sheet dollarization continued to shrink in 2012 and the beginning of 2013

During the first quarter of 2013, foreign currency assets accounted for 11.9% of the total financial system assets, down 0.5 p.p. against late 2012 and accumulating a drop of 4.1 p.p. against the end of 2011. Likewise, in terms of total liabilities, foreign currency liabilities dropped 1

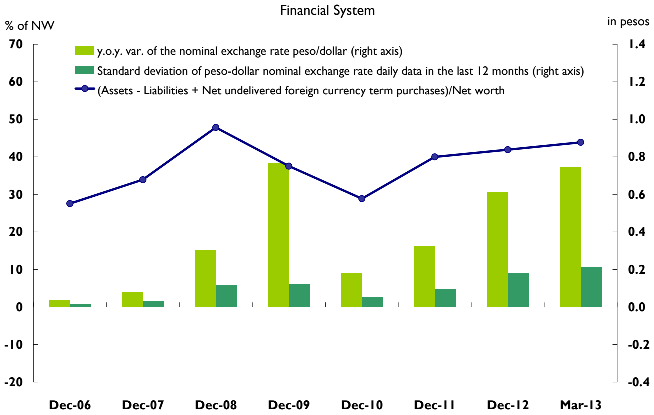
[102] It includes asset and liability items and forward foreign currency transactions in memorandum accounts.

Chart V.24
Holdings Valued With Market Price
As % of estimated total species - Considering residual values



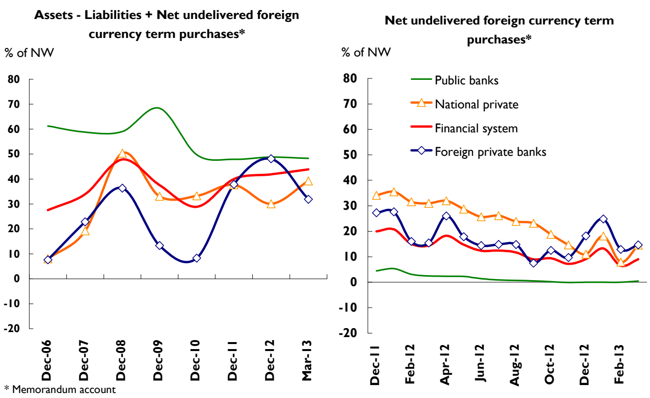
Note: Position of government securities and monetary regulation instruments (LEBAC and NOBAC). We consider "fair market value" holdings. Source: BCRA

Chart V.25
Foreign Currency Mismatching and Exchange Rate Volatility
Financial System



Source: BCRA

Chart V.26
Foreign Currency Mismatching



* Memorandum account
Source: BCRA

p.p. at the beginning of 2013, accumulating a reduction of 6.6 p.p. over the last 15 months, reaching 9% in March 2013 (7% in the case of deposits).

Net foreign currency forward purchases made by financial institutions also contracted, and they have lost share in the broad mismatching of the aggregate financial system. The largest drop was recorded over 2012; however, this behavior moderated at the beginning of 2013. Almost 80% of currency mismatching in March 2013 resulted from the difference between assets and liabilities, whereas the remaining 20% was explained by net foreign currency forward purchases (see Chart V.27). Foreign private banks concentrated most of net foreign currency forward purchases.

V.6 Interest rate risk

In line with international recommendations, the Central Bank decided to adjust interest rate risk treatment to the framework of Basel Pillar II standards

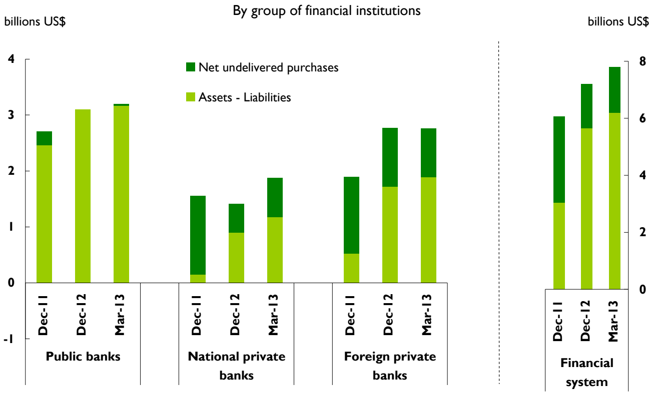
In November 2012, the Central Bank decided to redefine the Minimum Capital regime for Financial Institutions[103] in order to strengthen the solvency of the sector, boost credit to promote economic growth and adjust local regulations to international standards (see Chapter IV). The new regulations became effective in 2013. Within this framework, interest rate risk regulation started to be addressed within Pillar II of Basel standards. In other words, as from February 2013, in terms of regulatory capital compliance, the Central Bank set forth a minimum estimation that considers basic capital requirement, and credit, market and operational risk. Financial institutions are expected to exceed the minimum capital compliance requirements; and, if deemed as necessary, the Superintendence of Financial and Exchange Institutions (SEFyC) may require keeping the regulatory capital above such minimum amounts. Moreover, financial institutions will continue to manage interest rate risk through a process involving the identification, assessment, follow-up, control and mitigation of this risk.

Aggregate positions recorded in the financial system balance sheets are not significantly sensitive to changes in interest rates

In 2012 and the beginning of 2013 the interest rates evidenced a limited volatility, favoring interest rate risk management. This risk originates from the lesser

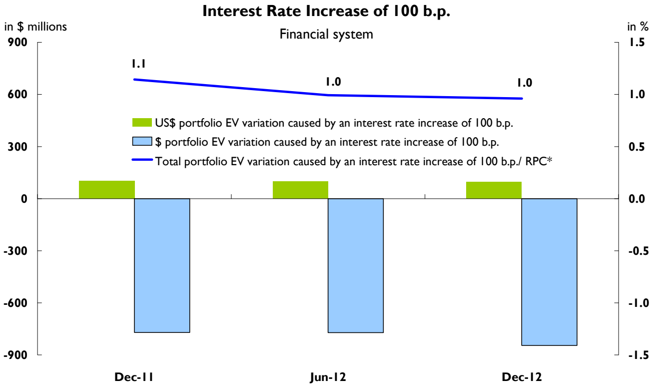
[103] Communication "A" 5369.

Chart V.27
Foreign Currency Mismatching Composition
By group of financial institutions



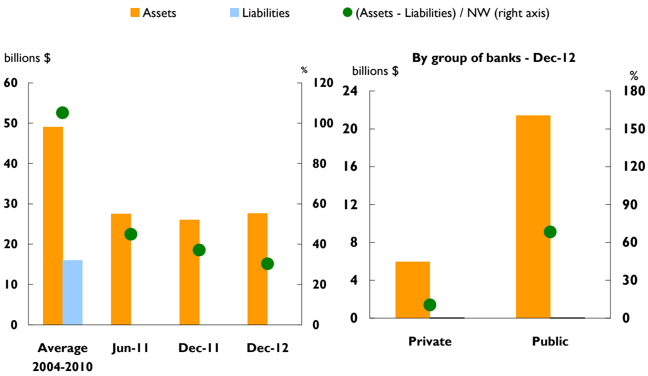
Source: BCRA

Chart V.28
Banking Book Portfolio Economic Value (E.V.) Estimated Variation Caused by an Interest Rate Increase of 100 b.p.



* RPC: Capital Compliance
Source: BCRA

Chart V.29
CER Mismatching
CER adjusted items - Financial system



Source: BCRA

sensitivity of assets to changes in interest rates if compared to that of liabilities. The holding of assets that accrue interest at fixed rates for relatively longer terms than those of liabilities gives rise to a net worth exposure to interest rate hikes.

It is estimated that by the end of 2012, vis-à-vis an increase of 100 b.p. in interest rates, the financial system would have suffered a reduction in the economic value of the banking book portfolio amounting to only $750 million, accounting for less than 1% of the total capital compliance. It is worth mentioning that this sensitivity was slightly lower than the one anticipated for the end of 2011 (see Chart V.28).

As a result of the increase in aggregate net worth, the group of financial institutions continued narrowing their active exposure to the mismatching of CER-adjusted items in 2012. Such mismatching stood close to 30% of the financial system's net worth by the end of last year, down 7 p.p. against December 2011 (see Chart V.29). CER-adjusted assets represented a low percentage in total assets —about 3.5%—, whereas banks recorded almost no CER-adjusted liabilities.

VI. Payment System

Summary

The use of electronic means of payment continued growing in 2012. Indeed, last year there was an increase in both the number —24%— and the accumulated amount —30%— of transfers. In turn, the number of immediate transfers posted a 71.8% y.o.y. rise —120.1% in terms of amount— in the second half of 2012. Two-thirds of these transactions were made through the home banking system.

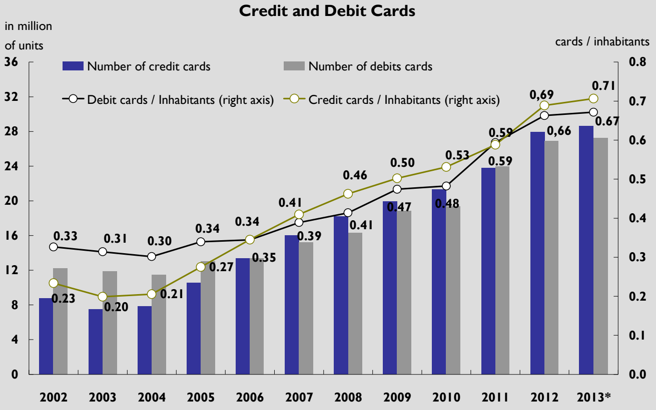
The debit and credit card market kept its expansion pace, mostly driven by private banks, with the average number of cards per person doubling in the past decade. An increase was also evidenced in the use of direct debits for payment of services in general, which grew 13.2% in terms of number in 2012.

In stark contrast with the increase in the use of electronic means of payment increased, the total amount of cleared checks declined 1.6 p.p. in terms of GDP to 55.9%. In turn, the ratio between the value of bounced checks due to insufficient funds and the total cleared amount ended 2012 with no year-on-year changes, at 0.6%.

The number of Free Universal Bank Accounts (CGU) continued to be on the rise in 2012, totaling 126,000 as of the end of last year —up 40.7% against the end of 2011— and reached 137,000 in the first four months of 2013.

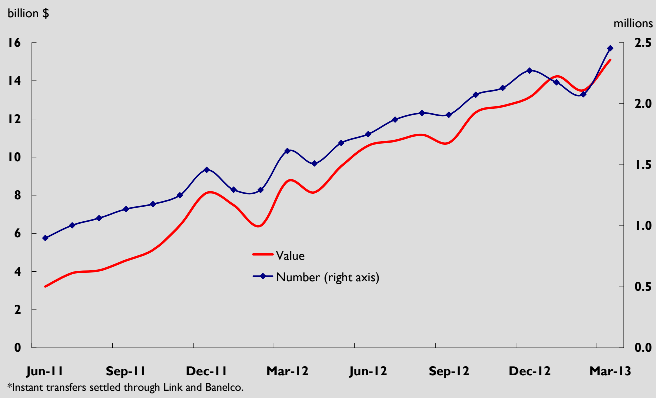
The Central Bank continued promoting various initiatives aimed at improving the National Payment System (SNP). Financial institutions licensed to issue corporate bonds were encouraged to adapt their home banking websites in order to provide information on the features of such financial assets, as well as the possibility of a pre-underwriting on line. Moreover, legal persons were given more alternatives to use settlement checks.

Chart VI.1
Credit and Debit Cards



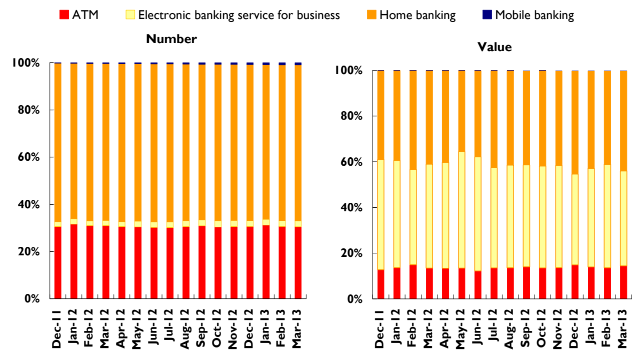
Note: December each year except 2013* to march.
Source: BCRA

Chart VI.2
Instant Transfers*



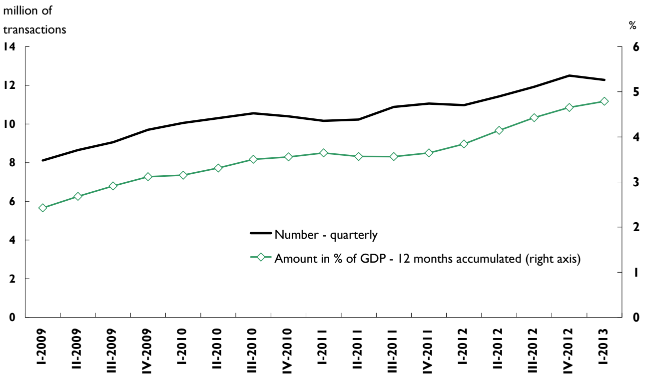
*Instant transfers settled through Link and Banelco.
Source: BCRA

Chart VI.3
Instant Transfers* by Channel
Share % in total



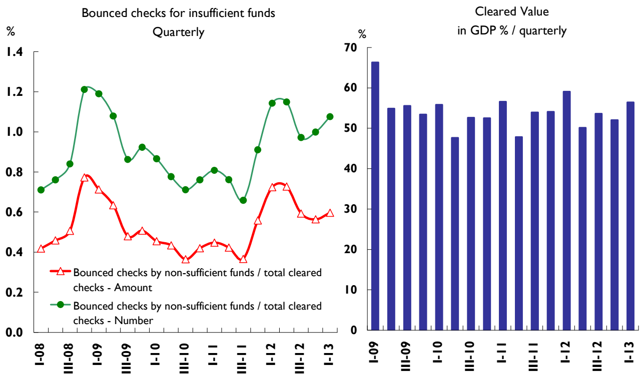
*Instant transfers settled through Link and Banelco.
Source: BCRA

Chart VI.4
Direct Debits



Sources: BCRA and INDEC

Chart VI.5
Checks



Source: BCRA

VI.1 The National Payment System

Following the trend observed in recent years, bank transfers continued evidencing positive development. In 2012 the number of bank transfers climbed 24% and their accumulated amount, 30%. In the first quarter of 2013, their year-on-year growth slightly moderated, standing at 10.4% and 30.6%, respectively. Immediate transfers —a method implemented by the Central Bank as from April 2011 for the online crediting of funds— exhibited a remarkable performance, as their number rose 71.8% y.o.y. and the total amount involved expanded 120.1% y.o.y. in the second half of 2012. This trend moderated in the first quarter of 2013, with the number of immediate transfers increasing 59.6% y.o.y. and their amount growing 89.4% y.o.y. (see Chart VI.2).

Throughout 2012 and in early 2013, nearly two-thirds of immediate transfers were made through home banking, followed by ATMs. As for transferred amounts, business e-banking had the largest share in 2012, similarly to the first quarter of 2013 (see Chart VI.3).

The number of direct debits for payment of services —energy, natural gas, social security, credit cards, among others— increased 10.6% in 2012. The annual direct debit amount reached 4.7% of GDP as of the end of last year, rising 1.1 p.p. in year-on-year terms. In the first quarter of this year, such ratio continued expanding (Chart VI.4).

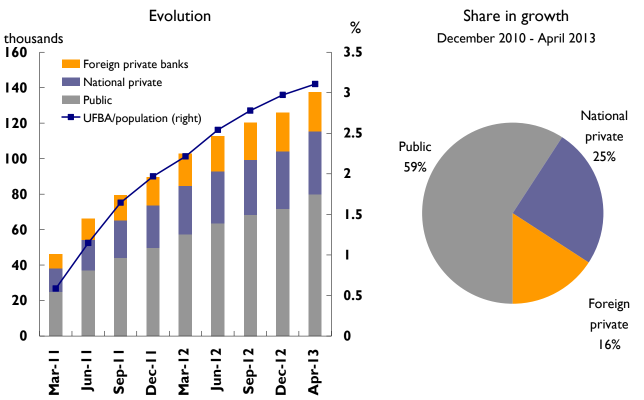
The credit and debit card market continued expanding in 2012. Credit card availability climbed 17.5% y.o.y. in December, mainly explained by the remarkable issue by private banks, which continued having the largest share. In turn, debit cards rose 12% in 2012, with this increase being driven by private banks as well. The number of debit and credit cards per person has more than doubled in the past decade (see Chart VI.1).

Although the use of checks continued to be at a significant level, the cleared amount posted a 1.6 p.p. decrease y.o.y. to 55.9% of GDP, which is partly due to a higher use of electronic means of payment. The amount of bounced checks for insufficient funds ended 2012 at 0.6% of the cleared total, a similar level to that reported a year earlier (see Chart VI.5).

The number and proportion of the Free Universal Bank Accounts (CGU) in terms of the population (see Chart VI.6) continued to be on the rise. There were more than 126,000 accounts as of the end of 2012 (with a year-on-year increase of 40.7%); this number remained on the

Chart VI.6

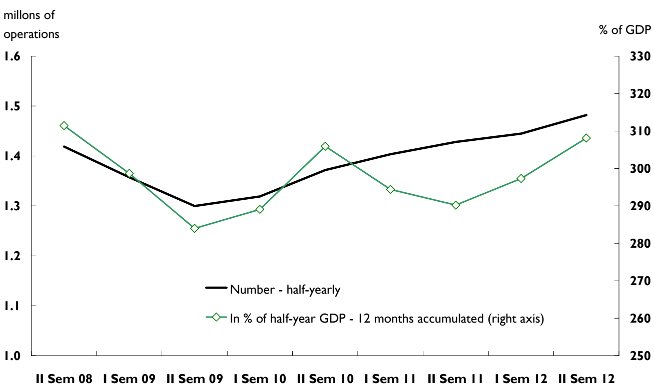
Universal Free Bank Accounts



Source: BCRA

Chart VI.7

Electronic Mean of Payment - Peso Transactions Cleared



Source: BCRA

rise in the first four months of this year, with 137,000 CGU in late April 2013. Such increase was mostly driven by public banks, which accounted for almost 60% of the total expansion in the past two years.

In turn, the total amount of settlement checks issued in pesos from 2010 to the end of the first quarter of 2013 was $223.3 million, while the amount in dollar-denominated settlement checks was US$248.3 million over the same period.

Transactions in pesos made through the Electronic Means of Payment (MEP) —high-value payment system— increased 24.7% y.o.y. in terms of amount and 3.8% y.o.y. in terms of number in 2012. With respect to GDP, the share of transactions made through the MEP went up by 18 p.p. to 308% of GDP (see Chart VI.7).

VI.2 Payment System Modernization

Financial institutions licensed to issue corporate bonds were encouraged to include an application on their home banking websites for providing information on the features of such financial assets, as well as the ability to pre-underwrite them online.

In turn, the Central Bank amended the rules on the purchase of settlement checks. As from January 2013, legal persons were authorized to buy those instruments in domestic currency[104].

[104] Communication “A” 5385.

Statistics Annex* – Financial System

Chart 1 | Financial Soundness Indicators

As %	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Jun 12	Dec 12	Mar 13
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.7	24.7	26.8	23.8
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.1	10.7	10.0	9.7	9.9
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	47.4	48.0	49.5	50.1
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.4	1.7	1.7	1.8
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.4	-3.1	-2.9
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.7	2.8	2.9	2.9
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	25.3	25.0	25.7	25.1
8.- Efficiency	151	167	160	167	185	179	179	185	190	195
9a.- Capital compliance	-	-	-	-	-	-	-	-	-	14.1
9b.- Capital compliance (credit risk)	15.3	16.9	16.9	16.9	18.8	17.7	15.6	16.6	17.1	-
10a.- Capital compliance Tier 1	-	-	-	-	-	-	-	-	-	12.7
10b.- Capital compliance Tier 1 (credit risk)	14.1	14.1	14.6	14.2	14.5	13.1	10.9	13.4	11.9	-
11.- Excess capital compliance	173.5	134.0	92.8	89.8	99.8	86.9	68.6	66.7	58.7	63.0

Note: According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication "A" 5369, including not only credit risk, but also market and operational risk. Data subject to changes.
Source: BCRA

Methodological note

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; **9a.-** Capital compliance / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369). Includes exemptions; **9b.-** Capital compliance / Credit risk weighted assets. Includes exemptions; **10a.-** Capital compliance Tier 1 (net of deductions) / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369); **10b.-** Capital compliance Tier 1 (net of total deductions) / Credit risk weighted assets; **11.-** (Capital compliance - Capital requirement) / Capital requirement. Exemptions are included.

*Note | Data available in Excel in www.bcra.gov.ar

Statistics Annex* – Financial System (cont.)

Chart 2 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Dec 11	Jun 12	Dec 12	Mar 13	Change (in %)		
								2012	H-II-12	Q-I-13
Assets	**346,762**	**387,381**	**510,304**	**628,381**	**688,195**	**790,026**	**811,963**	**25.7**	**14.8**	**2.8**
Cash disposal[1]	58,676	71,067	93,085	104,389	108,870	148,254	142,694	42.0	36.2	-3.8
Public bonds	65,255	86,318	117,951	112,906	128,555	123,491	135,716	9.4	-3.9	9.9
Lebac/Nobac	37,093	43,867	76,948	71,050	92,135	84,057	92,163	18.3	-8.8	9.6
Portfolio	25,652	34,748	61,855	59,664	73,463	70,569	86,197	18.3	-3.9	22.1
Repo[2]	11,442	9,119	15,093	11,386	18,673	13,488	5,967	18.5	-27.8	-55.8
Private bonds	203	307	209	212	232	251	285	18.4	8.1	13.5
Loans	154,719	169,868	230,127	332,317	367,977	433,925	450,016	30.6	17.9	3.7
Public sector	17,083	20,570	25,907	31,346	34,008	39,951	40,270	27.4	17.5	0.8
Private sector	132,844	145,247	199,202	291,708	324,131	383,674	399,497	31.5	18.4	4.1
Financial sector	4,793	4,052	5,018	9,263	9,837	10,299	10,249	11.2	4.7	-0.5
Provisions over loans	-4,744	-5,824	-6,232	-7,173	-8,196	-9,596	-10,102	33.8	17.1	5.3
Other netted credits due to financial intermediation	38,152	33,498	39,009	40,805	43,168	38,769	34,652	-5.0	-10.2	-10.6
Corporate bonds and subordinated debt	912	1,146	1,433	1,657	1,647	2,255	2,183	36.1	36.9	-3.2
Unquoted trusts	5,714	5,942	6,824	7,967	8,185	10,822	11,541	35.8	32.2	6.6
Leasing	3,935	2,933	3,936	6,222	6,282	7,203	7,294	15.8	14.7	1.3
Shares in other companies	7,236	6,711	7,921	9,123	10,217	11,682	12,463	28.0	14.3	6.7
Fixed assets and miscellaneous	7,903	8,239	9,071	10,111	10,369	11,251	11,468	11.3	8.5	1.9
Foreign branches	3,153	3,926	3,283	3,525	3,962	4,354	4,540	23.5	9.9	4.3
Other assets	12,275	10,337	11,943	15,944	16,759	20,441	22,937	28.2	22.0	12.2
Liabilities	**305,382**	**339,047**	**452,752**	**558,264**	**608,396**	**699,205**	**714,415**	**25.2**	**14.9**	**2.2**
Deposits	236,217	271,853	376,344	462,517	510,545	595,764	616,142	28.8	16.7	3.4
Public sector[3]	67,151	69,143	115,954	129,885	137,589	163,691	165,556	26.0	19.0	1.1
Private sector[3]	166,378	199,278	257,595	328,463	368,852	427,857	445,299	30.3	16.0	4.1
Current account	39,619	45,752	61,306	76,804	88,568	103,192	101,696	34.4	16.5	-1.5
Savings account	50,966	62,807	82,575	103,636	113,092	125,210	126,087	20.8	10.7	0.7
Time deposits	69,484	83,967	104,492	135,082	153,444	183,736	202,492	36.0	19.7	10.2
Other netted liabilities due to financial intermediation	57,662	52,114	60,029	76,038	76,415	75,106	67,141	-1.2	-1.7	-10.6
Interbanking obligations	3,895	3,251	4,201	7,947	8,362	8,329	8,075	4.8	-0.4	-3.1
BCRA lines	1,885	270	262	1,920	2,987	3,535	3,927	84.1	18.4	11.1
Outstanding bonds	5,984	5,033	3,432	6,856	8,102	9,101	9,551	32.7	12.3	5.0
Foreign lines of credit	4,541	3,369	3,897	6,467	6,912	4,992	4,485	-22.8	-27.8	-10.1
Other	41,357	40,191	48,236	52,848	50,052	49,150	41,102	-7.0	-1.8	-16.4
Subordinated debts	1,763	1,922	2,165	2,065	2,484	2,647	2,462	28.2	6.6	-7.0
Other liabilities	9,740	13,159	14,213	17,644	18,951	25,688	28,669	45.6	35.5	11.6
Net worth	**41,380**	**48,335**	**57,552**	**70,117**	**79,799**	**90,820**	**97,548**	**29.5**	**13.8**	**7.4**
Memo										
Netted assets	321,075	364,726	482,532	601,380	658,891	767,744	795,317	27.7	16.5	3.6

(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

*Note | Data available in Excel in www.bcra.gov.ar

Statistics Annex* – Financial System (cont.)

Chart 3 | Profitability Structure

Amount in million of pesos	Annual 2008	2009	2010	2011	2012	Half year I-12	II-12	Quarter I-13
Financial margin	20,462	28,937	35,490	43,670	61,667	28,442	33,226	18,459
Net interest income	9,573	14,488	17,963	24,903	38,365	17,975	20,390	11,355
CER and CVS adjustments	2,822	1,196	2,434	1,725	2,080	913	1,168	660
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	4,127	1,546	2,581	1,390
Gains on securities	4,398	11,004	13,449	14,228	17,356	8,048	9,308	5,215
Other financial income	1,362	-339	-457	-211	-261	-40	-221	-161
Service income margin	10,870	13,052	16,089	21,391	28,172	12,934	15,237	8,071
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-6,127	-2,678	-3,449	-1,879
Operating costs	-18,767	-22,710	-28,756	-36,365	-47,318	-22,388	-24,930	-13,587
Tax charges	-2,318	-3,272	-4,120	-6,047	-8,981	-4,027	-4,954	-2,957
Adjust. to the valuation of government securities[1]	-1,757	-262	-214	-336	-338	-163	-174	-105
Amort. payments for court-ordered releases	-994	-703	-635	-290	-274	-89	-185	-35
Other	1,441	918	2,079	2,963	2,475	1,379	1,096	662
Total results before tax[2]	6,100	12,145	16,665	21,251	29,276	13,409	15,868	8,630
Income tax	-1,342	-4,226	-4,904	-6,531	-9,861	-4,591	-5,270	-3,061
Total result[2]	**4,757**	**7,920**	**11,761**	**14,720**	**19,415**	**8,818**	**10,597**	**5,569**
Adjusted Result[3]	7,508	8,885	12,610	15,345	20,027	9,071	10,957	5,708
Annualized indicators - As % of netted assets								
Financial margin	6.7	8.6	8.5	8.0	9.2	9.0	9.3	9.5
Net interest income	3.1	4.3	4.3	4.6	5.7	5.7	5.7	5.8
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.3	0.3
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	0.5	0.7	0.7
Gains on securities	1.4	3.3	3.2	2.6	2.6	2.5	2.6	2.7
Other financial income	0.4	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1
Service income margin	3.6	3.9	3.8	3.9	4.2	4.1	4.3	4.1
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.9	-0.8	-1.0	-1.0
Operating costs	-6.1	-6.7	-6.9	-6.7	-7.0	-7.0	-7.0	-7.0
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.3	-1.3	-1.4	-1.5
Adjust. to the valuation of government securities[1]	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	0.0	0.0	-0.1	0.0
Other	0.5	0.3	0.5	0.5	0.4	0.4	0.3	0.3
Total results before tax[2]	2.0	3.6	4.0	3.9	4.3	4.2	4.5	4.4
Income tax	-0.4	-1.3	-1.2	-1.2	-1.5	-1.4	-1.5	-1.6
ROA[2]	**1.6**	**2.3**	**2.8**	**2.7**	**2.9**	**2.8**	**3.0**	**2.9**
ROA adjusted[3]	2.5	2.6	3.0	2.8	3.0	2.9	3.1	2.9
ROE before tax	*17.2*	*29.5*	*34.5*	*36.5*	*38.8*	*38.1*	*39.5*	*38.9*
ROE [2]	*13.4*	*19.2*	*24.4*	*25.3*	*25.7*	*25.0*	*26.4*	*25.1*

([1]) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

([2]) 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.

([3]) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Chart 4 | Porfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Jun 12	Dec 12	Mar 13
Non-performing loans (overall)	**5.2**	**3.4**	**2.7**	**2.7**	**3.0**	**1.8**	**1.2**	**1.5**	**1.5**	**1.6**
Provisions / Non-performing loans	115	108	115	117	115	148	176	152	144	140
(Total non-perfoming - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.8	-0.7	-0.6
(Total non-perfoming - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.6	-3.7	-3.4	-3.1
Non-performing loans to the non-financial private sector	**7.6**	**4.5**	**3.2**	**3.1**	**3.5**	**2.1**	**1.4**	**1.7**	**1.7**	**1.8**
Provisions / Non-performing loans	115	108	114	116	112	143	171	148	141	137
(Total non-perfoming - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-1.0	-0.8	-0.7	-0.7
(Total non-perfoming - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.4	-3.1	-2.9

Source: BCRA

*Note | Data available in Excel in www.bcra.gov.ar

Statistics Annex* – Private Banks

Chart 5 | Financial Soundness Indicators

As %	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Jun 12	Dec 12	Mar 13
1.- Liquidity	21.5	23.7	25.7	34.1	29.8	26.0	26.7	27.5	27.6	26.4
2.- Credit to the public sector	28.5	16.3	9.5	6.3	6.1	4.7	3.4	3.0	3.1	3.4
3.- Credit to the private sector	31.1	37.9	46.6	44.0	43.3	50.3	54.5	55.0	58.4	57.9
4.- Private non-performing loans	6.3	3.6	2.5	2.8	3.3	2.0	1.4	1.7	1.8	1.9
5.- Net worth exposure to the private sector	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-4.4	-3.3	-3.1	-2.8
6.- ROA	0.5	2.2	1.6	1.9	3.0	3.2	3.0	3.1	3.2	2.8
7.- ROE	4.1	15.3	10.9	15.2	22.9	24.5	25.6	26.0	26.4	22.6
8.- Efficiency	136	158	152	166	195	176	178	185	189	186
9a.- Capital compliance	-	-	-	-	-	-	-	-	-	14.3
9b.- Capital compliance (credit risk)	17.8	18.7	19.2	18.4	22.6	20.3	16.8	18.2	18.3	-
10a.- Capital compliance Tier 1	-	-	-	-	-	-	-	-	-	13.3
10b.- Capital compliance Tier 1 (credit risk)	16.1	15.4	16.8	15.0	17.2	15.2	12.5	15.0	13.4	-
11.- Excess capital compliance	155.0	116.6	87.4	87.2	121.3	101.5	72.2	71.5	57.5	64.3

Note: According to Communication "A" 5369, since February 2013 methodological changes in some indicators were carried out. Among others changes, risk weighing coefficients considered to determine capital requirements were redefined, concepts included in the different segments of capital compliance were rearranged and new minimum limits in terms of the Total Risk Weighted Assets (RWA) were added. A wider definition of RWA is considered since Communication “A” 5369, including not only credit risk, but also market and operational risk. Data subject to changes.
Source: BCRA

Methodological note

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; **9a.-** Capital compliance / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369). Includes exemptions; **9b.-** Capital compliance / Credit risk weighted assets. Includes exemptions; **10a.-** Capital compliance Tier 1 (net of deductions) / Total risk weighted assets, according to the BCRA rule on minimum capital (Com. "A" 5369); **10b.-** Capital compliance Tier 1 (net of total deductions) / Credit risk weighted assets; **11.-** (Capital compliance - Capital requirement) / Capital requirement. Exemptions are included.

*Note | Data available in Excel in www.bcra.gov.ar

Statistics Annex* – Private Banks (cont.)

Chart 6 | Balance Sheet

In million of current pesos	Dec 08	Dec 09	Dec 10	Dec 11	Jun 12	Dec 12	Mar 13	Change (in %)		
								2012	H-II-12	Q-I-13
Assets	**208,888**	**229,549**	**280,025**	**364,122**	**390,073**	**432,994**	**452,123**	**18.9**	**11.0**	**4.4**
Cash disposal[1]	37,044	43,562	49,730	58,877	65,187	85,717	84,770	45.6	31.5	-1.1
Public bonds	29,552	47,949	48,903	50,055	52,805	43,350	49,339	-13.4	-17.9	13.8
Lebac/Nobac	23,457	31,575	34,422	34,246	42,880	30,531	35,088	-10.8	-28.8	14.9
Portfolio	12,858	27,413	31,148	23,908	30,813	27,656	30,941	15.7	-10.2	11.9
Repo[2]	10,598	4,161	3,274	10,338	12,067	2,874	4,147	-72.2	-76.2	44.3
Private bonds	127	233	184	164	124	188	197	14.7	51.6	4.7
Loans	98,529	101,722	143,202	202,117	218,794	256,708	265,508	27.0	17.3	3.4
Public sector	6,249	1,694	1,625	1,215	1,359	1,601	1,566	31.8	17.8	-2.2
Private sector	88,426	96,790	137,308	193,126	209,034	246,560	255,308	27.7	18.0	3.5
Financial sector	3,854	3,238	4,270	7,777	8,402	8,546	8,634	9.9	1.7	1.0
Provisions over loans	-2,871	-3,653	-3,926	-4,574	-5,249	-6,193	-6,497	35.4	18.0	4.9
Other netted credits due to financial intermediation	25,265	21,258	20,241	29,338	28,082	18,646	22,330	-36.4	-33.6	19.8
Corporate bonds and subordinated debt	699	734	757	796	783	988	871	24.1	26.1	-11.8
Unquoted trusts	3,869	4,198	4,500	5,268	5,471	7,084	7,555	34.5	29.5	6.6
Leasing	3,451	2,569	3,519	5,452	5,420	6,287	6,377	15.3	16.0	1.4
Shares in other companies	4,538	4,067	4,934	5,998	6,717	7,920	8,504	32.0	17.9	7.4
Fixed assets and miscellaneous	4,926	5,096	5,808	6,663	6,820	7,592	7,756	13.9	11.3	2.2
Foreign branches	-178	-202	-215	-240	0	0	0	-	-	-
Other assets	8,505	6,946	7,646	10,271	11,372	12,778	13,841	24.4	12.4	8.3
Liabilities	**182,596**	**198,438**	**243,766**	**321,123**	**340,762**	**376,774**	**392,052**	**17.3**	**10.6**	**4.1**
Deposits	135,711	154,387	198,662	253,705	276,986	317,443	331,767	25.1	14.6	4.5
Public sector[3]	19,600	17,757	23,598	27,664	31,806	33,232	38,795	20.1	4.5	16.7
Private sector[3]	114,176	134,426	173,203	223,141	242,710	281,698	290,064	26.2	16.1	3.0
Current account	30,188	35,127	46,297	57,586	66,778	77,269	75,595	34.2	15.7	-2.2
Savings account	32,778	40,999	53,085	66,891	69,177	76,130	75,475	13.8	10.1	-0.9
Time deposit	46,990	54,058	67,568	89,924	97,756	117,888	128,546	31.1	20.6	9.0
Other netted liabilities due to financial intermediation	39,298	34,235	34,427	53,973	49,893	41,780	41,534	-22.6	-16.3	-0.6
Interbanking obligations	1,160	1,668	1,903	3,524	3,989	3,473	3,210	-1.5	-12.9	-7.6
BCRA lines	649	41	57	456	602	694	682	52.1	15.2	-1.7
Outstanding bonds	5,672	4,626	2,802	5,119	5,525	6,001	6,085	17.2	8.6	1.4
Foreign lines of credit	2,261	1,262	1,716	4,252	4,342	2,168	1,763	-49.0	-50.1	-18.7
Other	29,555	26,638	27,949	40,622	35,436	29,445	29,795	-27.5	-16.9	1.2
Subordinated debts	1,759	1,918	2,148	1,948	2,069	2,253	2,436	15.7	8.9	8.1
Other liabilities	5,828	7,897	8,528	11,497	11,813	15,297	16,315	33.1	29.5	6.7
Net worth	**26,292**	**31,111**	**36,259**	**42,999**	**49,311**	**56,220**	**60,071**	**30.7**	**14.0**	**6.9**
Memo										
Netted assets	192,074	216,100	267,364	344,101	371,325	425,181	441,670	23.6	14.5	3.9

(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

*Note | Data available in Excel in www.bcra.gov.ar

Statistics Annex* – Private Banks (cont.)

Chart 7 | Profitability Structure

	Annual					Half year		Quarter
Amount in million of pesos	2008	2009	2010	2011	2012	I-12	II-12	I-13
Financial margin	12,964	19,724	21,837	27,234	38,151	17,822	20,329	11,158
Net interest income	7,727	10,572	12,842	18,518	27,893	13,075	14,818	8,079
CER and CVS adjustments	651	185	244	288	350	160	190	105
Foreign exchange price adjustments	1,620	1,646	1,493	2,064	2,451	957	1,495	812
Gains on securities	1,637	7,343	7,464	6,358	7,426	3,548	3,878	2,226
Other financial income	1,329	-22	-205	6	31	82	-52	-64
Service income margin	7,632	9,198	11,345	15,243	20,081	9,314	10,767	5,747
Loan loss provisions	-1,863	-2,751	-2,253	-2,633	-4,416	-1,890	-2,526	-1,318
Operating costs	-12,401	-14,807	-18,819	-23,821	-30,858	-14,666	-16,192	-9,103
Tax charges	-1,715	-2,380	-2,927	-4,300	-6,450	-2,884	-3,566	-2,116
Adjust. to the valuation of government securities[1]	-267	0	47	-40	0	0	0	0
Amort. payments for court-ordered releases	-688	-367	-441	-133	-199	-51	-148	-18
Other	916	398	1,382	1,723	1,867	864	1,003	410
Total results before tax[2]	4,579	9,014	10,171	13,272	18,176	8,509	9,667	4,761
Income tax	-1,168	-3,001	-2,733	-4,293	-6,089	-2,962	-3,127	-1,729
Total result[2]	**3,412**	**6,014**	**7,438**	**8,980**	**12,086**	**5,546**	**6,540**	**3,033**
Adjusted Result[3]	4,367	6,381	7,832	9,153	12,285	5,597	6,688	3,051
Annualized indicators - As % of netted assets								
Financial margin	7.3	9.8	9.3	9.0	10.2	9.9	10.4	10.4
Net interest income	4.4	5.3	5.5	6.1	7.4	7.3	7.6	7.5
CER and CVS adjustments	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign exchange price adjustments	0.9	0.8	0.6	0.7	0.7	0.5	0.8	0.8
Gains on securities	0.9	3.7	3.2	2.1	2.0	2.0	2.0	2.1
Other financial income	0.8	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1
Service income margin	4.3	4.6	4.8	5.0	5.4	5.2	5.5	5.4
Loan loss provisions	-1.1	-1.4	-1.0	-0.9	-1.2	-1.1	-1.3	-1.2
Operating costs	-7.0	-7.4	-8.0	-7.8	-8.2	-8.2	-8.3	-8.5
Tax charges	-1.0	-1.2	-1.2	-1.4	-1.7	-1.6	-1.8	-2.0
Adjust. to the valuation of government securities[1]	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amort. payments for court-ordered releases	-0.4	-0.2	-0.2	0.0	-0.1	0.0	-0.1	0.0
Other	0.5	0.2	0.6	0.6	0.5	0.5	0.5	0.4
Total results before tax[2]	2.6	4.5	4.3	4.4	4.9	4.7	4.9	4.4
Income tax	-0.7	-1.5	-1.2	-1.4	-1.6	-1.7	-1.6	-1.6
ROA[2]	**1.9**	**3.0**	**3.2**	**3.0**	**3.2**	**3.1**	**3.3**	**2.8**
ROA adjusted[3]	2.5	3.2	3.3	3.0	3.3	3.1	3.4	2.8
ROE before tax	*20.4*	*34.4*	*33.5*	*37.8*	*39.8*	*39.9*	*39.6*	*35.4*
ROE [2]	*15.2*	*22.9*	*24.5*	*25.6*	*26.4*	*26.0*	*26.8*	*22.6*

([1]) Com. "A" 3911. Adjustments to the valuation of government unlisted securities according to Com. "A" 4084 are included under the "gains from securities" heading.

([2]) 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.

([3]) Excluding amortization of payments for court-ordered releases and the effects of Com. "A" 3911 and 4084.

Source: BCRA

Chart 8| Porfolio Quality

As percentage	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11	Jun 12	Dec 12	Mar-13
Non-performing loans (overall)	**4.4**	**2.9**	**2.2**	**2.5**	**3.1**	**1.9**	**1.3**	**1.6**	**1.7**	**1.8**
Provisions / Non-performing loans	103	114	123	119	116	144	168	146	140	135
(Total non-perfoming - Provisions) / Overall financing	-0.1	-0.4	-0.5	-0.5	-0.5	-0.8	-0.9	-0.8	-0.7	-0.6
(Total non-perfoming - Provisions) / Net worth	-0.4	-1.4	-2.1	-1.9	-1.7	-3.4	-4.4	-3.5	-3.2	-3.0
Non-performing loans to the non-financial private sector	**6.3**	**3.6**	**2.5**	**2.8**	**3.3**	**2.0**	**1.4**	**1.7**	**1.8**	**1.9**
Provisions / Non-performing loans	102	114	123	118	115	143	167	145	139	134
(Total non-perfoming - Provisions) / Overall financing	-0.1	-0.5	-0.6	-0.5	-0.5	-0.9	-0.9	-0.8	-0.7	-0.6
(Total non-perfoming - Provisions) / Net worth	-0.4	-1.4	-2.0	-1.8	-1.6	-3.4	-4.4	-3.3	-3.1	-2.8

Source: BCRA

*Note | Data available in Excel in www.bcra.gov.ar

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 institutions.

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 institutions 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.

NBFI: Non-Bank Financial Institutions (under Central Bank scope)

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

NDP: National public debt.

NFPS: Non-financial national public sector's.

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

NPS: National Payments System.

NW: Net worth.

O/N: Overnight rate.

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

OECD: Organization for Economic Co-operation and Development.

ON: *Obligaciones Negociables*. Corporate bonds.

ONCCA: *Oficina Nacional de Control Comercial Agropecuario*

OS: *Obligaciones Subordinadas*. Subordinated debt.

P / BV : Price over book value.

p.p.: Percentage point.

Par: Par bond.

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

PF: Pension Funds.

PPP: Purchasing power parity.

PPS: Provincial public sector.

PS: Price Stability.

PV: Par Value.

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

REM: BCRA Market expectation survey.

ROA: Return on Assets.

ROE: Return on Equity.

Rofex: Rosario Futures Exchange.

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

RTGS: Real-Time Gross Settlement.

s.a.: Seasonally adjusted.

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

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

SEDESA: *Seguro de Depósitos Sociedad Anónima.*

SEFyC: Superintendence of Financial and Exchange Institutions.

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

SME: Small and Medium Enterprises.

SSN: *Superintendencia de Seguros de la Nación.*

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

TD: Time Deposits.

TFC: Total financial cost.

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

UFC: Uniform Federal Clearing.

UIC: Use of Installed Capacity.

UK: United Kingdom.

US$: United States dollar.

US: United States of America.

UTDT: Universidad Torcuato Di Tella.

VaR: Value at Risk.

VAT: Value added Tax.

WB: World Bank.

WPI: Wholesale Price Index.

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